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*Globalisation: A Challenge to the Laos
Economy*

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ABSTRACT

The concept of globalisation has spread through many countries. Considerable attention has been given to this area of public policy concerning globalisation. Free trade, an aspect of globalisation, is believed by some critics to be increasing the current economic element. The World Trade Organisation is among many organisations that represent and promote this ideology. This organisation provides guidelines and entry conditions that are required to be met.

This thesis discusses the policies of Laos with respect to the WTO accession within the context of international trade and free market. The benefits, disadvantages and other globalisation issues are also considered. Laos as a least developing country has struggled in its pursuit to integrate with, and participate in free trade according to its objective of national development. This country lacks the human resources to face the tough competition in the global market.

For Laos to succeed in entering free trade in the world arena, it has to consider multiple challenges. Failure may be possible due to the lack of experience when it comes to world trade and poor human resource management. The application of Laos to WTO has been prolonged due to a conscientious effort by the government to avoid unintended consequences.

Globalisation has had direct effects on the world trading system and a country like Laos is unable to ignore the changes brought about by free trade. Laos also has economic ties with other countries and trade organisations and should they decide to participate in globalisation, Laos will be obliged to follow.

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LIST OF ABBREVIATIONS

ADB	Asia Development Bank
ASEAN	Association of Southeast Asia Nations
CPI	Committee for Planning and Investment
DFAT	Department of Foreign Affairs and Trade
DIP	Department of Investment Promotion
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GoL	Government of Laos
IMF	International Monetary Fund
INGO	International Non Government Organisation
ISO	International Standards Organisation
ITO	International Trade Organisation
LDC	Least Developed Country
LNCCI	Lao National Chamber of Commerce and Industry
LNUOP	Lao National Unexploded Ordnance Programme
MDG	Millennium Development Goal
MoEM	Ministry of Energy and Mining
MoPI	Ministry of Planning and Investment

MoIC	Ministry of Industry and Commerce
NEM	New Economic Mechanism
NLHS	Neo Lao Hak Sat or Lao Patriotic Front
NSEDP	National Socio-Economic Development Plan
TRIM	Trade Related Investment Measure
UNDP	United Nations Development Programme
UXO	Unexploded Ordnances
WTO	World Trade Organisation

THE WORLD MAP



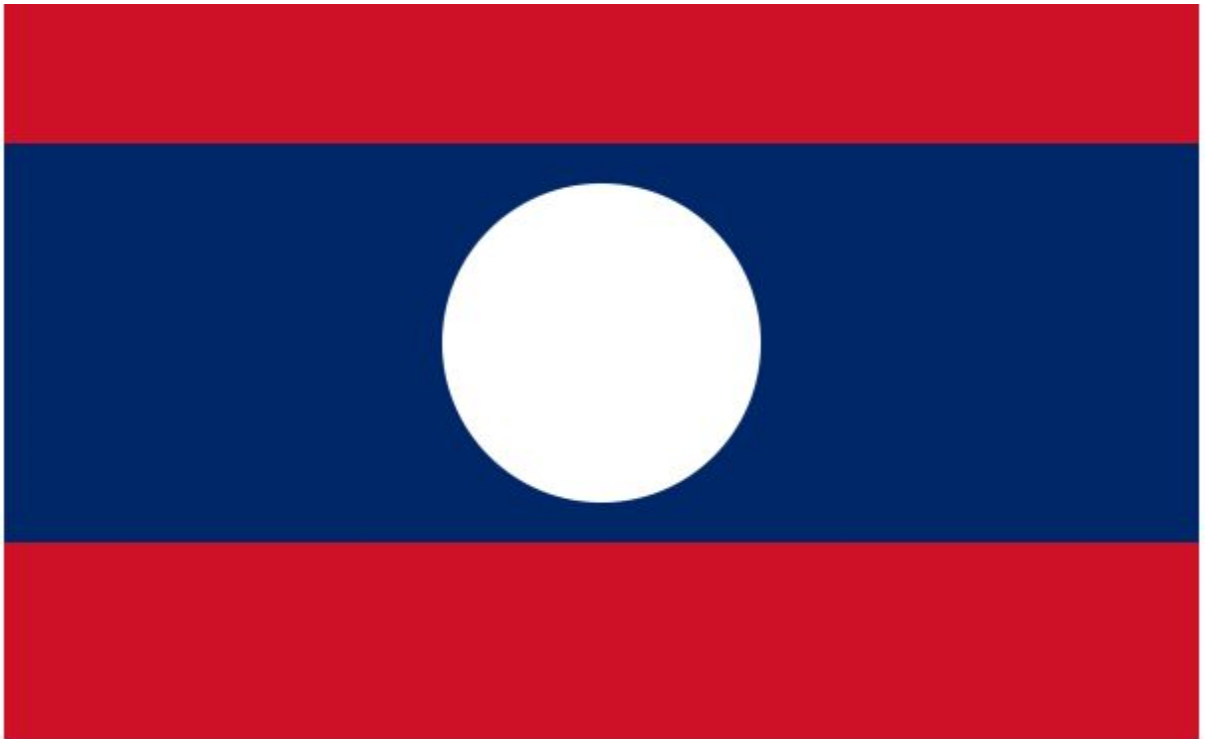
Source: www.geographicguide.net

THE MAP OF LAOS



Source: www.newsmekong.org

THE LAO FLAG



Source: www.amnesty.org

CHAPTER ONE: INTRODUCTION

ECONOMIC DEVELOPMENT

Economic development is widely presented in all types of media reporting encompassing local, regional and international economic performance with the media acting as a tool in spreading economic forecast and situations. Economic development is an important component of future state development. There are guidelines set for countries to be considered developed. This, however, does not imply that developed countries are free of economic struggles, but they need to be on a certain level of high economic status with effective policy decision-making.

Laos is among the most impoverished countries, mostly relying on the international market. Laos' economic resources include forestry products and people. According to the Human Development report (2009), this includes three dimensions of human development: health, education and standard of living. In this country index Lao ranked 130th among 190 countries in the world (UNDP, 2009). Laos has poor infrastructures, for example, electricity is not available in some areas, which affects over half the country. These limitations can slow down a country's economic development. Moreover, the nation is also classified as a new country due to national independence gained in 1975. Preceding this independence, global and political crisis was faced during the cold war era.

However, a key economic development occurred after the release of the New Economic Market Mechanism which began decentralised control and encouraged private enterprise in 1980s. Consequently, economic growth has occurred from extremely low to Gross Domestic Product (GDP) growth, averaging 6 percent per annum from 1988 to 2008 excluding the short drop caused by the Asian financial crisis in 1997. In recent years, the increasing GDP of Lao demonstrates that the focus of economic development has been optimistic. Over half of the increase in GDP was contributed by the rise of hydropower and the mining sectors.

Recently, many countries have been affected by the economic recession. However, the effect on the situation in Laos seems to have been somewhat limited with GDP growth between 2008 and 2009 being closer to 8 percent. Well known economic organisations such as IMF, have given a positive forecast and predicted the total GDP growth will not fall below 7 percent.

GLOBALISATION AND THEORETICAL FRAMEWORK

Economic development and globalisation are terms that go hand in hand and are familiar to almost everyone. There are different definitions of globalisation. One is globalisation as the expansion of economic activities across the political boundaries of nation states (Nayyar, 2001). There are conflicting views and rigorous debates when it comes to the advantages and disadvantages offered by globalisation. There is a large volume of published studies describing the role and relationship of international liberalisation of trade as a globalisation ideology but the debate over advantages and disadvantage remains, and no consensus has been reached.

The World Trade Organisation is an example of institution representing significant concepts of liberalisation of goods or free trade. It symbolises the multilateral trading system which began on January 1 when the General Agreement on Tariffs and Trade (GATT 1947) was signed by 23 founding members, paving the way for the globalisation of markets. The members reached consensus by the end of the Uruguay Round of trade negotiations from 1986 to 1994 outlining rights and obligations of the new organisation. On the first day of 1995 the institution came into force with the 128 original members from the year it was established (Williams, 2008). Currently there are 153 members and this organisation is becoming a universal body. In 2005, about US\$ 24.8 million was traded among WTO's members who represent 96 percent of the total global trade (Williams, 2008).

Over a hundred years of political revolution brings about the competition between liberal and socialist ideas. The fall of the Berlin Wall in 1989 and the collapse of the communist country, the Union Soviet Socialist Republic in 1991 had a fundamental impact on world history, especially in the liberalisation of markets (Ryan, 2009). The economic recession in 2008 was also the consequence of failures of some of the liberal

systems and ideas. Since 2007 the world economy has been seriously affected by the current financial crisis, and economic activities have dropped significantly. Around the world, the GDP growth of some countries continues to fall, and recession was still felt throughout 2009 (International Monetary Fund, 2009).

In addition, with the creation of perestroika and glasnost in the Soviet Union, Laos has started to open up to international markets. It has established the ‘friendship market’ along the Mekong River with other countries such as Thailand. Laos has also introduced the New Economic Mechanism; it encouraged the domestic market, increased marketable modernisation, participated in a wider international trade, and this is bringing opportunities as Laos joins the regional and world economy (Doolittle, 1999). The political hard line softened as new strategy provided the underpinning for economic liberalisation, foreign investment and privatisation of state-owned industries (Viravong, 1999). With some political economic blockades removed, control of process, production quotas and stabilisation of currency by introducing a market exchange rate and inflation were achieved (Viravong, 1999).

AIMS AND OBJECTIVES

The research topic came as an inspiration to the researcher when was asked to write a two thousand word compulsory essay. It intrigued the researcher how world integration can be summed up by one word “Globalisation”. Moreover, like most public servants, by playing a role in the Department of Economic Affairs, Ministry of Foreign Affairs, the researcher’s aim is to contribute insights into the country development and provide ideas for the elimination of poverty. Therefore, the researcher deemed this as a perfect opportunity to foster the understanding of globalisation of trade systems and appreciate both advantages and disadvantages of international trade affecting developing countries like Laos.

Additionally, the thesis objective is to discuss the Lao government policies on globalisation, especially the example of WTO accession and to provide an answer to the main research questions, “What is the transition from the socialist market to the globalisation? And what do government officials believe to be the potential benefits and potential risks of integrating the Lao economy with the global economy?”

1. Discussion the general advantages and disadvantages of the free market, especially the WTO accession.
2. Explore the current issues of prolonged WTO accession and possible reasons to explain the process.
3. Find out the facts with regards to the Lao WTO accession.

CHAPTER OUTLINE

CHAPTER 1

This chapter is an introduction intended to present the background of the study and provide an overview of Laos's involvement in globalisation. The aims and objectives of the research project are also discussed.

CHAPTER 2

A review of Lao history, which hopefully increases the reader's primary understanding of Laos giving brief history from early foundation, and gaining independence as a nation. Laos has been involved in a lot of important events such as Vietnam War and Cold War but this is often not highlighted in discussions of world history. Discussion of the Laos history has mainly focused on political and economic development.

CHAPTER 3

The chapter is a review of the literature on globalisation and liberalisation of trade relating to WTO. The chapter is divided into three significant areas: the discussion of various definitions of globalisation, the WTO and the promotion of liberalisation and the contrast in the political and economic ideological background between western and communist states.

CHAPTER 4

This includes the discussion and review of Lao performance during the worldwide economic downturn and the size of the knock on effect. Surprisingly, the national and international statistics, such as GDP, illustrate that Laos is less affected by the world

economic recession compared to other countries. However, the stability of economic activities is compensated by the high performance of the hydropower and the mining sectors.

CHAPTER 5

A discussion of the methodological strategies employed to investigate the subject of this thesis. This section illustrated how the researcher had chosen and utilised this method of research approach and the ethical issues that were encountered.

CHAPTER 6

This chapter offers a discussion on national policy, the current Laos application status to WTO and the point of view offered by the participants. The Lao national policy via the National Socio-Economic Development Plan and the principle of the WTO are also detailed in this chapter. Following this, an outline is provided on the process of WTO application followed by its status. Lastly, the advantages and disadvantages of accession the WTO from the viewpoint of random officials and exporters are an illustration. This chapter also includes comments quoted from the participants.

CHAPTER 7

This chapter's discussion follows from the previous chapter and continues with the presentation of concerns regarding the WTO membership of Laos from a political viewpoint. It explains the impact of international organisations in terms of economic and political integration. Furthermore, analysis of the prolonged WTO accession and the contributing factors are also discussed.

CHAPTER 8

This chapter gives a summary of the thesis, highlighting the important ideas.

CHAPTER TWO: BACKGROUND HISTORY

There are approximately 200 states that differ on tradition and culture. Among these existing countries, there are still some countries that are difficult for some people to recognise – especially the least developed countries. Laos is one example. Although, some people may be familiar with the country they may possibly not know or understand the current political and economic situation. Therefore, this chapter will foster a primary understanding about Laos by explaining its geography and brief history tackling the early foundations to gaining independence. This will also illustrate post war issues and will break down some important changes in the economic sector.

OVERVIEW

Lao People Democratic Republic or Lao PDR is generally referred to as Laos. Geographically, the state is landlocked and is located in Southeast Asia, and shares borders with China (423 km), Cambodia (541 km), Myanmar (235 km), Thailand (1,754 km) and Vietnam (2,130 km), with a total area of 236,800 km² (WTO, 2009). The climate includes a tropical monsoon and rainy season from May to November. While the dry season starts on December and lasts until April (Department of Statistics, 2009). The total population in 2008 was 6,205,000 with 49 different ethnic groups; 68 percent of Lao Loum (low land), 22 percent of Lao Theung (upland), 9 percent Lao Soung (highland), 1 percent of ethnic Vietnamese and Chinese (Department of Statistics, 2009). Over 60 percent of the population are Buddhist (Department of Statistics, 2009). There are seventeen provinces from the north to south including Phongsaly, Luangnamtha, Oudomxay, Bokeo, LuangPrabang, Huaphanh, Xayabury, Xiengkhuang, Vientiane province, Vientiane Municipality, Borikhamxay, Khammuane, Savannakhet, Saravane, Sekong, Champasack and Attapeu (Bourdet, 2000).

THE FREEDOM STRUGGLE

The history of Laos can be divided into four periods. The first is the foundational period, the beginning of French colonisation or rule, from 1353 to 1893 (Klauss, 2001). Laos was first referred by history as the Kingdom of Lane Xang or literally the Land of a Million Elephants in 1353 (History, 2008). Under the rule of Great King Fa Ngum, the powerful and wealthy kingdom encompassed the present Laos and all of the north eastern part of Thailand. In the 17th century, the kingdom entered an era of decline marked by dynastic struggle and conflicts with its neighbouring countries (History, 2008). The following century, the Siamese (Thai) established suzerainty following their colonisation of Laos. The French supplanted the Siamese and began to integrate all of Laos into the French empire. Later, the Franco-Siamese treaty of 1907 defined the present Lao boundary with Thailand (History, 2008).

The second period was between 1893 and 1954 when Laos was under the French colonial rule and entangled in the Second World War and later the Japanese occupation (Klauss, 2001). Because of its advantageous location and rich natural resources, it lured France and became an economic target (Stuart-Fox, 1997). Approximately, half a century passed when Laos was under French colonisation. In the 1930s, the battle of the Lao people began, which was closely connected to the battles of the two other countries in Indochina; Cambodia, and Vietnam (Stuart-Fox, 1997). World War II eventually ended. Among the Indochina countries, Vietnam first gained victory and Laos followed declaring Independence in 1945 making a mark on the world map for the first time (Pholsena, 2006). Not long after, the Americans came and replaced the French. This is what many people know well as the Vietnam War (Stuart-Fox, 1997).

The Indochina Communist Party was established in Hanoi, Vietnam in the 1930's and the concept was generated by former Soviet Union in order to form the communist party in line with the ideological framework of two famous philosophies: Marxism and Leninism. The objective was to combat French colonisation and form an International Communist Party. This party firstly operated in the Northern part of Vietnam and later disseminated to Cambodia and Laos as the members (John, 2006).

The third period was the cold war and the national struggle between 1954 and 1975. The Americans tried to occupy Southeast Asia and the Indochina region after French colonisation which was commonly referred to as the secret war, the communist war and the Vietnam War (Klauss, 2001). American policies were introduced to eliminate communist movements in this region and basically extend the French colonisation ideology. As the result, Lao was divided into two political fronts: Royal Lao Government that supported the American government in terms of economic and armed forces and the Neo Lao Hak Sat or Lao Patriotic Front, which was a part of the Indochina Communist Party (Whitaker et al., 1972).

The two forms of government were different. The Lao Patriotic Front operated in the caves of the Northern Province and faced a bad condition while being heavily bombed from the air by the Royal Lao government (Whitaker et al., 1972). The economic systems of both parties also differed because of their substantial supporters. For example, there was a difference in the currency, there were two types of Kips – the one issued by the Royal Lao Government first announced in 1955 and later the Lao Patriotic Front started the new kip in 1962. To this day, Kip is still used as a Lao currency (Whitaker et al., 1972).

Lastly, there was the great day of independence when the people protested through an uprising around the country voicing their desire to overthrow the Americans. On December 2nd, 1975, the Lao Patriotic Front announced victory over the Royal Lao Government supported by the American government and established Lao People's Democratic Republic. The country completely changed regime from constitutional monarchy to a communist People's Republic but the situation was unstable and there were several economic issues confronted (Stuart-Fox, 1997). Because of this, Laos gained recognition not only from communist bloc states but also from the Americans and allies (Stuart-Fox, 1997). As a result, Laos was forced to close its economy off from the rest of the world but continued to maintain positive relationships with socialist countries such as Vietnam and the former Union of Soviet Socialist Republics (Stuart-Fox, 1997). The soviet style command affected the economy when it came to trading and other economic interests. Restrictions were placed on commercial exchanges between rural areas and the major towns (Walker, 1999). Strict limits were placed on

provincial trade and travel. Prices were controlled and the market price heavily subsidised stock (Walker, 1999). Therefore, Laos faced a low level economic surplus issue that could not be mobilised to promote economic growth (Walker, 1999).

In summary, this chapter mainly reviewed the primary information about Laos: history of the remaining war issues and economic reform. The foundational history of Laos, which for nearly a century was involved with the national struggle of the War era, was reviewed.

CHAPTER THREE: A REVIEW OF LITERATURE

This chapter will outline the theories behind the Laos government policy and the real theory of WTO and how it is related to globalisation. The WTO provisions will also be examined Vis a Vis the Laos political and economic ideologies. This chapter will explain how the different theoretical ideas emerge and point out the differences between both ideas. Moreover, the relationship of globalisation and liberal concepts and the WTO background will be outlined.

THEORETICAL FRAMEWORK

With a variety of definitions of globalisation, this research will only discuss globalisation as an increasing free trade around the world under the fair rules as set by WTO. Of course, the theoretical frameworks behind these institutions working for globalisation are capitalism and liberalism. The first chapter indicates that Laos is a socialist nation which basically follows the communist international theory in both political and economic ideology. Therefore, the theoretical framework will discuss the consequences of the merging of three theories forming Laos' economic transition.

