

PAKISTAN-LAOS ECONOMIC AND TRADE RELATIONS

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Abstract

This research article entitled “Pakistan - Laos Economic and Trade Relations” is written with the purpose to study and analyze economic and trade relations in between the two countries. The trade between Pakistan and Laos has been relatively at low level and inconsistent, with the result that sustainable trade has not been able to grow over time. Pakistan’s trade was strongly western oriented; while it did not have a comparable market access vis-à-vis South East Asian countries. In this regard the data is collected from various secondary and tertiary sources. This research article is structured with six sections. The first section is initiated with the introduction, the second mentions the main macro-economic indicators of Laos, the third section states inflation in Laos, the fourth elaborates the Pakistan-Laos trade relations, the fifth explores Pakistan and Laos’s-services rendered to each other, and finally it ends with the sixth section which demonstrates the conclusions / suggestions.

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Introduction

Pakistan and Laos have excellent bilateral, cordial, and friendly relations. The two sides agreed to initiate a consultative process for enhancing trade and investment promotion and facilitation between them. Pakistan secured membership of the ASEAN Regional Forum (ARF) and acceded to the Treaty of Amity and Cooperation in South East Asia on 2 July 2004.¹ Laos became a member of the ASEAN in 1997. Since then, its significance for Pakistan has considerably increased. The two countries are now cooperating for uplifting of social status and alleviation of poverty in Asia-Pacific region. Pakistan and Laos signed agreements for combating terrorism and other crimes, and an agreement on promotion and protection of investments.

Pakistan spreads over an area of 796096 sq km whereas Laos, over an area of 23700 sq km and with a population of 5.68 million. Pakistan's population was 154 million in 2005-06. The population grew at 1.9% per annum, with a literacy rate of 51.60% in 2005.² Laos's population was on half females and one fifth lives in the urban areas; it has been growing at the rate of 2.8 percent per annum in the recent years, Laos is ranked as a low income, economically fast growing, and is passing through a critical phase of structural reform program. Laos is a landlocked developing country. It is in the North East of Thailand and West of Vietnam. As a result of the structural reforms program, initiated in the decade of the nineties, Pakistan has been able to achieve, stellar growth in most sectors of the economy; real GDP has grown at 4.8%, 6.4% and 8.4% during the years 2002-2003, 2003-2004 and 2004-2005.³

Per capital income in dollar terms has increased by an average 13.5 percent per annum during the last three years rising from \$ 579 in 2002-2003 to \$848 in 2005-2006. As a part of its initiative, the Government of Pakistan is seeking to foster new economic relationships with South Eastern and Far Eastern Asian countries. As a part of this strategy, the Prime Minister of Pakistan paid a visit to Laos in April, 2003 and, amongst others, announced that Pakistan would assist Laos in its development effort by extending it a loan of US\$ 10 million. The modalities for the disbursement of the loan are being worked out by the different agencies of the Pakistan Government. These are expected to include the purposes and the terms and conditions of the proposed loan.

Although Laos trades with 40 countries, its trade volume with Pakistan has traditionally been insignificantly small. It was in this background that Pakistan decided to explore various possibilities to expand its trade with various countries including Laos. Free Trade Agreements / Preferential Trade Agreements provide a vehicle for creation of new trading opportunities thereby accelerating the pace of their development, increasing the incomes and welfare of and alleviating poverty amongst the people of the contracting states. The task of planning, negotiating and implementing a bilateral preferential/free trade agreement will be interesting and challenging for both Laos as well as for Pakistan.⁴

Laos is also a member of the various international agencies, such as ILO, ESCAP, IBRD, ADB, IMF, IDA, FAO, IFC, UNCTAD, UNESCO, UNIDO, UNICEF and EALAF, and is eagerly waiting to become a member of the WTO. Laos is

committed to the principles of the WTO and is shaping its policies within the disciplines of the ASEAN FTA. The country is largely agricultural with a predominant part of the population residing in the rural areas. Laos has witnessed impressive continuous growth in its economy; the industrial sector registering spectacular growth, Laos appears to look at its relatively more developed neighbors, Thailand and Vietnam, and its other partners in the ASEAN for a helping hand. With Thailand, which accounts for bulk of the trade with it, Laos has embarked upon a plan for smooth flow of its international trade through Thailand by building new bridges over the Mekong River and laying down of rail track which would also bring down costs associated with cross border trade.⁵

Main Macro-Economic Indicators of Laos

The organization of the economy over the last two decades is heavily tilted in favor of agriculture which had a 53.9% share in the GDP in 1985 and still had 48.6% share in 2003, 47.1% share in 2004. The share of services has also declined from 28.4%, 25.5% to 24.2% over the same period. The share of industry has, however, grown from 17.7% to 25.9% to 27.8%.⁶

