TA9136: LAO ECONOMIC POLICY SUPPORT FOR ENHANCING BUSINESS PRODUCTIVITY AND EMPLOYMENT

TRADE AND INVESTMENT SECTOR ASSESSMENT

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Ministries

Ministry of Planning and Investment (MPI)
Department of Foreign Trade Policy
Department of Planning
Department of Investment Promotion
Special Economic Zone Promotion and Management Office (SEZO)

Ministry of Agriculture and Forestry
Agronomy Management Division
Division of Planning and Cooperation

Ministry of Finance
Division of Customs Department

Ministry of Labour and Social Welfare (MLSW)
Department of Skills Development and Employment

Ministry of Industry and Commerce (MOIC)
Department of Domestic Trade
Department of Industry and Handicraft
Department of Planning and Cooperation
Department of Trade Promotion
Entrepreneur Development Division
General Affairs Division
Small and Medium Enterprises Promotion Department (DOSMEP)

- *Entrepreneur Development Division*
- *General Affairs Division*

Trade Facilitation Division

Ministry of Public Works and Transport Lao PDR
Department of Transport

State banks
Lao Microfinance Association

Economic Agencies/Academia
Lao National Statistics Bureau
Economic Research Institute for Industry and Trade (ERIIT)
National Institute for Economic Research (NIER)

Chamber of Commerce
Australian Chamber of Commerce, Lao PDR
Faculty of Economics and Business Management, National University of Laos
Japanese Chamber of Commerce and Industry, Vientiane (JCCIV)
Lao National Chamber of Commerce and Industry (LNCCI)

Private companies
Emerging Markets Consulting
Inthyra Group

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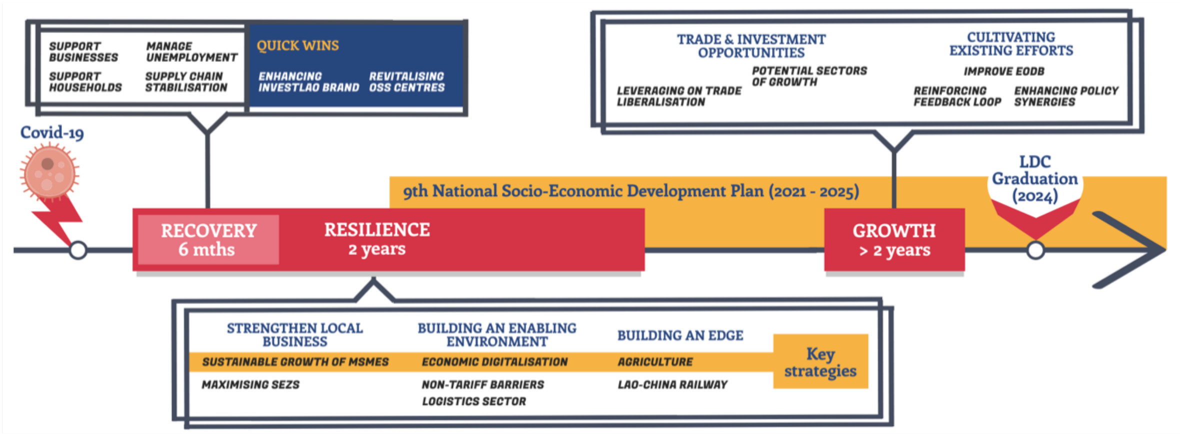
TRADE AND INVESTMENT SECTOR ASSESSMENT

Introduction

Like many countries around the world, the Lao PDR has been caught off-guard by the scale of the Covid-19 crisis and its socio-economic impact. Most urgently, action must be taken to address the immediate impact of Covid-19. Thereafter, it must assess how the impact of Covid-19 has affected its macro level priorities, as the 8th National Socio-Economic Development Plan (NSEDP8) 2016-2020 draws to a close and it begins to build out the NSEDP9. At the most fundamental level, Lao PDR must continue to work towards graduating from least developed country (LDC) status by 2024 while it rebuilds its economy post-Covid-19. This means Lao PDR must defend existing progress and focus on **recovery** in the immediate term (six months). In tandem, it should continue laying a strong foundation to strengthen internal **resilience** (six months to 2 years), and work towards achieving sustainable long-term **growth** (2 years and beyond). Success requires a multi-ministry, whole-of-government approach.



Previously, the Asian Development Bank's (ADB) Technical Assistance on Economic Policy for Enhancing Productivity and Employment (2018) had explored recommendations to improve Lao People's Democratic Republic's investment policy framework to increase economic activities in non-resource sectors. As part of Phase I, the Output 1 report included a stocktaking of existing private investment policies and incentives as well as identifying good practices for investment promotion in Lao PDR. In Phase II, ADB's trade and investment sector assessment systematically takes stock of Lao PDR's existing progress, identifies challenges and maps out recommendations including maximising policy synergy between Ministry of Planning and Investment and Ministry of Industry and Commerce.

RECOVERY

As a result of Covid-19, the World Bank initially revised the Lao PDR's annual economic growth forecast for 2020 from 6.2%, as estimated in 2019, to 3.5%, but further downgraded expected annual growth to 1% and estimated potential growth contraction by 1.8% in June 2020. The European Chamber of Commerce in Laos' (ECCIL) survey report (2020) estimated a revenue loss of over 50% for 7 in 10 of survey respondents; an additional four to 6 months was estimated as the timeframe for recovery. Furthermore, the uncertainty in the global and regional economy can be expected to reduce spending by up to 50% and decrease the inflow of investment due to capital flight.

Hard-hit sectors identified are primarily labour-intensive with globally interconnected value chains. The **tourism** industry, which accounted for 12% of the nation's GDP and 10% of jobs in 2018, has felt the immediate backlash of Covid-19 as a result of travel restrictions. Lower tourism demand and domestic containment measures have led to a knock-on effect on tourism-supporting sectors such as the hospitality and F&B industries. The **manufacturing industry** has also been affected by international supply-chain disruptions limiting the import supply of essential raw materials and a simultaneous contraction in private consumption and external demand. Finally, the domestic lockdown from April to May 2020 and the closure of Lao borders have also impacted the work within the **construction** sector.

Although Lao PDR has implemented a 13-measure economic stimulus package and a tax relief package for personal income tax for micro-enterprises to manage cashflow and maintain employment, more system-wide actions are needed to boost the performance of all sectors of the economy.

First, supply chain disruptions from lockdowns and employee-safety measures pose a threat to maintaining Lao PDR's food supply. As a stop-gap measure to contain ripple effects to the supply-chain, Lao PDR must introduce supply chain stabilisation measures. This includes engaging existing and new suppliers, optimising logistics and production, and managing inventory and demand.

Second, the worst-hit sectors such as tourism and garment manufacturing need greater support in the form of additional stimulus packages, policies and incentives such as tax reliefs, delayed tax payments and delayed land-use fees. Lowering electricity and internet fees for households and businesses could provide short-term relief as well, especially as more workers work from home.

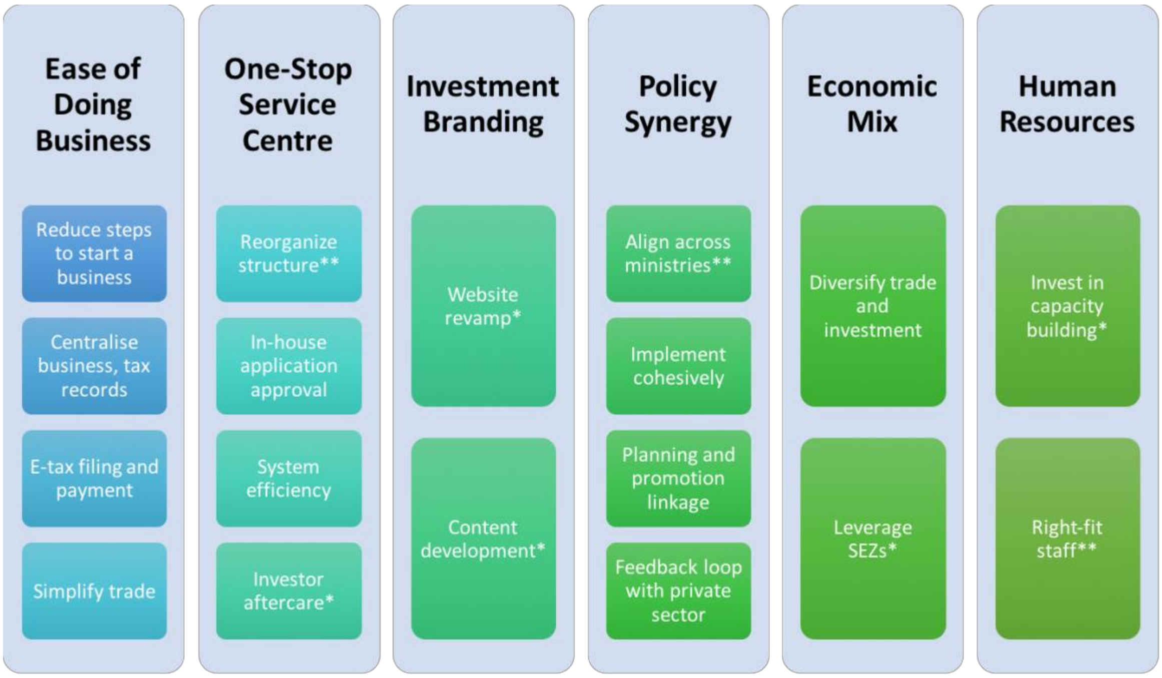
Third, to tackle growing unemployment, Lao PDR should consider providing greater income and property tax rebates to those that require it the most. Temporary job-matching measures can be put in place to tide workers over the crisis. Such jobs can include delivery work, as demand for logistics services has risen with movement restrictions. This can be a critical avenue for the government to redirect its returning workers from abroad to alleviate the loss of remittance income for families. The government can also use this lull period to train newly unemployed workers, particularly in the Special Economic Zones (SEZs), to prepare them for economic recovery. At the same time, Lao PDR needs to encourage businesses to retain their employees and support their capacity development during this lull period to boost productivity after the crisis.

All these measures should be quickly communicated to local businessowners and foreign investors through a centralised COVID-19 helpdesk or FAQs in multiple languages like English and Laotian. This should be led by the Ministry of Industry and Commerce (MOIC) and the Ministry of Planning and investment, respectively.

Lao PDR must also adapt to the "new normal". First, key trade partners such as China, Thailand and Vietnam have been predicted to experience a sharp temporary drop in consumption, which will likely spill over into the global economy. It is therefore essential that Lao PDR continues to keep its trading relationships open and boost trade relations with new partners, beyond China. It should also identify new sectors to boost overall trade performance. Interestingly, slower imports have forced Laotians to increase their consumption of local goods. This could be an opportunity for the government to promote local investment to support local enterprises. Additionally, micro, small and medium enterprises (MSMEs) will require continued support to ensure their long-term survival. This is crucial as MSMEs account for over 90% of registered firms in the country. Over and above the excellent move of injecting 100 billion KIP (US$11.2 million) to finance SMEs, Lao PDR should also consider fiscal and non-fiscal incentives which will help to reduce unemployment and the loss of prior investments. Finally, Covid-19 has demonstrated the utility of digital platforms in keeping businesses going and the overall economy running at a modest level. Although it would not be possible to ramp up the nation's digital capabilities in a short timeframe, Lao PDR must recognise that this shock will reshape consumer behaviour. Lao PDR must therefore begin preparing itself for the era of contactless commerce by accelerating the digitalisation of its economy.

QUICK WINS

As it undertakes urgent recovery efforts, the Lao government must also defend MPI's earlier progress from the Output 1 report (*Appendix A*). The recommendations from the Output 1 report remain relevant, and Laos had been working closely with ADB over the past two years on the implementation of a few of these recommendations, before Covid-19 struck. The development of the investment promotion manual, which is a handbook for investment promotion officers, and the training conducted for these officers in August 2019 were a good start. It is crucial that Laos continues to implement the recommendations as part of laying a resilient foundation for the future.



**Consultant will provide assistance*
***Consultant may provide assistance*

To kickstart momentum again, MPI could begin work on two of the above recommendations in the coming six months as **quick wins**, to inject immediate confidence among investors: revitalising OSS centres and continue enhancing the *InvestLao* brand.

1) Revitalising OSS centres

With the enactment of the amended Investment Promotion Law (IPL) in 2017, investors will want to navigate the available incentives. For instance, under the amended IPL, a business in the "*environmentally-friendly and sustainable, cultural and historical tourism development industry*" is eligible for incentives. However, there is no clear definition or criteria of what it means to be an "*environmentally-friendly and sustainable*" business, or what activities are "*natural, cultural and historic*". Although the incentives aim to reward sustainable investments, the lack of definition means that investors cannot use this policy. As a result, businesses often do not know whether they qualify for incentives, and investors have to hold face-to-face consultations with several government representatives, who must discuss internally as well, before arriving at an answer.

For these reasons, MPI established One-Stop Service (OSS) centres simplify processes between investors and line ministries. However, other than the SEZ Authority (SEZA) OSS centre located in Savan Seno SEZ that enjoys a strong mandate from *Prime Minister's Decree 177*, other OSS centres in Laos tend to act as relayers of information rather than centres providing centralised information or in-house approvals. This unnecessarily extends project timelines and exceeds deadlines provided in law; what makes the problem worse is the different interpretation of laws and regulations among and within ministries. This issue was acknowledged by Dr Sonexay Siphandone, Deputy Prime Minister and Minister of Planning and Investment, during the 9th Ordinary Session of the National Assembly's 8th Legislature in June 2020. It is vital to simplify the approval processes at OSS centres to improve Lao PDR's Ease of Doing Business (EODB) ranking.

	Savan Seno SEZ OSS Centre	Other OSS Centre
Main business permit	Within five (5) working days	One to Two weeks
Work permits	Within one (1) working day	Eight (8) working days
Import – Export licenses	Within two (2) hours	At least five (5) working days

Source: Investment Promotion Department

Beyond approvals, service delivery is key to ensuring that the OSS centres function in an efficient manner and successfully attract foreign investment. Specific ways to improve service delivery include building on existing systems, developing their capacity and equipping the OSS centre with right-fitting personnel.

Build on existing systems

- Streamline information dissemination and investor servicing
- Implement a matrix system with specific divisions organised by country or region, as well as by industry to designate responsibility for answerable parties and boosting internal expertise

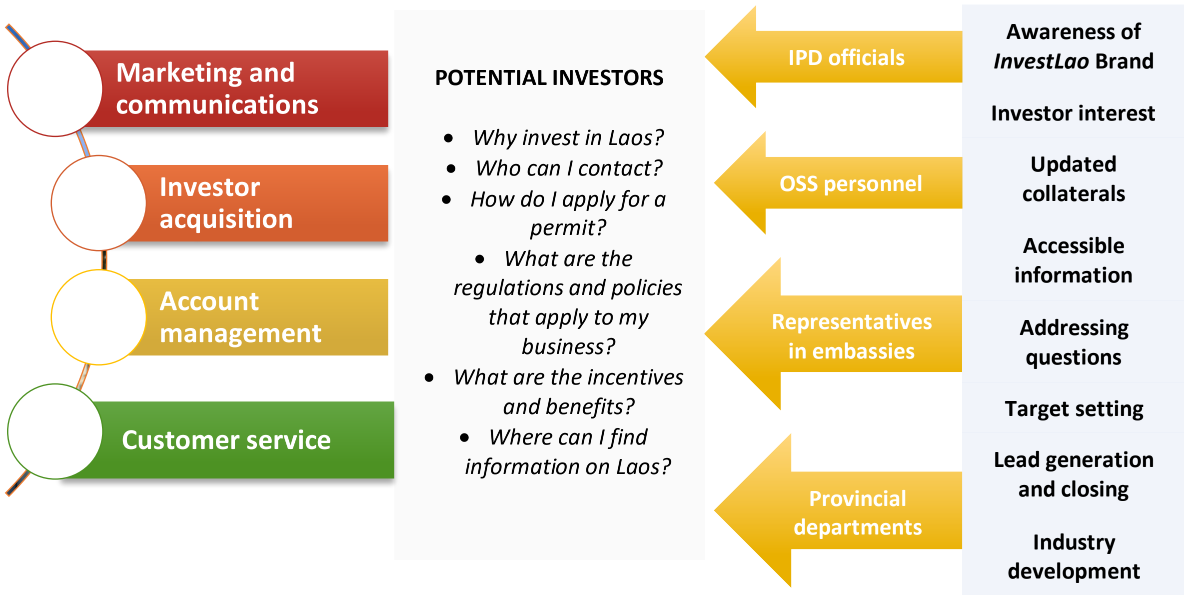
Develop capacity by managing performance

- Appoint designated account managers, creating clear revenue target-setting at the individual and Centre level, and establishing key performance indicators (KPIs)
- Build personal responsibility to closely guiding investors through the investment process and, eventually, securing a larger volume of investment

Right-fitting personnel

- Align human resources with clear roles and job descriptions
- Further boost right-fitting through training on specific skills such as customer service, communications and account management

Finally, introducing service aftercare will ensure that the OSS Centre serves an all-encompassing role beyond operations.



