

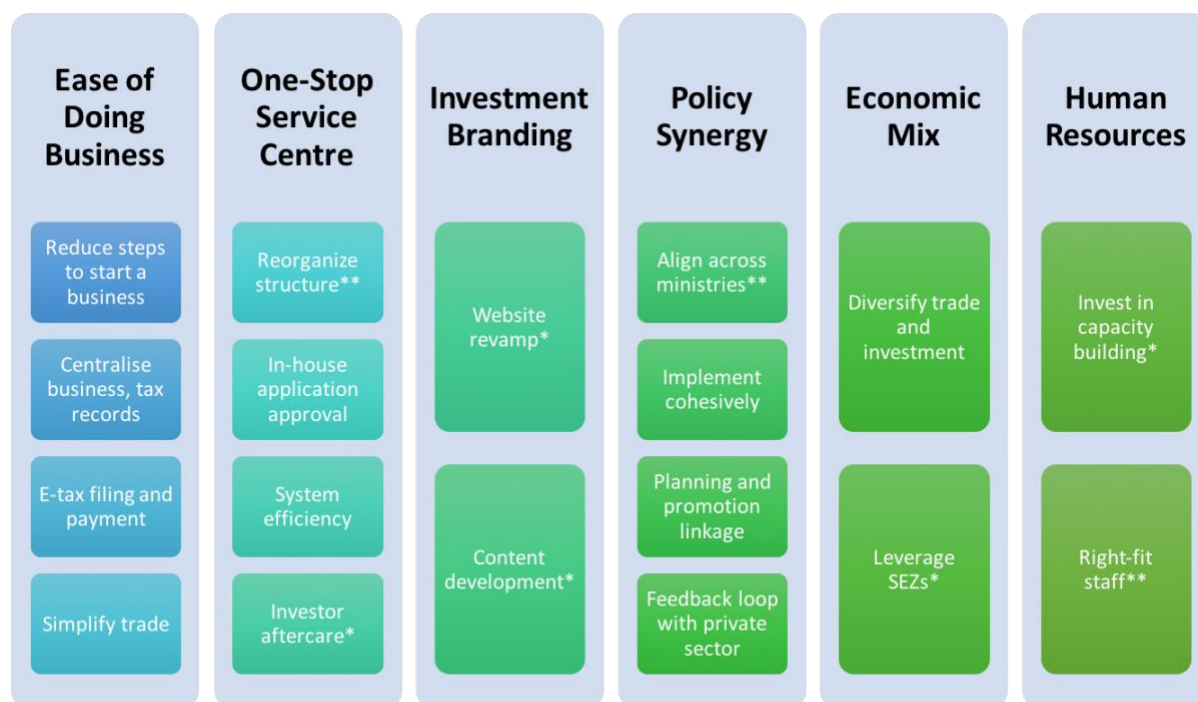
**LAO PEOPLE’S DEMOCRATIC REPUBLIC: ECONOMIC POLICY SUPPORT FOR ENHANCING
PRODUCTIVITY AND EMPLOYMENT
TRADE AND INVESTMENT SECTOR ASSESSMENT**

[Executive Summary]

As with many countries in the world, Covid-19 has dealt a shocking blow to the Lao People’s Democratic Republic which had started to build out the 9th National Socio-Economic Development Plan (NSEDPlan) 2021-2025 to continue in its Vision 2030 mission of quadrupling its per capita income from 2015. Despite the uncertainty, if Lao PDR employs a multi-ministry, whole-of-government approach to defend existing progress made before Covid-19 struck and focuses on **recovery**, continues laying a strong foundation to boost internal **resilience**, and works towards achieving sustainable long-term **growth**, there is every reason to believe that the country will emerge stronger from Covid-19.