Laos has enormous hydropower. A major part of its production of power is exported. Two mega hydropower projects are in hand. However, domestic demand for consumption is modest, despite the fact that only 38% of Laotian households have electricity, which is relatively modest compared to some other ASEAN members (Singapore 100%, Thailand 99%, Malaysia 98%, Indonesia 86%, Vietnam 77% only Cambodia has lower 16%. Financial close of one of the

hydropower projects being built with assistance from France, Italy and Thailand has been delayed for want of sovereign guarantee and finding Laotian equity contribution. The following table-1, shows the Laos energy reserves.⁷

Table – 1: Laos: Energy Reserves

Year	Coal (000M.T)	Million KWh			
		Production	Exports	Imports	Consumption
1985	1	919	716	14	217
1990	3	844	607	26	263
1995	15	1044	705	43	n.a
1999	210	2849	n.a	n.a	n.a
2000	220	3678	n.a	n.a	n.a
2001	210	3590	n.a	n.a	n.a
2002	270	3602	n.a	n.a	n.a

Source: ASEAN Secretariat / IMF

It is clear from Table- 5 that Laos produced 1 thousand metric tons in 1985, 3 thousand metric tons in 1990, 15 metric tons in 1995, 210 metric tons in 1999, 220 metric tons in 2000, 210 metric tons in 2001 and 270 metric tons in 2002.

Electricity was produced by 919 million KWh in 1985 and in 1990 it was produced by 844 million KWh. In the year 1995 electricity was produced by 1044 million KWh. Similarly it was produced by 2849 million KWh in 1999; again in 2000 it was produced by 3678 million KWh. In 2001 it was produced by

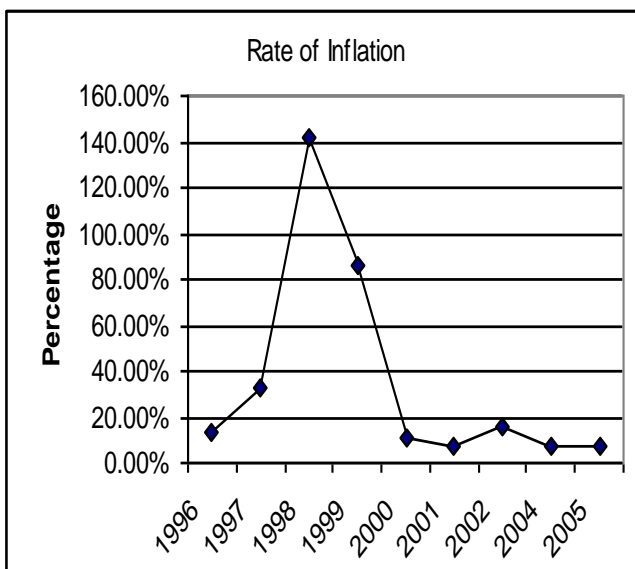
3590 million KWh and finally in the year 2002 it was produced by 3602 million KWh. Laos exports were 716 million KWh, imports were 14 million KWh and consumption was 217million KWh in 1985, again in the year 1990 exports were 607 million KWh imports were 26 million KWh and consumption was 263 million KWh and in the year 1995 production was 1044 million KWh, exports were 705 KWh and imports were 43 million KWh. In addition to hydropower, Laos has reserves of natural gas (3.6 TCF) and wood (46000 KT).⁸

Inflation in Laos

The data ascertained that Laos faced run away inflation in the decade of the nineties as can be seen from the following table - 2 and figure -1.

Table – 2: Laos Inflation

Year	Rate of Inflation%
1996	13.0
1997	33.0
1998	142.4
1999	86.2
2000	10.6
2001	7.5
2002	15.2
2004	7.5
2005	7.8



Source: ASEAN Secretariat / IMF

It is clear from above table –2 and figure-1 that the decade of the 90s was marked by moderate growth of the economy, high financial growth, rapid inflation and unstable exchange rate. Laos seems to have recovered and inflation and exchange rate are now comparatively stable.⁹

Pak-Laos Trade Relations

Pak-Laos have comparative advantages in certain products which show that they have achieved specialization in these products in the global markets. Pakistan has a comparative advantage in cotton, textile and clothing. Laos has a comparative advantage in clothing, woods, wood products. Laos global exports are concentrated in a few sectors, like clothing and wood and Laos wants to stand to gain market access in Pakistan in a number of sectors. The basket of Laos's imports shows that its imports are concentrated in a few commodities.