As investors constantly introduce new businesses and expand their existing ones, providing investor aftercare services will ensure continuity in investment promotion and facilitation. The ADB organises workshops on customer service, account management, relationship building and communications and sales that can be considered to upskill staff. A mentorship system can also be developed between senior officials and new staff such that knowledge and capacity is transferred and built internally.

Case Study: Philippines Investor Aftercare

The Philippine Board of Investments (BOI) created a dedicated Investment Assistance Centre (IAC) with an Aftercare Services Division (ASD). The ASD provides post-investments' assistance to fast track the resolution of business-related barriers. These include pending business application permits, clearances, licenses, unanswered queries or requests, and clarification on policies and procedures of the existing business enterprises operating in the country with particular government agencies (including local governments). The ASD also gives timely advice and updates on investment policies, rules and regulations.

2) *Enhancing the* InvestLao *Brand: Always a Work-in-Progress*

The Laotian government has made progress in improving their websites to better share information with investors. Lao PDR needs to continue its efforts, especially in view of the increased importance and reliance on digitalisation in a post-pandemic environment.

To maximise the use of such platforms, the websites should have the following features: (i) clear objectives and standardised information throughout, including links to other platforms; (ii) content should align with objectives including elements such as tone, images, focal areas, and provision of collaterals, documents and information; (iii) comprehensive Frequently Asked Questions (FAQs) should be developed and posted on websites to minimise the effort and time needed to answer common queries; (iv) a translator should be engaged to improve access to English-translated policies and regulations; and (v) content on the website should be crafted to enable search engine optimisation and, where possible, social media should be used to direct traffic to these websites.

For investment promotion, the success story of "Savan Park" needs to be communicated by MPI to provide an ideal and 'what-could-be' to convince potential investors to choose Laos. It boasts (i) an efficient OSS able to cut through bureaucratic processes; (ii) proximity to logistics services with the country's only dry port at its doorstep; and (iii) having a number of satisfied investors (including in high value-added sectors) already operating in its zone to promote the SEZ. The Investment Promotion Department (IPD) and SEZO should strategically communicate these successful cases to potential investors. These modifications and improvements can be completed within a short time period and do not require large scale mobilisation or approval. Such straightforward efforts to create an improved website will serve investors and potential investors for years to come.

After these website improvements, work can be undertaken to develop convenient and credible online systems for registering businesses. While this may require more resources and time, it will help to ease the burden on human resources. This system can eventually be integrated with other platforms and further integrated with existing government portals, under the guidance of MPI.

RESILIENCE

In tandem with the recovery efforts above, Lao PDR should also take action to inject resilience into its economy by strengthening local businesses, maximising the Lao-China railway and boosting agriculture to build an edge over its neighbours, and creating an enabling environment for sustainable growth. 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 first before embarking on these measures. These measures will feed into NSEDP9, laying a strong foundation for sustainable long-term growth.

1) Strengthen local businesses

Sustainable growth of MSMEs

Given the importance of MSMEs in the Laotian economy, efforts must be taken to ensure that they can develop sustainably. MSMEs continue to face challenges in obtaining access to finance such as securing loans from banks, including the Bank of Laos. Complex systems and application processes continue to act as barriers to accessing finance. These have resulted in the rejection of MSMEs' applications due to incorrect documentation. Laotian banks therefore need to be more flexible in order to complement the efforts of MOIC Department of SMEs Promotion (DOSMEP) to form a SME banking and financing strategy. Furthermore, digitalisation of procedures will also help to simplify the documentation and application process.

Case study: SME financing in Malaysia

Banks in Malaysia are the biggest financiers of SMEs. Their commitment revealed low rejection rates, with only 20% of the SMEs folding due to difficulty in accessing funds. A survey revealed that SMEs applying to financial institutions had 91% of their total financing applications approved, while SMEs that applied to other sources had a 99% approval rate.

Difficulty in accessing sufficient financing was ranked second-to-last out of the nine constraints identified by SMEs. SMEs that experienced rejections of their financing applications cited insufficient documentation, insufficient cash flow to meet repayments and non-viable business plans as the main reasons for rejection, thus demonstrating the support provided by local banks.

At the institutional level, Lao PDR can improve MSMEs' access to finance by strengthening the financial system. One way this can be achieved is by enforcing financial laws; currently, only 19 out of 44 banks in Laos have anti-money laundering monitors. Another way of strengthening the financial system is to encourage interbank lending to improve liquidity. Bank of Laos supports this by offering 3- to 12-month loans; this is however still insufficient. Additionally, there must be better government oversight to boost coordination between MSMEs and stakeholders such as the Lao Microfinance Association (LMA) so that MSME needs can be matched with the right resources.

Laotian MSMEs also have trouble accessing and competing in both local and international markets. The local market is flooded with cheap, mass-produced goods from neighbouring countries, while the Laotian MSMEs do not have the capabilities and infrastructure to compete. Generally, micro and small enterprises, which comprise 90% of the businesses in Lao PDR, should concentrate on local expansion, while medium enterprises should look towards the international market.

To improve access to international markets, collective business systems for different sectors can be formed. A collective business system is an organisation comprising businesses, merchants and professionals from the same industry or geographical region. It typically pools resources, shares information and provides other benefits for its members. This will enable the Laotian MSMEs to compete on both the local and international platforms in a viable manner. It also streamlines efforts to build and boost the Laotian brand.

Case study: Phnom Penh Kuyteav collective business system

The Phnom Penh Kuyteav collective business system has been praised and promoted by the country's Ministry of Commerce for boosting local production as well as contributing to national economic growth. The Cambodian Chefs Association created this business system to promote local noodle products under the prestigious Uy Kuyteav brand, operated by the Almond Hospitality Group. Since the label is already recognised, smaller local firms are able utilise its quality control mechanisms and hygiene standards in line with proper technical standards. A focused effort through Phnom Penh Kuyteav was able to attract foreign tourists to taste Khmer cuisine, opening up lucrative opportunities and widening the market for smaller firms.

For medium-sized firms to realise their potential, greater assistance and supervision is required. To speed up their growth, dedicated funds can be established for these enterprises to access critical information, such as food safety standards and minimum requirements to enter the foreign market. Similar loans are often extended to firms overseas. However, assistance must be offered together with proper guidance on how to run a business and identify potential areas of growth. Here, technical cooperation with international financial institutions such as the ADB, or with third countries, may be useful.

To minimise the existing overlaps between MPI, MOIC and various other stakeholders such as the Lao Microfinance Association supporting the growth of MSMEs, DOSMEP can become the dedicated agency for spearheading MSME development efforts under MOIC.

Maximising SEZs

In tandem with revitalising OSS Centres, more can be done to maximise the potential of Lao PDR's Special Economic Zones (SEZs). This should be conducted by the dedicated SEZ taskforce under MPI. First, and most directly, further action can be taken to highlight the advantages of these SEZs in attracting investments, be it on the related *InvestLao* websites or investment collaterals. Being land-linked and bordering countries such as China, Thailand, Vietnam and Cambodia, can be enticing for businesses who already operate in or export to these markets and want to set up production in lower cost yet accessible locations in the region such as Laos.

Case study: 'Thailand-Plus-One' model

Companies with industrial operations in Thailand extend the supply chains by transferring certain parts of the production process to neighbouring countries, particularly to Cambodia, Laos and Myanmar (CLM). Japanese firms commonly use this model, and move the more labour-intensive production blocks of their manufacturing processes to CLM. The model is promoted by development of SEZs near the borders between Thailand and CLM countries.

Relocation of Japanese manufacturing from China

As the Covid-19 pandemic inadvertently caused disruptions to Japan's supply chain, Japan is in the process of repositioning itself to be less dependent on one country (i.e. China). Its support in the form of '*China exit*' subsidies for Japanese companies to lower shifting costs into Japan or Southeast Asian countries is an opportunity for Lao PDR to apply the lessons from the Thailand-Plus-One model. Japanese businesses can be motivated to relocate parts of the supply chain into Lao PDR's Special Economic Zones. Businesses can be attracted by providing additional tax relief for Japanese investors to increase Lao PDR's appeal as a manufacturing destination and to aim to become a higher value-added production hub. Previously, Japanese associations in Laos have also indicated that strong rule of law and enforcement of regulations would also make Laos an appealing investor destination. Furthermore, focusing on One-stop Service Offices in the SEZs to ensure they have authoritative information will help foreign investors instinctively look at SEZs as a point of entry into Laos.

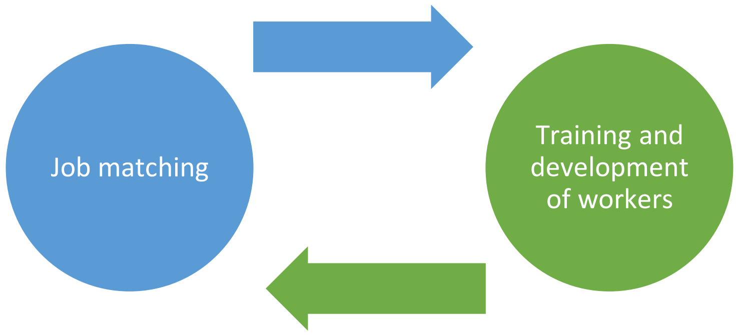
Case study: Understanding Vietnam's appeal to investors in Asia

In recent years, Vietnam has exploded in popularity for "China-Plus-One" investors. Vietnam boasts a low-cost business environment, geographic proximity to China and numerous trade agreements with foreign countries. The influx of foreign direct investment into Vietnam has made it one of Asia's fastest-growing economies, growing annually by 7% in 2019. Vietnam's favourable business landscape entices foreign investors exploring a China-Plus-One model:

- Competitive labour costs, which is among the lowest in the region
- Low corporate income tax (CIT), with preferential CIT rates for some sectors
- Various double taxation and free trade agreements (FTAs), with the EU-Vietnam FTA being finalised most recently
- Coastal economic zones with lower CIT and value-added tax (VAT)
- EODB ranking of 70 out of 190

Next, to truly ensure sustainability of the SEZs, local employment should be promoted by encouraging investors to hire local talent through efficient job matching and simultaneously equipping locals with valuable skills. The current multi-ministry project to develop a labour market information system is a good start. This can be complemented with a central database of investment projects' needs that will enable SEZO to identify specific skill sets required from other existing sectors and other areas of investors' operations; SEZO can then set up technical schools and training programmes for locals to meet these needs. The training of locals should be subsidised. In the longer term, instead of relying generically on the Law of Investment Promotion, an additional obligation can be added to the Decree on Special Economic Zones for investors to hire local.

To maximise the expertise of foreign companies, the Lao PDR government could explore tailor-made grants and internationalisation programmes to promote business-matching and pursue formal collaboration with existing foreign companies to conduct training for local companies, and facilitating business missions, among others.



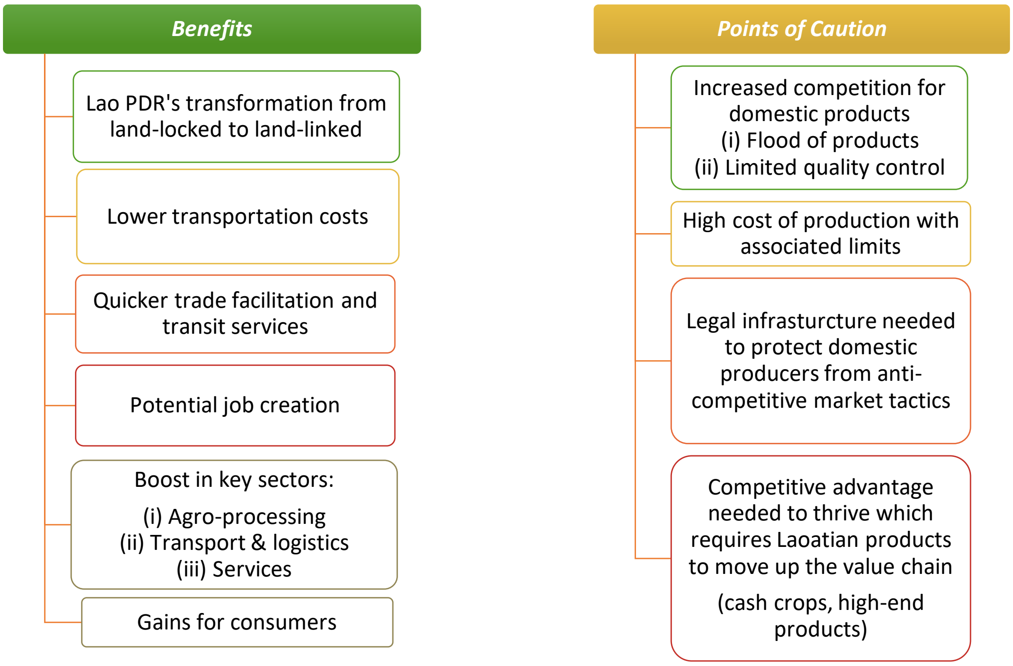
Toyota's vocational training of pre-graduates for conversion to permanent workers is a good example for a possible government collaboration to recruit Lao youths. Language barriers can be tackled by pinpointing key areas that require concise relaying of instructions between different languages and placement of capable persons to train employees. A translated guide can also be created for the different sectors for employees' use. This training and development will fuel more effective and efficient job matching.

Lastly, boosting local SMEs and the SEZs should take place in tandem. Encouraging the integration of SMEs into the supply chain of SEZs will allow SMEs to get more business and improve their capacity, while simultaneously lowering costs for investment projects. Positive spillover effects such as increased employment will also be observable. The government can facilitate the initial connection as a first step to encourage investors to employ SMEs. This perfectly illustrates the potential for synergised multi-ministry efforts. Nonetheless, in order for SMEs to fully benefit from a long-term partnership, the government must expand its focus to boost the capacity of SMEs in the medium-to-long run.

2) Building an edge

Lao-China railway

The Lao-China railway is a significant opportunity for Lao PDR to fast-track its development, both at the macro level and in stimulating growth in the more rural areas along the railway. With careful consideration and detailed planning, the railway can not only generate greater value from Lao PDR's assets but also turn some of its weaknesses into strengths.



First, Lao PDR should undertake a demand assessment to determine goods specialisation to counter the stream of low value imports. A mix-and-match would be recommended between high demand for crops, fruits and animals from China and Lao PDR's production of coffee, tea, and sesame. As a stepping-stone to a more in-depth analysis, an initial assessment to identify the demands and preferences of Chinese consumers at the Lao-China border would also help Laotians in preparing to effectively meet these demands. This assessment can be co-led by MPI and MOIC, with the former focused on aligning the outcomes to national development plans and the latter on its knowledge of local enterprises.

Second, Lao PDR could explore boosting of ancillary sectors such as logistics and infrastructure development. This should be led by MPI, in conjunction with the Ministry of Transport. Road infrastructure surrounding railways and good transportation must be developed. For local producers along the Northern region where agricultural production is lower than that of the Central and Southern regions, being more connected to the rest of Laos and in turn to the rest of Southeast Asia will bring greater trade opportunities.

New development zones or new SEZs could also be established to make use of untapped geographical potential. By creating a well-connected logistics and supply chain ecosystem around the railway, Lao will be in a better position to transform into a transport hub where foreign investors want to use Lao PDR's direct access to China for trade. If the standards of Laotian transport operators improve, local businesses will also stand to benefit as local farmers will choose Laotian services and stimulate a cycle of local-supporting-local.

Third, feedback from the ground suggests that Lao businesses do not have the capacity to meet and tap into the opportunities presented by large demand from China. They also need further assistance from MPI in overcoming non-tariff barriers in order to successfully export to China and are largely dependent on the backing of foreign companies, especially those from China. These challenges have clouded businesses' view of the benefits offered by the Lao-China railway.

To address these challenges raised by businesses, Lao PDR could undertake the following through close collaboration between MPI and MOIC: (i) capacity-building through scenario mapping and training, (ii) continued regional integration at a controlled pace, (iii) focusing on border quality control and (iv) bridging informational gaps using databases or contact points. Economic projections and models can also be created to visualise the benefit to businesses. Seminars and workshops can be organised to help them better understand how to utilise the railway. Furthermore, Lao businesses also need assistance in understanding Chinese standards to develop their internal capacities to meet foreign standards.

Boosting agriculture

As Lao PDR continues to develop the necessary infrastructure and manpower capacity to establish larger industries, it should also play to its existing strengths in order to develop an edge over its neighbouring countries.

In line with the endorsement of Lao PDR's National Green Growth Strategy (2030) in February 2019, Lao PDR should focus on creating more sustainable and resilient agriculture and infrastructure, an important sector both now and in the future. This can be spearheaded by MOIC and MPI, in conjunction with the Ministry of Agriculture. Niche priorities should be explored and developed to diversify beyond resource-based industries. Agriculture is a potential sector for investment, accounting for a significant proportion of foreign investments received, at 11.6%, between 1989 to 2019.