SOCIALISM

Laos is among the remaining socialist countries labelled “Communist” which was officially announced in 2 December 1975. The country followed the socialist ideology for over a decade before it changed. The socialist ideas began and became a significant political doctrine in Europe through Karl Marx (1818–83), a German social philosopher, political theorist, and founder – along with Friedrich Engels – of international communism (Marx, 2008). They had developed their explanation of socialism as the result of a revolutionary class struggle between workers and capitalists and namely, this is a set of the beliefs of communism, and they strongly believe that the capitalist system is the cause of poverty, including the shortage of jobs (Duncan, 2004). The Revolutions of 1848 were a series of revolutions within European countries and a major cause of the

aggravation of liberals and nationalists with central authorities and conditions of economic depression (Revolutions of 1848, 2008). Afterwards, a division appeared between the revolutionary socialism of Marx and his followers, later called communism or Marxism and Leninism (Socialism, 2008).

There are two kinds of socialists: revolutionary socialist and reformist socialist (Duncan, 2004). First, the revolutionary socialist uses violence to overthrow middle class capitalism as in the Lenin revolution in 1917. Second, reformist socialist is the use of democratic and peaceful ways to the establishment of a socialist state via election of the socialist party (Duncan, 2004).

Currently, the government of Laos is still running as a socialist country but in a different form. During the cold war era, communist states were blocked by the West in many ways such as economic sanctions. During the cold war era, Laos reflected that the nation needed some change to create development. Merging with the capitalist ideology was considered. In 1976, the government first announced its intention to gradually build an independent, national economic progression, toward socialism without *the stage of capitalist development* and there are three core areas of the schemes (John, 2006). One method was for the government to plan reduction of service sector resources in favour of the state sector, implying the nationalisation of some private sector resources as well as control traders (John, 2006). The second method was to improve state sectors such as banking, internal and export trades and developed infrastructure (John, 2006). Finally, the government also gave emphasis to the agriculture area such as developed irrigation systems, targeting an increase in rice production, multiple cropping and rationalisation of labour use (John, 2006).

In other words, the government ran a welfare system under the socialist political system and economy. This system is a concept of a collectivist regime where everyone has the same basic standard of life and is able to access health, education, food, housing and other welfare services (Barr, Whynes, 1993).

At one period, the government used the strategies to recover from a warfare period and economic development is part of that. The country continued to improve while the policies and strategies were introduced, but some approaches were regarded as failures

(John, 2006). For example, the chronology of economic reform was based on the world situation. In late 1975, the government focused on the marketing and distribution system, property rights and agriculture taxation, but the country still faced difficulty with implementation (John, 2006). More specifically, in 1976, the government introduced the public trading system together with the inter-provincial trade base on state monopoly and kept salaries at a low level but subsidised prices of basic goods such as rice (John, 2006). The two price systems used included an administrative price system where prices of goods were fixed by the government, and a free market system which was determined by the condition of supply and demand (John, 2006).

CAPITALISM

As mentioned in “*The Stage of Capitalist Development*”, it was necessary to build the socialist country with the best basis infrastructure and living standards and strong economy, etc. possible. To deal with this issue, the government of Laos had to adapt the opposition concept of “Capitalism” and the theory of socialist Laos changed forever. The capitalist idea is new for Laos under socialist rule but for the West, capitalism is a very famous ideology and is considered a viable economic system. The profit purpose, free enterprises, efficiency through competition, a notion of freedom of choice with the intention of owning property and having privately owned income of production is its basic concepts (Capitalism, 2008). In a capitalist system, capital is supplied either by the single owner of a firm or sometimes by shareholders in the case of a joint stock company and labour is supplied separately by employees who receive a wage or salary (Global prospects and policies, 2009). The outstanding profit of the firm after wages and costs have been paid accrues to the owners of the capital and later, firms compete with one another to sell to customers in what is primarily a free market (Global prospects and policies, 2009). In its most developed form, capitalism restricts the role of the state in economic policy to the minimum based on the principle that economic decisions should be taken by private individuals, (Global prospects and policies, 2009).

However, some critics claim that the capitalist idea only brings about huge benefit for the wealthy class. The labourers are paid little attention (Duncan, 2004). For example, the United States of America had developed the idea of capitalism over 200 years and inequality can be seen (Stewart, 1986). In addition, the capitalist idea also creates

discrimination, high unemployment and unequal access to the healthcare system. Regarding economic discrimination, firstly, it can be seen that wages illustrate discrimination between sex and colour with an initial example being the difference of wage rates between whites, who generally receive 15 dollars per hour, with the African Americans receiving only 11 dollars per hour (Gray, 1995). Second, some major liberal countries have seen a high unemployment rate. In England during the 1920s and 1940s, the unemployment rate did not fall below 10 percent and in the 1930s the number increased to over 20 percent. This represented the fall of the economic system as well as the capitalist economy (Stewart, 1986). Third, general healthcare is also another issue among the industrialisation or capitalist countries. The private health area is open to free competition as well as being privately owned, which results in the high cost to access health care and those costs include the marketing cost which social insurance does not cover (Culyer, 1993).

The two theories were merged after about ten years of its independence. As the result, Laos released its newest policy “The New Economic Mechanism” which is a product of two different theories.

NEW ECONOMIC MECHANISM

The New Economic Mechanism was introduced by the government in 1980s. This is an example of the economic transition from one convention to the new combination. The New Economic Mechanism involves the integration of the national Second Five Year Plan¹ and in the economic sector this is in response to the difficulty encountered in building a substantial socialist economy (John, 2006). The most significant economic reform was mainly the concept of modifying, improving and developing all sectors under the economic regime such as decentralisation of administration controls on pricing, production targets and wages (John, 2006). Further, the economic reform has been improving since early 1980 and was brought into implementation in 1986 as the

¹ The government decided a future reform at the Fourth Party Congress in 1986 while releasing the Second Five-Year Plan (1986-90)

result in changes in mainly five important areas; state enterprise, laws, administration, commerce and investment (John, 2006).

Firstly, the state enterprise is mainly used as a machine to drive economic growth and all state enterprises are run and dominated by the government. After the government introduced the economic reform and for example, the four state enterprises changed to a new business accounting system and granted business autonomy, increased profit was noted and improved state budget; these state enterprises are the Lao Electricity Company, Beer and Soft Drink Company, Lao Tobacco Company and Lao Plywood Company (John, 2006). In 1988, the state enterprises were entitled to decide which commodity to produce as long as it met the targeted tax payment (John, 2006) and, in the early 1990s, the government approved and released the middle-term economic strategy which endeavoured to improve self-sufficiency, infrastructure development, sustainable forestry, development of small and medium industry, increased production of consumer goods and basic commodities and improved education and health (John, 2006).

Secondly, in November 1986, the New Economic Mechanism became another very significant step to drive the country forward. The administration sector reform was changed. The mechanism entitled provinces to make a decision but not all decisions would be accepted (Rigg, 2005). The fundamental decision making administration change included provincial tax administration, elimination of a restriction of cross provincial movement of agriculture products, reduction of barriers to external trade and determination of prices of the most essential markets (Rigg, 2005).

Moreover, the new economic reform forced the abolishment of procurement of products established below the market price, and public sector employment was reduced (Rigg, 2005). The prices of important products previously subsidised as state monopolies included prices of fuel, cement, machinery and the financial sector, especially banking – both state and commercial were separated (Rigg, 2005). The reform also included open recognition of the right of households and the private sector to use land and private property (Rigg, 2005).

Thirdly, the economic reform brought about improvement in the regulation sector. After a decade of economic reform introduced and developed in some sectors, in 1990 it was time to improve the legal sector. The legal sector was modified, introduced and released in order to adjust to the legal system related to the most recent economic reform environment (Rigg, 2005). One of the core economic reforms was privatisation and in order to accelerate its implementation. The privatisation law was introduced (Rigg, 2005). However, privatisation itself did not provide sufficient tools for its economic reform and other regulations concerning the economic sector were released; contracts laws, property laws, banking law and inheritance law (Rigg, 2005). Moreover, a new investment and labour law was passed that extended an invitation to foreign investors (Rigg, 2005). Some important taxes and tax on next profits were reduced or lowered (Rigg, 2005). Apart from mentioning laws, the National Assembly also introduced, amended and passed some new laws. For example, a new exchange law was passed to improve private sector access to foreign exchange (Rigg, 2005).

Finally, the new economic mechanism brought about changes in the investment and banking sectors. Regarding the investment sector, new strategies were used and one of them was removal of the foreign direct investment approval and the fundamental principle of decentralise got started (Rigg, 2005). Hence, the provinces became a strategic unit of administration (Rigg, 2005). Moreover, there were previously a number of restrictions or licensing laws which caused issues in the approval process for alien investors (Rigg, 2005). However, a number of quantitative restrictions and licensing requirements such as importation were removed which streamlined the approval process of foreign investment, hence ending the restriction period (Rigg, 2005). These changes were influenced by acceleration of the privatisation program. In addition, in the banking area which immediately requested progressive simplification, the government restructured and reformed the three state commercial banks. It is also part of the agreement with the IMF to build up commercial industry profits (Rigg, 2005). As a result of banking reform, the first joint venture bank was established; the Joint Development Bank and State Bank or Central Bank was established and this formally handed over fiscal management of the economy from the previous organisations to the Central Bank (Rigg, 2005).

LIBERALISM

After New Economic Mechanism was implemented, and later into new century, liberalism has been highly influential at the policy maker level. “Liberalism is an ideology with an intimate link to the word liberty and this brings about the *conception of competition in a free market*” (Gray, 1995, p 18). History marked the beginnings of the Liberal concept from the struggle for religious tolerance in the period of the 16th and 17th centuries (liberalism, 2000). The liberal view was that religion is a private matter, and it must not enforce a particular dogma on states (liberalism, 2000). Later it was developed into a more general doctrine of the limited and constitutional state, whose boundaries were set by the natural rights of the individual (liberalism, 2000). In the following century liberalism became associated with the doctrines of the free market, reducing the role of the state in the economic sphere, and later it reverted or developed to other sectors such as social reform and welfare legislation (liberalism, 2000). This is a doctrine variously described also as ideology, program, party, or movement (Joseph et al., 2008).

In addition, the ideology of liberalism practically began in the West, including America in both political and economic sectors (Joseph et al., 2008). In the nineteenth century, England was a perfect example of a liberal country or the golden age of liberalism. The government had released some significant tools in order to develop liberal ideas and laws and one of the many instances of liberal promotion was that such as the Factory Acts issued. It also declared a free market (Barone, 2004). During the last century liberal ideas were very famous in major European countries with emphasis on promoting these ideas and one concrete example is the promotion of free trade.

“Free trade is an economic policy promoting a free flow of goods or commodities between nations to encourage shared economic development and international agreements through commercial interdependence of trading nations” (Free trade, 2000). As well, “free trade aimed to ban both tariffs on imports and subsidies on exports designed to protect a country's industry” (Free trade, 2000).

Moreover, free trade is the production of liberal ideas, which aims for a free market (Dunkley, 2004). The ideas of a free market had been promoted by some major liberal

and powerful countries such as the America and the long process of development of free trade almost began from and throughout the century from the General Agreement on Tariffs and Trade of 1947 and the General Agreement on Trade and Services to the established of World Trade Organisation on 1995 and involved over 145 members from the different countries and political systems (Dunkley, 2004). The free trade ideas as well as systems are completely opposite to the socialist ideas. The great economist of the century, Friedrich A. Hayek, believes that "Socialist economics would be less efficient in using a resource than the free market economic" (Caldwell, 2006, p 22). This is only one of many examples of the liberal ideas which sought to promote capitalism.

In consequence, Laos adopted capitalism and liberalism and it would be difficult to reverse this trend. The WTO accession ideas were forced on Laos by the new theory and later the policy accepting the importance of the WTO. WTO accession became one of main priorities under the economic transition.

THE ECONOMIC TRANSITION

After independence Laos fully implemented the socialist economic system and continued to do so until the early 1980s, when other communist states such as China² started to change their own economic system. The Chinese economy turned into a market economy. The market economy is capitalist in nature and upholds liberal theories. There have been three phases of economic transition in China; the first transition happened between 1978 and 1984 defining characterised policy reformulation, then the elimination of an old system occurred from 1984 to 1994, which then saw the establishment of the new system (Breslin, 2007). Presently, the Chinese economy fully embraces liberalisation ideology and one example is the transition of state planning and ownership to state regulation and private as the owner of state enterprises (Breslin, 2007). Apart from China, Vietnam is another example of socialist

² China was a second biggest among communist states after the former Soviet Union and before its communist system collapsed.

transformation. The state is a relatively friendly and close neighbouring country³ to Laos which experienced the same economic system evolution during approximately the same period as the Chinese. Vietnam had transformed their economic system, and the major changes were no different from those of China (Anderson, 1999).

Therefore, not surprisingly, while China and Vietnam revolutionised their economic system, Lao, as well as another socialist state, also adjusted their economic situation, which brought about another significant change, especially the transition of an economic system to give birth to the New Economic Mechanism. This brought Lao another step toward the theoretical aspect of capitalist and liberalist ideologies such as privatisation of some state enterprises. When the system transformed and policy also adjusted this could be mentioned as a third method of choice and become an important move of Laos toward global economy and country development.

GLOBALISATION AND TRADE LIBERALISATION

The Oxford Dictionary of Economics defines globalisation as “the increasing worldwide integration of economic, cultural, political, religious and social systems. Economic globalisation is the process by which the whole world becomes a single market. Goods, services, capital and labour are traded on a worldwide basis; the information and the results of research flow readily between countries” (Oxford Dictionary, 2009). However, the term globalisation has also varied definitions. One popular definition for globalisation is the increasing of international transactions in markets for goods, services, and production factors (Deardorff & Stern, 2009). Moreover, it can also be defined as the growth and expanded scope of institutions that straddle national borders; firms, governments, international institutions, non-government organisations (Deardorff & Stern, 2009). The history of the term globalisation has evolved for almost half a century with the increasing number of trade

³ Cambodia, Laos and Vietnam were members of the Indochina Communist Party, 1930.

and capital flows. There has been a steady increase in the ratio between world export to world GDP between 1950 and 1998 (Deardorff & Stern, 2009).

Numerous studies have attempted to explain how America, the west and Japan have fostered their economic development after the end of World War II, with focus on reorganisation of production of goods and services. By building successful economic systems, the two nations have progressed to the First World (Schaeffer, 2009). There have been a wide range of debates and disparity between interpretation of globalisation with some claiming that globalisation is a series of cultural, economic and political networks of connection (Cochrane & Pain, 2004).

Globalisation can be viewed as an opportunity to increase trade, investment and growth as well as benefiting world economic integration (Kelly & Prokhovnik, 2004). Some people understand that the global phenomenon concerning growing integration of national economics of most nations is based on five interrelated driving changes (Kelly & Prokhovnik, 2004). The first driver of change is the growing international trade and lowered trade barriers opening the market for more competition (Kelly & Prokhovnik, 2004). Second is the increasing financial flow with Foreign Direct Investment and technology transfer (Kelly & Prokhovnik, 2004). Third is technology aiding and paving the way for faster communication, specifically the internet and traditional media; fourth, the developments of other modern technology areas, especially in the areas of electronics, transportation and bioengineering. Fifth is labour mobility with borderless workers (Kelly & Prokhovnik, 2004).

Therefore, from the definition above of globalisation, this research aims to give a more concise definition. From the globalisation perspective trade liberalisation is an idealised framework with perfect competition, freedom of trade in goods and services, distortion of fewer markets and transparent, equitable and fair information system (Sen, 2006). It always occurs with the liberalisation of international capital flows and internal financial and other sectors, and it is difficult to separate their effects. Moreover, it often takes place in response to balance of payment crises, which require macroeconomic stabilisation, which makes it necessary to separate out the effects of the exogenous changes which led to the crisis and the effect of macroeconomic stabilisation from those of trade liberalisation (Dutt, 2006).

For instance, the World Bank has long imposed trade liberalisation on least developing countries through its structural adjustment programs when it provides development loans (Dutt, 2006). The IMF imposes conditions on countries when it comes to assistance of countries facing balance of payment problems and these conditions have increasingly included trade liberalisation (Dutt, 2006). Although, they do not have to seek World Bank or IMF assistance and face these conditions, least developing countries in great need of development assistance or undergoing foreign exchange crises are in no position to refuse. These institutions represent the views of the policy maker in the north, given that voting in the institution in the North is in accordance with financial contributions (Dutt, 2006).

THE WORLD TRADE ORGANISATION

The history of trade relations, international trade or international cooperation can be traced back to the beginning of its precursor which was the General Agreement on Tariffs and Trade (GATT), otherwise known as the treaty of Utrecht of 1713 (Jackson, 1992). Today, the World Trade Organisation truly represents the full meaning of its label and is a fundamental part of globalisation or trade liberalisation. It administers the trade agreements negotiated by its members from the day of GATT (Hoekman, 2002). It was intended to create an International Trade Organization after the Second World War. However, in 1948 negotiations on the charter of an organisation were concluded but this International Trade Organisation was not successful as the American Congress was expected to refuse to ratify the agreement (Hoekman, 2002).

The multilateral trading system began on 1 January 1947 when GATT was signed by 23 founding members – 12 industrial and 11 developing countries (Williams, 2008). The following year, GATT provisionally entered into force and drafting of the International Trade Organisation charter called the Havana charter (Hoekman, & Kostecki, 1995). During the 1950s the decade brought about important issues, some related to the political era of the cold war. Early in the decade, China withdrew from GATT and the US administration abandoned its efforts to seek congressional timeline ratification of the International Trade Organisation (Hoekman, & Kostecki, 1995). In Torque, after a round of tariff negotiations, the inter-seasonal committee established to organise voting

on the issue concerning US trade measures to safeguard the balance of payment, and Germany as well accedes to GATT (Hoekman, & Kostecki, 1995).

Moreover, a review session modified numerous provisions of GATT and a move to transform GATT into a formal International Trade Organisation by establishing an organization for trade cooperation failed (Hoekman, & Kostecki, 1995). America was then granted a waiver from GATT for certain agricultural policies. The 4th round of multi trade negotiations was later hosted in Geneva in 1957 creating the European Economic Community (Hoekman & Kostecki, 1995). Before the International Trade Organisation concluded, and as it never came into being, the GATT was the only result of the negotiations (Williams, 2008). From the GATT, the launching of the Uruguay round started in 1986 and during the two following years a GATT ministerial meeting reviewed progress (Hoekman, & Kostecki, 1995). Canada formally introduced a proposal to create an international organisation and the world converted GATT to GATS but a GATT ministerial meeting in Brussels failed to conclude Uruguay's round (Hoekman, & Kostecki, 1995).

On 15th April, 1994, in Marrakesh, ministers agreed on the final act of establishing the world trade organisation WTO. All the members had reached consensus by the end of the Uruguay Round of trade negotiations from 1986 to 1994 in order to take on the greatly enlarged rights and obligations of the new organisation (Williams, 2008). On January 1, 1995, WTO came into force with 128 original members from the year of establishment. Currently there are 153 (www.wto.org) members and this organisation is becoming a universal body which represents a totally a liberal idea (Williams, 2008). In 2005 only, about US\$ 24 trillion was traded among WTO's members – about 96 percent of the entire global trade (Williams, 2008).

