

Implications of the global economic downturn for the agricultural sector in Lao PDR: turning development constraints into assets*

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In the face of the global financial crisis, many countries had to take dramatic decisions to avoid entering into a long period of economic recession. In Lao PDR, there is a clear risk that all the efforts made so far to eradicate poverty would be undermined by the global economic crisis. Over the recent years, the Government of Laos has actively promoted the transition from subsistence to commercial agriculture as an instrument to lift its population out of poverty and to remove the country from the list of least developed countries by 2020. Together with other major policies, such as eradication of shifting cultivation, focal area development, etc., the opening of the national economy to foreign investment, especially in the agricultural sector, is feeding the GDP growth. What are the risks associated with the global economic downturn? Can the positive agricultural trends be durably affected by a decrease in foreign investment? These are some of the questions would like to address when presenting the Lao Government policies to overcome these potential threats to the national economy.

1. Agriculture, food security and poverty in Lao PDR

Agriculture and Forestry are the main sectors of the national economy and are supporting to a large extent the development of the other sectors such as industries, commerce and services. While the sector's share in GDP has fallen from 50% in 2001 to 40% in 2005/6. In 2008, the share of agriculture to GDP in the national economic structure is the second rank after service sector (figure 1).

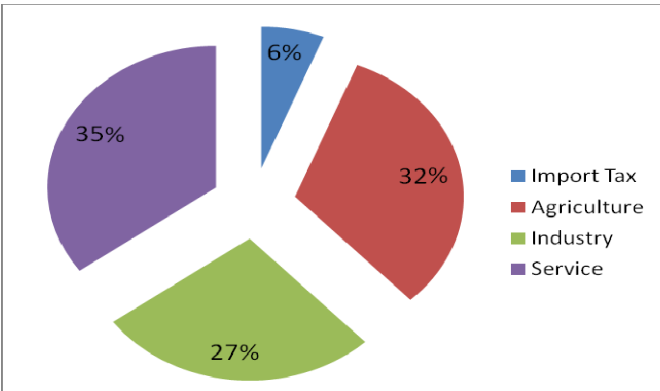


Figure 1. Share of agriculture to national GDP (Source: MAF, 2008)

The improvement and strengthening of local farming and agriculture production systems is still a central component of poverty reduction efforts over the long-term. Since the application of the New Economic Mechanisms in 1986, the Party Strategy has stressed the importance of agriculture and forestry in promoting rural development. Underpinning this major goal is the need to extend production capacity, to improve productivity, and to promote agricultural intensification, commercialization and agro-industrialization. At the level of the Ministry of Agriculture and Forestry, in 2006, this strategy was translated into “4 Goals and 13 Measures” as shown in Table 1.

Table 1: Overview of MAF Goals

<i>Goal</i>	<i>Key features</i>
1: Food production/Food Security	Achieve 3.4% annual growth in sector; corresponding to 3.3 million tons of paddy rice; increased food supply in the 47 poorest districts to the national average of 350 kilograms per person per annum; and increased production of meat, eggs, fish, and fresh milk by 5 percent annually, corresponding to an average consumption demand of 40-50 kgs per capita per year.
2: Commodity Production, Commercialization	Steady supply of raw materials and agriculture and forestry products going to the domestic processing industry and to increase the export share of agriculture and forestry products to 30 percent of total exports (approximately US\$1 billion) by 2010.
3: Stabilization of shifting cultivation	Elimination of shifting cultivation practices as a strategy for poverty reduction in 47 poor districts and environmental protection
4: Sustainable forest management	Increase forest cover from 41 to 53 percent by 2010. Plantations of rubber, eucalyptus, teak, etc will contribute to this reforestation

From this strategic framework, it is clear that economic development must not take place at the expense of the natural resource base that is essential to the livelihood systems of most of the Lao population. Moreover, alternative livelihood systems and sustainable new employment opportunities are promoted by the Government to solve the problems of rural poverty.