FOOD

- Current exports include raw materials such as fruits, vegetables, nuts, maize, rice, cassava, beverages and spirits as well as coffee and tea
- In 2017, these accounted for 30% of the value of agricultural goods traded
- Thailand, China and Vietnam are top export destinations for food products; Thailand is the top destination for organic vegetables and edible roots

Through the short-to-medium term, first, Lao PDR should target scaling up production of premium agricultural products such as existing organic food and high-value crops to move up the value chain, such as coffee (see Annex 3). Processed, organic and premium goods like dried tea leaves are medium-to-high-end agricultural products that will allow Lao PDR to reap larger gains in the value chain of agricultural business in line with its green growth strategy. Furthermore, this will also differentiate Lao PDR from its competitors such as Vietnam and Thailand. Due to greater manpower, technological and expansion capacity, neighbouring countries generally export a large volume of low-end products. In view of the Lao-China railway opening, Laotian farmers could also diversify into crops high in demand in Chinese provinces along the railway. Yunnan is one such example where demand is high for novel high-value crops such as durians and mangos.

Case Study: Lao PDR's Sesame production

Sesame grown in northern Lao PDR is harvested by manual labour but requires a relatively small area for crop production. Both production and the world price of sesame have been increasing, which indicates that global demand for sesame has been growing, as seen in rapidly growing Chinese and Japanese imports of the product. This creates urgent demand from foreign suppliers and opportunities for Laos to expand its high-quality sesame production and promotion. Capital injection from investors will enhance development and increase market access.

Case study: Indonesia empowering farmers in Papua and West Papua

The government is inviting the private sector to participate in promoting green investments to empower farmers in Papua and West Papua and to reduce the two provincial economies' dependency on palm oil plantations and forestry. At least 24 companies, including American coffee company Starbucks, had expressed interest in green investments these territories. The government is looking to raise about US$200 million for the green investment programme through private-sector grants, investment as well as state funds. The investment programme aims to help local farmers cultivate cash crops such as cacao, coffee, nutmeg, sago and algae as well as develop local ecotourism.

Second, interventions should enable increased investment into increasing technology, knowledge and training of farmers to enhance manpower. Experiences can be learnt from the Mekong Institute's Regional and Local Economic Development – East West Economic Corridor (RLED-EWEC) Project, which aimed to improve the livelihood of smallholder farmers and economic status of SMEs in six twin provinces along the East West Economic Corridor of the Greater Mekong Subregion. In Lao PDR, this project was focused on the rice sector in Khammouane Province and improved farmers' cultivation technique, knowledge and market access. Farmers also had better access to improved agriculture inputs and the rice sector saw their trade volume increase. Capacity building activities led to more effective administrative and financial management, as well as implementation of an organisational monitoring and evaluation system. These efforts could be replicated in other parts of the country, with wider varieties of crops.

Third, Lao PDR should work towards improving the quality and safety of crops to meet strict international food standards. This will improve relations and sales, as well as prevent wastage. The RLED-EWEC project also covered this by introducing Good Agricultural Practice (GAP) standards to the farmers while helping them have a better understanding of GAP requirements and the certification process. This work can ride on the newly announced Systematic Mechanism for Safer Trade (SYMST) project by the European Union, Ministry of Agriculture and Forestry (MAF) and the International Trade Centre (ITC), which aims to improve food safety and strengthen the regulatory frame work for control of plant health and pesticide residues in fruits and vegetables. Quality assessment centres should be set up, along with a framework to monitor food quality and wastage. If Laotian authorities were to cooperate with neighbouring provincial authorities to harmonise regulatory and standards requirements, it will facilitate and accelerate the process of establishing animal trans-boundary disease control and prevention centres at the border.

Fourth, to promote trade, government support is critical to provide a platform to match suitable businessmen to farmers. Farmers' connectivity to trade continues to be hampered by the lack of access to finance as commercial banks remain unwilling to invest in this sector. Over the longer term, a more concerted effort should be made to encourage greater investment in local agricultural businesses, especially MSMEs. Ground feedback from the private sector highlighted the potential for business and investment *in the organic agricultural industry*, especially beyond the production phase (see Annex 4).

Finally, policies must be put in place to first ensure national demand (and therefore food security) is first met, before the surplus is exported. Yearly reviews of Laos' agricultural export quotas lead to unpredictable market demand for the medium-term, making it difficult for agricultural producers and traders to prepare medium-term production and export strategies. To benefit Lao PDR, proposed quotas should be fixed for a longer duration. Such initiatives will have to be supported with government interventions to (i) improve transparency of price setting between farmers and traders and (ii) to establish proper channels to share information on the annual quota such that domestic companies can obtain a portion of the quota.

3) Building an enabling environment

Transforming Lao PDR with economic digitalisation

Covid-19 has demonstrated how digitalising processes can easily enable people to adapt to the 'new normal' where contactless interactions are likely to increase. As governments demonstrate how easily and quickly important information can be disseminated and how swiftly contact tracing can be conducted with digital technology, businesses have embraced this enthusiasm. In Laos, businesses happily welcomed the new e-tax system that was recently introduced. Lao PDR must ride this momentum to rapidly increase its internet penetration rate, which is currently the lowest within ASEAN, despite having the youngest population with a median age of 21.6 years. Lao PDR should avoid being left behind as the rest of the world moves towards digitalisation.

Case study: Using Covid-19 to catalyse Vietnam's digital transformation

Information technology has enabled many of Vietnam's swift and effective public health responses to Covid-19. With high penetration of mobile phones and Internet use, the government was able to seamlessly engage its citizens. Digital technologies are also a key enabler to facilitate home-based work, remote learning and home supply delivery, which have become essential in this time of pandemic. Vietnamese have been able to conduct certain businesses online with tools such as the National Public Services Portal, which provide basic public services to citizens. However, the Government of Vietnam does not plan to stop there and is committed to the digital transformation agenda. It is continuing its efforts to ramp up systems such as the eDocument Exchange Platform during the pandemic. It is looking to harness the potential of digital payments technology as part of the new national financial inclusion strategy, as approved in January 2020.

The Lao government should lead by example. Starting with key ministries, policies should be introduced to provide digital equipment like laptops and support communication via email. Access to computers is a must, which would boost inter-agency electronic communication. To extend this beyond the public sector, the government could offer an online platform to local companies, especially businesses in the tourism and trade sector, to promote their products and encourage e-commerce. Not only will this help companies prepare for the new normal post Covid-19, it will also help to future-proof the Lao economy by integrating into the global market. (See Annex 5)

Case study: Malaysia Digital Economy Corporation (MDEC)

MDEC is a government agency under the Ministry of Communications and Multimedia that is entrusted to lead the nation's digital economy. MDEC's mandate includes driving digital adoption, development of industry-ready tech talents, digital economy policies and global champions.

To future-proof Malaysia for the digital age, MDEC will leverage its proven track record, industry credibility and experienced leadership to connect, catalyse and commercialise digital initiatives to advance a thriving and sustainable digital economy placing diversity and inclusivity at its core.

A whole-of-government approach, with a dedicated task force for implementation and monitoring, will be critical for the success of this recommendation. This would require a multi-ministry effort, especially between the key ministries, MPI, MOIC and the Ministry of Post and Telecommunication.

Case study: Malaysia's online marketing initiative for craft entrepreneurs

The Ministry of Tourism, Arts and Culture (MOTAC) introduced an online marketing initiative to help craft entrepreneurs sustain their businesses as the country battles the Covid-19 pandemic. The platform is aimed at promoting and marketing local crafts such as textile, ceramic, metal, and more, from various local entrepreneurs. The initiative, known as e-kraf bazar on Facebook, was launched by Kraftangan Malaysia. The government hoped to ease the process for both the sellers and consumers especially through Malaysia's Movement Control Order (MCO) period. Consumers could buy their essential products via this platform for preparations to celebrate the holidays like Hari Raya Aidilfiri, Tadau Kaamatan and Gawai Dayak. Within a short period of time, e-kraf bazar received more than 3,000 interested applicants and over 700 local craft entrepreneur participants.

Case study: MDEC's Perkhidmatan e-Dagang Setempat (PeDAS) to empower rural SMEs in e-commerce

MDEC launched 10 Rural Internet Centres (PID) to serve as one-stop centres to offer opportunities and space for SMEs to hone their e-commerce skills. This enables SMEs to gain access to wider platforms such as the Digital Free Trade Zone (DFTZ), as well as to encourage them to utilise the various applications and digital tools to expand and improve the efficiency of their respective businesses. The services offered by PeDAS include business profiling to assist MSMEs to identify the marketability and viability of their business; training and coaching on e-commerce marketing; as well as consultation on related areas such as business plans, administration, licensing, registration and branding. PeDAS eases the burden of entrepreneurs and 'solo-preneurs' who do not have an integrated support system or complete knowledge of digital marketing, branding and certification to make their e-commerce business successful. A recent fund injection hopes to transform the PIDs into e-commerce hubs to allow rural SMEs build a proper business foundation using integrated operational systems.

For now, Lao PDR must ensure follow-through of the draft decree on e-commerce by DOSMEP, ensuring that it encapsulates (i) regulatory frameworks to foster competition and market conditions while simultaneously protecting consumers, (ii) investments in digital infrastructure and connectivity and (iii) improvements in capacity and personnel. Over and above the establishment of the decree, a system to track and measure success, such as the World Economic Forum's Global Competitiveness Index, will be critical to cohesively transform systems in both public and private sectors. In tandem, personal data protection needs to be prioritised to guard against the formation of market entry barriers.

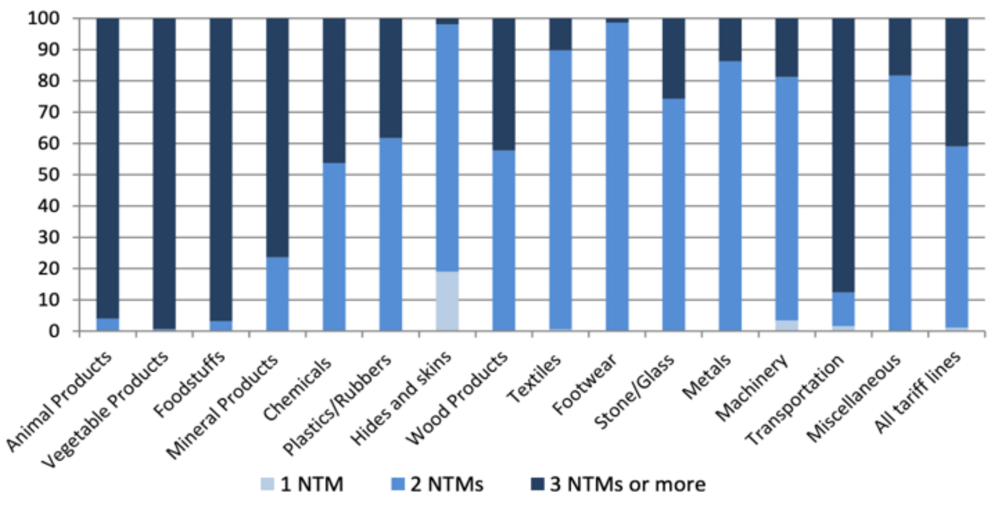
Finally, in line with its focus on medium-to-high-end market, one important aspect of digitalisation is enabling internet payments. This could also be an alternative source of revenue for governments. Given that this is a relatively new sector, a policy sandbox can be introduced to encourage the adoption of digitalised payments with a two-fold advantage. This will provide fintech companies and banks with a timeframe to experiment and will simultaneously enable authorities to customise regulation to Lao PDR's context.

Spreading risks through trade facilitation

(i) Tackling non-tariff barriers (NTBs) to trade

In Lao PDR, conflicting NTBs have been formulated and implemented under several ministries which have a negative impact on Lao PDR's trade flows. Presently, there are 70 NTB-related regulations which yield 301 NTBs as issued by 12 institutions in Lao PDR affecting over 9,558 products in trade. Most of the regulations that contain NTBs are legislations at the ministry level, which unlike the country's standard laws, are not readily available and accessible. This has resulted in redundancy.

Lao PDR Tariff Lines in Each Product Group Affected by Non-tariff Measures (%) (2016)



NTBs must be addressed to ensure the private sector's smooth entry into the international market. These include measures to improve export promotion, integration into the global value chain, quality standardisation and compliance, among others.

MOIC should keep up its momentum to reduce the vast number of NTBs in Lao PDR and include related issues for discussion at trade-related meetings to gain political traction for continued action. Furthermore, the Lao government should undertake measures for comprehensive tracking of Lao PDR's NTBs such as ensuring the United Nations Conference on Trade and Development (UNCTAD) NTB database remains updated to complement Lao PDR's records. Simultaneously, knowledge and capacity-training on NTBs through a train-the-trainer model should also be conducted to develop in-house expertise within line industries.

(ii) Integrating transport and logistics sector to facilitate trade

To prepare for the changes that the Lao-China Railway will bring to Laos' supply chain landscape and to maximise opportunities here, Lao PDR should first reduce the cost of external trade by integrating the transport and logistics sectors. This will cut down transport cost and further boost regional integration. Lao PDR's domestic transport companies will be better able to compete and cooperate with foreign transport companies to benefit from capital sharing, knowledge transfer and access to latest technology. Additionally, minimising production and transport cost will boost the efficiency of Lao PDR's high-value exports. Second, better town-planning across the country will also better connect provinces to major transportation networks and will result in decreasing cost and barriers to transportation. Third, at present, due to the nascent nature of the logistics sector, limited budget continues to hinder the implementation of projects, which is compounded by limited human resource capability and capacity in the logistics industry. To address the budget limitations, there is scope to attract investors to invest in the establishment of distribution and freight centres as well as local infrastructure such as national highways. Lao PDR can also take advantage of available resources, such as the Vung Ang Port, which provides Lao PDR with management rights, to provide its businesses with greater connectivity and easier access to sea trade routes like the South China Sea. This should again be a joint effort between MPI and MOIC.

GROWTH

With a resilient foundation built over the next two years, Lao PDR will be in a good position to continue working towards graduating from LDC status in 2024 and achieving sustainable long-term growth. Long-term actions here include: (i) diversifying trade and investment opportunities in potential sectors for growth and countries, (ii) improve its Ease of Doing Business (EODB), (iii) enhancing communications and (iv) maximising policy synergies.

1) Seizing trade and investment opportunities

Potential sectors for growth

Natural resources are abundantly available in Laos and in 2018, the share of mineral exports accounted for 50% of Lao PDR's total exports. Although Lao PDR's trade of natural resources cushioned the impact of external shocks, it should continue to diversify its trade mix. This would allow Laos to develop sustainably and avoid overreliance on finite natural resources. Promising **trade sectors** that would aid in economic diversification in the long term are:

APPAREL & CLOTHING ACCESSORIES	• Lao clothing products remain in demand in **European** markets, with Germany as its top destination followed by the UK, the UAE, and Sweden • Potential for maximising Lao-EU bilateral trade agreement that allows a number of Lao products, mostly woven textiles and clothing, to be exported to much of Europe
ELECTRICALS (MACHINERY & EQUIPMENT)	• **Japanese** manufacturing have relocated away from China due to rising costs and grants from the government post Covid-19, and Thailand due to political instability • Laos has and continues to benefit from such relocation, and has seen a trend of increasing of exports of electricals to **Thailand** since 2014
TOURISM	• Contributed about US$2 billion or 13.7% of GDP in 2017, expected to rise to US$3.3 billion by 2028, although this needs to be adjusted for the impact of Covid-19 • Numerous global and regional tourism accolades, including UNESCO World Heritage Sites • Eco-, agro- and cultural tourism are potential areas for growth

As for diversifying the **investment sector** beyond the resource-based industries, potential sectors, as flagged by the proportion of foreign investments received between 1989-2019, include services (16%), handicrafts (6%), hotel & restaurant (3%), construction (3%), banking and trading (2.5%), and telecommunications (2%). These sectors serve as the backbones of various traditional and frontier industries and will contribute towards moving Laos up the value chain.

Additionally, the development and establishment of the Decree on Public Private Partnerships (PPP) in Lao PDR to supplement the Investment Promotion Law is a step in the right direction. However, further action will be needed to strengthen the enabling environment for PPPs in Lao PDR. The 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. Lao PDR should strive towards implementing its 9th National Socio-Economic Development Plan by mitigating exposure to different risks through partnerships with the public sector. PPP can be explored across key sectors which include agriculture, education, urban development, water supply and sanitation, health, energy, and tourism.

Manufacturing could be key considering trade in electricals (Japan), vehicle and spare parts (Thailand) and garments (Europe) could offer high value-add and employment. Improving facilities will help boost competitiveness beyond labour costs. At present, quantifiable assessment on the contributions of the manufacturing sector, specifically in SEZs, remains to be seen. In the medium term, there is value in Lao PDR playing to its advantage by utilising its surplus electricity. The relatively low electricity cost in Lao PDR can be used to sufficiently entice key industries, such as electricals, to locate part of their operations to Lao PDR. One such example would be the production of parts for electric cars.

