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Moving out of poverty: a brief review of the process of inclusive growth in Lao People's Democratic Republic

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Using a nationally representative data set, this review presents spatial features of poverty in Lao People's Democratic Republic during its rapid economic growth between 2002 and 2012. We found that although the benefits of rapid economic growth have reached a large segment of the population, these have not flowed uniformly across population groups. The poor have benefitted, but the rich have benefitted more. People residing in Vientiane Capital, those living in urban areas, those belonging to the top quintile, and the Lao-Tai ethnic group obtained higher growth rates of per capita consumption. Access to electricity network significantly enhanced the growth of consumption, indicating the importance of infrastructure in moving out of poverty.

JEL classification: I32, O15, O1

Keywords: growth, poverty, inequality

1. Introduction

The world has a vision to eradicate extreme poverty and end all dimensions of human deprivation. This vision is translated into the Millennium Development Goals, which are the world's time-bound goals, targets, and indicators that monitor progress in eradicating extreme poverty and hunger and other dimensions of human well-being. The Millennium Development Goals helped to move more than one billion people out of extreme poverty between 1990 and 2015 [United Nations 2015]. This achievement is attributed to the robust economic growth in

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East Asia, particularly in China. While the world was able to meet Millennium Development Goal 1, “Eradicate extreme poverty and hunger”, about 1 billion people in 2011 (14.5 percent of the world’s population) remained in extreme poverty, living on less than US\$1.25 per day [United Nations 2015].

The Millennium Development Goals expired in 2015. They were then replaced by the Sustainable Development Goals, which have 17 goals and 169 targets. The sustainable development agenda post-2015 can be summarized as a twin goal, “Ending poverty and sharing prosperity” [World Bank 2014]. Ending poverty means decreasing poverty from 14.5 percent in 2011 to 3 percent in 2030. Sharing prosperity means increasing the per capita real household income or consumption of the bottom 40 percent of the country’s population. The twin goal is consistent with the concept of inclusive growth that enables the poor to participate and benefit from economic growth.

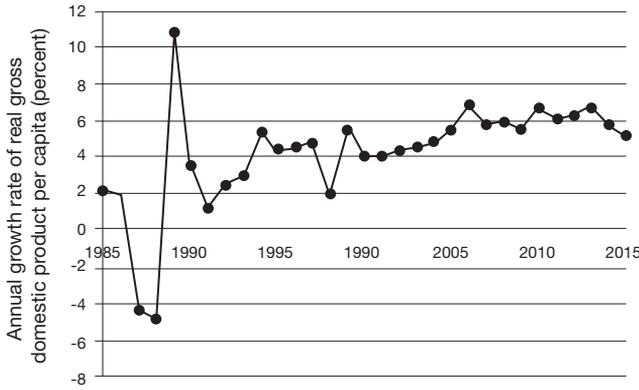
This review is a brief exploration of the process of inclusive growth in Lao People’s Democratic Republic (Lao PDR). Located in mainland Southeast Asia, this country has been growing rapidly in the past three decades since its economic liberalization in 1986. Using a nationally representative data set, this research aims to assess whether the benefits of economic growth have “trickled down to the poor.” An earlier study on the relationship between economic growth, poverty, and inequality reveals that, between 1992 and 1998, rapid economic growth in Lao PDR tends to confer more benefits to the rich [Kakwani et al 2001].

Here we explore whether the rich continue to benefit more than the poor during the second phase of rapid growth after economic liberalization between 2002 and 2013. We found no losers, while a narrow band of people (i.e., people in Vientiane Capital, those living in urban areas, those belonging to the top quintile, and the Lao-Tai ethnic group) had benefitted more. In short, rapid growth in the more recent years has been friendly to the poor but friendlier to the rich.

This review has four remaining sections. Section 2 gives an overview of the macroeconomic growth in Lao PDR. Section 3 describes the data set and explores the spatial nature of consumption growth. Section 4 presents the poverty situation across population groups and traces transitions out of poverty. Finally, Section 5 gives the summary and conclusion.