Cross-border trade has become a critical factor of development, with regional and domestic traders taking advantage of the Government support to foreign investments to produce agricultural commodities that are in demand in markets in China, Thailand and Vietnam. This trend leads to an increased diversification away from uplands rice and specialization in a limited number of marketable cash crops. However, agriculture production is still at a subsistence level, especially in the remote uplands areas. Rice remains the most important staple food. Major cash crops are maize, beans, coffee, tobacco and vegetables (cabbage, kale, cauliflower, tomato, eggplant, lettuce, celery, pepper, cucumber and watermelon). Livestock, especially cattle, indigenous fishes and non-timber forest products such as benzoin, cardamoms, rattan and resins provide significant income earnings to the country.

Since 2000, the country has reached the level of self sufficiency in many food products such as rice, meat, fish, and vegetables, and could export some modest commodities namely glutinous rice, maize, coffee, tea, live animal, vegetable and NTFPs. In the period of 2000-2008, the share of GDP of agriculture sector, breaking down by sub-sectors slightly change in favor of livestock and fishery sub-sector (Figure 2).

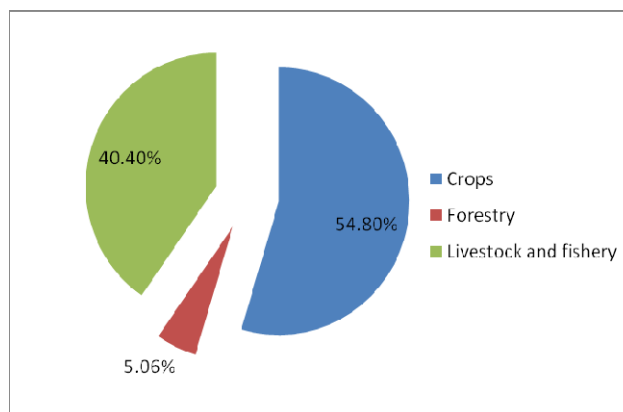


Figure 2. Share of agriculture to GDP by sub-sectors (Source: MAF, 2008)

Well established agricultural production, such as maize or coffee, did suffer from the sudden price decrease at the end of 2008, after having benefitted from the sharp increase of the previous year. However, most of the industrial tree plantations have not reached a maturity stage yet. Therefore, they were not really affected by the economic crisis. Long term perspective in the commodity prices, such as rubber, are good as discussed during the Asean Rubber Conference that was held in Vientiane last week. So the economic crisis may slow down the investments for some time but will not change the current trends. We should acknowledge the positive aspect of the reduced pace of investment as it will give time to the Lao administration to adapt to this rapid changes in the investment patterns and to cope with potential negative effects, e.g. on deforestation, land management. Reforms of land management system with a new decree on concessions, new land use planning procedures and communal land titling will help overcoming the problem due to the rapid, uncontrolled expansion of agri-businesses supports by massive foreign investments.

The Government strategy in relation with food security, especially rice sufficiency, had not been really affected by the global financial crisis. The strategy is implemented through three complementary policies:

- a. *Rice intensification through irrigation.* The promotion of irrigation led to 94.000 ha dry season rice cropped in 2008 (Figure 3). This figure is still lower than the Government target of 115.000 ha. Accompanying measures for improving rice yield and maintenance of irrigation infrastructure are still needed to reach this target in the coming years.
- b. *Flood control.* A high priority has been given to solving the problem of flooding that cause a lot of degradations to the irrigation and drainage canals and rice production loss.
- c. *Rice stocks – banks.* Rice stocks are an important component of the food security policy as it can buffer price fluctuations and contribute to disaster relief. The Government has organized the human resources and infrastructures necessary to stock rice over short and long-term periods as required.



Figure 3 Evolution of rice production in Lao PDR

2. An action plan to strengthen agriculture in the midst of the global financial crisis

The Global Financial Crisis is severe and affects the country’s economy in different ways. When designing mitigation policies we ought to consider its comparative advantages. It is important to assess market opportunities through a regional perspective. Information exchanges and trades agreements are important instruments to support the national policies. We also have to recognize Lao PDR disadvantages (e.g. poor infrastructure and accessibility, poor farmers’ organizations, low investment capital, low processing and marketing capacity) when compared with other countries, to be able to turn them into assets through partnership with others (i.e. targeted investment to processing and marketing, human resource development). Implementation of these policies will need a range of capacity development to ensure they can function in the fast paced market economy.