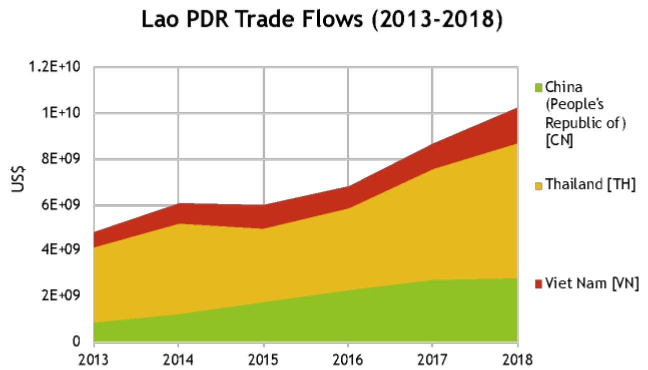
Large-scale development of the manufacturing sector should be a long-term focus due to immense competition from neighbouring countries like Vietnam. With large manpower and technological capacity, they have been able to rapidly scale up production of technological components for foreign business. Although Lao PDR's unique population would presently limit its ability to attract similarly scaled foreign businesses, the manufacturing sector can be developed to exploit the potential in promising sectors such as **agriculture**. As an example, manufacturing could be developed to boost the domestic processing and packaging of premium products such as coffee. Overall, there is great potential for the manufacturing sector to bring long-term benefits to Lao PDR. The key would be to focus on low-quantity and high-value products so that Laos can differentiate itself from its neighbours.

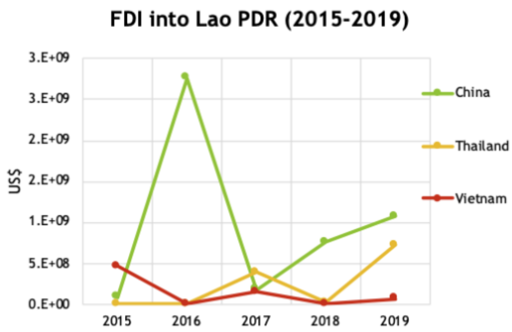
As for the **services sector**, it presently receives 16% of total FDI, which is in line with diversification into non-resource sectors. Further data is needed to identify specific service sub-sectors that can be further developed. Yet, in light of the impact of the Covid-19 pandemic, greater support will need be needed to sustain this sector.

Leveraging on trade liberalisation

It is important for Lao PDR to continue improving its trade and investment mix to avoid reliance on a few trade/investments partners or sectors, as shown by the consequences of the ongoing Sino-US trade war, Covid-19 outbreak and drop in global oil prices. Recent data highlights China's growing footprint in (i) trade and (ii) investment in Lao PDR.

As the second-largest trading partner and largest foreign investor and aid provider in Lao PDR, China represents both the biggest opportunity and risk for macroeconomic stability in Laos. While China's vast source of capital and consumer market provides ample opportunity for economic growth and integration, a sustained economic challenge has demonstrated the knock-on effects on partner economies.

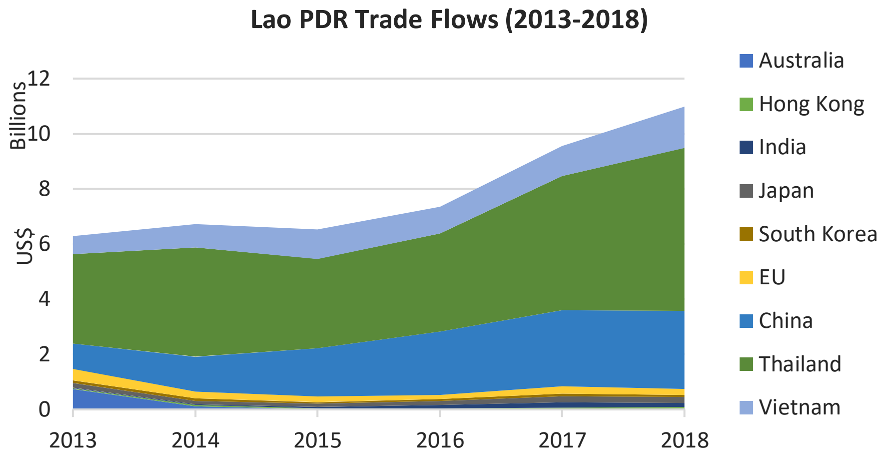




Source: ASEAN Stats Database

Additionally, China's growing footprint in the most strategic areas of Lao PDR's national structures must be managed delicately to ensure that national interests are protected. Already, the China-Lao Railway – which puts Lao US$1.5 billion in debt exposure – cuts right through the heart of Laos to bring ever increasing Chinese goods into the Lao and greater Indochinese markets. China is also involved in almost half of the Lao PDR's hydropower projects and has financed, built and launched a satellite for Laos. It is therefore crucial that, even as Laos seizes the opportunities that come with a vibrant economic relationship with China, it also strengthens its other relationships so that it can withstand external shocks.

In trade, Lao PDR should go beyond enhancing ties with established trade partners, as visualised in the draft Post Trade Policy Roadmap (2020) and explore enhancing ties with India, Japan and Australia among others, seeking opportunities in the food, apparel and clothing accessories, and electricals sectors. With <u>India</u>, trade was modest in 2018 at US$128.7 million and has considerable potential for expansion; with <u>Japan</u>, trade was recorded at US$86.4 million in 2018 and has seen marked increases in activity over the two preceding years; <u>Australia</u> meanwhile remains a prominent trade partner despite sharp drops since 2014, and opportunities exist in transitioning to sustainable development services in resource sectors such as mining and agriculture.



Source: ASEAN Stats Database

In terms of investment, MPI may explore opportunities to enhance investments from top FDI sources such as the EU, Japan and South Korea, which sits just behind the key 3 investors. In light of the supply chain disruptions due to the heavy reliance on China as a manufacturing hub, the Japanese government has invested US$2.4 billion to help finance local businesses bringing manufacturing back to Japan from China, or to enable a shift to other countries in Southeast Asia. Lao PDR can take advantage of this grant to attract Japanese manufacturers.

Beyond bilateral economic links, Lao PDR should also maximise its strong regional ties in ASEAN, especially with the establishment of the ASEAN Economic Community (AEC) in 2015. In cooperating to deal with the aftermath of Covid-19, ASEAN member states demonstrated a renewed commitment to greater unity and continued regional integration. More significantly, ASEAN remains on track to becoming the world's 4th largest economy by 2030, and continues to be an attractive investment destination. Coupled with intra-ASEAN and ASEAN-Plus trade and investment agreements, the halo effect of ASEAN strengthens the external appeal of Laos as a promising trade partner and investment destination. The upcoming travel corridor agreements and commitment to complete the Regional Comprehensive Economic Partnership (RCEP) by end-2020 will provide opportunities for Lao PDR to remain plugged into the regional economy and to fast-track recovery.

Of note, Laos has taken an exception to the investor-state dispute settlement (ISDS) mechanism under the ASEAN Comprehensive Investment Agreement (ACIA), citing its least developed country status and ascribing to special and differential treatment. As the Lao investment regime becomes more institutionalised and robust, it is less convincing to opt out of ISDS mechanism. Furthermore, investors increasingly request for such protection, particularly as other ASEAN countries already do so.

The efforts above should be guided by the Lao PDR government's draft Post Trade Policy Review and Roadmap (2020) which aims to outline clear steps towards efficient implementation of potential trade policy reforms. This includes the enhancement of capacity building among Lao PDR officials, be it in negotiation skills or in fully and effectively implementing new laws. Above all, trade liberalisation and agreements should present a mutually beneficial outcome for all parties involved.

Case Study: Vietnam leveraging benefits from free trade agreements

The benefits from free trade agreements (FTAs) have enabled Vietnam's economic development to continue to shift away from exporting low-tech manufacturing products and primary goods towards more complex high-tech goods like electronics, machinery, vehicles and medical devices. This was undertaken in two ways:

- Engaging **diversified sourcing partners** through larger trade networks and cheaper imports of intermediate goods from partner countries, which boosts competitiveness of local exports

- **Partnerships with foreign firms** that can transfer knowledge and technology needed to make the jump into higher valued-added production.
  E.g. Recently launched VSmart phone manufactured by Vietnamese conglomerate Vingroup

Given that the Lao government's policies are targeted to benefit trade facilitators, it is critical to incentivise interest at the local level to explore benefits of existing trade agreements. This can be done by further shoring up ground support and partnerships with foreign firms to enable knowledge transfer (e.g. vocational training schemes tied with job creation).

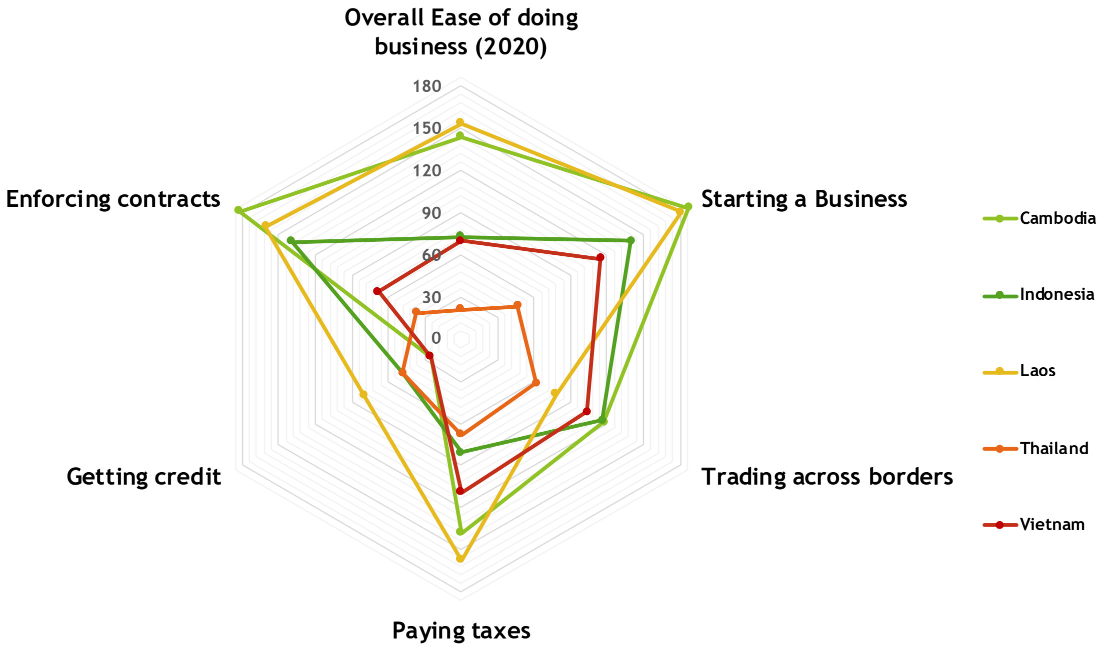
2) Continue with existing efforts

Improve the Ease of Doing Business

For 2020, Lao ranked 154 out of 190 on the World Bank's Ease of Doing Business (EODB) index, dropping 13 places from 2018 and creating a serious dent in its investment appeal, especially when benchmarked against its neighbours.

The private sector has acknowledged efforts taken to improve EODB, such as the *Notice from the Ministry of Industry and Commerce* in January 2020 to reduce the number of steps to start a business. The *Procedures to Start a Business* have been revised to focus on improving, solving and reducing unnecessary procedures and have been broken down into a three-step process. However, difficulties that remain include issuing of work permits, applications for multi-entry visas, import and export procedures as well as issuing of real estate certificates. Feedback also suggested that several procedures imposed on goods transport have resulted in high transport costs that continue to undermine competitiveness in Lao PDR.

MPI can continue to leverage on its expertise on improving EODB based on recommendations from the first output.



Source: World Bank Doing Business Report (2020)

Riding on the Prime Minister's Order No.2/PM (issued in February 2018) on the *Improvement of Regulations and Coordination Mechanism of Doing Business in the Lao PDR*, and Order No. 3/PM (issued in January 2020) on *the Improvement of Services Related to the Issuance of Investment and Business Licenses*, immediate steps can be taken to reverse Lao PDR's performance in the World Bank's EODB ranking and achieve its goal of a two-digit ranking by 2021. These include:

EODB Indicator	Why Laos underperformed	Immediate steps to take
Starting a business	Overly complex in procedures and a lack of clarity in policies applying to potential investors	Continue the momentum of MOIC's Notice and factor in private sector's feedback
Paying taxes	Large numbers and the proliferation of informal businesses, coupled with collection gaps, create an uneven playing field for foreign businesses	Keep centralised records of businesses and tax profiles Adopt electronic filing and payment systems
Trading across borders	Documentary compliance requirements and procedures result in disproportionate time and monetary costs for foreign businesses	Simplify documentation requirements and procedures

Improving EODB will require extensive resources and complex changes. Nonetheless, in the immediate term, the above steps not only require minimal administrative changes but can easily propel Laos up a few spots in these EODB indicators.

Case study: Indonesia and its EODB Ranking

Early into his presidency, Indonesian President Joko Widodo set an ambitious target of propelling Indonesia from 106th position in 2016 to top 40 in the World Bank EODB Index. In galvanising the Indonesian officials, he emphasised the need for a "mental revolution" among bureaucrats to establish an accountable and transparent bureaucracy that serves the needs of people and businesses. He reshuffled his Cabinet thrice in three years, showing no hesitation in removing those unable to perform in improving Indonesia's investment climate. He also streamlined permits and issued economic deregulation packages to improve the investment climate, emphasising the need to prevent overlapping regulations from hampering businesses. As a result, Indonesia currently ranks 73rd in 2020. President Widodo intends to continue implementing improvements to reach his goal of Indonesia ranking within the top 40 with measures to attract invests. Examples include the Indonesian Omnibus Bill which targets relaxing the Labour Law.

3) Reinforcing feedback loop with the private sector, donor agencies, and policymakers

To ensure that the suggested measures are working, Lao PDR should go beyond the clear communication of published laws, degrees or policies, as outlined in the Post Trade Policy Roadmap, to obtain feedback from the private sector such as the local and foreign business chambers. Above and beyond the Lao Business Forum (LBF) and Lao National Chamber of Commerce and Industry (LNCCI), <u>direct feedback from the private sector</u>[1] must be considered and incorporated into the policymaking mechanism, where practicable. This feedback should be representative of the sector's key players and presented at regular junctures to maintain two-way communication between authorities and the private sector.

For instance, if the policy concerns agriculture, large scale farming corporations, smallholders, MSMEs, processors, traders, suppliers and foreign buyers should be represented in discussions so that input received is holistic, considers views from across the value chain, and takes into account supply- and demand-side feedback. By enhancing the feedback mechanism between private sector and the government, possible pain points, lack in follow-through and areas for adjustments can be identified in time. Additionally, such feedback positively contributes to reviews and recalibration of national strategies, policies and visions.

Feedback from the ground has revealed that the business community largely engages with the government through critical platforms such as the annual LBF, which is viewed as effective and successful. However, the LBF should be one among other platforms for effective public-private dialogue. Alternatives such as targeted exchanges, public-private consultations with a smaller audience of relevant business leaders and ministries will enable tailored discussions and improve the quality of the exchange.

There is also room to improve communication <u>among donor agencies (e.g. ADB), ministries (e.g. MPI and MOIC), line ministries (e.g. SEZO) and the business sector</u> in coordinating trade and investment activities. At the planning level, the gap has led to confusion over responsibilities and jurisdiction with regard to trade and investment activities, resulting in limitations to the effectiveness of policies to improve trade

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[1] This include but is not limited to front-line investment promotion officers, overseas representatives, foreign chambers of commerce, national and micro-finance banks as well as foreign chambers of commerce.

and investment. The trickle-down effects further impact operations by line ministries. For example, the investor-facing OSS Centre was previously unable to provide adequate support to existing investors or potential investors as available information was incomplete or outdated. In turn, this placed a significant burden on the frontline staff who had to use their own resources or connections to provide accurate information. Other vital information to investors, such as the availability of skilled manpower in a region, was also hard to access and impeded the quality of service provided.

Hence, increasing accessibility to work done by various ministries is crucial. A collection of key decisions, reports and proposals should be made easily available to all stakeholders, and constantly updated for accuracy. Other than allowing for policies to be more effectively and efficiently implemented, it would also provide donor agencies with access to existing efforts to offer assistance at critical junctures.

On a macro-level of coordination, there is greater room for proactive communication of work done collaboratively to the National Assembly. Over and above frequent updates on the progress of key indicators, progress can be tabled for discussion at the National Assembly. This would demonstrate resolve in opening doors to trade and investment in Lao PDR. Hence, it would be vital for MOIC, MPI and other key ministries to work together in bridge the existing gaps of knowledge between industries.