THE WTO AGREEMENT

The consequence of the Uruguay Round of Multilateral Trade Negotiations released the legal texts which included about 60 agreements, annexes, decisions and memorandum of understanding undertaking (The WTO, 2010). Fundamentally, there are six main parts to the legal texts: the Agreement establishing the WTO, dispute settlement,

reviews of government, trade policies, the broad principles category - which interprets the principles of liberalization, and legal exceptions (The WTO, 2010).

The broad principles contain three main agreements starting with the General Agreement on Tariffs and Trade (GATT) which offers basic principles for goods. There are twelve sub-agreements; Agreement on Agriculture, Agreement on Sanitary and Phytosanitary Measures, Agreement on Textiles and Clothing, Agreement on Technical Barriers to Trade, Agreement on Trade-Related Investment Measures, Agreement on Implementation of Article VI (Anti-dumping), Agreement on Implementation of Article VII (custom Valuation), Agreement on pre-shipment Inspection, Agreement on Rules of Origin, Agreement on Import Licensing Procedures, Agreement on Subsidies and Countervailing Measures and Agreement on Safeguards (The WTO, 2010).

Secondly, the General Agreement on Trade in Services (GATS) consists of the significant sector of areas such as tourism, communication and finance, which are important in contributing to the national economic growth. For example, service sector covers about 26 percent of the Lao's national products and currently services accounts for about 60 percent of global production and employment (Department of International Trade Policy, nd). The GATS is the result of the Uruguay Round and was entered into in 1995 in order to force the same the WTO objectives such as creating a credible and reliable system of international trade rules and ensuring fair and equitable trade under the principle of non-discrimination and promoting trade and development through progressive liberalisation (Department of International Trade Policy, nd). The GATS applies, in principle, to all service sectors but there are two exceptions, these being services supplied in the exercise of governmental authority like social security schemes and any other public service and air transport services (Department of International Trade Policy, nd).

Thirdly, while increasing the importance of intellectual property rights in trade, most of the value of new machines and other high technology products lie in the amount of invention, innovation, research, design and testing involved. Agreement on Trade-Related Aspects of the Intellectual Property Rights (TRIPS) negotiated between 1986 and 94 at the Uruguay Round, introduced intellectual property rules into the multilateral trading system or international rules (The Department of Intellectual Property,

Standardisation and Metrology, nd). Following WTO memberships, each government had to give minimum levels of intellectual property protection. Creators could be given the right to prevent others from using their inventions, designs or other creations and to use that right to negotiate payment in return for others using them. These are intellectual property rights and take a number of forms such as books, brand names and product logos (The Department of Intellectual Property, Standardisation and Metrology, nd).

It also now embraces copyright and related rights such as the right of performers, producers of sound recordings and broadcasting organisations. The industrial property involves trademarks, geographical indications, including appellations of origin, industrial designs, patents and petty patents, the layout-designs of integrated circuits and undisclosed information, including test secret and test data as well as the protection of new varieties of plants (The Department of Intellectual Property, Standardisation and Metrology, nd) adheres to an additional important principle that intellectual property protection should contribute to technical innovation and the transfer of technology and both producers and users should benefit, and economic and social welfare should be enhanced (The Department of Intellectual Property, Standardisation and Metrology, nd).

In summary, the political and economic theories adopted by countries shape their governance depending on circumstances. During the past century there were periods of competition between capitalism and socialism but for Laos was a period of adaptation and adjustment. It was also the age of popularity of the liberal ideology. The World Trade Organisation was born with a liberal conception, and it espouses freedom of trade with liberalisation as a framework. The WTO as an organisation is becoming a significant part of the country's economic development growth and this entails a huge countrywide participation. Laos is among the least developed countries. Additionally, when Laos made a decision to get involved in a liberal world, it thereby changed the theoretical framework it had operated under. The WTO membership is the most significant step to real and full liberalisation and there is still no conclusion about the economic transition until the result of the WTO membership process.

CHAPTER FOUR: LAO ECONOMY UNDER THE WORLD RECESSION

Since 2007, the economic downturn has affected nations all over the globe thus affecting globalisation as well. However, the size of the problem, of course, depends on the circumstances faced by each nation. Laos, like other countries, had to confront economic recession on two levels – global and regional. Adding to this is the political destabilisation in Thailand which had significant impacts on tourism, import and export industries in Laos. An overview of the economy of Laos signals that the country's economic policies are not as effective in combating the effects of recession. This chapter will explore how the world economic recession has impacted the Laos' economy, detailing core support factors.

THE WORLD ECONOMIC COLLAPSE

Subsequent to the US's subprime mortgage crisis in August 2007, the global economy curved and the situation turned for the worse in September 2008. The financial crisis was brought about by the failure to pay by large American Investment Bank, Lehman Brothers⁴ and the government rescue of the largest American insurance company; American International Group (AIG)⁵. There has since been systematic intervention in America and Europe to aid ailing companies (Global prospects and policies, 2009). The collapse of businesses has brought consumer confidence to an all time low, raising doubts about future economic prospects and the continuing uncertainty of the effectiveness of policy responses (Global prospects and policies, 2009). Industrial

⁴ Lehman Brothers Holdings or Lehman Brothers is one of the world's leading American investment bankers. The company primarily operates in the US and Europe with its headquarters in New York.

⁵ American International Group Inc. is among biggest American holding company dealing with insurance activities.

production and merchandise trade dropped in the fourth quarter of 2008 and continued to fall in early 2009 across both developed and emerging economies. As purchases of investment and consumer durable goods such as electronics was hit by disruptions caused by the credit crunch and rising consumer anxiety, stock inventories started to build rapidly (Global prospects and policies, 2009).

Overall, global GDP was limited to an alarming 6 percent in the fourth quarter of 2008, which is a swing from 4 percent growth a year earlier and had fallen almost as fast in the first quarter of 2009 (Global prospects and policies, 2009). Therefore, the economies around the world have been seriously affected, and the advanced economies experienced an unprecedented 7.5 percent decline in the fourth quarter of 2008 (Global prospects and policies, 2009). The Global Financial Stability Report estimates that expected write downs on the American-based assets suffered by all financial institutions over 2007 to 2010 will amount to US\$ 2.7 trillion. It increased from the organisation's estimation of US\$ 2.2 trillion in January 2009 (Global prospects and policies, 2009). Total expected downturn on the global economy is estimated at US\$ 4 trillion and about two thirds will fall on banks (Global prospects and policies, 2009). The remainder will be distributed among insurance companies, pension funds, hedge funds, and other intermediaries, although this figure is subject to a substantial margin of error (Global prospects and policies, 2009). The report also estimated that additional capital would be required measured as tangible common equity amounting from US\$ 275 to 500 billion in America and from US\$ 475 to 950 billion for European banks, and from US\$ 125 to 250 billion exclusively for the United Kingdom banks (Global prospects and policies, 2009).

THE ECONOMIC PERFORMANCE

Laos mainly relies on the international market for its economy and still faces up to key issues such as poverty. However, under the general terms and provisions of economic development review, Laos has been implementing policies for its socio-economic development. It explains the general increase of Gross Domestic Products with growth averaging more than 7 percent since 2004. During that year, GDP growth met 6.4 percent and increased to 7.1 percent in the following year, 2005. It continued to rise with its highest peak in history: a GDP growth of 8.4 percent in 2006 (Department of

Foreign Affairs and Trade, Australia, nd). However, a decrease was also seen from 7.5 percent to 7.2 percent in 2008 but can still be considered a positive number under the circumstances (DFAT, Australia, nd).

As a consequence of the trends in the global economy, the World Bank forecast the GDP of Laos to only reach 5 percent in 2009, which would be the lowest rate of GDP growth in the country since the early 1990's (DFAT, Australia, nd). Surprisingly, the Ministry of Planning and Investment announced the economic growth as 7.6 percent in the 2008 to 2009 fiscal years (Phouthonesy, 2010. p.1). Currently, East Asia and Pacific Economic Update 2010 in March forecast Laos' economic growth to reach 7.7 percent in 2010, the second highest figure in East Asia after only China (World Bank, 2010). In addition, the National Bank of Laos has predicted economic growth in South East Asia as follows: China to reach 9.5 percent, Thailand 6.2 percent, Vietnam 6.5 percent, Malaysia 5.7 percent, Cambodia 4.4 percent and the average growth of East Asian economies is projected to be 8.6 percent in 2010 (Phouthonesy, 2010. p.1).

DATA EXAMINATION

Taking into account only real GDP growth, will give an impression that Laos has not been impacted upon by the world economic recession but clearly, taking into consideration a number of statistics, it will be illustrated that the country has also been majorly impacted like others. Up to date data released by Ministry of Planning and Investment demonstrates that in 2007 and 2008, while leading world economic nations face a financial and economic disaster (Department of Investment Promotion, 2009), Laos continues to enjoy the high GDP growth of 7.8 percent. For example, the growth rate of GDP by Industrial Origin at Constant Price 2007 to 2008 and GDP by activity at current market prices increased from about 41 to 46 trillion kip or approximately US\$ 4 to 5 billion (DIP, 2009). Moreover, the number of GDP per capita increased from US\$714 to US\$ 875 (DIP, 2009).

There are three important areas contributing to the size of total GDP growth: the agricultural, service and industry sectors according to a comparison between 2008 and 2009, which illustrates an increase in the mentioned sectors.

First, agriculture made a strong contribution to the GDP with over 70 percent of the total labour force involved in this sector although, in 2008, environmental disasters such as flood brought damage to approximately 10 percent of productive land (Asian Development Bank, 2008). It was compensated with an increase of production via crops such as coffee, as well as livestock and fish farming. This contributed to 2 percent of agricultural outputs (ADB, 2008). In 2009, agriculture accounted for a third of GDP, expanded by 2.3 percent of the previous year, with improved crop yields (including rice varieties) growth in fisheries and livestock, expansion of plantations for crops such as coffee, rubber and contract farming, especially corn and cassava (ADB, 2009).

Second, another economic segment which made an essential GDP contribution is the service sector which generated about 9.7 percent expansion and contributed more than half the total GDP growth and sub-sectors. This includes the opening of four new commercial banks and development of two others, retail and wholesale trade, government services and communications (ADB, 2008). However, only a 1 percent rise in the tourism figures were seen because of the global tourism slowdown and political instability of the neighbouring country, Thailand (ADB, 2008). In association with 2009, the service sector rose to about 4.4 percent as a consequence of the SEA Games⁶ involving visitors and sport fans from Southeast Asian nations but other numbers of tourists remain limited because of the global recession (ADB, 2009).

Lastly, the most significant sector which pushed economic growth is industrial production which grew by 10.2 percent in 2008 from increases in copper and gold mining output, power generation and construction (ADB, 2008). The production output in mining and hydropower has been increasing. For example, production of copper rose by 42 percent or about 89,000 metric tons and gold increased by 4.1 percent or about 4.3 metric tons (ADB, 2008). The hydropower output rose by 5.7 percent, mainly a result of higher rainfall in water collecting areas (ADB, 2008). It continued to grow in 2009 when the sector rapidly increased to about 17 percent and contributed to the GDP

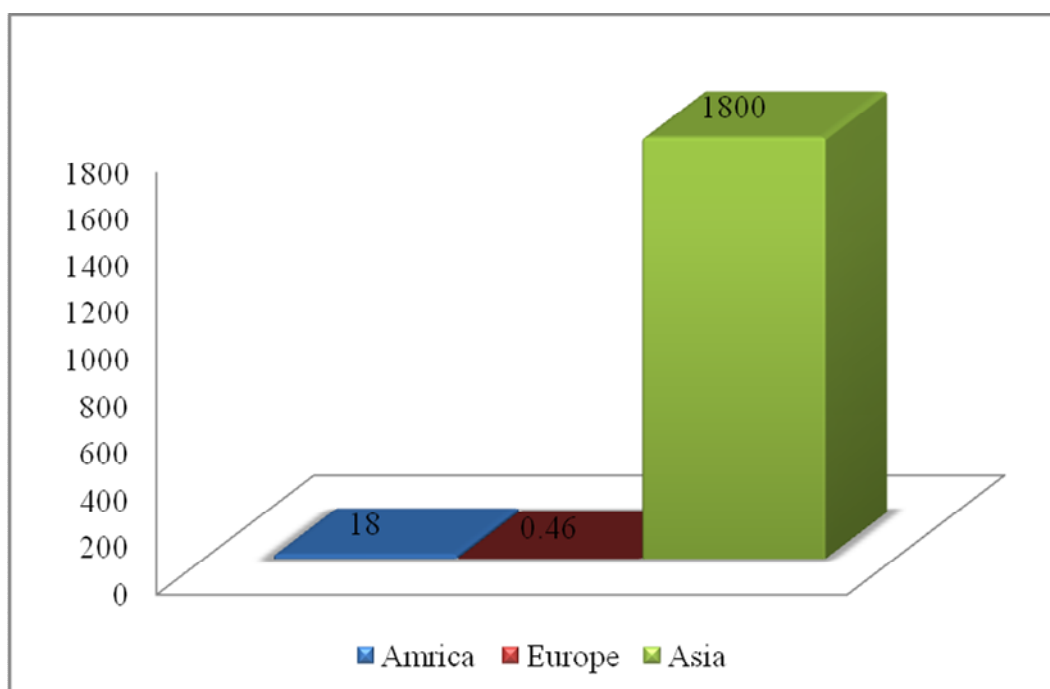
⁶ The Southeast Asian Games is a small multi-sport event involving participants from the countries of Southeast Asia held every two years.

Growth (ADB, 2008). The natural resources sector remains as one of the major driving forces of Lao's economic growth.

INVESTMENT SECTOR

The number of investments from local and international sectors has been declining or reducing and of course the world economic downturn is still the main culprit. Although, the world economy turned for worse, Laos is still attracting a lot of investors locally and internationally. The investment sector in 2008 and 2009 improved and yielded positive results. In 2009, Laos benefited from the domestic capital investments of about US\$ 864 million, the international of around US\$ 3 billion amounting to US\$ 4 billion (DIP, 2009). There are 208 investment projects dealing with a variety of sectors such as mining, agriculture and banking, and the rise of both capital and projects in effect from the amendment of the government in the mining sector in 2009 (DIP, 2009).

Figure 1: The Investment Capital by Continents (US\$ Million)



Source 1: Department of Investment Promotion

The total amount of capital investment was from 26 countries mainly from Asia, Europe and the American continents (DIP, 2009). England and Norway were the highest

investors in the European region and in total there are 27 projects with the value of investment of approximately US\$ 46 million. America and Canada were also important investors in American Continent, which included 6 projects and a total capital of about US\$ 18 million (DIP, 2009). However, the highest investors are from Southeast Asia, especially neighbouring countries. Vietnam was the top investor covering 48 projects that cost about US\$ 1.4 million, followed by China and Thailand with 84 projects and a total value of US\$ 1.8 million (DIP, 2009).

Taking into account total international investments, thirteen sectors were covered: mining, construction, agriculture, telecommunication, hotel and restaurant, services, industry and handicraft, forestry industry, banking, electricity, commercial, manufacturing and lastly advising (DIP, 2009). Not surprisingly the mining sector has the highest investment portfolio followed by industry and handicraft, agriculture and services. For example, the mining sector wrapped up 37 projects, roughly amounting to US\$ 2.28 million with about US\$ 681 million being Laos' share and the investors contributed to 30 projects in the service sector with a value of nearly US\$ 1.1 million (DIP, 2009).

However, there were issues with impending investments, especially between 2008 and 2009. The promotion of domestic investments and the competition in the international markets as well as the budget constraints, compared to neighbouring countries like China, Thailand and Vietnam, affected the performance of economic investments in Laos (DIP, 2009). There is ongoing negotiation with investors concerning regulatory fees with regards to the environment and other fees such as land leases. The monitoring and evaluation on the approved projects were not implemented because of problems arising from weak ties between the central and local governments, shortage in the budget and lack of equipment (DIP, 2009). Likewise, the problem of importing equipment for these projects in the provinces occurs because local government does not recognise that there is a need for such. Therefore, the projects proposals have to be directly sent to the Ministry of Planning and Investment (DIP, 2009). This "one stop" proposes a problem because there is a lack of coordination between the sectors. It could be that a project has already been approved by the ministry but there are still problems to overcome in the implementation. (DIP, 2009).

HYDROPOWER AND MINING SECTOR

According to the Ministry of Planning and Investment, there were some projects approved and implemented in 2009, with some considered massive both in dimension and capital investment. In the hydropower sector, four projects pushed US\$ 7 million – the Tadlan Project in Savanakheth province, US\$ 2.07 million; the Hongsa lines project in Xayaboury province at US\$ 14.6 million; the Namsim project in Houaphan province, US\$ 5.5 million, and the Namha project in Xayaboury province (DIP, 2009). The increase in GDP, during the year 2000 and after, highlights the core factors of economic development growth brought about by this sector. Hydropower and mining projects play an important role in the industry sectors, and have been steadily contributing to the figures in terms of GDP, and therefore supporting economic growth. As an example, income from the hydropower project shows that over the last five years, those hydropower projects generated electricity up to 20,972 million kWh⁷ and about 13,341 kWh could be exported to neighbouring countries amounting to about US\$ 229 million (Ministry of Energy and Mining, 2008).

The Hydropower sector has been increasing rapidly and moving forwards with Laos' thirty years of independence and into the future; the government has set an objective to become a battery or power source of the ASEAN region (MoEM, 2008). At present, there are 74 projects divided into four categories. The first category is a hydropower project on memorandum of understanding that involves 46 projects with over half of them at the feasibility study stage – and over 70 percent are funded by international company investors (MoEM, 2008). Second is a hydropower project on project development agreement and there are currently 19 projects at this stage and if the project can be approved they will be in commercial operation sometime between 2015 and 2017 (MoEM, 2008). Projects that have reached concession agreement are considered to be in the third category which totals 9 projects (MoEM, 2008). Lastly, there are 10 hydropower plants in operation, including the three oldest projects which were constructed before 1975 or independence. The oldest project is the Nam Ngum Hydropower dam, constructed in 1971, which has the second highest installed capacity

⁷ kWh: kilowatt hour is a unit of energy equal to 1000 watt hours

or about 155 MW – second only to the Theun Hinboun Hydropower which is only able to produce 220 MW (MoEM, 2008).

Under the operational project category, only two dams are shared investments with foreigners. One is the Houay Ho hydropower dam that is able to generate 150 MW, construction completed in 1999, with shares of 20 percent from Laos, 20 percent from Thailand and Belgium 60 percent (MoEM, 2008). The second project is the Theun Hinboun dam which has been in operation since 1998 combining three shared investments owned by 60 percent of Laos's internal investors and 20 percent each from Norway and Thailand (MoEM, 2008).

