

Hinrich Foundation Sustainable Trade Index

Laos Highlights

Introduction

The Hinrich Foundation commissioned the Economist Intelligence Unit to build the Sustainable Trade Index using 24 indicators to measure 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: **economic growth, social capital and environmental protection.**

The Index measures the readiness of each economy to participate in global trade in a way that creates sustainable growth, encourages foreign direct investment, and attracts funding and support from multilateral development agencies.

The Index was created for the purpose of stimulating meaningful discussion of the full range of considerations for policy makers, business and civil society when engaging in international trade.



The Hinrich Foundation launched the inaugural Sustainable Trade Index in 2016. Visit www.hinrichfoundation.com to download the 2018 and 2016 Index.

Laos Overview		
GDP per capita US \$2,339	Population 6.76 million	Exports % of GDP 35.1% of GDP
GDP growth 7.79% growth <small>(average since 2010)</small>	Labour Force 3.6 million	FDI net inflow US\$997 million

SOURCE: World Bank, 2016 and Hinrich Foundation Sustainable Trade Index 2018

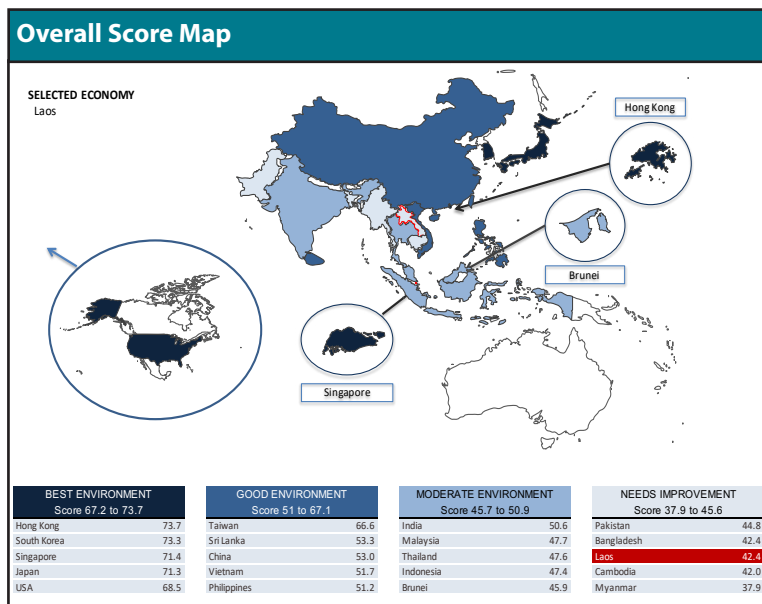
Overall performance

Laos ranks 14th overall in the 2018 Index—the same position as the 2016 Index. While Laos failed to increase its performance on the economic and social pillars, it was one of only three economies to increase its environmental score on the 2018 Index. Placing in the bottom half of the Index for all three pillars, there are a number of areas where Laos can improve its trade sustainability.

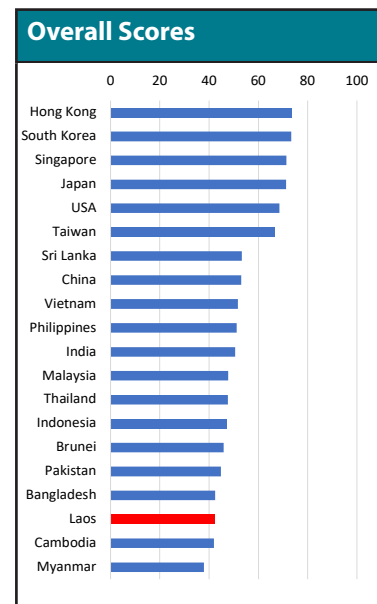
- **Economic:** Ranking 19 out of 20 economies on the economic pillar, Laos is home to some of the highest trade costs in the region.
- **Social:** Laos ranked 15th on the social pillar in 2018—the same score as 2016. While Laos was able to deliver lower levels of inequality, it also ranked toward the bottom of the Index for both labour standards and educational attainment.
- **Environmental:** Laos' best performance on the 2018 Index was on the environmental pillar, where the country advanced five positions to 12th place overall in 2018. Laos was one of only three countries, including China and Pakistan, to increase its environmental score in 2018.