2. Macroeconomic growth

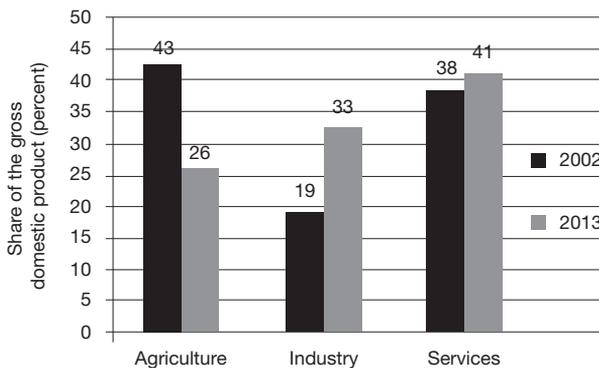
Figure 1 shows the growth rate of gross domestic product per capita (GDPPc) (constant 2010 US\$) having a “boom and bust” trend immediately after the 1986 economic liberalization. Modest and sustained growth took place between 2002 and 2013 when the GDPPc grew annually by 4.5–6.5 percent. It is because of the relatively stable macroeconomic performance that we chose the period between 2002 and 2013. Real GDPPc rose about twofold in 2002–2013 (from US\$734 in 2002 to US\$1,381 in 2013) with an annual growth rate of 6.05 percent. This rate rose from 5.42 percent in 2002–2007 to 6.05 percent in 2007–2013.



Note: Graph was drawn using data from the World Development Indicators database.

FIGURE 1. Growth rate of real gross domestic product per capita in Lao PDR, 1985-2015

There has been a structural transformation away from agriculture to the industry and service sectors (Figure 2). The share of agriculture in the GDP declined from 43 to 26 percent. The share of industry increased from 19 to 33 percent, and that of services rose from 38 to 41 percent between 2002 and 2013. Value added of industry in constant 2010 US\$ grew annually by 12.38 percent in 2002–2006 and by 14.23 percent in 2007–2013. The corresponding growth of services registered 7.60 percent and 6.82 percent, whereas agriculture had a modest growth at 2.74 and 2.65 percent in those periods, respectively. Clearly, the structural transformation is driven mainly by the rapid growth of industry and, to some extent, by the expansion of the service sector.



Note: Graph was drawn using data from the World Development Indicators database.

FIGURE 2. Sectoral composition of gross domestic product in Lao PDR, 2002-2013

The most progressive subsectors in industry are mining and quarrying, electricity and water, and construction. In fact, a substantial portion of foreign direct investments went to electricity generation (37 percent) and mining (23.6 percent) in 2008–2014 [Ministry of Planning and Investment 2014]. The most progressive subsectors in the service sector are wholesale, retail trade and repair, hotels and restaurants, financial intermediation, and producers of government services. In agriculture, the emerging crops are rubber, cassava, and maize; this was brought about by the rise in foreign direct investments that led to the emergence of plantation and contract farming. Since agriculture remains the main source of livelihood, it is reasonable to speculate that growth from industry and services would have much less impact on household income growth and poverty reduction. In fact, mining and quarrying and hydroelectricity, which contributed about 12 percent to total GDP in 2013 [Ministry of Planning and Investment 2014], employed only 14,500 workers in 2008 [United Nations Development Programme 2009:82–83].

3. Consumption growth

3.1. Data set

We used the 2002/2003, 2007/2008, and 2012/2013 rounds of the Lao Expenditure and Consumption Surveys (LECS; thereafter referred to as 2002, 2007, and 2012, respectively) corresponding to LECS 3, LECS 4, and LECS 5, respectively. The number of sample households was 8,092 for LECS 3; 8,296 for LECS 4; and 4,938 for LECS 5 for a total of 21,326 households. The small sample size in LECS 5 is because of a statistics-related law in 2010 that mandates the statistical office to release no more than 60 percent of data from household surveys. To quote, “Primary (raw) data open access will be authorized for only up to 60 percent of total survey population (survey units).” Containing randomly selected sample of 15 households for each village, LECS is a semi-panel data set: 4,012 panel households in LECS 3 and LECS 4; and 2,453 households in LECS 4 and LECS 5. The LECS is nationally representative, covering all the 18 provinces and 135 out of the 148 districts. LECS contains 75 percent rural villages and 25 percent urban villages. It likewise contains data on food and non-food consumption. We excluded the imputed value of owner-occupied housing because the rental market for housing remains thin in Lao PDR, even in Vientiane Capital.