4) Enhancing policy synergies

To develop Lao PDR as a brand, it is critical to ensure a shared voice and identity across representatives to attract and retain investment. Creating a unique brand will be crucial in distinguishing Lao PDR from other investment destinations. However, this will also require critical coordination among different ministries with varying goals and focus for development, especially between MPI and MOIC. Hence, to truly overcome the operational hurdles of reducing overlaps and missing links, instating a coordinating authority would be the most viable solution to increase inter-linkages between ministries in coordinating trade and investment activities.

There is recognition among key stakeholders that a coordinating authority is essential in Laos. From the Trade Facilitation Road Map of Lao PDR for 2017 to 2022, two institutions were credited to oversee the development of trade facilitation across all ministries. First, the *Trade Facilitation Implementation Unit (TIU)* will be set up in all line departments to create ownership and accountability of trade facilitation with a designated set of officials in every line department. TIU will be responsible for all the trade facilitation work, including preparation of a Departmental Action Plan (DAP). Despite an aim to set up these institutions by end-2018, there has been no follow-up reports or articles confirming its existence or performance. Another mechanism would be the *National Committee for Trade and Private Sector Development (NCTPSD).* This committee would come under the stewardship of the Prime Minister and is set to bring the existing Trade Facilitation Sub-committee (TFS) thereunder. Likewise, there has been no follow-up reports or articles to confirm its implementation. While keeping in mind that such a coordinating authority should not take away all decision-making powers from line ministries, the fact remains that a coordinating authority is crucial for the next stage of Laos' development.

Case Study: Coordinating authority of trade in Malaysia and Singapore

Malaysia External Trade Development Corporation (MATRADE): *Under the administration of the Ministry of International Trade and Industry of Malaysia, MATRADE promotes and executes trade initiatives locally while helping Malaysian companies and enterprises to achieve success in the international market.*

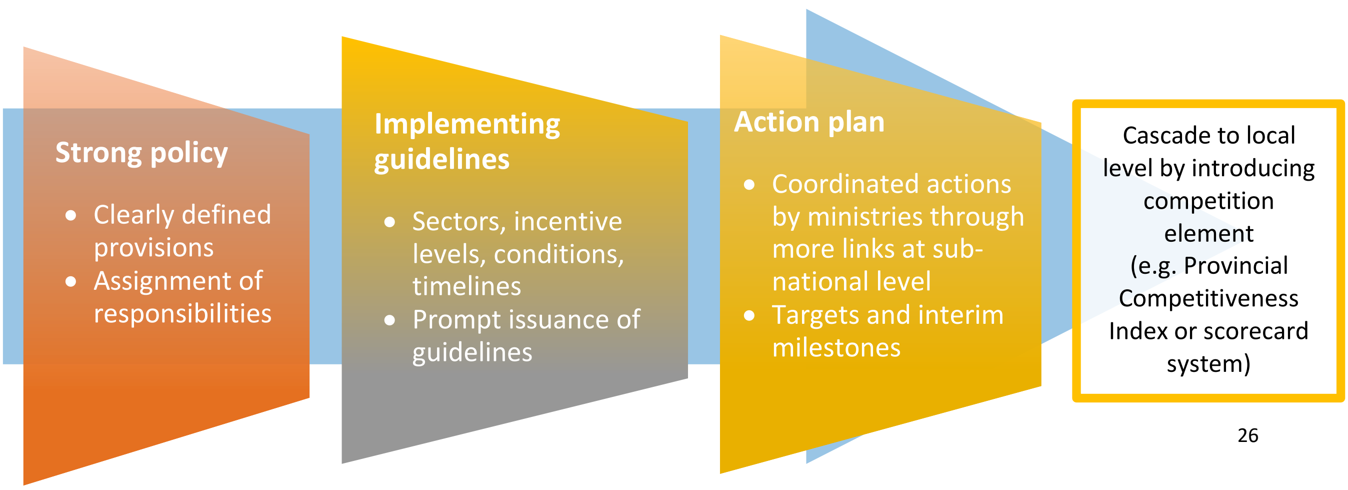
Enterprise Singapore (ESG): *Under the Ministry of Trade and Industry of the Singapore Government, ESG facilitates the overseas growth of Singapore-based companies and promotes international trade. They are involved in basic trade facilitation, and reviewing existing marketing policies, strategies and techniques.*

Both authorities, MATRADE and ESG, review and coordinate policies while helping local SMEs in trading overseas as well as international companies looking to invest in their respective countries. This allows complete oversight and coordination between all trade activities. Investors have easy access to complete information as online platforms are easy to navigate and more importantly serve as a platform to connect both the local and foreign investor. It should be noted that the coordinating authority is not static, and the focus of both authorities has evolved with changing trade priorities across time. Though the initial emphasis was on investment-led and manufacturing export-based promotion, MATRADE shifted its focus to groom local companies to expand overseas. Similarly, ESG has rebranded over the years to its current focus on local SMEs. This clearly and accurately defines the trade identity of each country across different phases of their development.

Case Study: Cambodia's streamlined focus to strengthen its ministries

Headed by Prime Minister Hun Sen, the Council for the Development of Cambodia (CDC) is a One-Stop Service that serves as the focal point for contact among the government's ministries and institutions. To allow the governing board to steer the general development of the industrial sector and investment, the scope of other ministries have been streamlined. For example, the planning capability of the Cambodian Rehabilitation and Development Board (CRDB) has been redirected to the CDC, thereby streamlining the CRDB's focus and activities solely on facilitation.

Policy synergy is integral to overcome missing links and overlaps. Three key elements have been identified as essential, namely: (i) clear follow-through must take place from strong policy design, (ii) clear implementing guidelines and (iii) a targeted action plan. An additional element of competition can also be introduced at the local level to cultivate trickle-down benefits.



Capacity-building also involves increasing manpower capability. The difficulty in providing good service or assistance to prospective investors could be traced back to the rapidly changing legislation and frontline staff's lack of understanding of their role. As the face of investor relations in Laos, it is crucial that good customer service is integrated into the Lao brand. Other than improving the flow of information from policymakers to frontline staff, it is also critical to enhance manpower capacity. Solutions such as creating a customer service handbook or customised capacity building workshops to cultivate specific skillsets could be implemented.

Following the process of policy synergy, it is also essential to establish economic intelligence and strategy units specialising in in-depth study of Lao PDR's key sector performance vis-à-vis its competitors. This will help Laos stay abreast of its competitors' development plans and anticipate threats and opportunities on the horizon. In turn, this will enable Laos to plan ahead and future-proof its economic policies.

For a more comprehensive breakdown of the coordination between MPI and MOIC, please refer to Annex 6.

PICTURE OF SUCCESS

With the world gripped by the outbreak of Covid-19, uncertainty is the new normal. It is now clear that its impact is widespread and has amplified the systemic weaknesses of local, regional and international economies. In an increasingly connected world, Lao PDR has found itself vulnerable and exposed to market fluctuations, global supply chain disruptions and shortages. Especially with its close ties to its badly hit neighbours and China, the global slowdown has already led to the loss of jobs and income especially in the promising tourism sector and created setbacks for a previously optimistic economic outlook.

The best way forward from the growing set of challenges is to re-evaluate Laos' strengths and weaknesses and act quickly to **recover** and defend earlier progress. Building **resilience** will eventually lead to **growth** of the Lao economy to stay on track for LDC graduation even amidst unprecedented global challenges. This can be done by focusing on improving simple processes, boosting economic resilience and strengthening capacity building. This necessitates linking outcomes, policy and follow-through of the various economic initiatives in Lao PDR. Lao PDR also cannot lose sight of moving from land-locked to land-linked. As a land bridge, it will provide the most direct overland transport routes between its seaboard neighbours. Its position presents both opportunities and challenges.

It is especially during such times of crisis that a future-oriented vision is imperative to reduce the anxieties and uncertainties caused by Covid-19. It is crucial for Laos to prioritise their next steps with nimble and flexible policy planning. As such, seamless coordination across ministries, especially MPI and MOIC, and all sectors of society will be required.

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.

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Annex 1: Recommendations Matrix

Recommendation Matrix

Quick wins
1. Provision of information
2. Revitalising OSS Centres

1.1 Continue revamping sites to standardise information
1.2 Develop FAQs
1.3 Direct traffic via social media, and search engine optimisation

2.1 Upskill staff
2.2 Conduct simple approvals in-house
2.3 Investor aftercare teams

Strengthen local businesses Building an edge
Building an enabling environment

Trade & investment opportunities
Cultivating existing efforts

	Recovery	Resilience		Growth	
People	Manage unemployment - Provide cash grants - Tax relief - Job matching - Encourage businesses to retain employees and support immediate capacity building needs	1. Sustainable growth of SMEs 2. Maximising SEZs 3. Agriculture 4. Economic digitalisation 5. Logistics sector	1.1 Form collective business associations 2.1 Promote Lao PDR to investors in bordering countries 2.2 Present a compelling story i.e. "Savan Park" 3.1 Training to meet standards of crop quality & safety 4.1 In view of COVID, encourage digitalisation & e-commerce platforms 5.1 Domestic transport companies to compete and cooperate	1. Other potential sectors of growth 2. Invest in human capital	1.1 Prepare workforce to adapt 2.1 Invest in Capacity Building (specific skills, KPIs, update training resources)
Process	Support businesses - Identify directly-hit industries for stimulus to tide over the period - Enhance property or business tax rebates, delay tax payments and delay land-use fees for businesses	1. Sustainable growth of SMEs 2. Maximising SEZs 3. Lao-China railway 4. Agriculture 5. Economic digitalisation 6. NTBs 7. Logistics sector	1.1 Increase bank loan flexibility 1.2 Improve coordination with Lao Microfinance Association (LMA) 2.1 Increase local employment 3.1 Demand assessment to determine goods specialisation 3.2Economic projections and models can be created 4.1 Target higher priced agricultural crops and herbs 4.2 Beyond yearly reviews of Laos' agricultural export quotas 5.1 Form dedicated e-commerce task force 6.1 Continue reducing vast number of NTBs 7.1 Improving the coordination mechanism	1. Other potential sectors of growth 2. Leveraging on trade liberalisation 3. EODB 4. Enhance feedback loop 5. Enhance policy synergies	1.1 Identify key steps to transition Lao PDR towards manufacturing 2.1 Maximise ties in ASEAN / ACIA / FTAs 2.2 Build ties with potential partners & strengthen standing in Greater Mekong Subregion Economic Cooperation Program 3.1 Simplify requirements for trading across borders 4.1 Proactive communication with National Assembly 4.2 Alignment across ministries on key policies 4.3 Repository of decisions & reports 4.4 Communication with private sectors 4.5 Review of feedback and recalibration of national strategies, policies and visions 5.1 Review of feedback and recalibration of national strategies, policies and visions
Infrastructure	Supply chain stabilisation - Engage existing and new suppliers Support households - Greater flexibility of government fees, taxes and loans - Relief on electricity	1. Sustainable growth of SMEs 2. Lao-China railway 3. Agriculture 4. Economic digitalisation 5. NTBs 6. Logistics sector	1.1 Create dedicated task force for SME improvement 2.1 Boosting ancillary industries 3.1 Technology to meet standards of crop quality & safety 3.2 Platform to match suitable businessmen to farmers 4.1 Design a tracking system to measure success 4.2 Implement regulatory framework to protect competition & consumers 5.1 Build and maintain database on NTBs to be shared 6.1 Key infrastructure and ancillary industries along the Lao-China Railway	1. Other potential sectors of growth 2. EODB 3. Enhance policy synergies	1.1 Continue to strengthen infrastructure development to support tourism while exploring benefits of niches such as eco-tourism 2.1 Keep centralised records of businesses and tax profiles 2.2 Adopt electronic filing and payment systems 3.1 Establish a coordinating authority 3.2 Establish an Economic intelligence unit in conjunction with MPI 3.3 Establish TFIU and NCTPSD

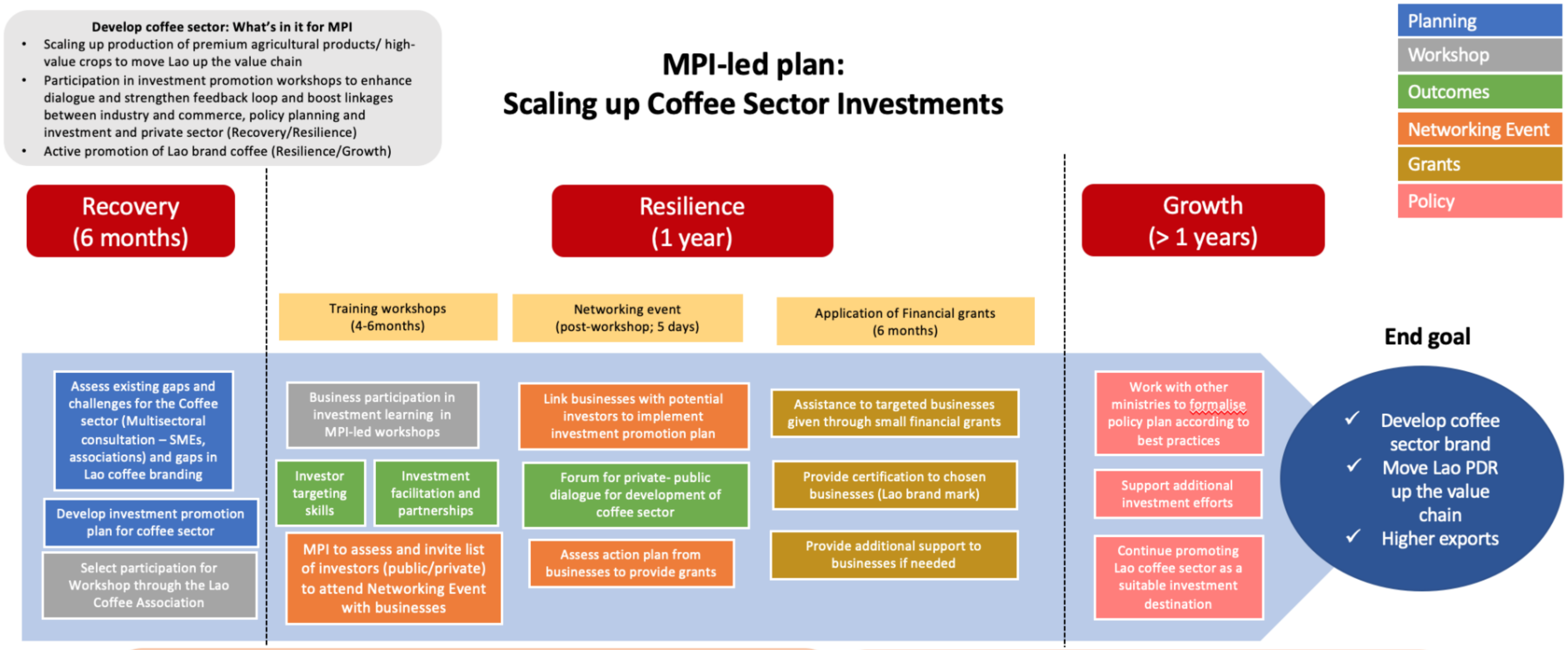
Annex 2: Recommendations Matrix by Ministries