Overall Index Performance			
Pillar	2018 Rank	2016 Rank	Change
Economic	19	16	-3
Social	15	15	=
Environmental	12	17	+5
Overall	17	17	=

Laos' score on each pillar compared with 2016 Sustainable Trade Index results.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Areas of top performance and improvement

- Top performance:** Transfer emissions. Laos scored first on the transfer emissions indicator, which measures transfer emissions as a share of a country's total territorial emissions (MtCO₂). Having the top score in this indicator means Laos had the lowest level of transfer emissions in the region.
- Worst performance:** Export market concentration. Laos bottomed the Index in this indicator, which measures a country's exports by destination. This means Laos has not managed to achieve a high level of diversification in its export destinations, which could be considered a trading vulnerability for the country.
- Most improved:** Inequality. Laos lowered its levels of inequality and thus advanced its ranking by two spots from 9th place in 2016 to seventh place in 2018. This indicator uses the Gini coefficient to capture the inequality level in a country between the upper and lower income brackets. Countries should be wary that trade can impact inequality, and similarly, high levels of inequality can result in societal tensions that can become an obstacle to further trade growth.

Top & Bottom Indicators		
Indicator	Index Avg.	2018 Score
Exchange rate volatility	66.7	100
Transfer emissions	22.6	100
Export product concentration	84.6	95
Growth in per capita GDP	66.7	84
Share of natural resources in trade	85.3	59
Financial sector depth	43.5	2
Foreign trade and payments risk	65.3	31
Export market concentration	68.3	0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Economic pillar

Laos' worst performance in the 2018 Index was on the economic pillar, where the country fell three spots from 16th place in 2016 to second-to-last place in 2018. The country placed in the bottom half of the Index for most economic indicators, indicating that it still has significant investment, trade and finance risks to overcome.

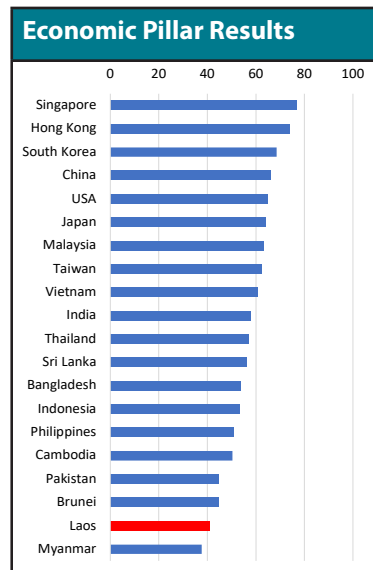
KEY TAKEAWAYS:

- Laos saw its biggest decrease on the economic pillar for the 2018 Index.
- With diversified export products and a growing labour force, Laos has the potential to increase its trade sustainability.
- However, Laos' high trade costs and growing tariffs and non-tariff barriers to trade continue to present significant investment and trade risks for trading with the country.

Laos' best performance on the economic pillar was in exchange rate volatility, where the country scored first out of all 20 countries. The Bank of Lao PDR maintains an adjustable peg against the U.S. dollar for the Lao currency (LAK) and allows fluctuations plus or minus 5 percent.¹ This indicator is measured using the standard deviation of a country's exchange rate to its major trading partners. In addition, the country has a highly diversified export product mix and a growing labour force.

However, Laos had the second-to-last ranking in trade costs. The trade costs indicator is a composite of four factors: infrastructure, logistics, corruption and legal system. These indicators capture the extra burden to trade created by inefficiencies in the trading system. Of these four indicators, Laos performed best in legal system (=11) and worst in logistics performance (20). Based on these results, there are a number of areas where Laos can make its trading system more efficient.

As an emerging economy, Laos performs predictably low in the technological indicators. In the 2018 Index, Laos placed 18th for technological infrastructure and 19th for technological innovation. These indicators can have a dramatic multiplier effect on economic growth and trade and can also have an impact on how much foreign direct investment (FDI) a country can attract. As one of the bottom three low-income countries for FDI on the 2018 Index, an improvement in technology could help the country attract more FDI in the future.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Exchange rate volatility	66.7	100
Export product concentration	84.6	95
Growth in per capita GDP	66.7	84
Gross fixed capital formation	42.2	48
Growth in labour force	64.0	73
Current account liberalization	90.7	75
Foreign direct investment	13.0	1
Technological infrastructure	62.5	25
Tariffs & non-tariff barrier to trade	59.4	13
Financial sector depth	43.5	2
Foreign trade and payments risk	65.3	31
Trade costs	51.2	27
Technological innovation	26.2	0
Export market concentration	68.3	0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