3.2. Growth, poverty, and inequality

The growth of GDPPc was 5.42 percent annually in 2002–2007 and 6.05 percent in 2007–2012, which is fairly comparable with the growth rate of per capita real consumption of 5.89 percent in 2002–2007 and 5.56 percent in 2007–2012 (Table 1). This apparently indicates that the benefits of growth have trickled

down to a large majority of the households. Per capita total consumption is defined as the sum of per capita food and non-food consumption. Households have been spending more on non-food items. The share of non-food items in total household consumption rose from 48 percent in 2002 to 61 percent in 2012. Per capita real non-food consumption grew at an annual growth rate of 8.54 percent in 2002–2007 and 7.60 percent in 2007–2012. This reveals an increasingly diversified consumption pattern away from food, which is consistent with Engle’s law that the share of non-food expenditure rises with the rise in household total expenditure.

TABLE 1. Income growth, poverty, and inequality in Lao PDR, 2002–2012

Item	2002	2007	2012	Annual growth rate in 2002–2007 (percent)	Annual growth rate in 2007–2012 (percent)
Gross domestic product per capita (constant 2010 US\$)	734	961	1,294	5.42	6.05
Per capita consumption				Hundred Lao kip (2010=100)	
Food	1,750 (52%)	2,039 (45%)	2,339 (39%)	3.05	2.74
Non-food	1,639 (48%)	2,513 (55%)	3,676 (61%)	8.54	7.60
Total	3,390 (100%)	4,553 (100%)	6,015 (100%)	5.89	5.56
Poverty				Percentage of population	
Headcount ratio	41.22	35.10	30.26		
Poverty gap ratio	10.93	9.15	7.66		
Gini coefficient of income inequality	0.417	0.416	0.464		
	Quintile share (percent)				
Poorest	11	10	8		
Second	13	12	10		
Third	14	14	14		
Fourth	19	20	18		
Richest	43	44	50		
All quintiles	100	100	100		

Sources: Data on gross domestic product per capita were taken from the World Development Indicators database and poverty statistics came from PovcalNet. Poverty line is US\$1.25 per capita per day in 2005 PPP\$. Data on consumption and Gini coefficient were calculated by the authors from the Lao Expenditure and Consumption Surveys.

The poverty headcount ratio of the population has declined steadily over time from about 41 to 30 percent between 2002 and 2012 (Table 1). The decline in poverty is about 1 percentage point every year, which can be considered reasonable inasmuch as the annual growth rate of GDPPc was 4.5–6.5 percent in 2002–2013. Nevertheless, in 2012, one out of three Laotians lived in poverty. Also, the poverty gap ratio has declined, albeit modestly, indicating that there has been a reduction in the depth of poverty during that decade of rapid growth.

The Gini coefficient of income inequality rose in 2012 because of the decline in income share of the poorest quintile and the decline in the share of the middle quintiles (2nd, 3rd, and 4th quintile) as shown in Table 1. The share of the poorest quintile declined from 10 percent in 2007 to 8 percent in 2012, while that of the middle quintiles declined from 46 percent to 42 percent. In brief, poverty measures show improvements in the welfare of all groups. However, it appears that the benefits of economic growth have not accrued uniformly across population groups. It seems that all groups, including the poor, have benefitted from rapid growth, but it appears that the rich have benefitted more.

3.3. Consumption growth

In this section, we present disparities in consumption growth based on the following: region; urban status; quintile group; ethnicity; and access to electricity network and road.