Recommendation Matrix

Potential ministries to explore collaboration with are highlighted

	Recovery	Quick wins		Resilience	Strengthen local businesses Building an edge Building an enabling environment	Growth	Trade & investment opportunities Cultivating existing efforts
MPI	Support businesses - Provide stimulus to directly-hit industries - Tax relief Manage unemployment - Provide cash grants - Tax relief - Job matching - Encourage businesses to retain employees and support immediate capacity building needs Supply chain stabilisation - Engage existing and new suppliers Support households - Greater flexibility of government fees, taxes and loans - Relief on electricity Communicate support available - To investors [MPI] and business owners [MOIC] through a COVID-19 helpdesk/ FAQ	1. Provision of information 2. Revitalising OSS Centres	1.1 Revamping sites to standardise information 1.2 Develop FAQs 1.3 Direct traffic via social media, and search engine optimisation 2.1 Upskill staff 2.2 Conduct simple approvals in-house 2.3 Investor aftercare teams	1. Maximising SEZs 2. NTBs 3. Logistics sector [Ministry of Transport] 4. Lao-China Railway [Ministry of Transport] 5. Agriculture	1.1 Promote Lao PDR to investors in bordering countries 1.2 Present a compelling story i.e. "Savan Park" 2.1 Continue reducing vast number of NTBs 2.2 Build and maintain database on NTBs to be shared 3.1 Domestic transport companies to compete and cooperate 3.2 Improving the coordination mechanism 3.3 Key infrastructure and ancillary industries along the Lao-China Railway 4.1 Demand assessment for goods specialisation 4.2Economic projections and models can be created 4.3 Demand assessment to determine goods specialisation 4.4 Economic projections and models can be created 4.5Boost ancillary industries 5.1 Training workshops for businesses to attract more investors 5.2 Link businesses with potential investors 5.3 Provide financial grants and certifications for Lao-brand coffee	1. Leveraging on trade liberalisation 2. Other potential sectors of growth 3. EODB 4. *Enhance feedback loop 5. *Enhance policy synergies	1.1 Conduct a scan of current trade agreements, plans and provide a country strategy 2.1 Identify key steps to transition Lao PDR towards manufacturing 2.2 Prepare workforce to adapt 3.1 Simplify requirements for trading across borders 3.2 Keep centralised records of businesses and tax profiles 3.3 Adopt e-filing and payment systems 4.1 Proactive whole-of-government communication [National Assembly] 4.2 Review of feedback and recalibration of national strategies, policies and visions 4.3 Repository of decisions & reports 5.1 Establish a coordinating authority 5.2 Invest in Capacity Building (specific skills, KPIs, update training resources) 5.3 Establish an Economic intelligence unit in conjunction with MOIC
MOIC		Coordination between MOIC and MPI is crucial with * indicating the proposed leaders		1. Sustainable growth of SMEs 2. Economic digitalisation [Ministry of post and tele-communication] 3. Agriculture [Ministry of Agriculture and Forestry]	1.1 Form collective business associations 1.2Increase bank loan flexibility 1.3 Improve coordination with Lao Microfinance Association (LMA) 1.4 Create dedicated task force for SME improvement 2.1 In view of COVID, encourage digitalisation & e-commerce platforms 2.2 Form dedicated e-commerce task force 2.3 Design a tracking system to measure success 2.4 Implement regulatory framework to protect competition & consumers 3.1 Training to meet standards of crop quality & safety 3.2 Target higher priced agricultural crops and herbs 3.3 Beyond yearly reviews of Laos' agricultural export quotas 3.4 Platform to match suitable businesses to farmers	1. *Leveraging on trade liberalisation 2. *Other potential sectors of growth 3. Enhance feedback loop 4. *Enhance policy synergies	1.1 Conduct a scan of current trade agreements, plans and provide a country strategy 1.2 Maximise ties in ASEAN/ the region 2.1 Continue to strengthen infrastructure development to support potential sectors of growth 3.1 Establish regular and meaningful communication with private sectors 3.2 Review of feedback and recalibration of national strategies, policies and visions 4.1 Establish a coordinating authority 4.2 Establish an Economic intelligence unit in conjunction with MPI 4.3 Establish TFIU and NCTPSD

Annex 3: Illustrative example of an MPI-led Coffee Sector Plan



(1) Case study: Indonesia's "Indonesian Coffee Week" launched by Ministry of Trade

The event was launched to promote the nation's beans and boost exports, especially to the European Union as trade lags during the pandemic. The event aims to market coffee varieties with a Geographical Indication, a designation for products that have a specific region of origin and possess qualities, or a reputation related to that region.
Indonesia and the EU already have an agreement to promote Gayo coffee through the **ASEAN Regional Integration Support by the EU** (ARISE) Plus program. The program has some 15 million euros (US$17.5 million) in funding and will last until 2023.

For Laos: The networking event could be couched as a "Coffee Week" where MPI could provide the networks for the events and invite other major trade associations to participate in order to boost potential investments for the sector.

(2) Case Study: Singapore Coffee Association's Microlot Auction

The association launched the Singapore Microlot Specialty Coffee Auction online in October 2020, making dozens of individual coffee lots available to international buyers, which include 56 coffee lots from 45 different producers of high-scoring coffees.

For Laos: A virtual coffee auction during the resilience/growth phase could help mitigate trade and supply challenges by allowing buyers to source directly from the origin and enable coffee producers to establish a presence in the global market. MPI could facilitate such a connection.

Annex 4: The Case for Promoting the Growth of MSMEs in the Organic Agricultural Industry

Agriculture is increasingly important in both trade and investment. Lao PDR should leverage on its natural competitive advantage and target scaling up production and export of **organic agricultural products**. The potential for growth of these products goes beyond stabilising local food chains but has immense potential to contribute to the increasing global demand for organic agricultural products. This will invite both trade and investment into Lao PDR. However, the challenge in this sector lies in the necessary coordination and synergy among different key stakeholders, governments and even international bodies.

This case study focuses on the promotion of MSMEs' growth in the organic agricultural industry with the aim of demonstrating how cross-cutting solutions intersect and interact. More importantly, the case study will illustrate the favourable outcomes and how it plays into the picture of success both within the scenario and in the wider context of Lao PDR's economic development goals.

Specific to the scenario, the picture of success can be expanded from the existing Strategic Plan for National Organic Agriculture Development 2025 and Vision towards 2030 where incremental plans and goals for the industry were laid out. Plans were largely based on making necessary changes to improving existing legislature and manpower capability within the initial stage of production. This was a policy gap identified by the private sector from our consultation and demonstrates the potential of targeting the MSMEs especially beyond the initial production phase.

Currently, foreign companies are more interested in participating in the more lucrative sectors due to the limited capacity of local companies. The introduction of local MSMEs in this sector will allow local businesses to capitalise on the increased trade of organic agricultural products on a global scale. Through such an introduction, the picture of success extends beyond an increase in production, towards enhancing the trade value of local organic agricultural products. It will translate to greater ownership in processing and packaging, storage and logistics as well as the marketing of the products. In totality, it will uncover the true potential of the industry and its contribution to the Laotian economy.

Key stakeholders along the value chain have been identified. This will allow for the identification of gaps (especially for MSMEs and the public sector), recommendation of targeted solutions and the resultant picture of success. For the purpose of the case study to demonstrate how solutions can interact, there will be less attention on an exhaustive list of gaps or details of the solutions proposed. Pictures of success are also a rough estimate and is in no way binding. Instead, it demonstrates the type of targets that ministries can look to when setting goals for the growth of MSMEs, especially beyond the production of organic agricultural products.

Key Stakeholders	Gap	Solution	Picture of Success
Production			
MSMEs • Smallholder farmers *Others* • Input providers • Large farms *Government/ International Organisations* • Department of Agriculture (DOA) *Development organisations* (e.g. ADB)	Produce does not meet quality or safety standards *Key stakeholders* • Smallholder farmers • DOA • Development organisations	1. Strengthen knowledge transfer and information flow to ensure smallholders are informed and comply with measures 2. Engage development organisations to set up farmer associations to increase exchange of information	20% reduction in produce that do not meet quality or safety standards by 2025, with progressive year-on-year targets
Processing and Packaging			
MSMEs • Smallholder farmers (largely primary processing) • Local processing companies *Others* • Machine suppliers • Foreign processing companies • Large farms *Government/ International Organisations* • MOIC *Development organisations* (e.g. ADB)	Local smallholders lack processing capacity, especially at a secondary level *Key stakeholders* • Smallholder farmers • MOIC • Development organisations	Improve technical knowledge and capability among local small holders	Increase primary processing by smallholders by up to 20% by 2025, with progressive year-on-year targets and secondary processing of produce by smallholders by up to 10% by 2025, with progressive year-on-year targets
	Local processing companies lack appropriate packaging and do not comply to international standards *Key stakeholders* • Local processing companies • MOIC • Development organisations	1. Strengthen knowledge transfer and information flow to ensure smallholders are informed and comply to measures 2. Improve the design and marketing of organic produce in Lao PDR	1. Ensure 100% of packaging of organic produce complies with global food safety standards by 2030 2. Increase recognition of Lao Organic certification from international board

<table>
<tr><th>Key Stakeholders</th><th>Gap</th><th>Solution</th><th>Picture of Success</th></tr>
<tr><td colspan="4">Storage and logistics</td></tr>
<tr><td rowspan="2">MSMEs
• Local packing companies
• Local logistics companies
• Local retailers/ wholesalers

Others
• Foreign packing companies
• Foreign logistics companies

Government/ International Organisations
• MOIC

Development organisations (e.g. ADB)</td><td>Lack cool chain and export facilities

Key stakeholders
• Local storage and logistics companies
• MOIC
• Development organisations</td><td>1. Improve technical knowledge and capability among local storage and logistics companies

2. Encourage local businesses to invest in cool chain and export facilities</td><td>Ensure full access to cool chain and export facilities by 2030</td></tr>
<tr><td>Introduce digital supply chain solutions

Key stakeholders
• Local retailers/ wholesalers
• MOIC
• Development organisations</td><td>Use technology to improve existing supply chain of local retailers/ wholesalers to improve the efficiency of transport</td><td>Decrease transport time of organic agricultural products by 20% by 2030</td></tr>
<tr><td colspan="4">End-market use</td></tr>
<tr><td rowspan="2">MSMEs
• Local retailers/ wholesalers
• Food services

Others
• Foreign importers and wholesalers

Government/ International Organisations
• MOIC

Development organisations (e.g. ADB)</td><td>Insufficient information about domestic and export markets to local exporters

Key stakeholders
• Local retailers/ wholesalers
• MOIC
• Development organisations</td><td>1. Increase awareness and accessibility to existing trade agreements and information to local MSMEs

2. Introduce and incentivise the use of ecommerce to allow local MSMEs to participate in the global economy</td><td>Increase global sales of local retailers/ wholesalers to 20% in 2025</td></tr>
<tr><td>Improve marketing and branding of Lao PDR organic products

Key stakeholders
• Local retailers/ wholesalers
• MOIC
• Development organisations</td><td>Appropriately brand and market organic agricultural produce from Lao PDR from trade shows to online platforms</td><td>1. Increase recognition of Lao Organic certification from international board
2. Increase global demand for Lao PDR organic agricultural products by 10%</td></tr>
</table>

While not exhaustive, the table provides us with a taste of what goes into effective policy making. By identifying key stakeholders, gaps in the existing system can be tackled with targeted solutions and contribute to the wider picture of success. This will also ensure that policies are able to capture the full value and potential of the industry. As for the implementation of solutions, it is evident that cross-cutting solutions are not just necessary but are crucial to the success of promoting the growth of MSMEs in the organic agricultural industry.

Different stakeholders have different pain points that must be addressed in targeted ways. Necessary targets should also be specific to the sector and interwoven to improve the reach of such policies. Ultimately, what this requires is the strong stewardship of the government in ensuring complete oversight of the interwoven solutions to create value for key stakeholders and sectors as illustrated above.

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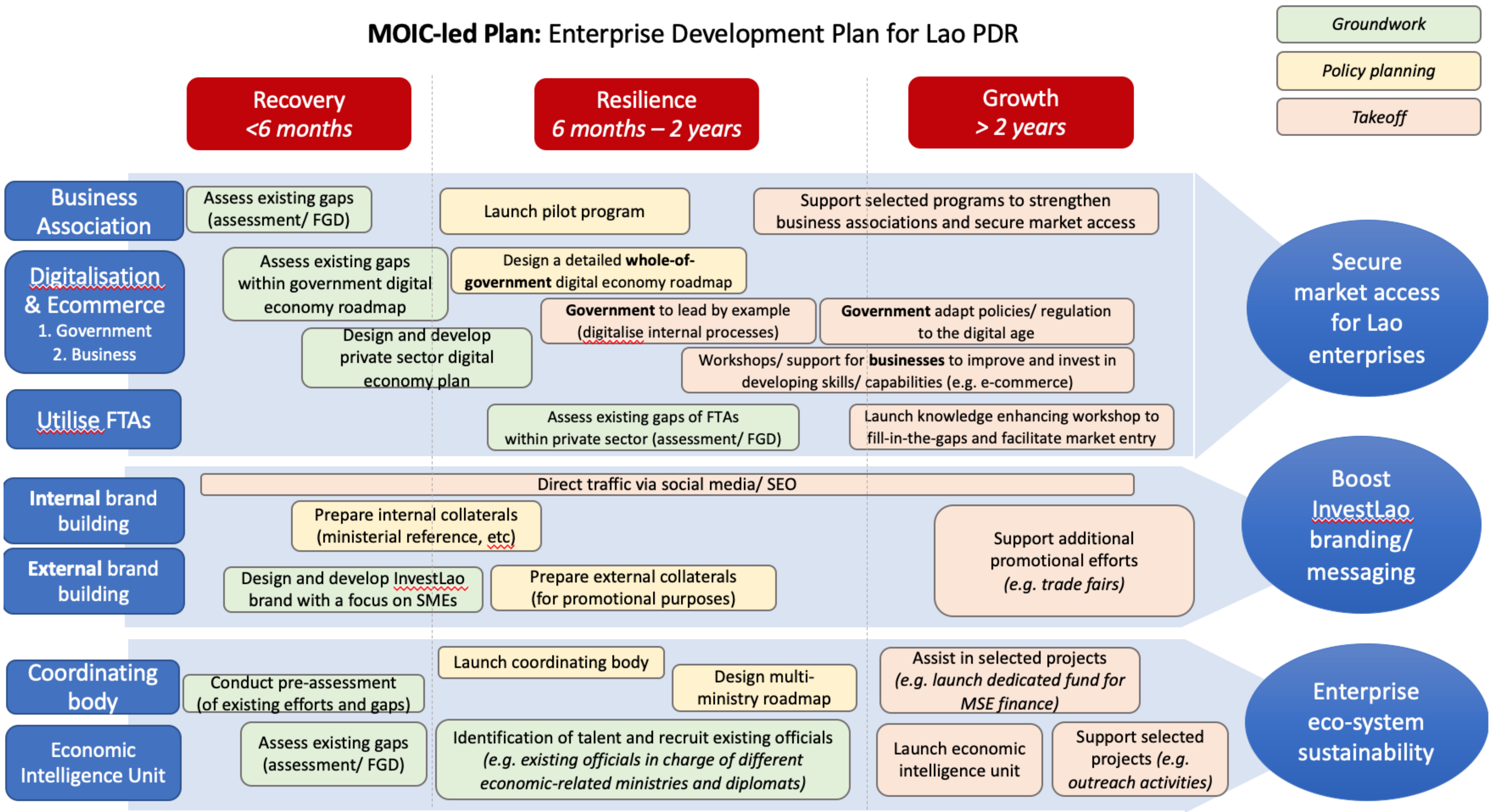
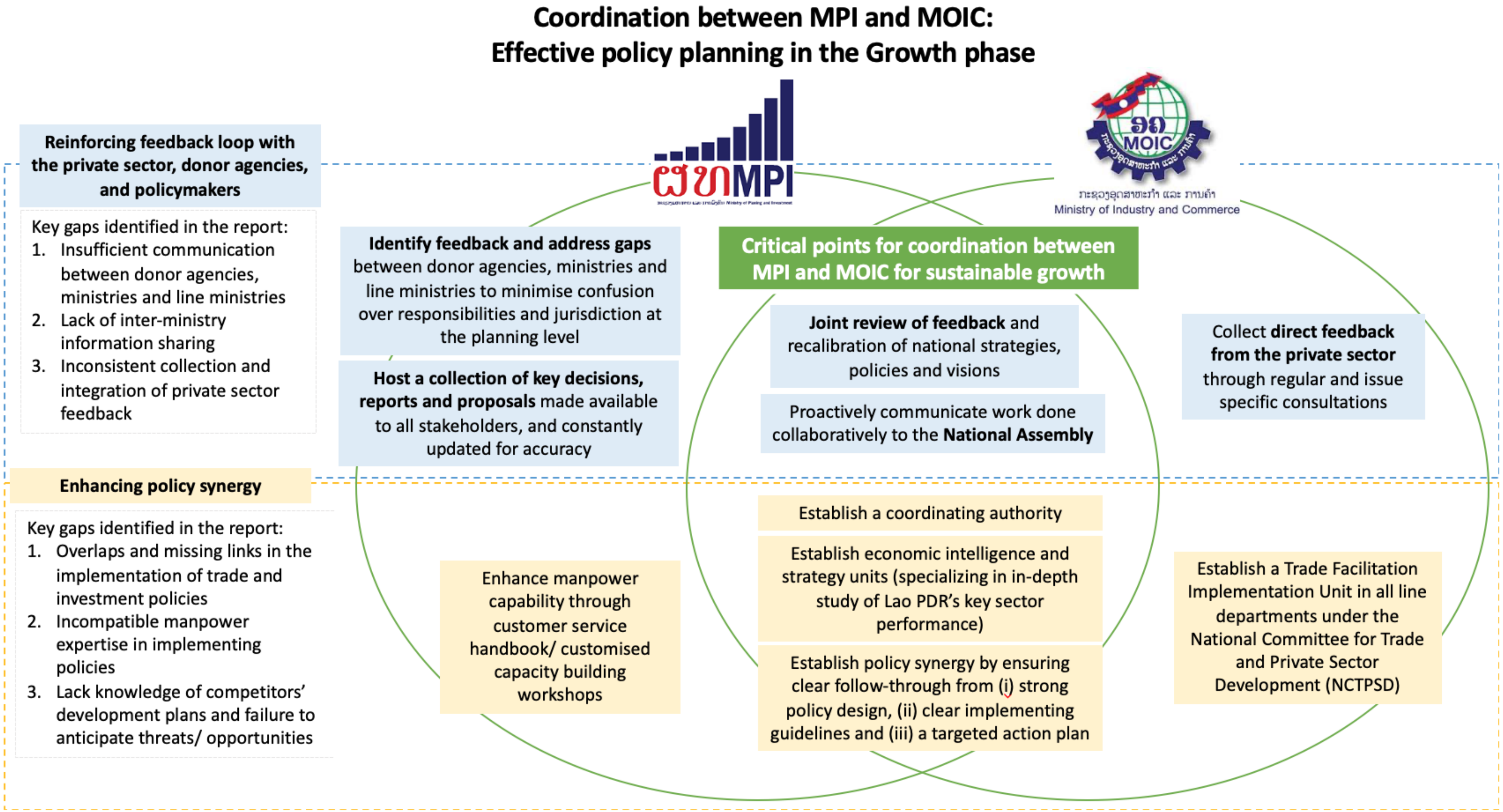
Annex 5: Illustrative example of an MOIC-led Enterprise Development Plan



