

Wake up - the Lao Coffee Game - The dimensions of the Lao coffee sector

Description of the parameters and interests

Health of Environment

The environment provides us with countless services, of which we have evolved and learned to take advantage. Through photosynthesis, plants and trees remove CO₂ from the atmosphere and they provide us with the oxygen we breathe. Through pollination, insects allow us to grow plants and develop agriculture and with that, food. Just as they serve us, humans, the countless entities that make up flora and fauna provide services to each other. Ecosystems are thus characterized by a dense network of interactions and interdependencies, the fruit of millions of years of evolution. Therefore, damage to one node of this web weakens all others, sometimes threatening precarious equilibria. In the game, "Health of the Environment" refers to the latter's capacity to provide valuable services, without which no organized life is possible. Accordingly, it will be negatively affected by waste and pollution, which degrade the quality of the air we breathe, the water we drink, and can even lead to high concentrations of microplastics in seafood, or of pesticide residues in agricultural products. Another of the services provided by the environment is the presence of extractable resources, like petrol or gas, but also rare earths which play an increasingly important role in modern economies, perhaps most crucially in the production of batteries, photovoltaic panels, and wind turbines, all key assets in any plan to transition away from fossil fuels. These resources have developed over geological timescales and their supply is finite. Their depletion is therefore terminal. By virtue of the aforementioned interdependence between ecosystemic nodes, loss of biodiversity, despite not being a service itself, decreases the health of the environment.

Livelihood Outcomes for Local Coffee Producers (including farmers, wage workers and local middle buyers)

Livelihood represents the capacity for individuals not only to survive, but also the extent to which they are able to satisfy basic human needs, whether physiological, sanitary, social, or psychological. Of course, income plays a determining role in all these facets of livelihood, but that should not obscure other factors. For example, even if her income is higher as a result, an individual living in a less egalitarian society could have a lesser welfare, resulting from a loss of the sense of self-worth or dignity, but also because of the unrest and violence that tends to accompany inegalitarian societies. Other factors to consider are choices, opportunities, and generally speaking, the feeling of having one's life in one's hands and that things can get better as a result. One may also include the sense of security, which stems from reliable income streams through fair and stable markets, for which social security plays an important role, and with it the ability to overcome sickness or injury. Working conditions are yet another determining factor to assess producers' livelihood outcomes, as are employment opportunities, which are a key determinant of income. Important though it may be, these are not the only determining factors. Access to resources, such as land or financial means through loans play an important part in steady income streams. Further, other basic livelihood assets that factor in wellbeing are food security, gender equality, as well as more elaborated notions like social inclusion or the possibility of further education.

Economic Attractivity of the Lao Coffee Sector

The Lao coffee sector's attractivity describes the pulling power it exerts over different stakeholders engaged in the Lao coffee value chain: investors, traders, workers, producers, government, etc. From investors' perspective, the main factors are profitability and stability. Indeed, uncertainty is rarely good for business. Typically, when a sector displays high profits, it easily attracts new investors, who will increase production capacity. If this additional supply is met with demand for Lao coffee, the sector grows. Production volume, total income, exports, and jobs all become more abundant. However, the link between profitability and growth of the sector depends largely on the level of regulation of the coffee market. For instance, even if it displayed high profits, the coffee sector could fail to attract investors if barriers to entry were high. These may be in the form of limitations on the capacities to acquire land, restrictions regarding the influx of foreign capital or exports, as well as of informal factors such as corruption and a weak legal framework to protect private property and profits. In the same vein, one may cite the absence or dearness of factors of production such as labour, which crucially depends on regulations such as mandatory schooling and illegality of child labour, or minimum wage and social charges.

Interconnectedness

Interconnectedness describes the extent to which Lao stakeholders are economically, politically and culturally connected to international actors. Better integration with the global community can be an opportunity for the Lao coffee sector. Obviously, the sector is heavily dependent on foreign demand for its product, but an influx of foreign capital, typically embodied in a multinational company, can also increase the connectivity of the sector, and open new markets. Openness to international influence does not only manifest itself in the private sector, but also in the public. Globalization therefore presents numerous opportunities of international collaboration in the form of trade agreements on import and export quota. These can be bilateral, with foreign national agencies or internationally active NGOs, such as development cooperation offices, or multilateral in institutions such as the United Nations, the World Trade Organisation, and many others. However, interconnectedness, for all its virtues, presents significant risks. Over the past few decades, numerous developing countries have faced financial crises resulting from exchange rate movements. Indeed, their currencies often display high volatility, which means that foreign lenders prefer to loan in other currencies, typically US Dollars. However, if the currency depreciates, the debt burden for local firms increases, leading to mass bankruptcy. This sinister mechanism is associated with the 1997 Asian financial crisis. This episode also illustrates the downsides of the International Monetary Fund's interventions, which was often conditioned on fiscal austerity and privatizations. In general, when a nation relies on foreign capital for its development, it enters a competition with other projects looking to attract investors. To stand any chance, it becomes important to offer the most favourable conditions possible for asset managers. Therefore, costs and risks are often borne by taxpayers. A classic example is highways, which are required to include tolls, the condition of their profitability as assets. These dynamics have been labelled as the "Wall Street consensus".

Governance Capacities of the Lao Government

Governance capacities describe the scope of action of the government to shape and regulate the coffee sector. It includes factors such as public finance and mobilization of financial resources, political stability and popular trust in the government, as well the latter's ability to achieve its goals and enforce laws. Increasing the governance capacity of state institutions is a primary objective for the institutions themselves, for obvious reasons, but it also serves other actors. Civil society is better protected, if the government has the capacity to enforce the law. Foreign investors are reassured by the knowledge that authorities have the means to protect private property, be it physical capital or intangible assets such as contracts. Governance capacity crucially depends on the financial means at the disposal of public institutions. These come from two sources: taxation and borrowing. The former relies on an effective system and a large tax base. In this regard, economic growth, rural development, and poverty reduction are important drivers. For all of these, infrastructure development is key, as is social welfare, which gives more resilience to economic actors. On the other hand, borrowing depends on lenders' trust in the government's capacity to repay its debts. An important factor which undermines governance capacity is corruption, which erodes the state's financial means and therefore its effectiveness, but also trust on behalf of the population, and often leads to crime. In order to gain the people's trust, the government can also propose a long-term vision, for which the development of a green economy and the struggle for gender equality can be mobilizing factors.