The potential for trade between Pakistan and Laos has remained untapped. In the earlier years, because of the political and ideological reasons but subsequently because Pakistan did not have any investment in Laos, on Pakistan's trade policy and its specialization. Pakistan's trade was strongly western oriented, to EU and USA, where it benefited from preferential market access (which for textile and clothing disappeared on December 31, 2004). While it did not have comparable market access vis-à-vis South East Asian countries. The trade between Pakistan and Laos has been relatively low level and inconsistent with the result that sustainable trade has not been able to grow over time. Looking at the pattern of

import and export of Laos, it appears that export of electricity has been and will continue to occupy the pivotal position in its export effort. Wood and wood products and garments take second place. Exports of manufacture remain low because of the low industrial base in the country. Laos imports clothing accessories and on the supply side also exports clothing accessories.¹⁰

Imports of Laos show that import of investment goods which includes machinery take top slot. Consumption goods have been estimated at 50% of total imports. The remaining significant import is that of material for the garments industry, which accounts for 10% of total imports or two-thirds of garments exports. It means value addition in respect of the exported garments was to the extent of one-thirds. Table -3 shows export and import from ASEAN member countries.

**Table – 3: Pakistan Exports and Imports
from the ASEAN Member Countries**

(Rupees 000)

Year	2002-2003		2003-2004	
Country	Exports	Imports	Exports	Imports
Total	21802937	88262222	21273967	101587282
Brunei	226016	78908	196340	12974
Cambodia	348495	24175	484099	69215
Indonesia	4305370	15084157	2563254	20592908
Laos	315	123	6582	19753
Malaysia	4583174	33144575	4804024	4696977
Myanmar	508852	608790	208800	767587

Philippines	1506420	460314	1520518	621396
Singapore	5058440	24935099	6738185	28291558
Thailand	3495739	133229226	3641878	15490640
Vietnam	1766257	584136	1985725	965763

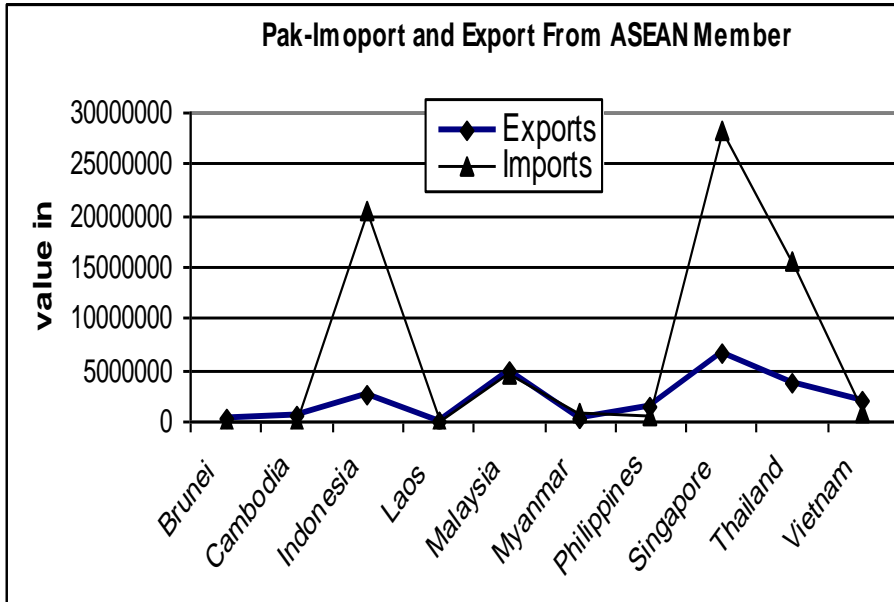
- Source:*
1. Government of Pakistan (2004) Federal Bureau of Statistics, Islamabad.
 2. Riaz H. Khokhar (2003-04) Year Book of Pakistan's Foreign Relations and Foreign Policy Foreword by the Foreign Secretary Foundations, Islamabad, pp.2-15

It is clear from the above table-3 that Pakistan had exported to ASEAN members in 2002-03 amounting to Rs. 21802937(000) and imported amounting to Rs. 88262222(000) and in the year 2003-2004, Pakistan had exported to ASEAN amounting Rs. 21273967(000) and imported to Rs. 101587282. It is also noted that Pakistan had exported 2.426% less in 2003-04 when compared with 2002-03 and import increased 365.93% in the above same period. Pakistan's exports increased to Laos 1989.52% more in 2003-04 when compared with 2002-03 and import also went up by 15959.3% in the above same period.¹¹

The following Figure -2 shows the evidence.

Figure -3: Pakistan Exports and Imports from the ASEAN.

