

## **4. Regional Economic Growth Patterns**

### **4.1 Introduction**

The purpose of this chapter is to measure, study and analyse the provincial disparities in economic growth in order to provide an overview of the regional disparities.

There is a lack of reliable indicators for studying trends and levels in provincial and regional economies in Lao PRD. However, the geographic pattern of economic growth can to some extent be studied using the national Living Standard and Expenditure Surveys collected by the Department for Statistics. Three household surveys have been conducted, in 1992/93, 1997/98, and 2002/03, which enables some comparisons of developments during the two five year periods covered by the surveys<sup>2</sup>. Although the surveys do not include data on provincial or regional GDP, they provide detailed data on consumption expenditure, which can be used to proxy regional and provincial living standards and development levels.

### **4.2 Regional and Provincial Consumption Growth Patterns**

Table 4.1 summarizes data on the changes in per capita consumption across the three living standard surveys, and shows that there has been a large variation in consumption growth across regions in Lao PDR. When studying the full ten year period, it is clear that rural households have fared relatively well in the North, the South and Vientiane. Economic development in the Central region has been less encouraging. Including urban households as well, the pattern is less clear and the differences between regions are smaller.

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<sup>2</sup> A fourth survey LECS 4 was conducted 2007/08 however this survey lacks detailed price data from villages and therefore not covered in this dissertation.

Table 4.1 Regional Yearly Growth Rates of Per Capita Consumption

	<i>All Households</i>		<i>Rural Households</i>	
	<i>92/93-97/98</i>	<i>97/98-02/03</i>	<i>92/93-97/98</i>	<i>97/98-02/03</i>
North	2.7%	1.2%	3.0%	0.9%
Center	0.9%	0.5%	0.8%	0.2%
South	1.1%	1.7%	2.3%	1.9%
Vientiane M	7.9%	-0.4%	9.0%	0.8%
<b>Lao PDR</b>	<b>2.5%</b>	<b>0.8%</b>	<b>2.3%</b>	<b>0.7%</b>

Source: Author's calculations based on LECS-data.

It can be noted that overall growth in consumption was stronger during the first period, from 1992/3 to 1997/8, presumably because developments in the late 1990s were disturbed by the Asian financial crisis.

Table 4.1 show the regional basis, including all households, the first period saw the strongest growth in Vientiane Municipality, which is the richest area of the country, with Central and South growing slower. Among rural households, the performance of Southern farmers was somewhat better, leaving the Central region with the weakest performance.

The development after 1997/98 was more sluggish in almost all regions. At the beginning of this period, Lao PDR experienced a bout of very high inflation as a result of the Asian crisis, resulting, in particular, in a collapse of economic growth in Vientiane municipality. Urban households in the South were the only group to experience higher growth during the second period.

Table 4.2 summarizes data on the changes in per capita consumption across all provinces, and shows that there has been a large variation in consumption growth across provinces and also within the regions analysed in Table 4.1.

Table 4.2 Growth Rates in Household Consumption 1992-2003, by Region and Province

	<i>Growth, 5-year period</i>		<i>Yearly Growth</i>	
	<i>92/93-97/98</i>	<i>97/98-02/03</i>	<i>92/93-97/98</i>	<i>97/98-02/03</i>
<b>Northern Region</b>	<b>14,2%</b>	<b>6,3%</b>	<b>2,7%</b>	<b>1,2%</b>
Phongsaly	21,8%	-1,3%	3,9%	-0,3%
Luangnamta	4,2%	26,6%	0,8%	4,7%
Oudomxay	-23,4%	24,8%	-5,3%	4,4%
Bokeo	-0,4%	18,9%	-0,1%	3,5%
Luangphrabang	28,3%	3,1%	5,0%	0,6%
Huaphanh	5,2%	27,3%	1,0%	4,8%
Xayaboury	27,6%	-11,4%	4,9%	-2,4%
<b>Central Region</b>	<b>4,7%</b>	<b>2,4%</b>	<b>0,9%</b>	<b>0,5%</b>
Xiengkhuang	24,9%	0,9%	4,4%	0,2%
Vientiane Province	8,4%	2,7%	1,6%	0,5%
Borikhamxay	-20,9%	-2,0%	-4,7%	-0,4%
Khammuane	23,4%	-1,6%	4,2%	-0,3%
Savannakhet	4,4%	4,1%	0,9%	0,8%
<b>Southern Region</b>	<b>5,5%</b>	<b>9,0%</b>	<b>1,1%</b>	<b>1,7%</b>
Saravane	6,4%	-14,3%	1,2%	-3,1%
Sekong	29,1%	4,8%	5,1%	0,9%
Champasak	3,3%	20,6%	0,7%	3,7%
Attapeu	1,8%	4,9%	0,4%	1,0%
<b>Vientiane Municipality</b>	<b>48,4%</b>	<b>-1,9%</b>	<b>7,9%</b>	<b>-0,4%</b>
<b>Lao PDR</b>	<b>13,3%</b>	<b>4,1%</b>	<b>2,5%</b>	<b>0,8%</b>