Before Covid-19: Good Progress

Before Covid-19 struck, the Lao government had been working closely with the Asian Development Bank on implementing some of the recommendations from the Technical Assistance on Economic Policy for Enhancing Productivity and Employment (2018). A good start was made with the investment promotion manual and training conducted for investment promotion officers in August 2019. The recommendations remain relevant, and should be implemented in tandem with urgent recovery efforts:



*Consultant will provide assistance
**Consultant may provide assistance

Post-Covid-19: Recovery and Resilience

The most urgent recovery measures should target the sectors bearing the greatest economic impact of Covid-19:

- Supply chain: Supply chain stabilisation measures such as engaging existing and new suppliers, optimising logistics and production, and managing inventory and demand
- Tourism, manufacturing: Additional stimulus packages, policies and incentives such as tax reliefs, delayed tax payments, delayed land-use fees, and reduced electricity and internet fees
- Micro, small and medium enterprises (MSMEs): Fiscal and non-fiscal incentives, reduced electricity and internet fees
- Domestic and international trade: Boost trade relations with new partners, identify new trade sectors, promote local consumption

Cutting across all sectors of the socio-economic fabric is the power of digital platforms, which has kept many countries functioning despite national lockdowns and supply chain disruptions. Lao PDR must begin preparing itself for a hyper-digitalised future; otherwise, it will risk a second shock to its system should there be a second wave of infections or be completely left behind as the rest of the world adapts to this new normal.

Bearing in mind that Covid-19 might not be eliminated in the near future, the Lao government should not wait to complete the recovery phase before turning its attention back to building a resilient economy. It is crucial that Laos strengthens local businesses, maximise the Lao-China Railway and boost agriculture to build an edge over its neighbours, and create an enabling environment for sustainable growth.

- 1) Strengthen local businesses:** As MSMEs account for over 90% of registered firms in Lao PDR, efforts must be made to ensure that they not only survive but develop sustainably. These include improving MSMEs' access to finance by simplifying application processes, adopting more flexible criteria and strengthening the financial system. To address MSMEs' challenges in competing internationally, business collectives could be established to pool resources and share information. Besides supporting MSMEs, another measure that can be taken is to maximise the potential of Lao PDR's Special Economic Zones (SEZs). This can be achieved by actively communicating the advantage of these SEZs, promoting local employment within SEZs to not only reduce unemployment but upskill Laos' manpower. Encouraging the integration of MSMEs into the supply chain of SEZs will create a positive cycle of boosting local businesses and employment, in turn boosting the attractiveness of the SEZs.
- 2) Building an edge:** An important opportunity for Laos to build an edge over its neighbours is to maximise the upcoming Lao-China railway. To counter the likely influx of low-value imports, Laos could adopt a mix-and-match between high demand for crops, fruits and animals from China and Laos' production of coffee, tea and sesame. Lao PDR should also create a well-connected logistics and supply chain ecosystem around the railway so that it can transform into a transport hub, and ensure that its businesses have the capacity to overcome non-tariff barriers to successfully export to China and meet the large demand there. Separately, Laos can also improve its competitive

advantage by amplifying its existing strengths in agriculture by scaling up production of premium agricultural products such as organic food and high-value crops, increasing investments in high-technology and training farmers to use them, aligning its quality and safety standards to international standards, matching suitable businessmen to farmers, and ensuring national demand (food security) is met first before exporting the surplus. Lao PDR can plug existing policy gaps by targeting and promoting the growth of MSMEs in the organic agricultural industry beyond the production phase (*see Annex 4 of Trade and Investment Sector Assessment*).

- 3) Building an enabling environment for internationalisation:** Economic digitalisation is key, and the Lao government should lead by example by digitalising its bureaucracy and following through with the Department of Small and Medium Enterprise Promotion (DOSMEP) draft decree on e-commerce. Enhancing trade facilitation is also important, by tackling the relatively high non-tariff barriers to trade and integrating the transport and logistics sectors.