Under the guidance of the Prime Minister of Lao PDR who encouraged to “turn this crisis into an opportunity”, the Ministry of Agriculture and Forestry has proposed the following strategies:

2.1. Institutional strengthening of production groups

Production groups, farmer associations, and community-based organizations are an integral part of the production chain. They can support farmers to increase their bargaining power with traders, improve production through technical advices, assist in providing inputs and credit to members as well as ensure better post-harvest production. The MAF plans to reinforce farmers’ production groups and to turn them into agricultural cooperatives. A new decree on agricultural cooperatives is being drafted. It will reinforce small farmers’ rights to invest collectively into new emerging agribusinesses and to capture the benefits for their communities and to contribute actively to the national development. The limited investment capacity of rural households did prevent them to engage in risky agribusinesses so far. As a consequence, raw agricultural products are exported by the big companies to neighboring countries. The Government support to the production cooperatives will help fixing the added value of the agricultural products locally through processing and transformation. Lao agriculture will then become more competitive at the regional level while alleviating poverty at the local level.

2.2. Developing full production chains: from production, processing to marketing

Production chains are often limited to the production of raw products. The absence of transformation capacity imposes to export raw agricultural products. Developing full production chain, including processing and marketing will be given much emphasis in the coming years thank to support to foreign and domestic investment in agro-industry, extension and marketing services. This will be particularly the case for productions such as maize, coffee, livestock (cattle & pig). Private processing companies or producer cooperative will receive support from the Government if they can organize into high level associations such as the Coffee Producer Association in the Bolovens or the Provincial Chambers of Commerce. The recent Decree of the Prime Minister on Associations will reinforce the legal status of the existing ones and will encourage the creation of new ones. These new mechanisms will ensure better access to seed and credit for farmers, and better quality and regular supply of products to the traders. National level associations of producers and agribusinesses will help Lao products to become more competitive at the regional level and will facilitate further integration in the global market.

2.3. Developing market niches

Lao PDR has a comparative advantage for organic products as compared to neighboring countries as a large share of its agriculture is already organic (no chemicals used). Provided that a good process of certification is set in place it is possible for Laos to compete on the domestic and the international market for organic products. Successful experiments in organic coffee in the Boloven plateau and organic rice in Sangthong show that the development of large scale organic market chain is feasible in Laos. There is also good prospect for Geographic indications for coffee and rice to benefit the Lao farmers in the future who will be able to compete on market niches whereas their other commodities may not be competitive in the global market. Other types of certification, for example in relation with cropping practices such as agroecology or fair trade, will also be explored in the future as a way to increase Lao product competitiveness. Along the same vein, a project supported by the Government of Hungary will promote the production and transformation of local traditional breeds of pigs for the international market. This will retain more benefits for the country from the rapidly expanding livestock production (Figure 4).