Source: Author's calculations based on LECS-data.

The large variation in expenditure patterns between provinces and regions indicate substantial fragmentation of the economic development, which will be further explored below.

### 4.3 Poverty Incidence at Regional and Provincial Levels

Data on the incidence of poverty can be used to estimate the levels of welfare in different parts of the country (see Figures 4.1 to Figure 4.3 and Table 4.3 for poverty rates across regions and provinces). Table 4.3 provide the estimates of the poverty rates for each of the 17 provinces including Vientiane Municipality, while Figure 4.1 to Figure

4.3 map these estimates. Table 4.3 indicate that Vientiane Municipality have experienced lowest levels of poverty with 16.7 percent in 2002/2003, followed by the South 32.5 percent and Central 35.4 percent, with the North being the poorest region accounting a poverty rate of 37.9 percent.

Changes in poverty rates have also varied across provinces. The most remarkable observation is probably the very rapid reduction in poverty experienced in the northernmost provinces; Huaphan with poverty rates decreasing from 71.3 percent in 1992/93 to 51.5 percent in 2002/03 and Phongsaly with 72.0 percent in 1992/93 to 50.8 percent in 2002/03. Although the overall growth performance of the South was stronger, the average impact on poverty incidence was substantially weaker than in the far North. Where Champasack experienced an impressive 19.0 percent decrease in the poverty rate from 1997/98 to 2002/03.

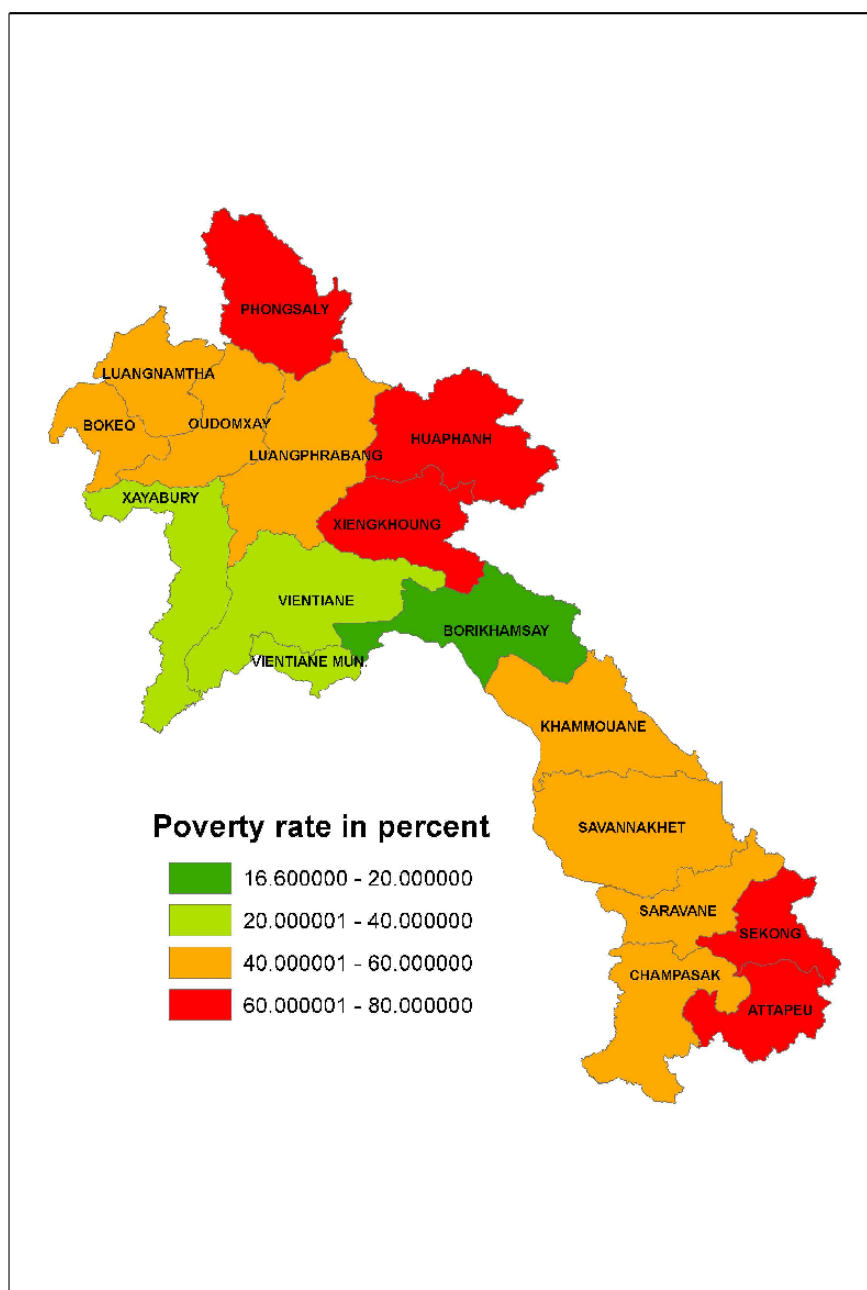
Table 4.3 Poverty Incidence 1992-2003, by Region and Province