Region: Per capita real total consumption was highest in Vientiane Capital and was fairly the same in the northern, central, and southern parts (Table 2). In all regions of the country, the share of food on per capita total consumption reached more than 50 percent in 2012. The growth rate of non-food consumption far exceeded that of food consumption and is the main source of per capita total consumption growth. Annual growth rate of per capita consumption was initially lowest in Vientiane Capital in 2002–2007 (2.74 percent), but then later, Vientiane Capital had the fastest growth in consumption from 2007 to 2012 (11.86 percent). Much of this growth came from non-food consumption. There was a deceleration in the growth rate of per capita real total consumption in the whole of Lao PDR in the north, central, and southern parts, with the exception of Vientiane Capital. In brief, the rest of the country appears to have lagged behind Vientiane Capital starting in 2007 in terms of per capita total consumption.

TABLE 2. Monthly per capita real total consumption in Lao PDR, 2002–2012

Group	2002	2007	2012	Annual growth rate 2002–2007 (percent)	Annual growth rate 2007–2012 (percent)
	Hundred Lao kip (2010=100)				
Lao PDR	3,390	4,553	6,015	5.89	5.56
Region					
Vientiane Capital	6,052	6,939	12,555	2.74	11.86
Northern region	2,954	4,054	5,032	6.33	4.32
Central region	3,100	4,445	5,272	7.20	3.42
Southern region	2,889	4,020	4,742	6.60	3.31
Urbanity					
Urban	5,422	6,333	9,379	3.10	7.85
Rural	2,613	3,766	4,600	7.32	4.00
Quintile					
Poorest	1,444	1,794	2,088	4.34	3.03
Second	1,874	2,435	2,861	5.23	3.22
Third	2,291	3,077	3,871	5.89	4.59
Fourth	3,212	4,484	5,395	6.67	3.69
Richest	8,132	10,978	15,871	6.00	7.37
Ethnicity					
Lao-Tai	4,183	5,548	7,246	5.65	5.34
Non-Lao-Tai	2,333	3,045	4,134	5.32	6.11
Access to electricity network					
With	4,458	5,190	6,486	3.04	4.46
Without	2,289	3,157	4,490	6.43	7.05
Access to road					
With	3,670	4,735	6,205	5.09	5.41
Without	2,080	2,894	4,936	6.61	10.68

Source: Authors' calculations are based on the Lao Expenditure and Consumption Surveys.

Urbanity¹: As expected, per capita real consumption in urban areas was higher than that in rural areas (Table 2). The urban-rural per capita real consumption ratio declined from 2.07 percent in 2002 to 1.68 percent in 2007. During this period, per capita real consumption in rural areas grew much faster at 7.32 annually compared with 3.10 percent in urban areas. However, urban-rural disparity rose in 2007–2012 because of higher growth rate of urban per capita real consumption (7.85 percent versus 4 percent). Much of the disparity was brought about by the high growth of non-food consumption in the urban areas, and this was more pronounced in the northern region. Vientiane Capital has exhibited the highest growth rate of per capita real consumption in 2007–2012 (about 12 percent annually). Clearly, city dwellers tend to benefit more from high economic growth than those living in the outskirts.

¹ There are districts that changed classification from rural to urban between 2002 and 2012. We used the classification in the initial period.

Quintile: The proportional benefits from growth received by the richest quintile were much greater than those of the poorest quintile. The ratio of per capita consumption of the richest to the poorest had risen from 5.63 percent in 2002 to 6.11 percent in 2007 to 7.60 percent in 2012. In addition, the annual growth rate of per capita real total consumption tended to rise across quintile groups from the poorest to the richest (Table 2). There was a deceleration in the growth rate of per capita consumption in all quintiles, except in the richest quintile. In brief, it appears that the richest quintile has become much better off than the poorer quintiles.