Annex 6: Coordination between MOIC & MPI



Appendix A:

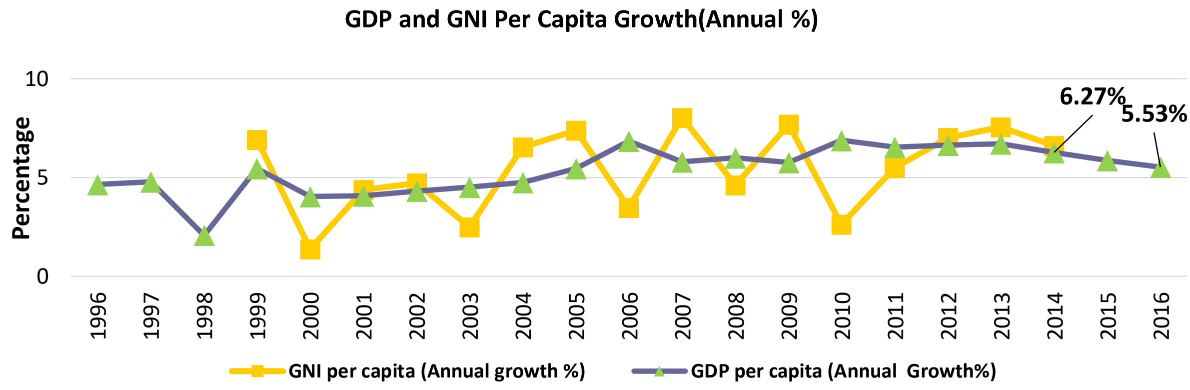
LAO PEOPLE'S DEMOCRATIC REPUBLIC: ECONOMIC POLICY SUPPORT FOR ENHANCING PRODUCTIVITY AND EMPLOYMENT
OUTPUT 1: IMPROVED INVESTMENT POLICY FRAMEWORK

At the 10th Congress of the Lao People's Revolutionary Party in 2016, Laos adopted an ambitious and inspiring Vision 2030, aiming to quadruple its per capita income from 2015 levels. Since then, it has performed well on several fronts, supported by reasonably strong fundamentals in its economy. In examining how it may improve its investment policy framework, the key thrust is in moving from policy architecture to policy implementation. The goal is to create a sustainable investment framework, which will not only boost the Lao economy's competitiveness but also ensure that it is resilient and nimble.

Laos Today: Achievements and Strengths

1) Steady economic progress

Laos has done well in maintaining good economic growth over the past two decades. From 1996 to 2016, GDP growth per capita averaged 5.65%, with similarly impressive GNI per capita growth. In 2016, growth was driven by the service sector contributing 39.8% to growth, closely followed by the industrial sector at 28.8%. Most recently, in 2017, GDP growth fell just shy of the targeted 7.5% but was a nonetheless robust 6.9%. The mid-term review of the 8th Five-Year National Social and Economic Development Plan (NSEDP 2016-2020) indicated that although Laos fell short of the targeted 7.5% GDP growth rate in 2017, it was able to meet domestic and foreign private investment plans; additionally, 2016 marked the first year that it recorded a trade surplus of US$1.15 billion, albeit driven chiefly by the completion of mega projects. Amid the Lao government's pledges to buttress economic stability and ease budgetary pressures, the International Monetary Fund (IMF) signaled its confidence in the Lao economy with a 6.8% forecast of real GDP growth for 2018, the second highest in Southeast Asia, just after Myanmar and Cambodia at 6.9%.

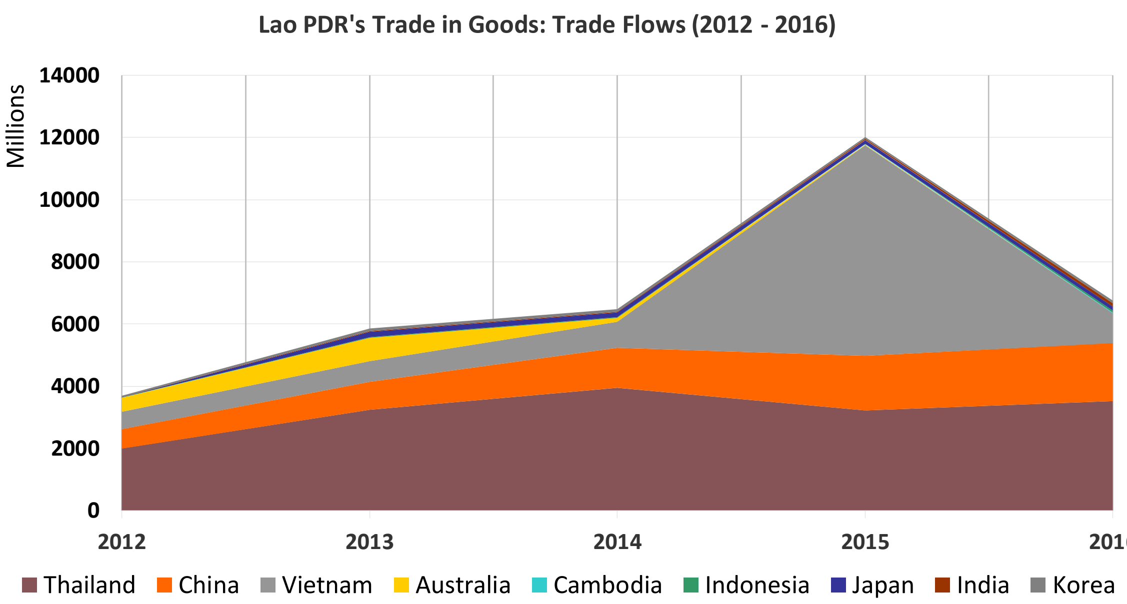


Source: World Bank National Accounts

2) Strong economic partners and regional ecosystem

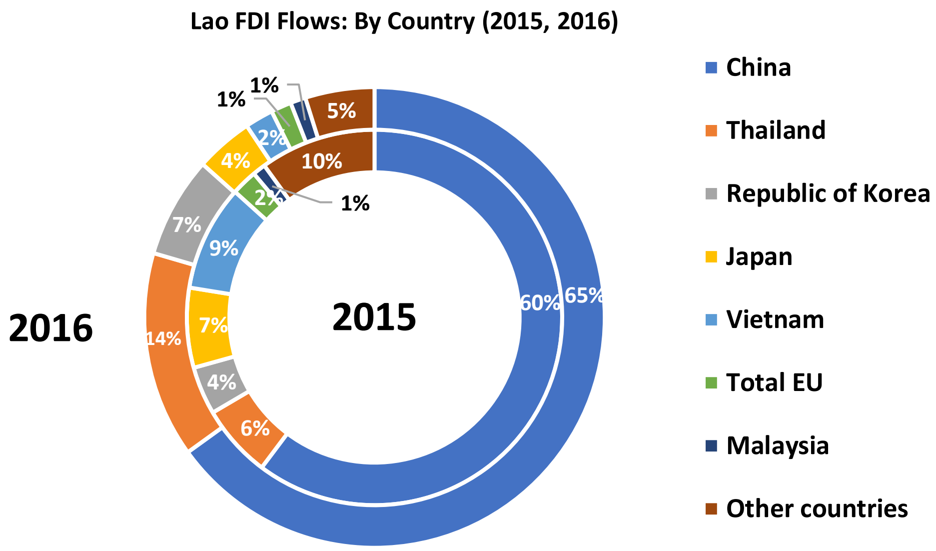
The economic progress in Lao PDR is supported by its strong bilateral trade and investment links both bilaterally and regionally, the latter through an increasingly interconnected Association of Southeast Asian Nations (ASEAN).

In trade, Thailand (1st) and China (2nd) are Lao PDR's top trading partners, accounting for a total of 87.77% of its total trade in 2016. With Thailand, the trade volume has remained consistently healthy between 2012 and 2016, at an average of US$3.18 billion. With China, the trade volume has steadily increased from US$625 million to US$1.87 billion over the same period of time, growing at 7.1% annually. Against these healthy numbers, there remains potential for further trade growth with Thailand and China: with Thailand, the value of exports has been increasing year-on-year, signalling a positive upward trajectory; with China, the Chinese Belt and Road Initiative has laid the ground for a series of cooperation projects such as the China-Lao Railway, Nam Ou River Hydropower Station, Saysettha Development Zone and Mohan-Boten Economic Zone.



Source: ASEAN Stats Database

As with trade, China (1st) and Thailand (2nd) are the top two sources of foreign investments for Laos. With China, the inflow of investment increased from US$45.5 million in 2010 to US$709.9 million in 2016; despite a slowing of momentum, China still accounted for 65% of total foreign direct investment (FDI) in 2016. With Thailand, the inflow of investment increased from US$90.3 million in 2010 to US$157.8 million in 2016; it also accounted for 14% of total FDI in 2016.



Source: ASEAN Stats Database

Beyond bilateral economic links, Lao PDR also enjoys strong regional ties in ASEAN especially with the establishment of the ASEAN Economic Community (AEC) in 2015. ASEAN's projected growth to become the world's fourth largest economy by 2030 provides a strong pull for investors into ASEAN countries. Coupled with intra-ASEAN and ASEAN-Plus trade and investment agreements, the halo effect of ASEAN strengthens the external appeal of Laos as a promising trade partner and investment destination. Internally, the rapid pace of ASEAN integration and ASEAN-Plus integration act as an additional fillip for Laos to wean itself off special and differential treatment from the ASEAN family, in particular in the ASEAN Comprehensive Investment Agreement (ACIA) where Laos has taken an exception to the investor-state dispute settlement (ISDS) mechanism, citing its least developed country status and ascribing to special and differential treatment. Today, however, the Lao investment regime is more institutionalised and robust, making it less convincing to opt out of ISDS. Furthermore, investors increasingly request such protection particularly as other ASEAN countries already do so.

3) Passage of Amended Investment Promotion Law in 2017 and reinvigoration of the Lao Business Forum

Specific to the investment sector, the Lao government signaled its commitment to liberalising its economy and opening it to foreign investment by amending its Investment Promotion Law (IPL) in April 2017, now called the Amended IPL. Significantly, the amendment to the IPL was done in an inclusive and consultative manner, engaging private sector stakeholders and foreign investors who noted and welcomed this approach. Notable changes made from the 2009 IPL include:

(a) The creation of an Investment Promotion and Supervision Committee (IPSC) intended to hold approval power over investments and the implementation of policies in order to speed up bureaucratic processes. The IPSC is chaired by a Deputy Prime Minister, with the Minister of Planning and Investment and Minister of Industry and Commerce as Deputy Chairs, and other ministries as members.

(b) The removal of steep capital requirements (LAK 1billion or US$120,000) for general business, and the reduction of land concession terms for special economic zones (SEZs) from 99 to 50 years, with extension subject to National Assembly approval.

(c) Reorganising the form and content of incentives to cater to variables such as business sector, geographical zone, and incentive types (e.g. tax and duties, among others). Additionally, desired business characteristics (e.g. innovative, high technology, sustainable, modern) are tied to specific sectors (e.g. natural resource and energy, handicraft, tourism, agriculture) in a bid to transform those sectors in a specific way. Profit tax and duty incentives have also been streamlined, with incentives to encourage reinvestment.

(d) The restructuring of One Stop Service (OSS) centres to be unified under the Ministry of Planning and Investment (MPI), while maintaining some flexibility for provincial OSSs to cater to the respective geographical areas.

Taking place in tandem with the amendment of the IPL was the constructive conversation between the Lao government and the private sector through the annual Lao Business Forum (LBF). First brokered by the World Bank in 2005 to jumpstart the nascent investment sector in Laos, the LBF has today become the hallmark avenue for facilitating dialogue and exchange between the government and the local and foreign private sector. In recent years, the LBF has been reinvigorated by the Lao business community which has now taken ownership of the LBF, spearheaded by the Lao National Chamber of Commerce and Industry (LNCCI).

4) Fulfilling the eligibility criteria to graduate from least developed country status

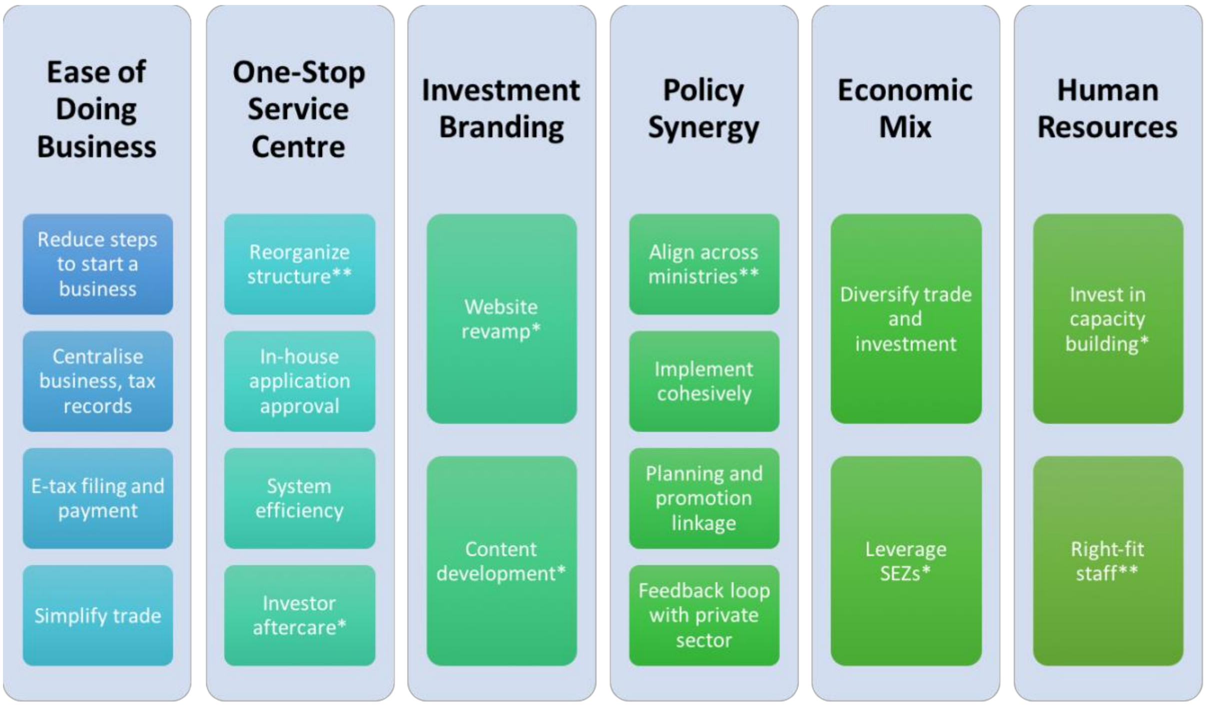
Most encouragingly, Lao PDR in March 2018 fulfilled the eligibility criteria to graduate from the United Nations' list of least developed countries (LDCs). It met the minimum threshold of passing two out of three criteria – GNI per capita (met), Human Assets Index (HAI; met), and Economic Vulnerability Index (EVI; to be met) – but will have to sustain its development gains and meet these criteria again in 2021 before it can formally graduate from LDC status in 2024. At this stage, Laos' performance in the EVI criterion is encouraging, hitting just 1.7 points above the below-32 threshold. Should Laos remain on track, the prognosis for graduation looks optimistic, adding greater appeal to Laos as a choice investment destination.

Journeying Towards Least Developed Country Graduation:
Areas for Improvement

With these fundamentals in place, Laos is well-placed to tackle systemic issues that will otherwise hamper its desire to unleash its full economic potential. In the immediate term, serious efforts must be made to improve its World Bank Ease of Doing Business (EODB) ranking, strengthen policy consistency, and reinforce the feedback loop between government and the private sector. These improvements should be underpinned by enhancements to the Amended IPL. Over the longer term, Laos must also improve its trade and investment mix to ensure that its economy is robust and resilient, and invest in capacity building to ensure that its officials execute relevant policies to the highest standards.

Below is an overview of recommendations towards achieving these goals as laid out in detail in the succeeding sections. A comprehensive table of recommendations is appended in Annex 1 and 2 as well.