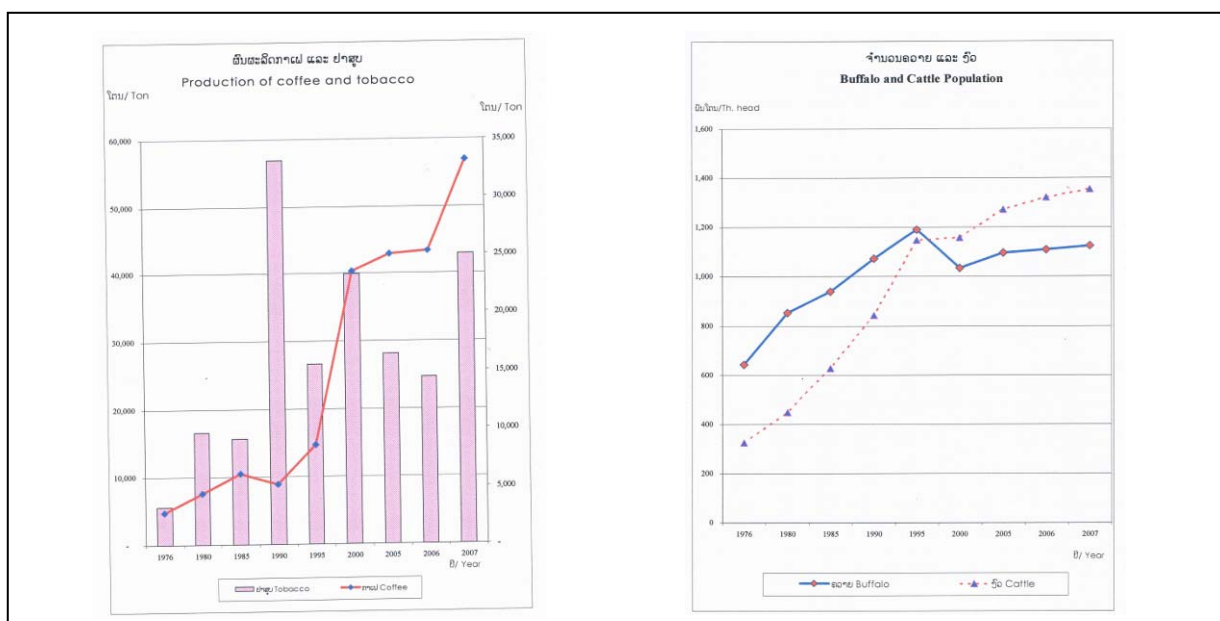


Figure 4. Evolution of production of key agricultural commodities in Lao PDR

2.4. Alternative farming practices supported by extension services

The current policy of MAF to develop Technical Service Extension Centers at the Kumban level (village cluster) is an opportunity to improve the interaction between farmers and extension agents. A flexible approach to kumban extension will build upon existing experiences by PCADR-PASS, IFAD-RLIP in Attapeu and VECO in Bokeo. The focus should be on enabling extension workers (i) to meet with farmers, (ii) to support alternative practices such as conservation agriculture, agroforestry, organic farming, etc. and (iii) to empower them in their negotiations with the private sector. There is also a need to develop capacity and mechanisms for provincial and district extension staff to monitor and regulate contract arrangements so they are fair on both sides rather than simply acting as an intermediary between the private sector and farmers.

3. Areas for further research and capability building

Our main message is that more flexible policies and implementation mechanisms need to be tested to take into account the diversity of farming systems and local conditions in the rural areas of Lao PDR to ensure food security and focus poverty reduction efforts. In this time of crisis, government's role needs to be redefined from one of an implementer and manager to one of a facilitator, monitor, and guide in this critical period.

On balance, market access as generated increased opportunities for rural communities. For some households, the switch to commercial production is having a significant impact on reducing poverty. From the government side, policy goals have increasingly being "met" in terms of decreasing shifting cultivation and increase foreign investment. The changes are having a significant number of unintended and negative outcomes on all areas of development and the environment: economic, environmental and social and at all levels (farm, watershed and landscape) that have to be dealt with. It is also important for the Lao Government to make sure that in the new context of global financial crisis the policies that have been implemented over the recent years would not turn out to undermine the good results obtained so far.

Better knowledge and understanding on market chain needs to be developed and fostered. Capacity of extension staff and production groups to understand market chains could be an important area of development. Furthermore, mechanisms for directly linking farmers to markets through stronger farmers groups, cooperatives and higher level associations are to be promoted. Clear guidelines should be provided to the provinces and districts on balancing food security and commercial production, otherwise decentralization may lead local policy makers to focus their efforts on promoting cash crops before many households are food secure. The introduction of outside technologies and regulations should take into account local people's needs, limitations, capacities and knowledge.

4. Conclusions

The agriculture sector in Laos still remains the pillar foundation of the country economy. Although, the Lao agriculture has undergone significant structural change over the last few years, the present impact of the global economic downturn has motivated the government to pursue more aggressive policies and action plan to strengthen agriculture sector:

- Amendment of investment law to put more incentive in favor of investment with the strengthening of the "one stop service",
- Institutional strengthening of production groups,
- Developing production chains for priority commodities,
- Developing market niches whenever Laos has a comparative advantage,
- Enhancing cooperation with neighboring countries.