(Rupees 000)

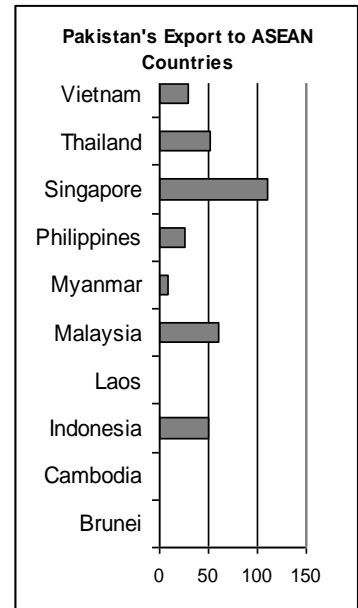


Bulks of Pakistan’s exports have traditionally gone to Singapore, Indonesia and Malaysia. Bulks of the imports into Pakistan have come from Indonesia, Singapore, Malaysia and Thailand. Trade between Pakistan and Laos has been modest amongst ASEAN countries, lower than with Brunei, Myanmar and Vietnam.¹²

Table-4: Pakistan's Exports to ASEAN Countries

(US \$ million)

Sr. No.	Country	Years		
		Fiscal year 03	Country	Jul-Mar '05
1	Brunei	1.864	Brunei	0.299
2	Cambodia	2.388	Cambodia	6.734
3	Indonesia	50.096	Indonesia	48.634
4	Laos	0.338	Laos	0.228
5	Malaysia	60.666	Malaysia	49.593
6	Myanmar	8.161	Myanmar	2.397
7	Philippines	26.055	Philippines	20.125
8	Singapore	110.727	Singapore	65.827
9	Thailand	51.253	Thailand	43.235
10	Vietnam	29.918	Vietnam	25.053
Total Exports to ASEAN		341.466	342.599	262.125



- Sources:
1. Government of Pakistan (2004) Federal Bureaus Statistics, Islamabad.
 2. Riaz H. Khokhar (2003-04) Year Book of Pakistan's Foreign Relations and Foreign Policy Foreword by the Foreign Secretary Foundations, Islamabad, pp.2-15

Pakistan and LAOS – Services

In any free trade arrangement with Laos, Pakistan may consider to include services, besides trade in goods, as it is likely to yield enormous gains to Pakistani service providers. Pakistan textile sector is ranked highest in the world, followed by clothing and leather products. In the case of Laos, it ranks 5

in the world in the clothing sector, followed by wood and leather products. It would be worthwhile to explore for the decision makers of Pakistan and Laos if they can aim at achieving synergy in the excellent specialization that exists in the two countries in the textile and clothing sectors.¹³

Conclusion / Suggestions

Laos is a landlocked, low-income, predominantly agricultural country with Thailand, Vietnam, Myanmar and China etc. as its neighbors. Imports into and exports out of Laos move through road network via Thailand. Pakistan decided to negotiate a FTA with Laos, a member of ASEAN. Pakistan and Laos have good economies of complementary structures and even within the industrialized sector complementarities are noticeable. Both have comparative advantages in certain products which show that they have achieved specialization in these products in the global markets. Pakistan has a comparative advantage in cotton, textile and clothing. Laos has a comparative advantage in clothing, wood, wood products.

Pakistan and Laos have insignificant trade between them in the past. However, both countries are on the look out to diversify their trade, by products and by markets. Enormous potential exists for trade creation and, in some areas, for trade diversion in both countries. The global exports of Laos are concentrated in a few sectors, like clothing and wood. We have seen that Laos stands to gain market access in Pakistan in a number of sectors. The basket of Laos imports shows that its imports are concentrated in a few commodities. Both countries would benefit substantially if a free trade arrangement may be developed to cover not only trade in goods but also in services

and investments in joint ventures. Wood and its products are major exports of Laos and are also imported by Pakistan in large quantities from various sources other than Laos. Pakistan has reduced custom duties to zero on rough wood and semi-finished wood.

Thus it is finally suggested that both countries must set up technical groups to identify measures, tariff or non-tariff which may hinder growth of trade between Pakistan and Laos and make recommendations for eliminating them. The ministry of commerce must take this responsibility to monitor trade facilitation to ensure free flow of trade in between the two countries.

Wood and its products are major exports of Laos and are also imported by Pakistan in large quantities from various sources other than Laos. By SRO 567(I)/2005 dated 6.6.2005, Pakistan has reduced custom duties to zero on rough wood (HS Code 4403) and semi-finished wood (HS Code 4407). Exports of rough wood and semi-finished wood from Laos and their import into Pakistan would not require a PTA or FTA as the import duty on such types of wood stand reduced to zero. However, under the law of Laos, export of rough wood is prohibited. Since transportation is a substantial component of the cost, import of finished wood products into Pakistan from Laos may have to be for a selective market.

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