¹ Export.gov, "Lao- Conversion and Transfer Policies", 18 June 2016- <https://www.export.gov/apex/article2?id=Lao-Conversion-and-Transfer-Policies>

Social pillar

In the 2018 Index, there was an overall stagnation across all economies in the social pillar. Inequality and political instability are on the rise across the region, a trend that transcends wealth and development status. Laos was one of the majority of economies to remain unchanged in the 2018 Index social pillar. The country tied for 15th place with Pakistan on the social pillar in 2018— the same score as 2018. Laos did outscore some middle-income countries on the social pillar, however, including Thailand and Malaysia.

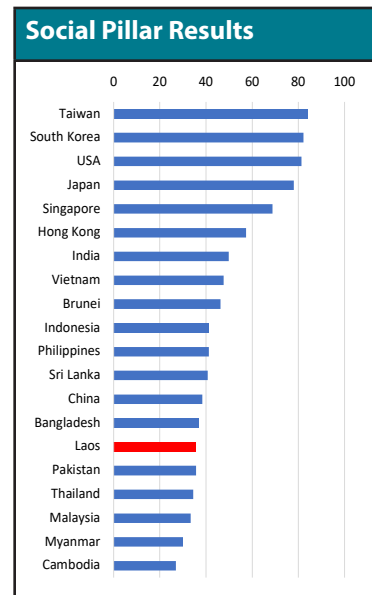
KEY TAKEAWAYS:

- Laos placed 15th overall on the 2018 Index’s social pillar— maintaining the same score as 2016.
- Laos has low levels of inequality, but the country placed toward the bottom of the Index for labour standards and educational attainment.

Laos’ best performance on the social pillar was in the inequality indicator— where the country placed seventh overall— reflecting low levels of inequality in the country. This indicator uses the Gini coefficient to capture the inequality level in a country between the upper and lower income brackets. Countries should be wary that trade can impact inequality, and similarly, high levels of inequality can result in societal tensions that can become an obstacle to further trade growth.

Laos’ largest decrease on the 2018 social pillar was in the political stability indicator, where the country fell nine places from fourth place in 2016 to 13th place in 2018. The country’s worst performances on the social pillar were in labour standards and educational attainment. Laos placed 16 out of 20 economies for labour standards, which are measured based on three categories: forced labour, child labour and labour rights. For this indicator, Laos placed in the bottom five countries with Bangladesh, Pakistan, Myanmar and Cambodia.

Laos also placed 16th out of 20 economies for educational attainment— at the bottom of the Index again with Pakistan, Cambodia, Bangladesh and Myanmar. Educational attainment is measured by total enrollment within a country for tertiary education as a share of the percentage of the population of the corresponding age group. Educational attainment and skill acquisition are key indicators for trade and economic competitiveness.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Social Indicators		
Indicator	Index Avg.	2018 Score
Inequality (Gini coefficient)	62.3	75
Political stability	57.6	50
Educational attainment	38.4	8
Labour standards	39.7	9

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Environmental pillar

Laos' best performance on the 2018 Index was on the environmental pillar, where the country scored 12th out of 20 economies.

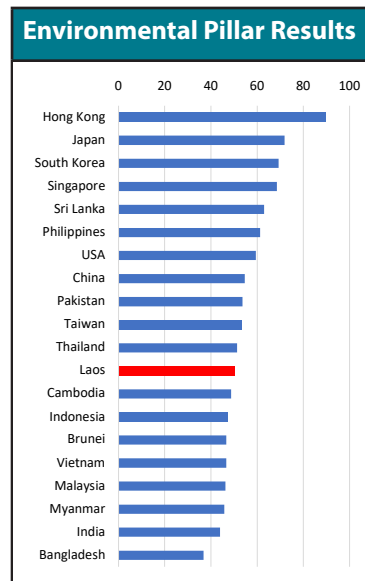
Laos, China and Pakistan were the only countries able to record increases in overall environment scores. Laos outscored most other low-income countries in the environmental pillar for 2018, with the exclusion of Sri Lanka, the Philippines and Pakistan.

KEY TAKEAWAYS:

- Laos was one of only three economies to improve its environmental pillar score in the 2018 Index.
- Despite a top score due to low transfer emissions levels, Laos performed in the bottom half for all other environmental indicators in 2018.
- Laos' worst environmental performance was in share of natural resources in trade. The country is still dependent on natural resources-related exports, which is considered a key indicator of unsustainable trade.

Laos' top score came from the transfer emissions indicator, where the country reported the lowest level of transfer emissions for all economies in the 2018 Index. Laos and Pakistan were the only two countries with reduced transfer emissions in the 2018 Index, which is measured using the share of a country's total territorial emissions (MtCO₂).

Despite a top score in transfer emissions, Laos placed in the bottom half of the Index for all other environmental indicators. Its worst performance was on share of natural resources of trade, which assesses natural resources as a percentage of a country's total trade. Laos scored 19th out of 20 economies on this indicator, showing it is still highly dependent on exporting natural resources. Reliance on a high concentration of natural resources-related exports is a key indicator of unsustainable trade. Laos also tied for last place in water pollution, but new initiatives by the government will enable Laos to improve its performance on this indicator in future.



SOURCE: Hinrich Foundation Sustainable Trade Index Workbook, 2018

Indicator	Index Avg.	2018 Score
Transfer emissions	22.6	100
Air pollution	67.2	62
Environmental standards in trade	66.7	50
Water pollution	24.3	0
Deforestation	66.8	32
Share of natural resources in trade	85.3	59

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

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Laos Highlights

Additional resources

The Hinrich Foundation commissioned The Economist Intelligence Unit (EIU) to build the Sustainable Trade Index. The Index uses 24 indicators to measure the trade impacts of 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: economic growth, social capital, and environmental protection.

Visit our website at www.hinrichfoundation.com/trade-research/sustainable-trade-index to download additional Sustainable Trade Index resources including:

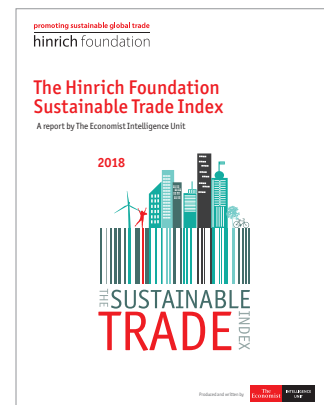
- **2018 Sustainable Trade Index white paper**- Prepared by the EIU, it presents and analyzes the 2018 Index findings for all 20 economies.
- **Index interactive data set and KPIs**- The comprehensive Index database allows users to directly interact with the Sustainable Trade Index data. For each economy, compare indicators, adjust score weights and visualize data in custom charts and graphs. It's a useful tool for regional comparisons or reviewing the performance of a particular economy.
- **Additional highlight reports for other economies**- Looking for information on other economies in the Sustainable Trade Index? Visit our website to download special reports on all 20 economies featured in the 2018 Index.
- **Index infographics, fact sheets and more!**

About the Hinrich Foundation

The Hinrich Foundation is a nonprofit organization that undertakes trade-related policy research and development work in Asia. It focuses on creating opportunities, choice and engagement through sustainable and mutually beneficial global trade. The Sustainable Trade Index aims to stimulate positive thinking about global trade and promote behaviors that will lead to better developmental outcomes, engagement and stability.

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Economic Pillar		Social Pillar		Environmental Pillar	
Australia	82.4	U.S.	82.4	U.S.	82.4
China	78.1	China	78.1	China	78.1
India	75.2	India	75.2	India	75.2
Japan	72.3	Japan	72.3	Japan	72.3
South Korea	69.4	South Korea	69.4	South Korea	69.4
U.S.	66.5	U.S.	66.5	U.S.	66.5
U.K.	63.6	U.K.	63.6	U.K.	63.6
Germany	60.7	Germany	60.7	Germany	60.7
France	57.8	France	57.8	France	57.8
Italy	54.9	Italy	54.9	Italy	54.9
Spain	52.0	Spain	52.0	Spain	52.0
Sweden	49.1	Sweden	49.1	Sweden	49.1
Norway	46.2	Norway	46.2	Norway	46.2
Denmark	43.3	Denmark	43.3	Denmark	43.3
Netherlands	40.4	Netherlands	40.4	Netherlands	40.4
Belgium	37.5	Belgium	37.5	Belgium	37.5
Average (all economies)	57.5	Average (all economies)	57.5	Average (all economies)	57.5
Best Trade 2018		Best Trade 2018		Best Trade 2018	