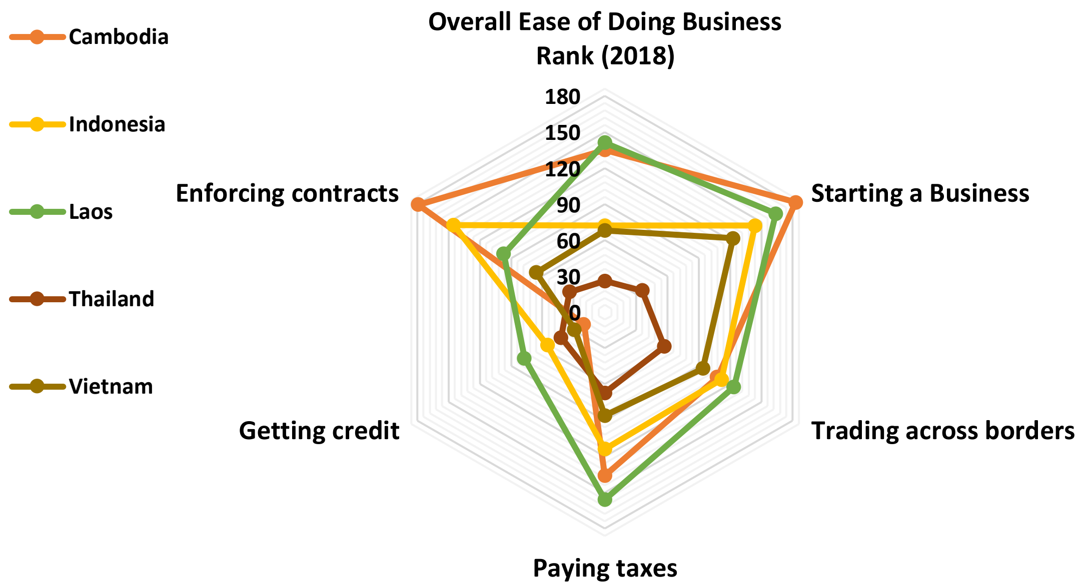
Summary of Recommendations



**Consultant will provide assistance*
***Consultant may provide assistance*

A) Improving the Ease of Doing Business, propelled by OSS Centres and enhancing the *InvestLao* Brand

Given its role as a quick-and-dirty indicator of a country's investment appeal, the EODB index should receive the most immediate attention. For 2018, Laos has been ranked 141 out of 190 countries, creating a serious dent in its investment appeal, especially when benchmarked against its neighbours:



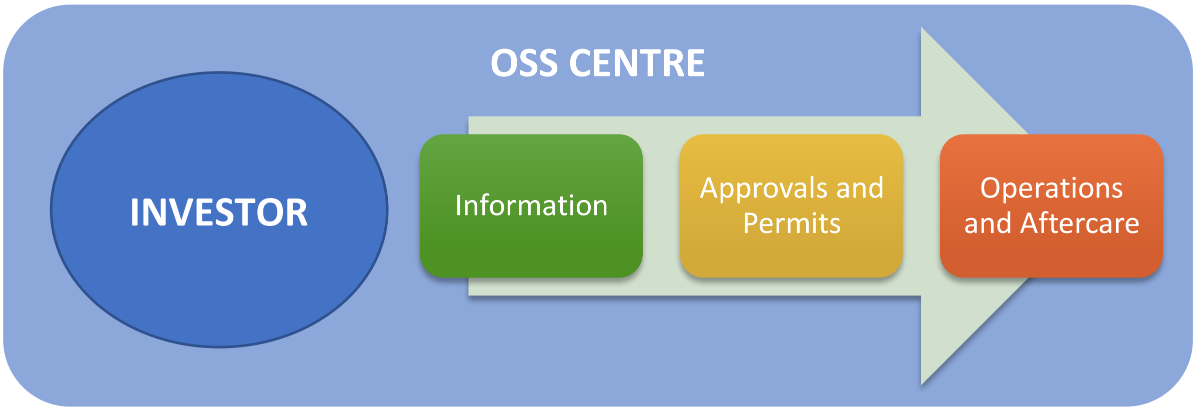
Source: World Bank Doing Business Report (2018)

Improving EODB will require extensive resources and complex changes but in the immediate term, several low hanging fruits may be targeted to jumpstart the process. These require minimal administrative changes but can easily propel Laos up a few notches in several EODB indicators:

EODB Indicator	Why Laos underperformed	Immediate steps to take
Starting a business	Overly complex in procedures and a lack of clarity in policies applying to potential investors	Reduce number and steps of processes
Paying taxes	Large numbers and the proliferation of informal businesses, coupled with collection gaps, create an uneven playing field for foreign businesses	Keep centralised records of businesses and tax profiles Adopt electronic filing and payment systems
Trading across borders	Documentary compliance requirements and procedures result in disproportionate time and monetary costs for foreign businesses	Simplify documentation requirements and procedures

Given the process-oriented nature of these three indicators, a key means by which to implement these steps is through revitalising the OSS Centres that have been established across Laos.

Improving OSS Centres: mandate, service delivery and aftercare



With the exception of the SEZ Authority (SEZA) OSS Centre, the other OSS Centres in Laos tend to act as relayers of information and processes between investors and line ministries, rather than as *one-stop* centres to resolve queries and approve requests. Without the authority to provide centralised information or in-house approvals, timelines become protracted and exceed deadlines provided in law; compounding the problem is the differing interpretation of laws and regulations among and within ministries.

An example is navigating investment incentives available, particularly with enactment of the amended IPL which offers incentives to businesses based on a location's level of development, enterprise activity and other characteristics. For instance, under the amended IPL, a business in the "environmentally friendly and sustainable natural, cultural and historical tourism development industry" is eligible for incentives. However, classifying what constitutes such a business is a highly subjective matter as there lacks a clear definition of terms and system to determine that a business has fulfilled the requirements to consider itself environmentally friendly and sustainable, and that it is indeed engaged in tourism that is natural, cultural and historic. While the incentives aim to reward sustainable investments, vagueness of provisions affect clarity of the policy to investors. As a result, businesses are often unsure about whether they qualify for incentives, and investors often have to hold face-to-face consultations with several government representatives, who often must confer internally as well, before arriving at an answer.

The SEZA OSS Centre located in Savan Seno SEZ sets the bar for the other OSS Centres. It enjoys a strong mandate from *Prime Minister's Decree 177* which not only gives it the authority for operations, but also provides incentives that have been put in place since 2003 when the Decree was issued. As a result, this OSS Centre has been able to provide on-site approvals for permits and licenses and facilitate other investment procedures. A substantial number of the other 11 SEZs across Laos do not enjoy the same treatment and, as a result, their potentials are not maximised, and they are less successful in attracting investors.

Case Study: Savan Seno SEZA OSS Centre

Time taken to process permits

	Savan Sena SEZA OSS Centre	Other OSS Centres
Main business Permit	Within 5 working days	1 to 2 weeks
Work Permits	Within 1 working day	8 working days
Import-export Licenses	Within 2 hours	At least 5 working days

Savan Seno SEZA OSS Centre is the only OSS Centre that enjoys a strong mandate through a Prime Minister's Decree, namely Decree 177.

Beyond approvals, service delivery is key to ensuring that the OSS Centres function in an efficient manner and successfully attracts foreign investment. Specific ways to improve service delivery include: right-fitting the type of OSS Centre personnel, developing their capacity, and building on existing systems:

Right fitting

- Human resource right fitting should start at the recruitment stage.
- Beyond qualifications (i.e. degree, experience), personality and unique characteristics are important in boosting investor confidence, and to the image of Laos as a choice investment destination.
- Communications is critical in investor-facing roles.

Develop capacity

- Training will help support right fitting and accelerate aptitude for the job.
- Key performance indicators (KPIs) will help identify suitability to the post, as well as help identify strengths and weaknesses.
- Resources such as the OSS guidebook, collaterals and other investment material need updating.

Build on systems

- Queries can be addressed through a Frequently Asked Questions (FAQs) page or stock responses.
- Systems (i.e. information tracking system) can be expanded across line ministries for efficiency.
- Leveraging current platforms to digitise simple transactions cuts time.
- A common source of information and data from various ministries reduces coordination and inquiry response waiting times.

First, at the individual level, right-fitting personnel can be achieved by aligning human resources with clear roles and job descriptions. This can be further boosted through training on specific skills, namely: customer services and communications, and account management.

Second, in managing the performance of OSS Centre personnel, appointing designated account managers, instituting clear revenue target-setting at the individual and Centre level, and establishing key performance indicators (KPIs) will instil personal responsibility in closely guiding investors through the investment process and, eventually, securing more investment.

Third, at the organisational level, restructuring can bring more optimal results by streamlining information dissemination and investor servicing. Considering a matrix system with specific divisions organised by country or region, as well as by industry can help in designating responsibility for who should know and answer for what, and also in boosting internal expertise.

Finally, introducing service aftercare will ensure that the OSS Centre serves an all-encompassing role beyond operations. As investors constantly introduce new businesses and expand existing ones, providing investor aftercare services will ensure continuity in investment promotion and facilitation, such as in the case of the Philippines:

Case Study: Philippines Investor Aftercare

The Philippine Board of Investments (BOI) created a dedicated Investment Assistance Centre (IAC) with an Aftercare Services Division (ASD). The ASD provides post-investments assistance to fast track the resolution of business-related barriers. These include pending business application permits, clearances, licenses, unanswered queries or requests, and clarification on policies and procedures of the existing business enterprises operating in the country with particular government agencies (including local governments). The ASD also gives timely advice and updates on investment policies, rules and regulations.

In short, from informational inquiries needed for decision-making on whether or not to invest, to navigating approvals and permit processes, all the way until aftercare and protecting the license to operate, investment promotion is present. By boosting the existing SEZA OSS Centre and replicating its successes at the 11 other OSS Centres in Laos, these OSS Centres can be a force to propel Laos in quickly improving on several easy-to-obtain targets under the EODB. In the medium to long term, these reforms can be further propelled through the digitisation of records enabling sharing across agencies, easy access for investors and real-time tracking of transactions processing.

Enhancing the InvestLao *Brand: starting small*

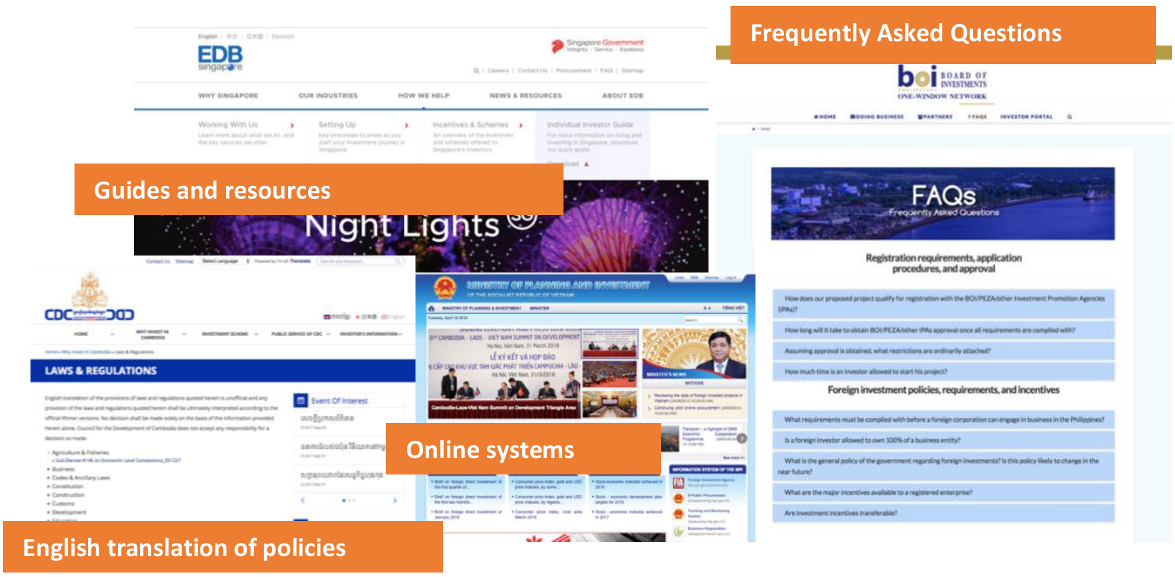
Introducing Laos to potential investors is the first step in promoting the nation as a favourable investment destination. Cohesive nation branding boosts global competitiveness and sets a country apart from others in the eyes of investors. Strengthening the InvestLao brand requires alignment of key nation traits towards building an identity and international image. This image must be communicated effectively so that it is translated as intended and crystalised in the minds of investors.

In amplifying the InvestLao brand, the Lao government could start small by revamping its *InvestLao* website. Most fundamentally, the image of Laos as a favourable investment destination should be apparent from the website.

In order to maximise the use of this platform, (i) objectives of the website have to be clearly set, for instance its function for marketing, information dissemination, OSS delivery channel, or a link to other platforms; (ii) content has to be positioned appropriately in line with objectives, in terms of tone taken, images used, focal areas, and provision of collaterals, documents and information; (iii) it should be designed in synergy with other platforms and adapted to existing government portals or useful websites for investors; and (iv) traffic should be directed via social media, search engine optimisation, and keywords.

Key features of the *InvestLao* website should include: (i) comprehensive Frequently Asked Questions to reduce the time needed in addressing queries online; (ii) guides and resources on why investors should choose Laos and what the country has to offer; (iii) access to English-translated policies and regulations to aid coordination and reduce confusion; and (iv) credible and convenient online systems for registering businesses to ease the burden on human resources.

Key Suggested Features for *InvestLao* Website



In all, the experience of Indonesia in adopting a similarly pragmatic approach, targeting easily-attainable actions to rapidly improve its EODB ranking in a short span of time, is a positive example for Laos.

Case study: Indonesia & EODB Ranking

Early into his presidency, Indonesian President Joko Widodo set an ambitious target of propelling Indonesia from 106th position in 2016 to top 40 in the World Bank EODB Index. In galvanising the Indonesian officials, he emphasised the need for a "mental revolution" among bureaucrats to establish an accountable and transparent bureaucracy that serves the needs of people and businesses. He reshuffled his Cabinet thrice in three years, showing no hesitance in removing those unable to perform in improving Indonesia's investment climate. He also streamlined permits and issued economic deregulation packages to improve the investment climate, emphasising the need to prevent overlapping regulations from hampering businesses. As a result, Indonesia leap-frogged to 72nd place in 2017. President Widodo intends to continue improvements to reach his goal of Indonesia ranking within the top 40.

B) Fostering policy synergy

Improving Laos' EODB ranking must be buttressed by immediately addressing identified trouble spots of the Amended IPL and strengthening policy synergy across ministries and administrative levels.

Enhancing the Amended IPL to improve policy synergy

Since the Amended IPL was issued in April 2017, sufficient time has passed for trouble-shooting to take place and possible enhancements identified. Most fundamentally, there remains uncertainty among investors as to whether the Amended IPL and affected laws and regulations will be applied retroactively, and contradictions exist between current laws and the Amended IPL. Practical issues such as whether the 2009 IPL control list would be merged with the Amended IPL's negative list; the reinstatement of company licenses and several caveats to the removal of the minimum capital requirements; as well as local and district governments operating on the 2009 IPL rather than the Amended IPL have somewhat dampened investor enthusiasm with regard to the Amended IPL.

Strengthening policy implementation

In the application of not just the Amended IPL but overall laws and regulations, strong policy implementation is key to securing business confidence in Laos' investment climate. Currently, choke points exist at line ministries regarding (i) requests for investment-related information; (ii) the consistency of implementing the Amended IPL on business registrations, classifications and incentives; and (iii) timelines and steps in permit processing. Additionally, there is persistent misalignment between higher-ranking and working-level officials, where the latter often falls short of full implementation of investment policies. Even within the same departments in agencies and ministries, information and positions often vary from official to official, complicating the decision-making process when suggestions are given.

Case Study: Boosting Implementation Through Accountability in the Philippines

The Philippines signed into law a new Ease of Doing Business Act on May 28, 2018. The Act enforces consistent business transaction procedures and streamlined timelines for permit and license issuance by creating an Anti-Red Tape Authority under the Office of the President to oversee implementation. Furthermore, the Act includes punitive measures to ensure officials are compelled to comply with provisions on timelines for a wider range of transactions and permits among others. First instance of violation entails administrative liability and a 6-month suspension, while the second offense will result in administrative and criminal liability, dismissal from service, perpetual disqualification from holding public office, 1 to 6 years imprisonment, and hefty fines.

To be sure, the Lao leadership has sought to overcome this policy gap by issuing the *Lao Prime Minister's Instruction on Improvement Regulations and Coordination Mechanisms for Business Conduct in Lao PDR* on 1 February 2018. The Instruction is aimed at improving EODB through progressively streamlining procedures and reducing timelines. It outlines and instructs specific ministries and agencies to undertake the improvement of EODB indicators with some set targets by 2018 and 2019. Additionally, the Amended IPL in 2017 provides strong national legislative regulations, provisions and assignments of responsibilities. To take these measures to the next level, the following actions may be taken:

Get the basics right	• