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Resource Boom, Growth and Poverty in Laos:
what can we learn from other countries and policy simulations ?

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Laos and the Dutch disease effects

Resource booms provide an important source of financing for low-income, developing countries. But such a boom can also negatively affect a national economy, particularly when it is concentrated in one or a handful of sectors, or if the boom leads to a surge in government revenues.

These negative effects, commonly related to what is called the “Dutch disease” phenomenon, occur when capital inflows lead to the appreciation of real exchange rate, which has negative impacts on the production of tradable goods.

Despite the massive impact of foreign capital flows and the general boom in the Lao resource sector, especially the mining sector, research on the topic is scarce and thusthe impacts of such a boom on the national economy are not well understood.

In this study project, a team of PEP Laotian researchers sought **to quantify thepotential impact of Laos resource boom on poverty and to look for evidence of Dutch disease in the Lao economy.**

For this purpose and with PEP support, the researchers built a CGE model of their national economy, on which they conducted simulations of various scenarios linking macro changes to their effects from macro to micro level.

Key findings and conclusions

The boom in Laos’ mining sector was found to have positive **impacts on** real

- **GDP**: +1.7% , **Investment**: +5.9% , **Imports**: + 4%
- along with a small increase in real exports.

These positive impacts, however, are countered by a decline in overall (real):

- **Consumption**: - 4% , **Output**: - 0.2%

The rapid expansion in the minor sector is seen in terms of greater output, value added and consumption (of inputs) WITHIN the mining sector. The sector’s boom does indeed contribute to an increase in real GDP for the national economy.

However, and unfortunately, it is also linked to a decline in output, value added and consumption of agricultural production and government services, thus reflecting the general movement of production factors usually associated to the Dutch disease effects in a national economy.

Which would indicate that Laos might be affected by Dutch disease.

Policy recommendations

Based on their research findings and conclusions, the researchers propose a set of four related policy strategies in order to mitigate or avoid worsening of Dutch disease effects in Laos. Policymakers should seek to:

1- balance the budget and promote the production of tradable goods without neglecting important investments in human resource development, infrastructure and health care projects

2- reduce foreign borrowing during the resource boom - any prospective borrowing should be spent on human resources, infrastructure and health care development projects

3- control inflation (via the nominal exchange rate) in order to avoid high real exchange rate appreciation

4- ensure rapid payment of any debts following eventual receipt of the windfall

5- set up a “windfall mining fund” to set aside resources for emergency times and external shock

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