Ethnicity: There are 49 officially recognized ethnic groups in Lao PDR. These ethnic groups are commonly grouped into four main ethnic families: Lao-Tai; Mon-Khmer; Chine-Tibet; and Hmong-Mien. Since the Lao-Tai is the dominant ethnic group, we classified households into Lao-Tai and non-Lao-Tai. The ratio of per capita real consumption between the Lao-Tai and non-Lao-Tai did not decline much (1.79 percent in 2002 and 1.75 percent in 2012), which means that, at the very least, the minority group did not become worse off during rapid growth. In fact, the growth rate of consumption of the non-Lao-Tai group had become much higher at 6.11 percent annually in 2007–2012 (Table 2).

Access to electricity network and road: The per capita real consumption of households with access to electricity network and road is, as expected, higher compared with those without access. The gap in consumption between the two groups declined from about 2.0 percent to about 1.5 percent (in the case of electricity network) and from about 1.75 percent to about 1.25 percent (in the case of road). This is traceable to the higher growth rate of per capita consumption of those households without access, which comprise a relatively small segment of household population (25 percent in the case of electricity network and 14 percent in the case of road in 2012). This indicates that the benefits of economic growth have trickled down, even to a few households in remote areas. We speculate that the influx of remittances, mainly from Thailand, has enabled relatively isolated households to increase their consumption. In fact, Estudillo, Mano, and Seng-Arloun [2013] found that cross-border migration is common in rural areas in Xayabury, Champasak, and Savanakhet, which are provinces contiguous to Thailand that are relatively less endowed with infrastructure. The temporary Lao migrants are commonly the women, the less educated, and the young.

So, who benefits more from rapid growth? All segments of the population appear to have benefitted via a relatively high growth of per capita consumption. But there are people who benefitted more: they are residents of Vientiane Capital, households living in urban areas, those belonging to the richest quintile, and the Lao-Tai people. A small segment of households without access to electricity and road network, “households in remote areas,” appeared to have benefitted

proportionately more, too. Clearly, rapid economic growth is “friendly” to all, even to the poor, but it has a tendency to be “more friendly” to the rich.

3.4. Determinants of growth of per capita total consumption

We ran a regression model using annual growth of per capita consumption as the dependent variable and urbanity, Lao-Tai group, access to electricity network, access to road, and region as independent variables, all represented as dummy variables (Table 3). We admit that this model suffers from a “missing variable” bias because other household characteristics such as schooling, asset value, and land ownership were not included as independent variables. Nevertheless, we believe that the regression results reveal a good pattern on how the gains from aggregate growth had been distributed.

TABLE 3. Factors affecting the growth of real per capita total consumption, Lao PDR, 2002–2012

Variable	Annual growth of real per capita total expenditure	
	2002–2007	2007–2012
Urban (1=yes)	0.292*** (0.068)	0.412*** (0.082)
Lao-Tai (1=yes)	0.395*** (0.046)	0.324*** (0.065)
Access to electricity network (1=yes)	0.156*** (0.049)	0.209*** (0.073)
Access to road (1=yes)	0.378*** (0.050)	0.099 (0.080)
Vientiane Capital (1=yes)	0.061 (0.098)	0.373** (0.174)
Central (1=yes)	-0.048 (0.053)	-0.242*** (0.081)
South (1=yes)	-0.072 (0.056)	-0.076 (0.105)
Constant	11.179*** (0.040)	11.668*** (0.075)
Observations	3,502	1,874
R-squared	0.110	0.084

¹Robust standard errors are in parentheses.

*Significant at 10 percent level

**Significant at 5 percent level

***Significant at 1 percent level

Source: Authors' calculations are based on the Lao Expenditure and Consumption Surveys. Deflator is the domestic consumer price index.

A few findings strengthen the results shown in Table 2. First, the urban population seemed to have experienced a significantly higher growth of per capita consumption than the rural population in both 2002–2007 and 2007–2012, and such an advantage had been strengthened further in the later period. Second, the

growth of per capita expenditure was significantly higher for the Lao-Tai group, while such growth advantage had decelerated, albeit modestly, in the later period. Third, households with access to electricity had a significant growth advantage that grew further in the later period, assuming all variables are constant. Lastly, the people in Vientiane Capital had experienced a rather significant increase in the annual growth of consumption relative to people in the north (control) in the later period but not in the initial period.