Province	LECS1 1992/93	LECS2 1997/98	LECS3 2002/03	Change 92/93 to 97/98	Change 97/98 to 02/03
<b>Northern Region</b>	<b>51.6</b>	<b>47.3</b>	<b>37.9</b>	<b>-4.3</b>	<b>-9.3</b>
Oudomxay	45.8	66.1	45.1	20.3	-21.0
Luangnamtha	40.5	51.1	22.8	10.6	-28.3
Huaphanh	71.3	71.3	51.5	0.0	-19.8
Phongsaly	72.0	57.9	50.8	-14.1	-7.2
Luangprabang	58.5	40.8	39.5	-17.7	-1.4
Xayabury	22.4	17.7	25.0	-4.6	7.3
Bokeo	42.4	38.9	21.1	-3.4	-17.8
<b>Central Region</b>	<b>45.0</b>	<b>39.4</b>	<b>35.4</b>	<b>-5.6</b>	<b>-4.0</b>
Borikhamxay	16.6	27.9	28.7	11.3	0.8
Khammuane	47.1	44.5	33.7	-2.6	-10.8
Vientiane Province	30.7	27.8	19.0	-2.9	-8.8
Savannakhet	53.1	41.9	43.1	-11.2	1.2
Xiengkhuang	63.0	42.9	41.6	-20.2	-1.3
Xaysomboun SR	-	62.8	30.6	-	-32.1
<b>Southern Region</b>	<b>45.7</b>	<b>39.8</b>	<b>32.6</b>	<b>-5.9</b>	<b>-7.2</b>
Saravane	43.6	39.2	54.3	-4.4	15.1
Champasack	41.4	37.4	18.4	-4.0	-19.0
Sekong	67.0	49.7	41.8	-17.2	-7.9
Attapeu	60.5	48.0	44.0	-12.4	-4.0
<b>Vientiane Municipality</b>	<b>33.6</b>	<b>13.5</b>	<b>16.7</b>	<b>-20.0</b>	<b>3.2</b>
<b>Lao PDR</b>	<b>46.0</b>	<b>39.1</b>	<b>33.5</b>	<b>-6.9</b>	<b>-5.6</b>

Source: Author's calculations based on LECS-data.