Achieving Sustainable Long-Term Growth

With a resilient foundation, Lao PDR will be in a good position to continue in its journey towards graduating from least-developed country status in 2024 and achieving sustainable long-term growth. Actions here include:

- A) Seizing trade and investment opportunities:** Trade and investment flows from China, Thailand and Vietnam add up to more than three times the flows from the next biggest partners combined. To avoid over-reliance on just these partners, Laos should seek to diversify its economy. In trade, Laos may consider enhancing trade ties with India and Australia, and seek opportunities in the food, apparel and clothing accessories, and electricals sectors. In investment, it could look to South Korea as an alternative source of foreign direct investments (FDI), and frontier sectors such as services, handicrafts, and hotel and restaurant as alternative recipients for FDIs. Additionally, encouragement of public private partnerships (PPP) through investment schemes will help alleviate the fiscal pressure on the development of Lao PDR's public infrastructure and services. Beyond bilateral links, Laos should also maximise its membership in ASEAN, especially with the upcoming travel corridor agreements and commitment to complete the Regional Comprehensive Economic Partnership (RCEP) by end-2020.
- B) Improving the Ease of Doing Business:** To score quick wins in propelling Laos up a few notches from 154th place (out of 190 countries) in 2020, Laos could consider promptly targeting the (a) starting a business; (b) paying taxes; and (c) trading across borders EODB indicators. The process of improving its EODB ranking should be driven by revitalising the One-Stop Service (OSS) Centres that have been established across Laos, with the Special Economic Zone Authority (SEZA) OSS Centre in Savan Seno as the benchmark. This must take place hand-in-hand with improving service delivery of the OSS Centres and officials driving the investment agenda, and establishing service aftercare. Additionally, Laos should continue to enhance the *InvestLao* brand.
- C) Reinforcing the feedback loop among stakeholders:** Above and beyond the Lao Business Forum, direct feedback from the private sector must be considered and incorporated into the policymaking mechanism, where practicable. Communication among donor agencies such as the Asian Development Bank, ministries, line agencies and the business sector could also be improved to minimise confusion over responsibilities and jurisdiction on trade and investment activities.

Greater communication of existing work done should also be made to the National Assembly to ensure that the legislative and executive branches work seamlessly together.

- D) Enhancing policy synergies:** Creating a coordinating authority will be the most viable solution to overcome the operational hurdles of trade and investment promotion. In tandem, missing links and overlaps must be addressed through the clear follow-through that follows strong policy design, clear implementing guidelines and targeted action plans. Setting clear key performance indicators, developing an accountability mechanism and establishing a provincial competitiveness index will complement these efforts. To further future-proof Lao PDR, economic intelligence and strategy units can be established to specialise in in-depth study of Laos' sector performance compared to its competitors.
- E) Invest in capacity-building:** Riding on the good outcomes of the August 2019 capacity-building workshop, the Lao government should continue with training sessions for skills development among provincial departments, representatives in embassies, staff in OSS Centres, and IPD officials to promote and position Laos as a preferred market for investors. A multi-pronged approach may be adopted, covering (i) effective marketing and communications; (ii) targeted investor acquisition; (iii) account management; and (iv) customer service.

Laos Tomorrow: Emerging Stronger

With the world struggling to deal with the aftermath of Covid-19, uncertainty is the new normal. What is certain, however, is that the world continues to be deeply interconnected despite national lockdowns. This interconnectivity has been powered by digitalisation and Covid-19 has turbo-charged the role it plays in the global economy. Therefore, Lao PDR must look beyond immediate recovery measures to work towards becoming a diverse, modern and plugged-in economy. This requires linking outcomes, policy and follow-through of the various economic initiatives in Lao PDR. It should also look to its neighbours as benchmarks and to adopt best practices, tailored to its unique circumstances. Moreover, a well-oiled coordination mechanism across ministries is required to ensure Laos reacts flexibly and nimbly during policy planning.

Despite the setback from Covid-19, Lao PDR is in a good position to achieve its national aspirations for the country and its people. With strong fundamentals, fit-for-purpose tools, and strong collaborative support from regional and international partners, a bright and prosperous future is within reach.

Appendix: Summary of Recommendations