An additional and current example of a hydropower project is the Nam Theun 2 hydropower dam which is a 1,088 megawatt plant that started production in March 2010 and the majority of generated power, about 80 percent, is exported to Thailand (ADB & World Bank, 2009, p. 9). This project has been in conception and planned since the 1920s and it was only in the late 1980s that the government reconsidered and aimed for the Nam Theun 2 to foster national economic and social development (Nam Theun 2 Power Company, nd. a). However, the project had been prolonged for over a decade in order to prepare a complete set of economic, environmental and social safeguards. Moreover, the government will earn about US\$ 80 million per year from export and use within the country (Nam Theun 2 Power Company, nd. b).

Apart from hydropower, the mining sector is another major shareholder of economic development expansion. The investment in this sector is steadily increasing and is expected to rise since the government has opened this sector to local and international investors. In 2001 alone, the government approved 48 companies to invest in research or conduct feasibility studies of the mining possibilities (MoEM, 2008). The number of companies investing increased from 118 companies to 181 by May 2008 (MoEM, 2008). There are 46 local and 72 international investors with projects taking place around the country from north to south taking over 17 thousand km² or about 7.22 percent of country area (MoEM, 2008).

The Ministry of Finance announced that in the first six months of the current fiscal year from October to March the government spent 5,592 billion kip or about 55 percent of

the annual expenditure plan, while inflows from investments reached US\$417 million over the same period (Phouthonesy, 2010, p. 1). The gradual recovery of the global economy – increasing prices for the major export commodities of copper and gold the beginning of operation of the Nam Theun 2 hydropower plant; and the resumption of several major investment projects are also expected to boost economic growth this year (Phouthonesy, 2010, p. 1).

INTERNATIONAL GRANTS

Another factor that brings the country to the high GDP is aide from bilateral and multilateral donors. Laos has relied on grants or disbursement from donors for many years and some of them have been giving assistance over many decades. For example, the Swedish government has been assisting the nation for about 40 years via the Swedish International Development Cooperation in numerous sectors such as agriculture and human research development. Basically, there are four main sources of funds for Laos: bilateral grants, multilateral donors, international financial institutions and international non government organisations (INGO).

Firstly, the international bilateral grants covered about US\$ 213 million from 19 countries (Division of Monitoring and Evaluation, 2009). The government of Japan supported Laos in several areas that counted for about US\$ 78 million and the Swedish government assistance amounted to around US\$ 17 million in 2008. And over the eight-year period between 2000 and 2008, Laos was a recipient of about US\$ 1.8 billion (Division of Monitoring and Evaluation, 2009). Second, International multilateral cooperation is another source which has contributed to Lao's development. These grants, offered through UN systems such as UNICEF and the World Health Organisation, covered approximately US\$ 292 million between 2000 and 2008. In 2008 alone, the grants amounted to about US\$ 39 million (Division of Monitoring and Evaluation, 2009). Third, the grants from international financial institution sources were, for example, ADB and IMF, totalling around US\$ 1.2 billion over eight years in aide to Laos (Division of Monitoring and Evaluation, 2009). Lastly, the financial aid from EU, MRC and INGOs about US\$ 277 million (Division of Monitoring and Evaluation, 2009). In total, from 2000 to 2008 the government of Laos benefited about US\$ 3677 million (Division of Monitoring and Evaluation, 2009).

Additionally, Ministry of Planning and Investment announced that in the 2008 to 2009 fiscal years, international assistance to Laos amounted to US\$ 560 million, comprising US\$ 383 million in grants and US\$ 177 million in loans (National development plan focuses on poverty, 2009). From the above number it can be concluded a huge amount of external financial support contributed to socio development of the nation. Of course some of the mentioned financial assistance was disseminated all over the country through the enormous number of projects in different areas.

In conclusion, this chapter identified Laos' positive economic environment despite the circumstances faced under world recession. Laos' reduced number of tourists is a reflection of how countries worldwide are being affected by the recession. However, Laos achieved great economic performance from 2007 – attributed to GDP growth and the increasing amount of investment capital. This economic performance resulted from an increase in the number of hydropower and mining projects compensating for the knock on effect. This economic growth is achieved because of Laos' policy in opening the energy and mining sectors to investors.

CHAPTER FIVE: RESEARCH METHODOLOGY AND DATA COLLECTION PROCESS

QUALITATIVE METHOD: INDIVIDUAL INTERVIEWS

In the early research proposal, a huge range of questions arose, creating interesting answers; however there are not many questions that come with the right answers. The main research question is a popular question and probably all countries involved in globalisation, whether intentionally or unintentionally would ask. “What is the transition from a socialist market to globalisation and what do government officials believe to be the potential benefits and potential risks of integrating the Lao economy with the global economy?” In order to address this main research question, some of the relevant questions that may possibly arise from the literature review and/or the fieldwork interviews are those such as: What new opportunities will open up by joining the WTO? What is the extent of the advantages and disadvantages of being involved in global markets and cooperation? And why should Lao join the globalisation of trade?

This project used only qualitative research for the research topic. The aim of qualitative research is to allow respondents to talk, often at great length, about their feelings and about their underlying attitudes, beliefs and values (Moore, 2006). The information needed for the question above is all related and involved with political and official information such as the policy of the government of Laos on globalisation and/or the economic situation. The interview method is designed to find out information or data from people’s concerns and the significant points that can explain questions such as what and why (Newman & Bens, 1998). There are four types of interviews, including informal conversational interviews, interview guide approach, standardised open-ended interviews and closed qualitative interviews (Kumar, 2005). This project used informal conversation interviews or individual interviewing

The research method proposed is one which will facilitate access to the best possible information and data in order to collect data and then hopefully answer the questions

mentioned. The research method, therefore, was based and driven by the research project's main objectives and can be listed as follows:

1. To review the importance of the global market to Laos.
2. To identify views on the potential benefits and possible risks of integrating the Lao economy with the global economy as well as reviewing the role of trade in economic development and its significant to Laos
3. To discuss some of the opportunities that will be opened up by joining the WTO and their effect on Lao – as well as:
4. To review the facts of the prolonged process of accession to the WTO.

RESEARCH STRUCTURE AND PROCEDURE

Three phases of research strategies have been used in order to collect as much suitable data as possible for use in the thesis. The phases involved preliminary research, home located research and in-depth literature reviews.

FIRST PHASE

Firstly, the preliminary literature review involved mostly using available sources from the Massey University Library at Albany Campus and possible internet sources in both the university database and search engine. This stage facilitated design of the research proposal and outlined the research project. This preparation phase was also used for home located research which involved drawing up plans and creating the research questions used in the qualitative interview. Other relevant documents involved preparing an interview – an information sheet and question guide. In addition, before being entitled to do a home located research, a human ethics application was sent to the Human Ethics Committee as the research involved human participants who needed to understand the rights and duties of human participants. The application was approved by the Massey University Human Ethics Committee: Northern on April 2010.

SECOND PHASE: HOME LOCATED DATA COLLECTION

Secondly, this important stage involved home located research or project data collection that took place in Vientiane, Laos between 22nd May and 22 August 2010. This

involved the qualitative method or interview with the participants. Therefore, in the second phase of data collection a plan was organised to ensure the data collection process was clearly planned and organised.

The research data collection involved the interview process from before an interview occurred. The information sheet and relevant information documents such as question guides were prepared and some initial participant contacts were made, explaining the significant and interesting points of the research topic before inviting the prospective participant to participate. After the participants had accepted and confirmed their participation, an appropriate interview place, time and date was agreed on for conducting the interview. The individual interviews were conducted at a convenient time, and all the participants chose to have the interviews conducted in their offices. Some of the conversation interviews used modern technology such as internet software like Yahoo Messenger and Skype in order to talk by VDO call. Therefore, it was possible to interview some participants who were temporarily working or studying overseas.

QUALITATIVE KEY INTERVIEW

The total of eleven informant interviews were organised with the representatives of the organisations that were highly related to the topic. The individual interviews were conducted by people from a range of organisations, including public and private sector organisations. The intended participants were directly concerned with the project topic, and the numbers covered public servants and private sector people involved in the economic development and international cooperation, especially trade issues. These randomly chosen participants from different sectors were recruited according to their work experiences; position and their role in their work. The public sector participant interviews were more concerned about attitude that links with the topic of policies involved with the policy and decision makers. Another group of participants were people from a private sector directly involved with the import and export sector; i.e. manufacturers and export factory owners.

PARTICIPATIONS

The objective of the research was to test existing ideas using the perspectives of officials involved in a trade and economic sector. The participants in this qualitative interview were minimal in number for reasons described in the following paragraph. This approach sought to understand the point of view of officials especially in the trade sector and private manufacturing exporters on the subject of WTO membership – and also used the information to give meaning to the statistical data from the analysis of the data collected.

The individual interview participants had intimate associations with international trade sectors and also played a key role regarding the WTO accession. They were also randomly chosen depending on their professional experiences and position. Civil servants interviewed included some senior officials from organisations but in order to achieve anonymity and prevent subsequent harm, the names of organisations will not be mentioned in this thesis. Some participants were selected based not only on their exclusive position, hence their role in public policy making, but also their involvement in economic sector development in Laos. However, some intended participants did not accept the invitation because of their busy roles and positions – having no time or the times being inappropriate for them, and some of them declined to participate because of their individual motivations. Therefore, the number of participants was limited.

INDIVIDUAL INTERVIEWS

The interview questions were designed according to the research objectives and were approved by the supervising professor prior to the actual research. The participants not only received the information sheets before the appointments were made, but the question guide also outlined the talking point and interview stages. Moreover, during the interviewed conversation, modern technology was used with some interviews being recorded using a digital audio recorder but sometimes these were only used to take notes as the participants were not allowed to use a recorder. Therefore, the talking points were written down but the problem occurred because of the complicated roles of interviewer and recorder. The conversations initially took between thirty and fifty minutes but some interviews took over an hour as the participant was willing to

contribute to the research topic. Therefore, the interview time was set by the participants themselves at their appropriated time.

Qualitative interviews generate the significant advantages of having the attitude and opinion of the participants and also offer ranges of information by asking continuous questions as well as seeking for more clarification which greatly contributes to the thesis. However, some issues took place where some participants started explaining the general situation before getting to the point (because of their culture) which took more time and sometimes, and there was irrelevance to the topic. Another qualitative interview matter was the difficulty of controlling the talking point or getting off the track as the method offered a participant a chance to explain. Sometimes the participant went as far as to take their answers into another topic which was difficult to return from – and that also brought about the difficulty of confirming which point of view the participant represented.

Therefore, the use of the qualitative methodology process was successful and appreciated in collecting a relatively complete set of information and data where the perspectives of respondents were not only effective in increasing understanding of the research topic but also lent a hand to verify the existing theories and public policy ideologies relating to the topic. The interview data and information will be discussed and the analyses, in the following chapters.

FINAL PHASE: SECOND DATA ANALYSIS

The final phase occurred after a home located research of the data and the information given was reorganised, and a more in-depth literature review undertaken. This final phase enabled an in-depth exploration of the role of trade in economic development. It also helped explain information received during the field research hence enhancing the set of data primarily collected. Moreover, the Massey University Library and internet sources were equally important and were mainly employed to clarify some unclear information or as the confirmation requested. This also concerned secondary data analysis which included some hard copy of reports, brochures, magazines and government documents from the public and private organisations concerned – and were used for analysis together with the interview data.

These data were either given by some participants, requested by the researcher and freely published but the number of mentioned documents was still limited because of government's limited budget. Moreover, there were some problems with secondary data from the organisations as at times the data were out of date or did not cover the research topic. Therefore, a major source of secondary data for this project implicated websites of international organisations, donor agencies and limited government departments⁸, especially the information from the WTO website. It was straightforward regarding internet surfing for available information on those websites but the relevance to the thesis still had to be determined. However, the information from the websites is for public consumption, and some were not written for academic purposes and/or were unreliable data.

In addition, in order to avoid the information that contained bias and propaganda, the researcher increased the focus on secondary information, either hard copy from organisations and/or documents from websites. Some documents consulted, presented a possibly biased attitude as they represented the author's opinion. The public information was for public consumption and from organisations which always collected, analysed and fixed the data before publishing such as reports.

DATA TRANSLATION

The data translation occurred throughout the data collection process or individual interviews. All the conversations were in Lao's language because, in Laos, English is not a first or second language and therefore few people are able to use this language. Although some participants were good at English they were very uncomfortable with researcher and participant and before the conversations began, the participants were asked for their preferred language. All the transcripts of interviews were translated by a researcher and the major cause was in order to avoid any possible harm to the participants. Access to the interview transcripts was limited for safety purposes, and the transcriptions were mostly done on the same day as the interview. However, some transcription issues occurred while translating. The translations took more time than

⁸ The information from government departments is very hard to find because of a shortage of any human resources with developed information and technology capacity.

expected due to the lack of translating experience and some words were highly technical.

DATA INTERPRETATION AND ANALYSIS

The interpreting and analysing of data had been started during the home located data collection period and continued to the completion of the thesis. All the way through the thesis to completion, there were steps taken to prepare for interpretation and analysis. The collected data including transcripts of interviews, secondary materials such as government reports, had been well organised and managed. The transcripts were clearly highlighted and (coloured sentences) every single conversation point was underlined. Later, the idea was matched with readings from secondary materials and grouped with written notes from other reading sources including the opinion of the participants in the key informant individual interviews.

Data of individual interview transcripts and information in the interview guide helpfully generated a framework for analysing and interpreting data. In order to identify initial themes or concepts which are a part of the systematic process of data analysis and interpretation, the information had to be re-read. Every single piece of data was thoroughly read again; including the interview transcripts, secondary information and the personally taken notes. The researcher created a log sheet template containing headings and subheadings that helped identify a theme.

Therefore, the outcome concepts were created by repeated reading with initial themes listed by heading and subheading. The researcher identified intimate links between categories and reorganised the information. Information gathered from different sources was highlighted in the same colour in the same sources and under the heading of categories. This assisted the researcher in comparing the effect that opinion disparity between authority and participants had on particular issues. Therefore, the analysing and interpreting of data, especially the log sheet, was used all the way to the thesis writing.

ETHIC ISSUES

In each part of the research, it was very difficult to ignore the ethical issues which will possibly occur during the research process, and these generally occur in three areas – as ethical issues relating to the researcher, ethical issues concerning research participants and regarding issues of responding organisations. Massey University is dedicated to ensuring that all research is conducted in a responsible and ethical mode complying with all external requests. Accordingly, researchers must ensure that all activities undertaken by them conform to the Massey Code of Conduct. For the purposes of this research, the Code of Ethical Conduct for Research, Teaching and Evaluations involving human participants should be followed after approval (Massey University, 2009).

In addition, this research promises to minimise harm to participants, the risk of harm to researchers, risk of harm to groups, communities, institutions and the risk of harm to Massey University. According to Massey University's Code of Ethical Conduct in section 3, there is mention of risk of harm to participants which includes pain, stress, fatigue, emotional distress, embarrassment, cultural dissonance and exploitation. In this case, the possible impact or harm would be only stress, because some questions are concerned with government as well as policy. Apart from previous mention, there is also the possible risk of harm to any researcher who has discussed and analysed the policy of the government.

Therefore, after the approval from Massey University as well as the Ethics Committee to conduct this research and in order to avoid above the mentioned issues while doing research – especially the individual interview – the following strategy was used; the information was sent to all participants as well as an information sheet clearly demonstrating the rights of participants, including that the participants are under no obligation to accept the invitation, they have the right to decline to answer any particular questions, withdraw from the study at any stage, ask any questions about the study at any time during participation and provide information on the understanding that the participant's name will not be used, unless permission is given.

Moreover, all the hard copies which included the participant's information were kept in a locked briefcase with tumbler lock. Only the researcher and the supervisor can have access to the information and soft copies or electronic data such as conversation digital recordings from the tape recorder installed in the external hard drive would be set at a high security level. In other words, the external hard drive will not be able to be opened on any computer except with the right password, and another copy saved in a personal computer which is protected by password and no access for any purpose, such as using the internet, and external routing, including family members, spouses or children. Therefore, prevention of any harm to a participant in this research means not mentioning their name or position and the thesis will not provide any names, addresses, positions or places of work. All documents related to a participant's personal view will immediately be deleted or destroyed after the research fulfilments are completed.

In summary, this chapter has discussed the methodology strategy that was used in this research and illustrated the process of qualitative methods used, including the preparing phase. The chapter described how the researcher employed a qualitative research design informed by studying factors that constrain Laos involving in development efforts, especially Laos' accession to WTO. It explains how the researcher employed qualitative key informant, individual interviews as the method of data collection and that secondary data analysis was also employed to collected data for this project. It also discussed the research strategies employed by introducing informed consent, respect for the persons and respect for privacy and confidentiality in order to deal with major ethical issues such as risk of harm to researcher and participants. It concludes with a discussion of how the researcher employed a thematic analysis in analysing and interpreting data for this project.

CHAPTER SIX: THE ACHIEVABLE OUTCOME OF GLOBAL MARKET

Over thirty years, in order to foster development in Laos, part of this development has been focused on the economic sector by the government which not surprising because in every country, wealthy or underprivileged, all want to have outstanding economic performance. The government policies are specifically concerned with the country's economic development. Obviously, international integration is one of some government policies that have been used to tackle economically developed barriers. The result of its policy brought about the involvement with, and contribution to global international organisations. Global market or WTO membership is another challenge for policy makers and the topic has become a controversial issue such as the question regarding the importance and principles. The debate of its advantages and dark side of the multilateral trading system continue to fuel discussion. This chapter will discuss the two main elements: the national policy concerning economic development and more specifically the involvement in the degree of international trade as a tool by which to achieve the National Socio-Economic Development Plan – outlining and examining WTO functions and their possible benefits.

THE NATIONAL SOCIO-ECONOMIC DEVELOPMENT PLAN

Recently, the government's main priority is on fostering the economic growth in order to deal with primary issues such as poverty but it is still difficulty goal. The government has been releasing methods and strategies as potential solutions to deal with the issue. One example of policy strategy is in 2004, when the government approved the National Growth and Poverty Eradication Strategy⁹ (ASEAN, 2009). Basically, the strategy covered 47 priority districts and four priority sectors, including transport, agriculture, health and education (ASEAN, 2009). Later, the Sixth National Socio Economic

⁹ The NGPES brought into implementation in 1996, after the 6th Party Congress defined the long-term development goal in order to releasing Laos from least-developed country by 2020 (UNDP, nd, p. 4)

Development Plan (NSEDP)¹⁰ was released with the significant aim of taking the country from being one of the least developed countries by 2020 (ASEAN, 2009). Therefore, it means that the fundamental matter of poverty reduction is the priority consideration to be addressed.

POVERTY REDUCTION

This topic is the top national priority which the government of Laos is working hard to cope with. Openness to trade has been shown to be a privilege raising the mean income of the poor and improving the distribution of income. The government's emphasis on economic growth as a strategy for alleviating poverty is founded on the large and growing empirical evidence showing that sustainable economic growth rates successfully lower poverty levels. Lao's growth elasticity of poverty is currently estimated at 0.5 percent (Lord, 2009). However, less than half of that elasticity is explained by inequality changes, indicating that economic policies have been pro poor neutral and suggesting that poverty alleviation relying on economic growth alone is ineffective. Instead, government policies and programs that lower inequality could significantly reduce the magnitude of poverty in an effort to achieve its Millennium Development Goal to halve poverty by 2015. Pro-poor trade policies aimed at opening the economy could support that process (Lord, 2009).