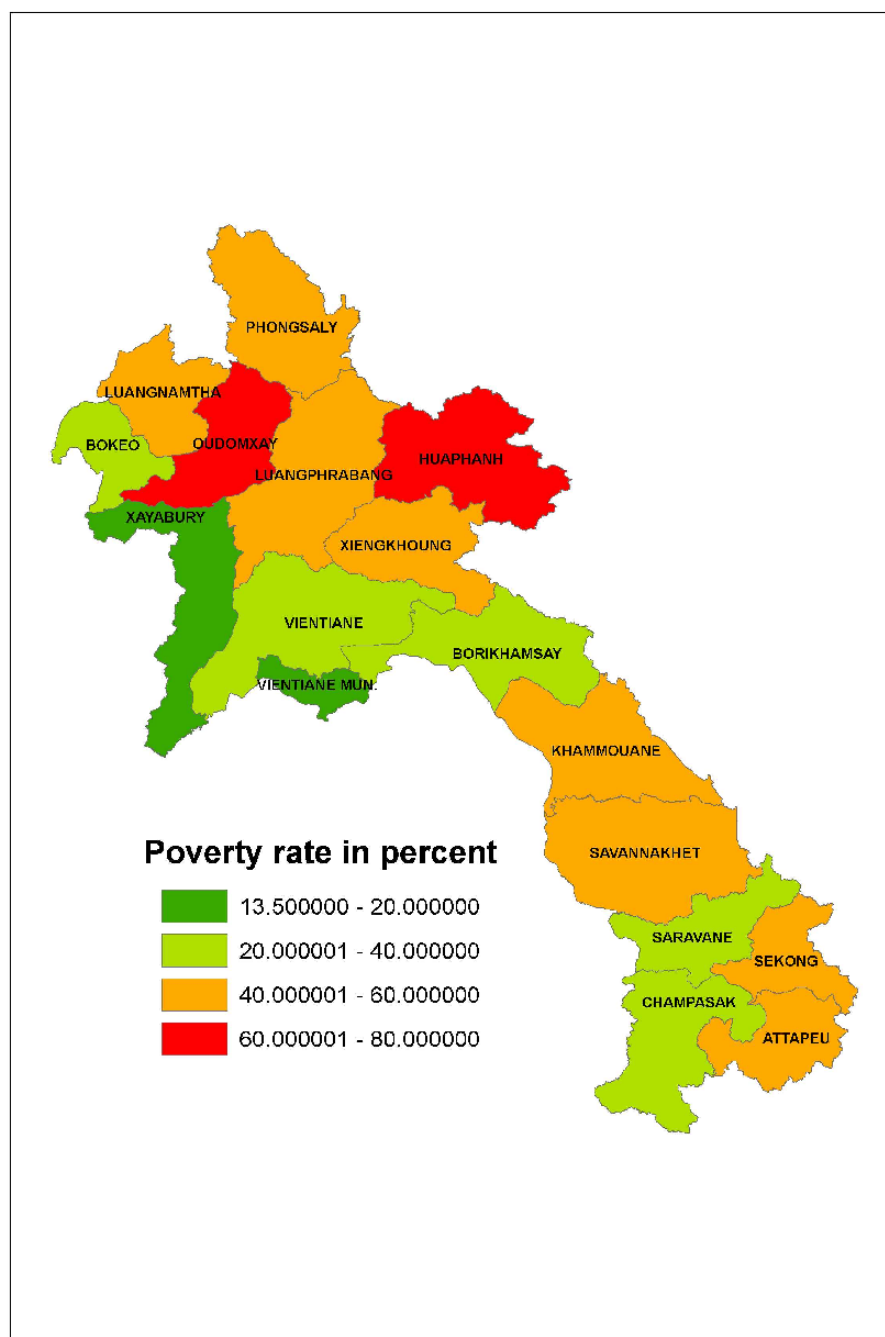
At the time of the latest nationwide household survey in 2002/03, the regional and provincial differences in poverty incidence were large. Figure 4.1 illustrate the provincial patterns of poverty where Phongsaly located in the north and Huaphan in the northeast together with the most southern provinces Sekong and Attapeu neighboring Vietnam as the parts of the country with highest poverty rates. Borikhamxay located in the central along the Mekong river neighboring Thailand experience the lowest levels of poverty rates.

Figure 4.1 Poverty Rate in Lao PDR 1992-93 (in percent)