Results from our regression model affirm the results from the descriptive analysis: the people in Vientiane Capital, households living in urban areas, and members of the Lao-Tai group have benefitted disproportionately more during the rapid economic growth in 2002–2012. Yet, it is important to mention that all segments of the Lao society have also experienced a relatively rapid growth of household consumption (i.e., “there were no losers”), but a narrow band of people emerged clearly as sure winners.

4. Poverty dynamics

4.1. Poverty line

We used the international poverty line, which is pegged at US\$1.25 per capita per day and calculated the poverty line in local currency unit in each of the LECS year. The consumption data came from the so-called “diary file” of the LECS, which is a one-month household record-keeping of consumption expenditure. For example, we calculated the monthly poverty line in 2002 (L_{2002}) as follows:

$$L_{2002} = PPP_{2005}(37.89)\left(\frac{CPI_{2002}}{CPI_{2005}}\right) \quad (1)$$

where PPP_{2005} is the consumption-based purchasing power parity exchange rate in US\$ in 2005; CPI_{2002} is the consumer price index in 2002; and CPI_{2005} is the CPI in 2005. The number 37.89 is the monthly equivalent of US\$1.25 per day. PPP_{2005} is 3,741; CPI_{2002} is 78.81; and CPI_{2005} is 100 drawn from the World Bank [2016]. The poverty line in 2002 is 111,728 kip. If we substitute CPI_{2007} (which is 115.89) in Equation 1, the poverty line in 2007 is 164,296; and if we substitute CPI_{2013} (which is 147.413) in Equation 1, the poverty line in 2013 is 208,986. We used the Foster-Greer-Thorbecke index in calculating the incidence, depth, and severity of poverty.

We used a single poverty line across Lao PDR because the CPI does not differ substantially across the regions [Ministry of Planning and Investment 2014]. While we think that CPI in Vientiane Capital is underestimated, which means we are underestimating poverty in the main city, we nonetheless believe that our estimates give a true picture of the spatial nature of poverty across the country. Our analysis of poverty is at the household-level—that is, a household is poor if the monthly per capita expenditure of that household falls below our poverty line.

4.2. Poverty across groups

The incidence of poverty was 35.5 percent in 2002 (or one out of three households was poor). It declined to 14 percent in 2012 (one out of six households) (Table 4). There was also a decline in both the depth and severity of poverty and the percentage decline (about 65 percent) was fairly similar across the three poverty measures. This means that the rapid growth in the past decade was effective in decreasing in the same degree the incidence, depth, and severity of poverty. The decline in the poverty gap means that the poor households were moving upward toward the poverty line—i.e., they become less poor. The decline in the severity of poverty means that the degree of inequality among the poor has lessened.

TABLE 4. Poverty situation at the household level in Lao PDR, 2002–2012

Item	Poverty headcount ratio (percent)			Poverty gap ratio (percent)			Severity of poverty (percent)		
	2002	2007	2012	2002	2007	2012	2002	2007	2012
Lao PDR	35.5	18.1	14.0	9.7	4.3	3.3	3.7	1.5	1.2
Region									
Vientiane Capital	8.7	3.6	1.4	1.8	0.5	0.2	0.5	0.1	0.0
Northern region	41.4	27.3	16.3	11.7	6.7	3.3	4.6	2.4	1.0
Central region	37.0	14.2	11.9	9.9	3.3	2.5	3.7	1.1	0.8
Southern region	40.6	20.0	21.8	11.4	4.7	6.4	4.3	1.8	2.6
Urbanity									
Urban	11.7	5.5	3.5	2.2	0.9	0.6	0.6	0.2	0.2
Rural	44.5	23.7	18.4	12.6	5.8	4.4	4.9	2.1	1.6
Ethnicity									
Lao-Tai	22.1	8.3	6.5	5.3	1.5	1.4	1.8	0.5	0.5
Non-Lao-Tai	53.3	33.1	25.5	15.6	8.5	6.2	6.2	3.1	2.2
Access to electricity									
With	21.0	10.2	10.3	5.0	2.1	2.3	1.7	0.6	0.7
Without	50.3	35.4	25.9	14.6	9.2	6.8	5.7	3.4	2.6
Access to road									
With	30.8	16.0	11.9	7.9	3.6	2.8	2.9	1.2	1.0
Without	57.0	37.2	26.0	18.3	10.6	6.3	7.7	4.3	2.0