“In developing countries, poverty is often seen as the defining characteristic of underdevelopment and its elimination as the main purpose of economic development”, (Richter, Souksavath & Weide, 2006). In Laos, it remains a major issue and prevents the country from development and economic growth. The country is classified by the United Nations as at the bottom of the list of the least developed country category and it ranked on all scales at around 130 of a total of approximately 170 countries in 2008 (UNDP, 2009). Additionally, the understanding of poverty is caused by literature typically introducing a poverty line and defining the number of population under the line as poor. Basically, poor health, low human capacity and malnutrition were involved as some of the multiple dimensions of poverty (Richter, Souksavath & Weide, 2006).

¹⁰ Covered over five year period from 2006 to 2010

The Lao long term development goal is to exit the group of least developed countries by the year 2020; moving consistently towards a market oriented economy, building up essential infrastructure, improving the wellbeing of the people by providing greater food security, extending social services, etc (GoL & UN, 2004).

UNEXPLODED ORDINANCE/UXO

Moreover, poverty not only costs the internal situation but also external costs are affected. The Indochina war and cold war eras continue to have an effect on Lao for a long time after they ended. From 1964 to 1973, throughout the Indochina war, over 580,000 aerial bombing missions were sent by the American Air Force putting Laos into the 2009 and 2010 Guinness World Record as the country with the highest ratio of bombings per person in the world, there were two main purposes of the mission: to block the Republic of Vietnam soldiers or North Vietnam from passing through the southern part of Lao and bombing the Lao Patriotic Front bases around the country (Vorasarn, 2008).

According to the National Regulatory Authority for the Unexploded Ordnance and Mine Action in Lao, approximately four million huge bombs were dropped or about one huge bomb for each Lao person (there were about four million of population at that time). Nearly half of them failed to function and are currently unexploded and include over 80 million bombs or Cluster bombs “small explosive bomb-lets carried in a large canister that were supposed to open in mid-air scattering them over a wide area” (LNUOP, 2009). Although, some international organisations have been working with those bombs, they need decades to eliminate the bombs completely (LNUOP, 2009).

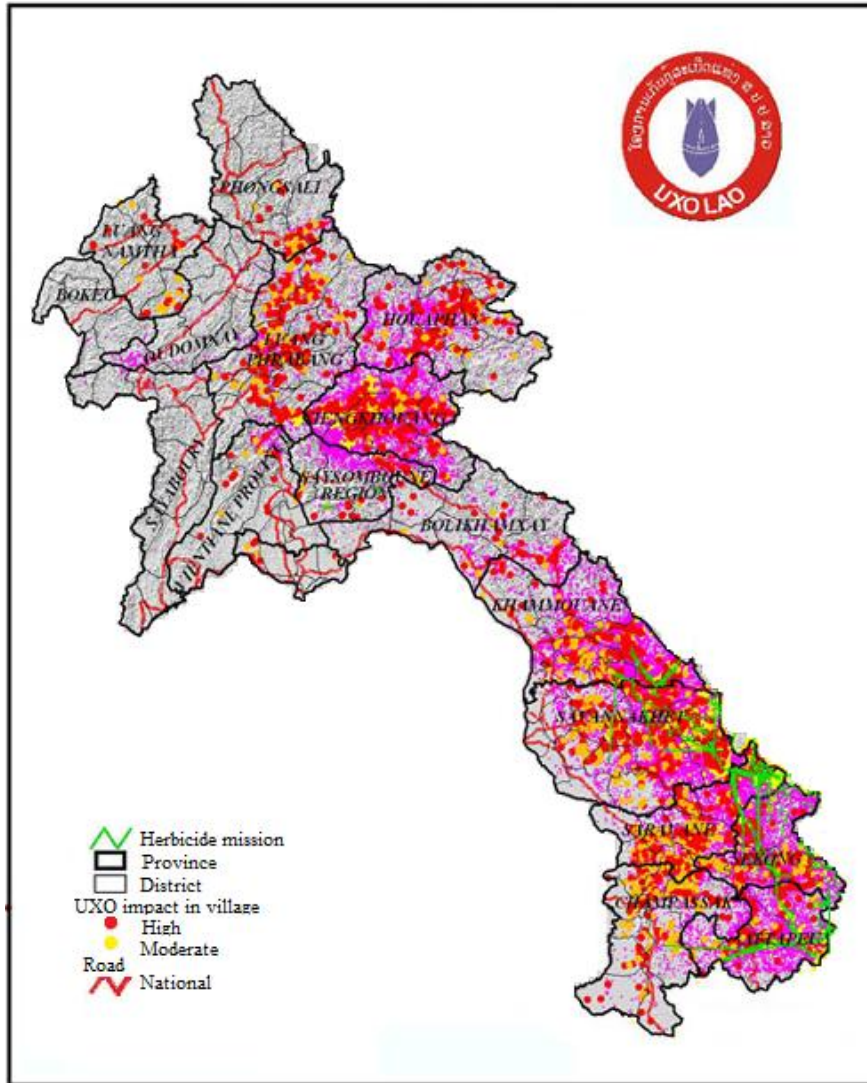
A study in 1997 found that 15 out of 18 provinces were significantly contaminated leading to a high number of people suffering from diseases and eventually dying (LNUOP, 2009). Approximately, 12,000 unexploded ordnances were related to accidents and about 6,000 deaths have occurred since 1973 (LNUOP, 2009). The data available were only from 1999 to 2008, detailing 934 casualties including 655 injuries and 279 deaths with over 50 percent of the victims being children (LNUOP, 2009). Additionally, the data was taken only from an area where unexploded ordnance clearance teams are working. These are completely minimal coverage areas compared to

the actual size of impacted areas; the actual number of incidents nationwide is definitely higher. Unexploded ordnance contamination is an ongoing challenge for the nation and continues to threaten the physical safety, livelihood as well as food security of people in over 25 percent of the country's total villages and the issue is also affecting the aim of the government in fostering economic growth, improving the living conditions, and graduating from the list of the least developed countries' status by 2020 (LNUOP, 2008).

The National Socio-Economic Development Plan in 2003 reported there appears to be a significant association between the presence of unexploded ordnance and the occurrence of poverty (LNUOP, 2008). Some of the poorest districts with food shortages are provinces of unexploded ordnance, as there is limited agricultural production because land is unproductive, containing chemical poisons and those villagers are unable to achieve sustainable livelihoods (LNUOP, 2008). Moreover, Laos is not only a poor country but the people are very underprivileged and also face many difficult hardship situations.

Disadvantage from unexploded ordnance means people in high unexplored ordnance areas have no opportunity to farm and hunt because the number of places they can go is limited by an over fifty percent chance that may not return (LNUOP, 2008). These circumstances still exist, especially in the northern and southern parts of Lao, and this highlights the significant impact on people and on the majority of economic development as well. Any kind of development program taking place in unexploded ordnance affected areas, such as roads and school construction and tourism developments, are at risk from unexplored ordnance and require high substantial extra resources for clearance (LNUOP, 2008).

Map 1: the Map of UXO Impaction/bombing Data from 1965-1975



Source: UXO Laos

The Government has identified the main priority to be promoted under strategy modernisation and it's based on human resource development to boost the country's industrialisation process and investment in resources and development (GoL, 2010). Laos has been introducing NSEDP as a tool, or its national policy strategy, which includes mainly areas such as social and economic development. This significant plan has been developed up to the Seventh National Socio-Economic Development Plan¹¹ covered over a five year plan. There continues to be breakthrough plans to stimulate economic growth to transform Lao into a more industrialised and modernised nation – and aiming to achieve sustainable development (GoL, 2010).

Under a seventh national plan, the government targets high expectations of the macroeconomics for the fiscal year 2010 and 2011, which expects the GDP to increase to up to 8 or 8.5 percent, which is a very high GDP level while the world economic situation continues under recession. Moreover, it also proposes to create added value at a current price of 61,300 billion kip with the goal to achieve GDP per capital of 9.6 million kip or about US\$ 1,130 dollar (GoL, 2010). In order to meet the GDP growth objective, There are three significant sectors targeted – agriculture, industry and the service sector. For instance; the agricultural sector has estimated increases of about 3.5 percent, which will contribute 29 percent of GDP. Industry has ensured increases not below 17.3 percent or 26.5 percent of GDP, while the service sector plans to show increases of approximately 6.7 percent or 39 percent of GDP (GoL, 2010).

The NESDP represents the Laos national policies in every single element concerning international cooperation via global trade. The government of Laos also pointed out an important and clearly stated policy of Laos – to get into international organisation and that it is close to WTO membership. This significance was confirmed by the opening

¹¹ The 7th National Socio-Economic Development Plan introduced to the National Assembly in June, 2010

remark of the Prime Minister of Laos on the Ninth Ordinary Session¹² of the Sixth Legislature of the National Assembly in June 2010.

"Continue to negotiate the agreement on service trade promotion and openness under AFTA framework; hence the agreement can be signed in the 36th standing committee meeting and organise the 6th round of the task force meeting on the negotiation process of WTO accession; continue to complete adjustment of related draft decrees and regulations by 2010" (GoL, 2010, p. 9).

The significance of becoming a WTO member based on the NSEDP which decides the guidelines of the national policy, will keep development on the right track. "Under the NSEDP, the government had outlined the policy concern, the economic aspect and the WTO membership is an important policy that is strongly mentioned" according to an official (Translated). The official added, "The government strongly expects that international trade including WTO membership and foreign investment are enormous core factors for rapid development and poverty reduction and have grown considerably from time to time". One of the concrete examples of the above statement is the government benefit of increasing the number of exports, and a number of export gains rapidly increased by over 30 percent between 2004 and 2005 or about US\$ 500 to 600 million (LNCCI, 2010).

Therefore, the economic part under the seventh NSEDP illustrates that the government is making very determined efforts, aimed at accessing the global market and preparing determinedly for competition through improvement of economic, macroeconomic law because this is part of the rules of becoming a WTO member. Firstly, under the economic sector objective there is an intention to focus on the core products such as rice and electricity. Rice is one of the agricultural goods that the government will try to sell and hopes to get over 3.38 million tons – and electricity is still a top priority of the government for generating income at the expense of the environmental issues and intends to generate about 9,087.75 million kWh (GoL, 2010). Additionally, export and

¹² The ordinary session arranged by the National Assembly meets twice a year between June-July and after the fiscal year between November-December (The National Assembly, 2008).

tourism are attraction goals expected to earn a high income and be part of the development. The export aim is US\$ 1.2 billion or achieving 3.38 million tons production for the economic sector targets. Lao also aims to welcome over 2.22 million people and create benefit for about US\$ 288 million (GoL, 2010).

Apart from the economic sector, maintaining macroeconomic stability such as inflation to a single digit and less than GDP growth is definitely an aim and maintaining foreign reserves to be able to cover imports for more than six months (GoL, 2010). The government will continue to implement foreign exchange rate policy through market mechanisms and government supervision will: maintain the foreign exchange rate stability, and ensure appreciation or depreciation of the Kip will be in the range of 5 percent against major foreign currencies (GoL, 2010).

Lastly, the government continues to improve public governance to enhance discipline and effectiveness of laws and regulations, and intends an increase in accountability in project implementation in the locality, together with increasing support and following up and monitoring divisions of ministries in the provinces. Expansion of a good service system is important to create favourable conditions for people to receive effective public services and put emphasis on disseminating laws and regulations and providing guidance to ensure effective implementation (GoL, 2010).

Therefore, the implementation of Lao's foreign policy is an active method to improve efficiency of collaboration and cooperation with foreign countries and international organisations. Also, enhance credibility and trustworthiness of being cooperative partners by increasing pro-activeness in implementing obligations and agreements with foreign countries and international organisations (GoL, 2010). This also epitomises the wellness of becoming a part of WTO but is possibly not the total solution.

THE WTO PRINCIPLES OF MULTILATERAL TRADING SYSTEM

The main WTO function is the creation of codes of conducts for members of government and these codes emerge from the exchange of trade policy commitments in periodic negotiations and a forum for international cooperation on trade related policies (Hoekman, 2002). There are five principles consisting of non discrimination,

reciprocity, predictability, promoting fair competition and encouraging development plus economic reform.

TRADE WITHOUT DISCRIMINATION

There are two main components under the non discrimination code, including the National Treatment Principle and Most Favoured Nation and both are rooted in the main WTO rules on goods, services and intellectual property (Hoekman, 2002). Generally, “Most Favoured Nation indicates that every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners, whether rich or poor, weak or strong”, (The WTO, 2010, p.10).

Essentially, Lao people will gain benefit from the rules or agreements of WTO that requires basically all WTO member countries do not discriminate between their trading partners or grant someone a special favour and all people are equal. The obvious instance is if one member country is granting 5 percent tariff from a trading partner supplier, this rate has to apply immediately and unconditionally to imports of this good originating in all WTO members (The WTO, 2010). Nonetheless, there are still some exceptions like states being able to set up a free trade agreement that applies only to goods traded within the group and discriminating the commodity from outside. “A special access to their markets or else raise barriers against products that are considered to be traded unfairly from specific countries but the agreements only permit these exceptions under strict conditions” (The WTO, 2010).

Secondly, the WTO mentions that, “National treating of foreigners and locals equally as well as imported and locally produced goods should be treated equally at least after the foreign goods have entered the market and the same should apply to foreign and domestic services and to foreign and local trademarks, copyrights and patents” (The WTO, 2010, p.11). It requires that foreign goods, once they have satisfied whatever border measures are applied, be treated no less favourably in terms of internal taxation than like or directly competitive domestically produced goods. That is commodities of foreign origin circulating in the country must be subject to taxes, charges, and regulations that are “no less favourable” than those that apply to similar goods of

domestic origin so the Most Favoured Nation rule applies unconditionally (Hoekman, 2002).

It ensures that liberalisation commitments are not offset through the imposition of domestic taxes and similar measures. “The requirement that foreign products be treated no less favourably than domestically produced products gives foreign suppliers’ greater certainty regarding the regulatory environment in which they must operate” (Hoekman, 2002, p. 43). Moreover, the National Treatment Principle has often been invoked in dispute settlement cases brought to the GATT, and it is a very wide ranging rule (Hoekman, 2002). “The obligation applies whether or not a specific tariff commitment was made, and it covers taxes and other policies, which must be applied in a non discriminatory fashion to like domestic and foreign products” (Hoekman, 2002, p.45). It is also irrelevant whether a policy hurts an exporter, what matters most is the existence of discrimination, not its effects (Hoekman, 2002)

RECIPROCITY: FREER TRADE GRADUALLY THROUGH NEGOTIATION

The most important meaning of free or encouraging trade is to eliminate trade barriers, which is a concern in customs duties or tariffs and measures such as import bans or quotas, red tape and exchange rate policies (WTO, 2010). Since established, there have been a number of rounds of trade negotiation that have mainly concentrated on lowering tariffs on imported goods and later the negotiations expanded to cover non tariff barriers on goods, and also to the new areas such as services and intellectual property (WTO, 2010). “Opening markets can be beneficial, but it also requires adjustment and agreements allowing countries to introduce changes gradually, through “progressive liberalisation” and developing countries are usually given longer to fulfil their obligations” (The WTO, 2010, p.12).

A rationale for reciprocity can be found in the political economy literature. The costs of liberalisation are generally concentrated in specific industries and often will be well organised and opposed to reductions in protection (Hoekman, 2002). Benefits, although in total are usually greater than costs, tend to increase to a much larger set of a negotiator. Therefore, there is not a great individual incentive to organise politically. In such a setting, being able to point to reciprocal export gains may help to sell the

liberalisation politically. Obtaining a reduction in foreign import barriers as the quid pro quotas for a reduction in domestic trade restrictions, give specific export oriented domestic interests that will gain from liberalisation and an incentive to support it in domestic political markets (Hoekman, 2002). A related point is that for a nation to negotiate, it is necessary that the gain from doing so be greater than the gain available from unilateral liberalisation. Reciprocal concessions ensure that such gains will materialise (Hoekman, 2002).

PREDICTABILITY: BINDING AND TRANSPARENCY

When WTO member countries agree to open their markets for goods or services, they “bind” their commitments” (WTO, 2010). Frequently, this is the case in developing countries and in developed countries the rates actually charged, and the bound rates, tend to be the same. However, a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade (WTO, 2010).

Likewise, the system also intends to improve predictability in other ways as well. One way is to put off the use of quotas and other measures used to set limits on quantities of imports, and administering quotas can lead to more red tape and charges of unfair play (WTO, 2010). Another is to make countries’ trade regulations understandable, comprehensible or transparent to the public.

The regular surveillance of national trade policies through the mechanism provides a further means of encouraging transparency both domestically and at the multilateral level (WTO, 2010). “Another most important factor is transparency, and it is a legal responsibility under the articles that every member is required to publish their trade regulations in order for an institution to review administrative decisions and responsibility for providing information to notify changes in policies to the institution” (Hoekman, 2002, p. 48).

PROMOTING FAIR COMPETITION

The WTO argued that many times people described an organisation as a free trade or liberal trade institution – wrongly. It is a system of rules dedicated to open, fair and undistorted competition. The rules on non-discrimination as well as most favoured nation and national treatment are designed to secure fair conditions of trade (WTO, 2010). So too are those on dumping (exporting at below cost to gain market share) and subsidies. The issues are complex, and the rules try to establish what is fair or unfair, and how governments can respond, in particular, by charging additional import duties calculated to compensate for damage caused by unfair trade. Many of the other WTO agreements aim to support fair competition: in agriculture, intellectual property, services, for example. The agreement on government procurement extends competition rules to purchases by thousands of government entities in many countries (WTO, 2010).

ENCOURAGING DEVELOPMENT AND ECONOMIC REFORM

The WTO system contributes to development. On the other hand, developing countries need flexibility in the time they take to implement the system's agreements. And the agreements themselves inherit the earlier provisions of GATT that allow for special assistance and trade concessions for developing countries (WTO, 2010). Over three quarters of WTO members are developing countries and countries in transition to market economies. During the seven and a half years of the Uruguay Round, over 60 of these countries implemented trade liberalisation programmes autonomously (WTO, 2010). At the same time, developing countries and transition economies were much more active and influential in the Uruguay Round negotiations than in any previous round, and they are even more so in the current Doha Development Agenda (WTO, 2010). "At the end of the Uruguay Round, developing countries were prepared to take on most of the obligations required of developed countries but the agreements did give them transition periods to adjust to the more unfamiliar and, perhaps, difficult WTO provisions particularly so for the poorest and least developed countries" (WTO, 2010, p.13).