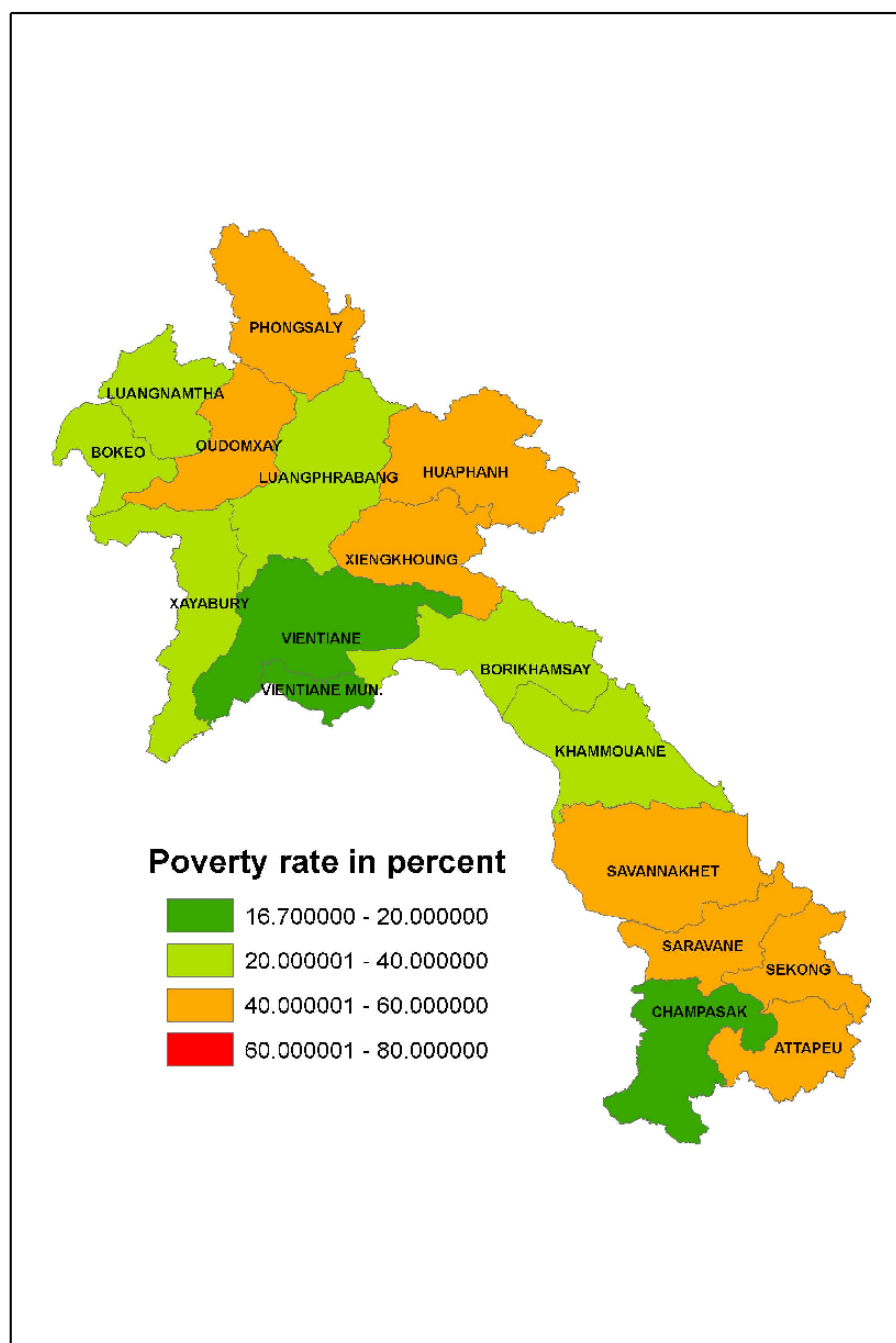
Source: Author's calculation based on LECS 1

Figure 4.2 Poverty Rate in Lao PDR 1997-98 (in percent)



Source: Author's calculation based on LECS 2

Figure 4.3 Poverty Rate in Lao PDR 2002-03 (in percent)



Source: Author's calculation based on LECS 3



#### **4.4 Summary and Conclusions**

The purpose of this chapter was to describe and analyze regional growth patterns using expenditure data from LECS 1, 2 and 3. Figure 4.1, 4.2 and 4.3 present a picture of highly divergent patterns of growth and poverty reduction in the country. The patterns identified in the analysis follows the targets which was identified in the government's strategy (Government of Lao PDR 2003). However, it is challenging to try to bring these trends together to paint a consistent picture of determinants of provincial growth in Lao PDR. Aggregate statistics alone are not sufficient to identify the causes for the divergent patterns of regional development. A particular focus will be put on domestic market integration and the development of a national market for freight transport services. This choice is motivated by the view that borders are important for understanding the spread of welfare in Lao PDR; domestic market integration concerns the invisible borders separating remote areas without market access from the national economy and the market freight transport services are the mean of overcoming the friction of distance. The following Chapter 5 will provide an analysis of the national market for freight transport, Chapter 6 will build on the findings in Chapter 6 and provide a study of the domestic market integration whereas the last empirical Chapter 7 will investigate the impact of being close or far from China by comparing the economic development in the north with the south.