Source: Authors' calculations are based on the Lao Expenditure and Consumption Surveys.

Poverty was lowest in Vientiane Capital and highest in the southern region, lower in urban areas, lower among the Lao-Tai ethnic group², and lower for households with access to road and those with access to electricity. The depth and severity of poverty were highest among groups with the highest incidence of poverty. Furthermore, the reduction of poverty was greater among groups that initially started with a higher poverty level. Obviously, there is a process of catching up.

² Higher poverty incidence among minority households is due to their limited access to productive resources [Anderson, Engvall, and Kokko 2006].

4.3. Poverty transition

Using data from panel households, we traced the trajectory of poverty by using two adjacent LECS years (2002–2007 and 2007–2012) and classified households into four distinct categories: chronically poor; poverty exit; poverty entry; and nonpoor. The chronically poor households are characterized with low endowments (e.g., health and education) and remoteness. Exit from poverty is a matter of strategy, and the most important strategies are investment in human capital and getting a lucrative job. Poverty entry is just a matter of misfortune such as illness, disaster, and conflict.

Table 5 shows the trajectories of households across the four poverty groups in the whole of Lao PDR and in various population groups. The most important finding is that the proportion of chronically poor households declined from 17 percent in 2002–2007 to 8 percent in 2007–2012, indicating that even the ultra-poor have received gains from rapid growth. Meanwhile, poverty entrants remained low at 6 percent in both periods. While there might be sample selection bias in 2012 due to the government rule (the 60 percent restriction), the proportion of the never-poor households rose from 54 percent to 72 percent, indicating that nonpoor households in the initial period never experience poverty in the later period.

Vientiane Capital is the most spectacular performer with a very high percentage of its household population classified as never poor (89 percent in 2002–2007, 96 percent in 2007–2012) as shown in Table 5. It appears that many of the rich Laotians live in Vientiane Capital. All regions have experienced a massive movement out of poverty in terms of rise in the proportion of the never poor and poverty exit. The central region has experienced a greater degree of mobility, whereas the southern region, which was initially the poorest, seemed to have caught up with the other regions in reducing poverty. The northern and southern regions have shown a substantial decline in the chronic poverty.

TABLE 5. Poverty dynamics in Lao PDR, 2002–2012

	2002–2007	2007–2012
Laos		
Chronically poor (%)	17	8
Poverty entry (%)	6	6
Poverty exit (%)	23	14
Never poor (%)	54	72
Total (%)	100	100
Total number of households	4012	2453
Vientiane		
Chronically poor (%)	2	0
Poverty entry (%)	2	2
Poverty exit (%)	7	2
Never poor (%)	89	96
Total (%)	100	100
Total number of households	375	215