Therefore, a ministerial decision adopted that wealthier countries should increase speed on implementing market access commitments on goods exported by the least developed

countries (WTO, 2010). For example, increasing technical assistance for those least developed countries and developed countries have started to allow duty free and quota free imports for almost all products from under developed countries. The currently of the Doha Development Agenda which mentions and includes developing countries concerns the difficulties they faced in implementing the Uruguay Round agreements (WTO, 2010).

The WTO principles of a multilateral trading system via trade without discrimination are reciprocity, predictability and fair competition; and encouraging development and economic reform are mentioned by interviewees especially the trade officials. This could be the first initial benefit that all WTO members would gain.

THE WTO MEMBERSHIP AND POTENTIAL CONFRONTATION

According to the qualitative interview conducted for this document, trade officials and manufacturing exporters in Laos largely share a similar view on the benefit and impact of the WTO accession. First and obviously, there is possibly a greater range of benefits than originally thought and the evidence is confirmed by the increasing number of WTO memberships. When the WTO was established, there were 128 original members and this has now increased to 153 country members, according to the number of states under the United Nation's system. There are 192 countries so the WTO members cover over 80 percent of the world's countries (UN, 2006).

Please note that, at this stage, the thesis will outline the basic comparison of membership benefits and disadvantages from the documents found and only the point of view of the officials who related to the topic and the private sector exporters; but the down-side of membership for Laos will be considered based on its economic performance and current situation.

THE POSSIBLE PROFITS

Of course, there are many sectors related to the WTO, and it's difficult to focus on specific benefits or losses under WTO rule. Agriculture and cement products, for example, experience different effects and factors. At this point, therefore, only general

comments about costs and benefits will be made. Based on the WTO perspective, at least three possible major benefits of WTO membership have been illustrated. Firstly, the member countries as well as Laos will have an opportunity to strengthen their domestic policies and institutions in order to conduct international trade in both goods and services. This happens in many least and some developing country economies which perhaps confront the same challenges in establishing the institutions needed to implement WTO commitments – for instance, introducing laws and institutions for the operation of private enterprises and markets free from government controls and other under WTO regulations such as sanitary and phytosanitary provision and intellectual property rights (Michalopoulos, 2002). What is more, it is also significant for Lao's economy to introduce greater stability in commercial policy, which is a consequence of adherence to WTO rules and legally binding agreements (Michalopoulos, 2002).

Secondly, the membership gives a chance to improve the ease and security of market access to major export markets. There are two main dimensions of market access that are significant to acceding economies. The first dimension is to the extension of permanent and unconditional Most Favoured Nation status which comes with WTO membership. Currently, economies that are not members of the WTO have been granted Most Favoured Nation treatment voluntarily by major trading partners, but there is nothing to guarantee that they will continue to be accorded such treatment (Michalopoulos, 2002). Second, there is substantial evidence that the incidence of antidumping actions (investigations and definitive measures). These are much more severe for non members than member (Michalopoulos, 2002).

Thirdly, the government will have a chance for access to a dispute settlement mechanism for trade issues and access to an impartial and binding dispute settlement mechanism, the decisions of which have a significant chance of being enforced. This has an important potential benefit for the acceding economies, many of which are small and heavily dependent on international trade (Michalopoulos, 2002). Moreover, the institutional dispute settlement mechanism has proven successful in providing opportunities for members to obtain satisfaction regarding an accusation stemming from practices of other members who cause trade injury (Michalopoulos, 2002).

ECONOMIC REFORM

It is significant to understand what Laos is through international eyes, especially the economic area. Laos has a challenging institutional environment for business and was ranked 167th out of the 183 countries in the 2010 Ease of Doing Business Index¹³ (World Bank, 2010). As a landlocked country relying on transit transportation, the latest Logistics Performance Index¹⁴ rates Laos at 2.3, on a scale from 1 to 5 with 5 being the highest performance while close to the average for a low income country, and it falls below the East Asia Pacific regional average of 2.6 (World Bank, nd).

Primarily, some countries have taken on economic or trade reforms which are more liberal and this simplifies trade, which has grown faster where other nations have not. Higher growth rates result from static gains associated with an improved allocation of resources in the tradable and non tradable sectors and from dynamic gains resulting from greater access to technology and knowhow that allows producers in Laos to move closer to the international technological frontier. Laos faces high tariff barriers for their exports compared to the rest of the world's tariff of 9.7 percent – broadly similar to that faced by the East Asia Pacific region and low income countries at 10.2 percent and 9.6 percent respectively. Lao agricultural exports face the much higher tariff of 14.7 percent (World Bank, 2010). Moreover, since Lao is not yet a member of the WTO, the share of exports subject to MFN zero duties is low, at 23.7 percent, compared to 48.9 percent and 47.2 percent for its regional and income group competitors (World Bank, 2010).

¹³ The Ease of Doing Business Index is an index created by the World Bank which illustrates higher rankings indicates better, usually simpler, regulations for businesses and stronger protections of property rights.

¹⁴ Logistics Performance Index is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance.

CONSUMER AND EMPLOYMENT

As the slogan of the WTO suggests, free trade creates and fosters competition, and encourages an efficient use of resources as well. It lowers prices, enhances variety, and improves product quality for those goods demanded by consumers. Principally, the increasing competition means domestic firms are prompted to be innovative and efficient in their free trade. It reduces the costs of domestic producers by reducing the costs of imported inputs and thus reducing prices of finished goods and services. Therefore, under the rules of WTO, that generates high competition, which results in local consumer benefits and Lao's consumers have the opportunity to access a series of products and great prices. The consumer will gain from lower prices than in the previously protected industries. For example, Lao's poor households that could benefit from cheaper construction materials like cement are still the most under-represented segment of the economy, notwithstanding their large numbers (Lord, 2009).

A civil servant from the Ministry of Industry and Commerce mentioned that "The first answer of who gains from the trade is consumers. They benefit from an expanded range of goods as well as services via increased competition and access to a variety of products as Lao identifies as an import country, of course, so the benefit of WTO accession is more likely for people or consumers who enjoy a variety of quality of products and cheap prices" (Translated). Moreover, higher output growth in competitive sectors and the reallocation of resources into labour intensive activities means Laos has a comparative advantage which would give rise to higher rates of labour utilisation and with liberalisation, employment would increase in competitive industries producing domestic and export oriented goods like processed fruits and vegetables.

However, the competition under trade liberalisation results in forcing producers, especially small and medium enterprises, to increase their capacity, in both quantity and quality and this requires high technology and high skill of labour (Deardorff & Stern, 2009). In industrial countries some factories or manufacturers replace workers with high technology machines or robots to cope with manufacture demand. Additionally, there is inequality in advanced countries and labour which receives unfair payment (Deardorff & Stern, 2009). For instance, evidence from other countries suggests that employment adjustment costs are small. In the case of Laos the beer, cement and steel industries

represent a relatively small proportion of Lao PDR's total output (Lord, 2009). The employment shifts would represent a small proportion of overall employment adjustments in the economy (Lord, 2009). Sector specific adjustments would therefore be small, and much of the adjustment would be absorbed by normal turnover rates that occur over a two to three year period (Lord, 2009).

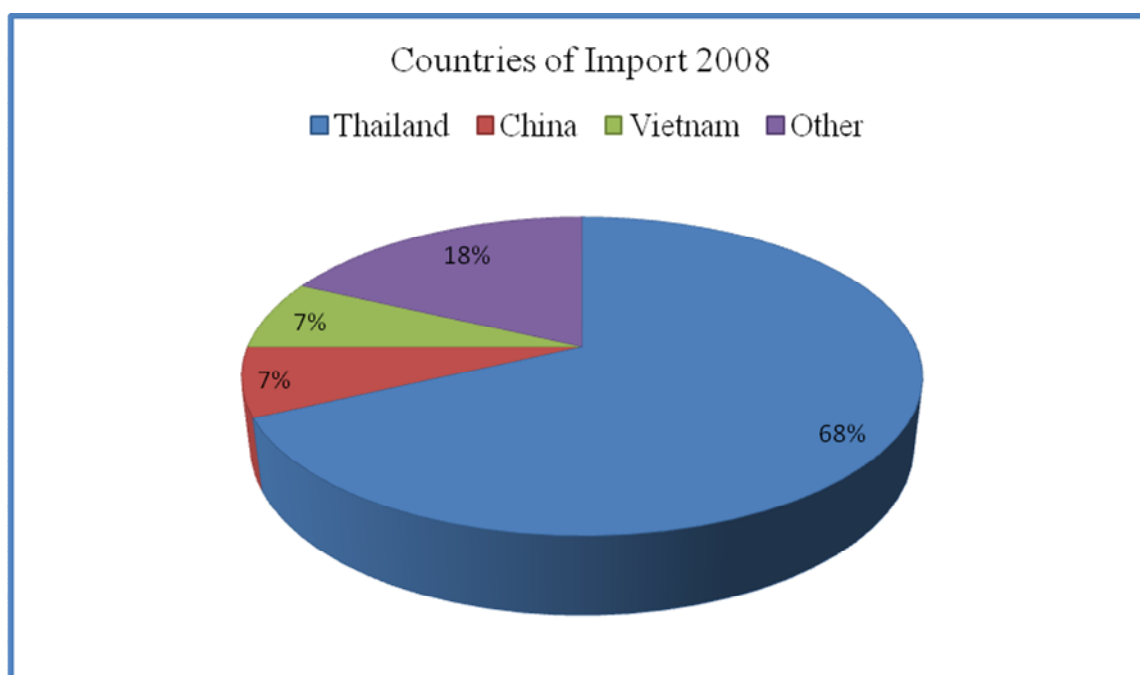
THE OPENING MARKET

Lao did well at economic term performances in previous years by increasing and stabilising a number of GDPs while the world economy was getting worse. Obviously, as mentioned in Chapter 3, the increasing amount of hydropower and number of mining projects around the country is at the expense of environmental issues. Under the umbrella of the WTO Lao must accept their rules, and it is basically a free market for fair competition with other memberships. Perhaps it's easy to understand yet it's not straightforward in terms of implementation and the fact that Lao is not an export country.

Lao will gain a minimal benefit over what it will receive. An official argued that whether or not Laos only receives a few things from the global market. "I don't have actual statistics, but I believe that over 80 percent of what Lao's people fundamentally use are imported and they rely on imported products, mainly from neighbouring countries such as Thailand, Vietnam and China" an official (Translated).

Some data confirms the official opinions. Lao's people mostly rely upon products from Thailand – about 71 percent of imported value in 2007 or about US\$ 593 million but the percent number reduced to approximately 68 percent in 2008. Nevertheless, it increased the import value at US\$ 1,230 million in parallel with increased trade in shared commodities from China (Department of Statistic, 2009). The value of Chinese goods imported increased from 4.94 percent in 2007 to 7.29 percent in 2008 or around US\$ 42 million to US\$ 132 million, and it was also the second highest in the same year (Department of Statistic, 2009). Additionally, the import value to Laos in 2007 and 2008 from regional countries in US dollars almost tripled from about US\$ 840,105 to US\$ 1.8 million (Department of Statistics, 2009).

Figure 2: Countries of Import 2008



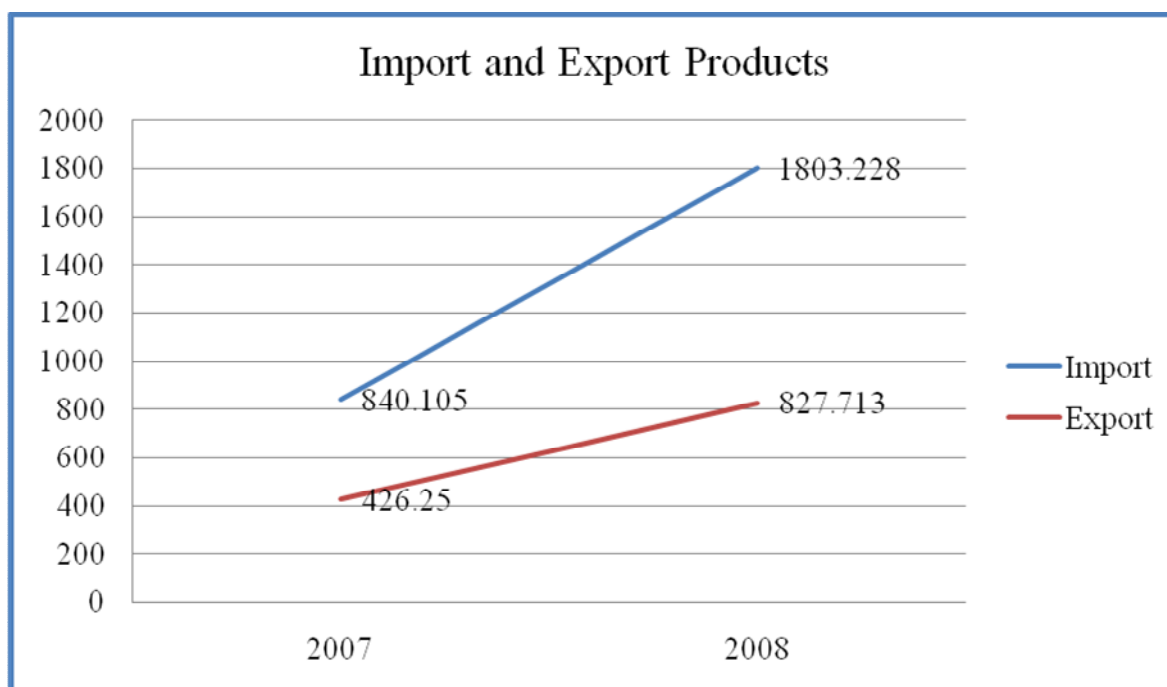
Source: the Department of Customs, Ministry of Finance

In order to give a clear picture, these will be analysed and compared with a number of imports and exports of Laos between 2007 and 2008 (Figure 2). According to the import and export statistics by class of commodity 2007 and 2008, illustrates the increasing number of export goods. The top three classes of exported commodities are base metals, minerals and vegetables. Beginning with base metals: an article of base metal increased from about *US\$ 214 million* in 2007 to *US\$ 433 million* in 2008 (Department of Statistic, 2009). The next two classes are mineral and vegetable products; minerals especially, increased rapidly from around *US\$ 17 million* to approximately *US\$ 205 million* and vegetable products minimally improved from about *US\$ 49 million* to approximately *US\$ 58 million* (Department of Statistics, 2009). Moreover, in total, the export commodities approximately doubled from approximately *US\$ 426 million* to *US\$ 828 million* (Department of Statistic, 2009).

However, the above increases still mean there is a long way to go when comparing a number of total commodities those countries imported. Lao traded in goods from overseas to a value of nearly *US\$ 2 billion* and around *US\$ 1 billion* was the increase only a year later (Department of Statistic, 2009). The two main imported classes were a group of mineral products, a range of machinery and mechanical appliances and

electrical equipment (Department of Statistic, 2009). Firstly, the group of mineral products formed the highest imported commodities in 2008, which traded at about **US\$ 416 million**, an increase from the previous year of around **US\$ 160 million** (Department of Statistic, 2009). The second highest imported product was electrical equipment, which increased from about **US\$ 213 million** to around **US\$ 400 million** from 2007 to 2008. Therefore, in 2007 there was approximately **US\$ 414 million** more earned in imports than income from exports. However, in 2008, the average gap between import and export steadily increased from **US\$ 976 million** to very close to **US\$ 1 billion** (Department of Statistics, 2009). From these numbers, every export product equalled approximately 3 imported goods.

Figure 3: Selected Import and Exporting Products



Source: Ministry of Finance

The public number illustrated the disadvantages of belonging to the global market outweighed the benefits. Initially, considering the above number perhaps influences people’s understanding, there is another problem intimately linked to the number. Some believe that the free market will reduce the country’s income or “Tax reduction”.

“It is not really hard to understand the situation in Laos. Many people understand that Laos is an importing dependent country; this is illustrated in not only a number of

statistics, but it is shown in an ordinary market. I want to ask the government what product we can plan to sell for profit as well as compensate for the import gaps” an official (Translated).

“As for short term benefits I don’t see accession to the WTO as leading to a sudden rise in Lao exports as was the case with China and Vietnam which had potential and were competitive already. Laos as a developing country but will however, be able to export its products on a level playing field with other WTO member states. Furthermore, Laos will benefit from the Generalised system of preference GSP and have access to markets of developed countries without being subject to excise or quotas. Therefore accession to the WTO fully guarantees that Laos will not be discriminated against. It will be about exercising full membership right” Khemmani Pholsena, Vice minister of Industry and Commerce (Target, 2010).

“Accession to WTO will play a long term role in socio economic development though the revisions are being made to the legislation so it conforms to the principle of international practices. Including non discrimination and transparency, this process will be conducive to business and attract investment in order to expand exports and generate jobs for the public” (Target, 2010).

TAX ELIMINATION

The mentioned number of imports and exports illustrates that the government of Laos earned a high income from the taxation system, and this is the significant part in dealing with development and poverty. In 2007, it benefited about 2 trillion kip from taxes on products and import duties and in 2008, the income from taxes increased to 3 trillion kip. Under world economic integration or the WTO, this income will be eliminated or wiped out (Department of Statistic, 2009).

Tax elimination is perhaps the first to be obviously affected from the global market or WTO membership for Laos, as the government has to reduce or eliminate the tariff or tax. “As an importing country we enjoy the benefit of import duties and, this would be lost under WTO rule” (Translated). It is important that the Government differentiates between its direct revenue generating interests and the private sector’s profit

maximisation objectives. The revenue generating effects of tariff reductions are negative in the short run but likely to be positive in the medium to long run as the overall volume of trade increases. “There will be a loss of tariff revenues as tariff rates are reduced. The likely reduction in tariff revenues for Laos is probably not substantial since tariff revenue from the industries is currently small” (Lord, 2009, p. 25).

A trade official direct dealing with WTO accession totally disagrees with the tax reduction that “the Ministry of Industry and Commerce has considered the strategy in order to deal with the mentioned issue. Under the negotiation process, Laos could request a slight decrease in the tax until it free. These are not suddenly reduced to level zero” (Translated). “Reduction in tariff revenue on some products for the WTO member countries brings about the elimination of tariff tax received, but the matter will only occur in the short term because we have introduced other systems in order to compensate for the tariff tax loss, such as the value added taxes” (Translated). “We have prepared a strategy to cope with tax reduction, but we could not tell the public at this time as we are still in the negotiation process. I am a hundred percent sure that we not only won’t lose the tax benefit but we will be advantaged instead” (translated).

The government of Laos has been thorough in considering the issue, but because of the technical negotiation perhaps it was not possible for the public to be told. That resulted in misunderstanding from other officials themselves as well as ordinary people who may see that *free market, free trade means free tax equally*.

THE AGRICULTURE

Take the agriculture sector, for example; Lao's agriculture has been protected up to date through a system of licenses and non tariff barriers that will have to be phased out or transformed into tariffs, and these tariffs will have to be reduced in the long run in accordance with general WTO negotiations. In addition to the commitment to market opening with its potential effect on domestic producers through increasing competition from imports, the WTO Agreement on Agriculture limits the policy space for domestic agricultural policies and disciplined subsidisation of exports (Wiemann, 2009).

The details of these limits and constraints on agricultural policies of WTO member states are still contested in current debates and negotiations in the Doha Development Round of multilateral trade negotiations under the umbrella of the WTO. What seems to be clear already today is that developing countries will have to accept a certain confinement of agricultural policy space if they expect the same discipline from the developed WTO members (Wiemann, 2009). Therefore, they can make full use of their comparative advantages in the area of agricultural exports. On the other hand, Lao agricultural exports will have to meet the ever stricter health and quality requirements set by developed countries for both domestic and imported goods (Wiemann, 2009). Improving the quality of Lao agricultural exports would be a precondition for export success, even if Laos were not to become a WTO member. WTO membership requires certain legislative and administrative reforms to make Laos' system of quality controls and product certification compliant with the WTO Agreement on Sanitary and Phytosanitary Standards (Wiemann, 2009).

From the personal opinion of officials who see the benefit of the global market or WTO membership, there is, of course, both sides – advantages and disadvantages. The government of Laos sees the WTO as the potential for economic growth and, as well, the WTO brings an international standard, which means that today we trade with other partners based on one standard alone.

In summary, the chapter outlined the significance of WTO accession throughout the National Socio-Economic Development plan and what the government is planning to do so far regarding preparing for trade liberalisation. Moreover, this was also a discussion of principles of a multilateral trading system under the WTO umbrella. In addition, this chapter also brought participant points of views into the concept of possible advantages and disadvantages. Regarding this point, there aren't a hundred percent conclusions on what benefits or losses accession to the WTO will bring. The next chapter will closely identify reasons for becoming a member of the WTO, despite that to date; there is no specific conclusion on the benefits or losses.

The advantages and disadvantages seem not really significant at present, when the government of Laos has fully decided to participate in the global market. The next chapter will give an answer to the above-mentioned statement.

CHAPTER SEVEN: EXTERNAL INTERVENTION & GLOBAL MARKET CONSEQUENCE

Many countries were involved from the Second World War to the end of the Cold War period. Nowadays, some people view the new “war” as competition in the global market. Global markets have experienced tremendous change shaped by several factors such as the establishment of political and economic organisations such as the United Nations. Being a member of an international political and economic organisation is a significant step for countries like Laos in order to develop and compete. It is almost impossible to stand alone in the current fiercely competitive globalisation period. For Laos, the international organisation is the answer to fostering development and it seems to be a main priority of the Lao government. This chapter will explain, in general, the intervention of international partners, and the accession to an international organisation such as the WTO as an example.

POLITICAL GLOBALISATION

Some critics question the aim of Laos becoming a member of the WTO citing the risks of doing so. The case of WTO accession is much more connected with Lao international foreign policy and this policy plays an important role in the current economic environment. As example Laos’ cooperation to the international organisation involves the government receiving grants or aid from foreign “donor” countries since its independence. Therefore, international integration is not a new concept when it comes to foreign policy implementation. Laos has been participating in two levels of multilateral cooperation in international organisations: global and regional.

The United Nations which has been established since the end of the Second World War has become the biggest institution to promote international peace and security. Laos initiated membership in 14 December 1955 and had signed various treaties under the jurisdiction of the United Nations system such as a human rights charter (United Nations, 2006). This illustrates the first step towards global politics under the United

Nations rules. Apart from the United Nations, Laos had also become a member of other international organisations such as the International Bank for Reconstruction and Development (World Bank), the International Fund for Agricultural Development and the International Monetary Fund.

In addition, regional organisational cooperation is another significant move for Laos. As the bordering or neighbouring countries have closer political and economic ties, each of these countries may contribute to each other's development. Currently, there is some sub regional collaboration that the government gives an importance to such as the Mekong River Commission (MRC)¹⁵ and Great Mekong Sub-Region. These organisations ideally integrate border countries and explore opportunities for sub-regional cooperation in the Mekong River Basin.

ASEAN

Apart from the above mentioned regional cooperation, The Association of South East Asia Nations (ASEAN) is a regional organisation which also plays a highly important economic role in the Southeast Asian region at the present time. ASEAN was established on 8 August 1967 in Bangkok, Thailand by the founding first five countries, including Indonesia, Malaysia, Philippines, Singapore and Thailand (ASEAN, nd). Later, the organisation was joined by Brunei Darussalam, Vietnam, Laos, Myanmar and Cambodia. Laos became a member of ASEAN in 1997 as the eighth member (ASEAN, nd). Presently, ASEAN includes ten countries in Southeast Asia and Timor-Leste (Observer). All countries reached a consensus to meet the same objectives together such as economic integration.

ASEAN have been very famous in Laos, since 2004, when Laos had an opportunity to host the ASEAN Summit. The summit welcomed the head of the ten state members and six dialogue partners (Heads of State) such as the Prime Ministers of Australia and New

¹⁵ The Mekong River Commission (MRC) was established in 1995 by an agreement between the governments of Cambodia, Lao PDR, Thailand and Viet Nam.

Zealand. Therefore, many people in Laos really understand what ASEAN is, and the government has been promoting ASEAN by disseminating information.

ASEAN plays a fundamental role in a country's political and economic sectors, and being a member, the government of Laos has to agree with the principles and goals of ASEAN. There are six basic principles of ASEAN. Firstly, the agreement for the acceleration of economic growth, social progress and cultural development in the region via joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asia Nations (ASEAN, nd). Secondly, the promotion of regional peace and stability via abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter (ASEAN, nd). Thirdly, promotion of active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields. The fourth principle includes provision of support by training and research facilities in the educational, professional, technical and administrative spheres between members, especially for underprivileged countries (ASEAN, nd). The fifth sets out collaboration extra effectively for the greater utilisation of their agricultural sectors and other industries, the expansion of their trade, including the examination of the problems of international commodity trade, the improvement of their transportation and communications facilities and the raising of the living standards of their people (ASEAN, nd). And lastly, maintaining close and beneficial cooperation with existing international and regional organisations with similar aims and purposes, and exploring all avenues for even closer cooperation among themselves (ASEAN, nd).

An official from the Ministry of Trade and investment shared an opinion on especially the intervention of ASEAN with the WTO access, as well as on the completion of the regional market (ASEAN): “ASEAN is a significant institution and is also part of the result why Laos should accede to the WTO” (translated).

Regarding WTO accession, Laos will be *the last country in ASEAN* to become a member of the WTO and Laos' accession is the final step in the regional and international economic integration based on ASEAN and ASEAN Free Trade Area (Wiemann, 2009). Therefore, it clearly illustrates that ASEAN is among the

fundamental factors supporting Laos' WTO accession. The principal objective of being a WTO member is agreeing to meet the ASEAN aim that all ASEAN nations become a member, and as Laos is the last country in ASEAN to become a member of the WTO, this will be considered a success.

The Vice Minister of Industry and Commerce stated that "The Lao PDR is the only country in ASEAN which is not yet a member of the WTO so it is forced to trade and act in accordance with the foreign trading practices within the framework of the WTO anyway" (Target, 2010). Basically, Laos trades with 9 ASEAN nations; they are all WTO members and conduct trade according to the principles of the WTO. "Currently approximately 50 percent of all imports to Laos come from ASEAN countries and 80 percent of all Laos exports likewise. In addition to ASEAN, Laos also exports to the EU, Japan, China and the US, all of which are WTO members" she added (Target, 2010).

With about 90 percent of ASEAN members obtaining accession to WTO, there is interference of other ASEAN members concerning Laos' WTO accession despite ASEAN ruling that each country will not intervene in another ASEAN state's internal affairs. There are also extremely significant treaties that prevent the intervention or interference of each member state (ASEAN, nd). The ASEAN member states have adopted fundamental principles as contained in the treaty of amity and cooperation in Southeast Asia of 1976 (ASEAN, nd). ASEAN entitles common respect for the independence, sovereignty, equality, territorial integrity and national identity of all nations and the right of every state to lead its national existence free from external interference, subversion or coercion (ASEAN, nd). Moreover, non-interference is very important, especially in the internal affairs of each state where settlement of differences or disputes in a peaceful manner and renunciation of the threat or use of force and effective cooperation between states is involved (ASEAN, nd). A previously stated from an interview with an official: "ASEAN is a significant institution, and it is also part of the result why Laos should accede to the WTO". There is no intervention of other ASEAN members in order to push Laos to become a member of the WTO. However, I strongly believe Laos has no other choice but for the government to work on becoming a member of the organisation as soon as possible" (Translated).

ASEAN FREE TRADE AREA

The ASEAN organisation has been mentioned as an important influence to Laos' accession to the World Trade Organisation but there is also another important ASEAN scheme: the ASEAN Free Trade Area (AFTA). From 1985 to 1995 growth of world trade was twice as high as the global output and Asia also experienced a growth of 6 percent more than output (Hoekman & Kostecki, 1995). After the establishment of ASEAN one of its objectives was economic integration. The ASEAN countries reached a consensus to create an ASEAN Free Trade Area to integrate the countries' economies into a single production base thereby creating a regional market of over 500 million people in 1992 (ASEAN Secretariat, 2002). Ideally, this is the liberalisation of trade in the region through the elimination of tariffs and non tariff barriers among member countries, and it is expected to form trade in goods and investment sectors more efficiently and is able to compete in the free world market (ASEAN Secretariat, nd). The organisation released an agreement of method of Common Effective Preferential Tariff, and it designed reduction and elimination of tariff rates levied or zero to five percent tariff band of products traded among the region (ASEAN Secretariat, nd). To date, only Cambodia has still not reached the elimination point, but is considering meeting non-tariff barriers in 2010 (ASEAN Secretariat, nd).

ASEAN has adopted a dispute settlement mechanism (largely patterned after the WTO dispute settlement understanding) covering all economic agreements. This establishes a mechanism for resolving any problem arising from the implementation of any economic agreement in ASEAN. In addition, the elimination of all import duties will be fully implemented by the six original members by 2015. All new members including Laos should be meeting these provisions (ASEAN Secretariat, 2002), for example, those countries who have committed to eliminating tariffs on 60 percent of their products in the inclusion list by the year 2003. As of this date, tariffs on 64.12 percent of the products in the Inclusion List of ASEAN-6 will have been eliminated (ASEAN, 2009).

Concerning ASEAN with a combined market of 1.7 billion people, a free trade area between ASEAN and China would have a gross domestic product of US\$ 2 trillion and total trade of US\$ 1.23 trillion (ASEAN Secretariat, 2002). The joint experts group estimates that the establishment of an ASEAN-China Free Trade Area could increase

ASEAN's exports to China by 48 percent and China's exports to ASEAN by 55 percent (ASEAN Secretariat, 2002). An FTA is also expected to boost ASEAN's GDP by 0.9 percent and China's GDP by 0.3 percent and to promote the expansion of trade and investment between ASEAN and Japan (ASEAN Secretariat, 2002).

Some officials argued that the government should focus more on the WTO membership and should not wait for more than 13 years to reach WTO agreements. "Of course, there are some issues that the government has to resolve but the WTO membership should be processed faster" an official said (Translated from Lao). Since Laos has already stepped into a fully free trade system, such as the ASEAN Free Trade Area, obtaining WTO membership is not a difficult decision to make.

"ASEAN Free Trade Area is ideal (and) originated from the GATT and (is) very similar to the World Trade Organisation systems. I would say that there are similar ideas and principles" a trade official from Laos claimed (Translated).

Additionally, although Laos has been involved with bilateral and multilateral trade in both regional and international arenas this is just another primary step to enter the world market and experience socio-economic growth as a country. The decision of participating in international integration brings about the people's concern in considering the long term development. Therefore, some government officials contend that when the economy is still on its way to growth, the country can't afford to shift its focus to global trade and the move to join the WTO should be considered carefully.

"Although we signed some bilateral and multilateral agreements with other countries and organisations, the country itself has to experience socio-economic growth, for the mean time we can just stay focused in the region. So with WTO accession it can be a long term vision for Laos" (Translated).

"Regarding WTO accession, the government made a right decision in order to postpone or slow the process of becoming a member because the government will have more time to consider what are the advantages and disadvantages" (Translated). But from another official's perspective: "Actually, WTO is not really the significant issue for Laos and it

is not difficult to make a decision because Laos had signed a variety of bilateral and multilateral trade agreements with countries and organisations” (Translated).

TRADE AGREEMENT

As well as AFTA, there are huge numbers of agreements that the government of Laos has been involved with including bilateral and multilateral trade agreements. The individual interviews bring about at least two points of view on the trade agreements.

OBJECTION

Laos has also signed a free trade agreement both bilateral and multilateral with other countries and organisations. In the regional organisation for example, Laos is a member of ASEAN free trade area under the ASEAN scheme. There is also a plan to sign a free trade agreement with Australia, New Zealand, China, India, Japan and the Republic of Korea (ASEAN, 2009). In addition, the government is also improving relationships with America and in December 2004, the former President, George W. Bush, signed a bill extending normal trade relations with Laos. Two months later, the Bilateral Trade Agreement between the US and Laos came into force (U.S. Department of State, 2009). The consequence of this trade agreement generated an increasing amount of trade from about US\$ 25 million to around US\$ 61 million between 2007 and 2008 alone (U.S. Department of State, 2009).

Moreover, Laos has also benefited from the Generalised System Preference (GSP) by 34 countries including the European Union (LNCCI, 2010). In 1968, the United Nations Conference on Trade and Development recommended the creation of a ‘Generalised System of Preferences’ where industrialised countries would grant autonomous trade preferences to all developing countries (European Commission, 2004). It offered 178 developing countries export into the European Union market with lower tariffs or completely duty free accession (European Commission, 2004). The European Union's scheme grants special benefits to the 49 least developed countries and to countries implementing certain labour or environmental standards. In 2002, European Union imports benefiting from GSP preferences amounted to Euro 53 billion (European Commission, 2004).

Presently, Laos has signed bilateral trade agreements with 16 countries: Vietnam, China, Cambodia, Burma, Thailand, North Korea, Philippines, Mongolia, Indonesia, Malaysia, Bulgaria, Russia, India, Belarus, Argentina and America (LNCCI, 2010). Considering the number of Laos export goods in 2008 it illustrates that Thailand and Vietnam received over 70 percent of Laos' exports (this number does not include some illegal trading along the borders). In comparison, the number of trade agreements that Laos' government signed (free and low import taxes) and the number of agreements cover the main Laos export countries.

THE EXPECTED CONSEQUENCES

Some officials see the prolonging of WTO accession as unintended by the government. Prolonging Laos' WTO membership could result in unintended consequences. An official said "I am sure, the government has been analysing the outcome from the WTO membership. And by thorough examination of information, the government of Laos may see that entering the global market is inappropriate" (Translated). The government of Laos perhaps has taken into consideration that the entry to global trade is not positive for the local market. "The most important issue is that nobody is able to pinpoint the pros and cons of becoming a WTO member. There are many reports from the Lao government and international experts but that is only based on statistics which sometimes differ greatly from (the) real situation" (Translated).

For example, there is no such thing as fair competition in the arena of the WTO. In the real world some countries will still be unable to compete "fairly". This can be compared to a sport like boxing. If the WTO was a boxing match, it would be like a fight between 100 kg and 50 kg boxers which could represent the first world and developing countries respectively (Sen, 2006). The results would not be a surprise nor would it be good for developing countries. "Basically, we all understand that Laos is experiencing shortage of human resources, weak technology and poor infrastructure. We have fewer tools for fair competition that would almost (certainly) result in failure to compete" claimed an official (Translated). He added, "Nobody can guarantee and confirm the result from the possible unintended consequence of accession to free trade under the WTO umbrella" (Translated).

THE NATIONAL APPLICATION

THE WORKING PARTY MEETING

There are a few steps of the accession process but these are not straightforward as is evidenced by Laos' accession. Laos has been waiting for WTO membership for approximately 13 years and the government aims for possible membership in 2010. According to the Article XII of the WTO Agreement, it states that accession to the WTO is based on terms to be agreed between the agreeing government and the institution. Nonetheless, its process of negotiation is different from the process of accession to other international entities such as the International Monetary Fund that is mostly an automatic process (WTO, nd).

Concerning eligible accession, the institution agrees to any state or customs territory having full independence in the conduct of its trade policies. Firstly, the government has to submit a formal written application to the organisation (WTO, nd). Secondly, a working party will be set up by the General Council in order to examine and hand the accession request back to the General Council for approval. The Working Party takes decisions by consensus in every accession step (WTO, nd). Examining all aspects of the existing trade and legal regimes of the agreeing government and the Working Party goes into the substantive part of the multilateral negotiations involved in accessions (WTO, nd). This determines the terms and conditions of entry for the applicant government including commitments to observe WTO rules and disciplines upon accession, and transitional periods required to make any legislative or structural changes necessary to implement these commitments (WTO, nd). In addition, the applicant government connected in bilateral negotiations with any interested Working Party members on concessions and commitments on market access for goods and services and the results of these bilateral negotiations, are consolidated into a document which is part of the final accession package.

THE FIRST MEETING

The Government of Laos officially applied to join the WTO on 16 July 1997, and later the General Council agreed to set up a working party on 19 February 1998. Laos has

been involved in five working party meetings with other nations' WTO members. From the date of the working party being set up, the first accession working party meeting took over five years to occur (WTO, 2004). The first meeting was on 28 October 2004, attended by 20 WTO permanent members. At the first meeting, the working party submitted an action plan of enacting legislation with further information on agriculture, sanitary and phytosanitary measures, technical barriers to trade, services and intellectual property, and they expected to submit their first offers for market access in goods and services which was also requested by the meeting (WTO, 2004).

Responding to the first meeting: “Some issues reaching that first meeting showed an immediate need to solve the problem that Laos does not have a permanent representation (embassy or trade office) in Geneva, Switzerland which is the headquarters of the World Trade Organisation and this also brought about communication shortages” (Translated). Another issue was the meeting also mentioned that the WTO rule classically requires reform of both legislation and the complementary enforcement infrastructure of the candidate government (WTO, 2004). Moreover, there was concern over complex technical matters, so the government requested technical assistance in intellectual property, customs valuation, sanitary and phytosanitary measures and technical barriers to trade (WTO, 2004).

THE SECOND MEETING

Two years later in December, 2006, the second working party began while the sixth NSEDP had been released in October the same year. The plan pointed out a core factor that included the promotion of economic and human development, specifically the increasing use of qualified advantages to implement effective international economic commitments in the framework of the ASEAN and other bilateral and multilateral commitments and one of them was the WTO (Committee for Planning and Investment, 2006).

“The first issue concerning a permanent representative in Geneva was still remaining and many issues related to technical matters. Also not only previous issues, but more problems were added.” Trade Official (Translated).

Therefore, at the second working party meeting, there was still a limited performance and also minimal improvement resulting in only the submission of a preliminary legislative action plan, a checklist of sanitary/phytosanitary and technical barriers to trade measures, information on implementing the intellectual property (TRIPS) agreement, and information on its agricultural supports and subsidies (WTO, 2006). Furthermore, the government had to provide more details on a range of subjects such as technical barriers to trade as well as essential technical standards applied to traded goods, sanitary and phytosanitary measures such as food safety and animal and plant health, intellectual property protection and customs valuation (WTO, 2006).