TABLE 5. Continued

	2002–2007	2007–2012
Northern region		
Chronically poor (%)	22	11
Poverty entry (%)	8	7
Poverty exit (%)	24	18
Never poor (%)	47	65
Total (%)	100	100
Total number of households	1505	920
Central region		
Chronically poor (%)	12	4
Poverty entry (%)	6	6
Poverty exit (%)	25	10
Never poor (%)	57	79
Total (%)	100	100
Total number of households	1284	813
Southern region		
Chronically poor (%)	21	10
Poverty entry (%)	4	7
Poverty exit (%)	27	18
Never poor (%)	48	65
Total (%)	100	100
Total number of households	848	505
Urban		
Chronically poor (%)	3	1
Poverty entry (%)	3	2
Poverty exit (%)	10	3
Never poor (%)	84	93
Total (%)	100	100
Total number of households	824	535
Rural		
Chronically poor (%)	20	7
Poverty entry (%)	7	6
Poverty exit (%)	27	13
Never poor (%)	47	52
Total (%)	100	100
Total number of households	3188	1918
Lao-Thai		
Chronically poor (%)	6	2
Poverty entry (%)	3	3
Poverty exit (%)	18	7
Never poor (%)	73	88
Total (%)	100	100
Total number of households	1930	1216
Other ethnic groups		
Chronically poor (%)	27	13
Poverty entry (%)	8	9
Poverty exit (%)	28	21
Never poor (%)	37	57
Total (%)	100	100
Total number of households	2082	1237

Source: Authors' calculations based on the Lao Expenditure and Consumption Surveys.

Urban areas kept a substantial proportion of the never poor (93 percent in 2007–2012) with a modest degree of poverty exits in place. Reduction of poverty in the rural areas was caused by the substantial reduction in the proportion of chronically poor households from 20 percent in 2002–2007 to 7 percent in 2007–2012. This reduction coincided with the evolution of three new crops—maize, cassava, and rubber—which was driven by the rise in foreign direct investments in agriculture. The increase in foreign direct investments in agriculture through contract farming in maize and cassava and establishment of rubber plantations was substantial with the implementation of the agricultural commercialization policy in 2006 [Committee for Planning and Investment 2005]. This policy has stimulated the influx of investments from China, Thailand, and Vietnam. Also, the Lao government developed a comprehensive rice cooperation program with the International Rice Research Institute in 1987, which was intended to boost the productivity of smallholder rice farmers. This program has been instrumental in increasing rice yields in Savanakheth, Champasak, and Vientiane provinces, the so-called “rice bowls” of the country. In brief, technology transfer from abroad and commercialization appear to have made a visible dent on rural poverty.

While the Lao-Tai people have experienced more exits from poverty, people from other ethnic groups have experienced a greater degree of reduction in chronic poverty inasmuch as they have higher poverty in the initial period. Overall, we found a reduction in poverty and such reduction is greater among groups that initially started with a higher level of poverty. Indeed, even the poor benefitted (or, at the very least, did not suffer) during the rapid growth.

5. Summary and conclusion

This brief review explores the relationship between growth and poverty reduction in Lao PDR, a rapidly growing country that nonetheless remains in the United Nations’ list of least developed countries in the world. Aggregate growth in this country has been robust since economic liberalization in 1986, and the question is raised whether the benefits of such growth have reached the poor. Using a nationally representative data set, we calculated the growth of per capita expenditure and poverty indices across population groups. We found that all groups of households, including the poor, have experienced a relatively high rate of consumption growth, indicating that rapid growth has produced “no losers”. People in Vientiane Capital, those living in urban areas, those belonging to the top quintile, and the Lao-Tai ethnic group have emerged as sure winners, as they achieved the highest consumption growth. Access to electricity network significantly enhances the growth of consumption, indicating that bringing electricity services to poor households could enable them to move out of poverty.

Indeed, the late American president John F. Kennedy was right in saying that “a rising tide lifts all boats”. Lao PDR has experienced the so-called inclusive growth where the poor are able to participate and benefit from economic growth.

Nonetheless, the poor appear to have benefitted less than the rich. Rapid economic growth in Lao PDR is clearly not sufficient to achieve a uniform growth of consumption and poverty reduction. Thus, targeting the poor for service provision is necessary.

This study found that one out of four households without access to electricity remains in poverty in contrast to one out of 10 for households with access. Bringing electricity to the poor is a cost-effective strategy in decreasing poverty inasmuch as Lao PDR has a huge hydropower potential owing to its vast river networks. We believe that bringing electricity to the poor households, wherever they live, could give them a chance to escape the vicious cycle of poverty. Moving out of poverty is not an impossible dream in Lao PDR.

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