THE THIRD MEETING

There was an improved process at the third working party meeting held in 2007. The government responded and submitted written replies to members' questions and a revised action plan introducing and implementing laws and regulations and another improvements regarding establishing a permanent representative of the Embassy of Laos in Geneva, Switzerland was proposed. This assisted efforts and began to close the communication gap of the first two working party meetings – seven years after first applying for meetings between Laos and working parties (WTO, 2007). However, the government still needed to adopt a number of laws and regulations, mainly those in the Legislative Action Plan, containing import and export procedures, pricing, investment, foreign exchange, veterinary issues, value added tax, standards, and intellectual property (WTO, 2007). The government of Laos still faced many difficult issues as evidenced by requests for more technical assistance from other members especially in the area of negotiation and reforms of the applicant (WTO, 2007).

THE FOURTH MEETING

Since 2006, Laos' endeavours to become a member of the WTO have seemed to accelerate, with a working party meeting being held every year, and in 2008, the working party meeting gained momentum. At this meeting, the government demonstrated the process of becoming a member by reaching agreement with the European Union on opening its market to goods. Countries which fill the 'least developed country' criteria can apply to join and Laos' application was later covered by

the 2002 General Council guidelines for accelerating membership negotiations and this improved its market opening offer on goods and services (WTO, 2008). Additionally, regarding the facility in cross border trade, the Government reduced the number of agencies represented at border check points to three agencies: immigration, customs and quarantine (WTO, 2008). The centralisation of treasury, customs and tax administration began, including the work on a new revenue sharing mechanism and piloting centralisation in some pilot provinces (WTO, 2008).

However, there were still remaining issues such as narrow production and human resource constraints according to the statement of the Minister of Industry and Commerce, at the fourth session of the working party on the accession of Laos to the WTO.

“We do recognise that capacity building and sufficient flexibilities are key factors to assist Lao PDR bring its custom valuation, sanitary and phytosanitary, technical barriers to trade, trade related intellectual property rights and trade related investment measures in compliance with WTO requirements” (WTO, 2008).

THE FIFTH MEETING

Lastly, at the latest meeting or the fifth working party meeting in 2009, the government reached a bilateral agreement on market access with China and continues to negotiate with some others - Australia, Canada and Chinese Taipei - and reached agreement bilaterally with the EU on goods but still not yet services. Furthermore, the Import and Exporting Procedures, a Decree on Import Licensing Procedures incorporating the requirements of the Import Licensing Agreement and the first National SMEs Development Strategy had been adopted (WTO, 2009). Moreover, in terms of cost-based importation charges, Fees and Service Charges have been amended as the previous inspection fee for imported food has been replaced by a cost-based fee in line with the requirements of GATT Article VIII.

However, the government still has to improve and continue to build on political momentum and reforms requested by the working party. For instance, a draft Decree on Rules of Origin is at an advanced stage of preparation. Replacement of an *ad valorem*

with a cost-based inspection fee on cement, steel bars and fuel is also in the final stages, a draft notification on Subsidy measures, Decree Regulating Import and Export to accommodate Members' right to trade, and a Regulation and List of goods subject to import and export licenses (WTO, 2009).

“We have to take a look at the conditions I mentioned previously and the decision rests with the WTO members. One of the conditions is that the bilateral negotiations regarding market access for goods and services must be complete and we must be able to meet the member's demand. The most important factor is that Laos must revise legislation so that it conforms to the WTO agreement for the multilateral negotiations. This means that we have to be ready before accession can take place for sure. If we are not ready, the members will not allow us in” (Target, 2010).

Therefore, from the first working party meeting it is clearly illustrated that the government of Laos faced several main issues especially legislation development.

THE REMAINING QUESTIONS

LEGISLATION

Over the last decade, the government of Laos has been developing, amending and releasing laws related to the WTO accession. Legislation changes are targeted to be compatible with WTO requirements in particular. As far as national treatment and non discrimination is concerned, a number of laws adopted provide a legal framework for enabling investment in the business environment, including laws on food, domestic and foreign investment, tax, the costume law, the law on value added tax, the enterprise law, law on intellectual property, the standard law, the forestry law, law on the promotion of investment, law on veterinary issues and laws on a fishery (WTO, 2007).

The financial sector which the Law on Commercial Bank passed, aims to promote a sound financial system and provide a level playing field for commercial banks as well as having the Presidential Decree Law on the Management of the Foreign Exchange and Precious Metals amended (World Trade Organisation, 2007). The Law of Enterprise

represents a significant step forward with respect to streamlining regulations on business registry (WTO, 2007).

The government transformed the legislative action plan such as import and export procedures, pricing, investment, foreign exchange, the presidential decree on fees and service fees, and the decree on the import licensing and others (WTO, 2007). In October 2006 a revised shorter list of export-import goods subject to control or prohibition was introduced. The implementation of tariff reduction commitments under the ASEAN Free Trade Area and the Government has also worked with other ASEAN members to identify and further eliminate Non Tariff Barriers that hamper trade flows (WTO, 2007).

In 2008, The Standards Law was disseminated, which incorporated key principles of the Technical Barrier to Trade Agreement in the areas of technical regulations, standards and conformity assessment (WTO, 2008). Moreover, the Law on Intellectual Property was also enacted, covering copyrights and industrial property, and incorporates the World Intellectual Property Organisation, model law and also incorporates key provisions of the TRIPS Agreement (WTO, 2008). Also, under the agreement on Trade-Related Investment Measures, investment incentive laws have been replaced by a new Investment Law passed by the National Assembly, and the new law eliminates the local content related investment incentives as well as discriminatory provisions found in the previous Domestic and Foreign Investment Promotion Laws (WTO, 2009).

Nevertheless, under the specifications of the WTO, accession requires even more regulations to cope. This issue is still a real problem for Laos' accession to the WTO. Although Laos has implemented improved legislation, these are still insufficient. Compared to other WTO members, the legal issues in Laos need to be addressed.

A significant challenge for accession to the WTO is, as stated in the accession conditions, the revision of trade legislation so that it conforms to the basic principles of the WTO trade legislation. This does not only refer to the legal regulations of the ministry of industry and commerce but also to legislation concerning the trade of goods and services and intellectual property such as the notice for payment of excise duties, investment and copy right laws. Therefore accession to the WTO is the responsibility of a specific ministry, but it also requires the cooperation and collaboration of multiple

sectors. If we just take the trade in services for example, this will include investment, education, health, telecommunication, security data, entertainment, tourism and construction besides others. Therefore the most important issue is to build understanding among the various sectors about the revision of legal regulation concerning the respective sectors so that it conforms to the basic principles of the WTO agreement and the aforementioned market access obligations. This means every sector has to take responsibility in the process of accession to the WTO so that together we can succeed, and this therefore requires effective conditions and sincere effort.

Based on this information, some officials in the Ministry of Industry and Commerce point out that the real problems are in incomplete regulation. Some ministries still neglect to promote related laws. The trade official briefly mentioned that “the legal problems are still remaining. For example, the government is setting targets to complete the legal sector in the next few years from now. The answer is, this is still difficult to reach” (translated).

“The neglect means, late reply comments on legislation drafts etc... The most important are the sector concerns that still do not really understand the significance of WTO accession” (translated). This results in weak support to the WTO accession team. Of course, the main thing is the lack of understanding. However, there are solutions to this issue, for instance the case study from some least developing countries such as Cambodia: “Cambodia also could not meet the legislation change requirements, but they committed the working colleagues to meet the legislation development in the meantime”.

The commitment perhaps is the solution for legislation development in order to meet the WTO standard. During a working party meeting, the government of Laos committed to release and amend the law, but some of them still could not implement that, or it failed to be done, and the same law remains. “Laos could not meet some commitments to the working party or show how they would be met,” the same person added.

In addition, under Lao constitution, there is an assembly twice a year to consider approving, or passing the new laws. Moreover, in every ordinary assembly session, not

many laws are passed or amended. Therefore, to complete those regulations without commitment may take years.

THE UNDERSTANDING

Due to the high competition, the global free trade market brings about the possibility of improving the understanding and the knowledge of WTO, especially for the less developed countries. The liberal trade system requires good performance and high quality of understanding of “*human resources*”. Laos anticipates working hard in order to develop and improve the environment of investment, business and trade and bringing, as well, an emerging trade system with WTO norms, rules and principles which would involve extra positive changes to several areas of current trade and economic policies.

There is a continuing issue of limited understanding, and this is also a topic for discussion about WTO membership, regarding the lack of understanding among government officials, the private sector etc. Basically, there needs to be better understanding of the situation, especially of the global free market.

“Concerning the WTO accession, we still need to receive continued comprehensive support and technical assistance from the international community, in particular from the WTO partners, in order to ensure a transition to and implementation of the required legal and regulatory frameworks as well as increasing the understanding towards the world trade system,” (Translated).

Therefore, the issue that most needs to be developed is increasing the understanding of people such as exporters, ordinary people and especially government officials. This is because WTO membership requires not only the support of the government itself but also the integration of people in all walks of life. The methods for promoting the understanding regarding the accession must be implemented as soon as possible. Currently, misunderstandings still occur as the interviews illustrate. Certainly there is a huge range of advantages and disadvantages of accession but this is not really important. The significant fact is some people work very closely with the topic yet lack basic knowledge of the organisation.

Therefore, the understanding of the WTO must be the key to accession, yet the benefits may fail to gain the advantages expected. At the multilateral and regional trade negotiations there was a lack of understanding of technical capacities, and the reform process puts pressure on these already scarce resources. There are costs of compliance too: for example, WTO rules and regulations and human resource capacity; the quality and quantity of skill levels are two key impediments to Laos' productivity capacity and competitiveness (Pholsena, 2008).

In summary of this chapter, the government of Laos has been involved with several international organisations (global and regional) and has aimed to meet the same targets such as integration of the global market. This chapter also aimed to respond to the question on why Laos should join the WTO. From the individual interviews, the viewpoints of participants could be divided into two sides: for and against based on the number of Laos trade agreements. On the one hand, the government of Laos does not have to worry about WTO membership because it already benefits from some multilateral and bilateral trade agreements that cover all the Laos export market. On the other hand, when Laos signed those agreements, is the country was already in the liberalisation trade system of the ASEAN Free Trade Area. However, there are other possible issues of WTO membership that the government still needs more time to clearly consider the consequences of. The chapter also reveals the prolonged application process and related factors such as legislation and the lack of understanding.

CHAPTER EIGHT: CONCLUSION

In summary, whatever the advantages or disadvantages of the WTO accession, whatever the influence or intervention of international organisations and partners, these matters will not affect consideration of the issues in the long-run. Currently they are not an issue, the decision had been made by government, and the only thing is improvement, adjustment or adaptation. Laos had taken many steps forward and soon will become a member of the WTO. Presently, Lao business-people have been requested to be aware of and prepare themselves for international trade.

The economic growth can be illustrated in the public policy perspective. From the early independence in 1975, the country had an urgent need to save the people from the national struggle plagued by poor infrastructure, poor living standards and an ailing economy but this still continues. Not surprisingly, the core reasons for slow economic growth are shortage of human resources, blocked financial aid by the west during the cold war era, insufficient capital, and Laos was divided. The economy may have seen a growth level of 7 percent since 2000 and is forecasted to continue growing steadily, but Laos continues to face socio-economic issues such as poverty.

A large part of this growth resulted from increased foreign investment flows in hydropower and mining. Without the large projects and increased investment and exports in these sectors, real growth would have been about one third lower. Therefore, promoting growth in sectors other than mining and hydropower is increasingly important for ensuring stable growth in the long run. The government's efforts on liberalising trade and improving the investment climate are thus stepping in the right direction. Another important issue to accelerate the country's GDP and growth are policy change and international integration and competition. The Lao government has been fostering these in many aspects with agreements in international organisations both in regional and international level.

The government of Laos applied for WTO membership in 1997 and is presently in the process of accession. The membership of the WTO will open up the country's economy wider and help to accelerate the economic reform process. Furthermore, it has also joined the Integrated Framework for Trade Related Technical assistance, which aims to strengthen its export competitiveness. Laos is aiming to join the WTO in 2010 and further trade reforms associated with the country's accession process continue.

There is still no definite conclusion about the development of Laos' accession to the organisation. There are some reports or studies about the impact of WTO membership both bearing positive and negative predicted consequences. In terms of technical benefit, especially in the trade area, the WTO generates the strengthening of domestic policies and institutions for the conduct of international trade in both goods and services such as an introduction to an amendment of laws. A chance for improvements in the ease and security of market access to major export markets and a chance to access a dispute settlement mechanism for trade issues as well as an impartial and binding dispute settlement mechanism, the decisions of which have a significant chance of being enforced, is an important potential benefit for the acceding economies, many of which are small and heavily dependent on international trade.

From a consumer's perspective, WTO membership may mean increasing the amount of competition for goods and services thus enjoying a wider range of choice. This could also result in cheap but good quality products. However, the government has to be prepared with consequential issues such as intense global competition with developed countries and tax elimination by tariff free agreements.

The WTO accession is becoming a very hot topic in Laos and dissemination of information is seen as necessary by the ministry concerned. The most well-known query is: what are the advantages and disadvantages? There are so many factors to consider that will convince Laos to participate in the global or international organisation. Since the government opened Laos to the global world, they have opted for Laos to be a member of international organisations like ASEAN. Laos may find that it's important to take the now bigger step of joining a global organisation for trading like the WTO.

The WTO is not considering surprise consideration for the country. Laos has previously signed the bilateral trade agreement with some countries and some of them are significant trade partners such as Thailand and China. The statistics show a high level of imports and exports from neighbouring Thailand. Therefore, it won't make much of a difference to aim for WTO membership. It also has to be considered that the agreement under the framework of ASEAN is similar to the WTO functions. However, the country must be prepared. Long term development is the most logical answer and there is not that much to lose. Therefore, we only benefit from that and also the great opportunity to reform public services and finances.

The membership accession is still in the early stages and is new to Laos in public and private sectors that need to be carefully considered, learned and developed in this capacity. This includes improving the human resource capacity which also will also result in development of the public sector such as a regulation sector. Its merits outweigh its demerits, yet it is far from perfect, and is more often than not a means for larger economies to exploit smaller economies in a subtle manner, including empowering larger economies with political leverage to intervene in the domestic affairs of smaller economies.

Therefore, Laos is in the same situation as other less developed countries that have been influenced by globalisation. This means that in the 21st century, Laos has been required to follow the example of its neighbours who aspire to membership of the WTO. This remains the case today, irrespective of the pros and cons of WTO membership for the country, and can be attributed to the decision of the Laos government to join the appropriate regional and international organisations. At present, the priority is how to prepare for global competition, particularly in the area of human resource management and understanding of WTO criteria.

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Information Sheet

My name is Keolaka SOISAYA, a Masters student in Public Policy at Massey University, New Zealand. A part of this degree I am undertaking a research project leading to a thesis. I am inviting government official and the private sector (export owners) that can identify experienced on trade sector to participant in this study.

The initial proposal aims of this research project and the primary reason for engaging in field research is to answer question/s concerning issues, process, policy and plan for Laos to access WTO. This project model is a qualitative method that relies on obtaining detailed descriptions of the experience of the participant. During which they will tell their experience and share with the researcher other materials such as journals, reports or other writings. The specific questions about the WTO include advantages and disadvantages, and possible outcomes of membership.

Participants invited to have maximum one hour informal conversational interviews with the researcher and interview place is requested. Prior to the commencement of data collection, written consent will be obtained from each participant regarding confidentiality and the use of data. Every effort will be made to ensure the anonymity of participants, but because of nature of the project, anonymity cannot be guaranteed.

Data Management:

- Transcribed data and written as an individual word portrait and the accuracy will be checked with each participant
- All written information collected will be stored in locked files.
- Research materials will be keeping by university and destroyed after 5 years.
- Audio files will be returned to the individual participant if wished, or wiped after transcribed.
- Electronic data (recording while transcribed) will be kept in a password protected file with access restricted to the researcher. No other person besides the researcher and supervisor Dr. Grant Duncan will see the research materials.

Participant's Rights: You are under no obligation to accept this invitation. If you decide to participate, you have the right to:

- Decline to answer any particular question;
- Withdraw from the study but not after 1 September 2010
- Ask any questions about the study at any time during participation;
- Provide information on the understanding that your name will not be used unless you give permission to the researcher;
- Be given access to a summary of the project findings when it is concluded.
- Ask for the audio device to be turned off at any time during the interview

The thesis will be submitted for marking to the School of Social and Culture Studies and deposited in the university library. Research finding may also be disseminated at professional conferences or published in professional journals.

If you have any questions or would like to receive further information about the project please contact me by e-mail at, keolaka_s@yahoo.com or phone on 64-022 3678899, or contact my supervisor's Dr Grant Duncan, School of Social & Cultural Studies, L2.62 Atrium Building, Albany Campus, Phone: 64 9 414-0800 ext 9086 and Email: L.G.Duncan@massey.ac.nz. Or Vilaboun Chitanousone, reference person in Laos, Mobile: 00 856 20 5409876 and Email: fapathan6_7@hotmail.com.

This project has been reviewed and approved by the Massey University Human Ethics Committee: Northern, Application ___ / ___. If you have any concerns about the conduct of this research, please contact Dr Denise Wilson, Chair, and Massey University Human Ethics Committee: Northern, telephone 09 414 0800 x 9070, email humanethicsnorth@massey.ac.nz.

Interview guide and steps

Part 1: Introduction

- Protocol introduction (Researcher)
- Inform the right of participant (Detail in information sheet)

Part 2: Questions on WTO

- What do you know and think about WTO?
- What new opportunities will open up by joining the WTO?
- What is the extent of advantages and disadvantages of involving in global markets and cooperation?

Part 3: Questions in Lao Context

In your definition, what is the new economic mechanism and how it changes Laos for future globalisation?

- Why should Lao join the globalisation of trade (WTO)?
- Is Laos ready and well prepared for globalisation especially in trade and international cooperation (Enough labour, Infrastructure for communication, Monitoring and evaluation systems, enough human resources)?
- Is Lao ready for international communities for global cooperation under same rules?

Part 4: Questions in Public Policy

- What do you think about the current national policy of Lao on the globalization of trade?
- What is the transition of the political system as well as the economic system under Laos's socialist country?
- What qualities and characteristics do domestic economies appear to need for them to enter successfully into a liberalised global capitalist economy and survive the crises of global proportions that corporate capitalism is capable of generating?

Part 5: Under WTO

- Over-reliance on export of primary commodities
- Rapid and hasty liberalization
- High market costs (a result of weak institutions, lack of infrastructure capacity, land locked country)

Part 6: Current situation

- What are the issues of accessing WTO (applying)
- How does the Government have any existing plan for above issues?

Part 7: Conclusion

- Informing participant the right to withdraw and receive transcription to approve
- Protocol conclusion

Part 8: Remark

- The conversation will not more than an hour and participant have right to stop under no circumstance.
- Some more question will be ask (continues question)
- The place of interview will be depend on participants (quite place)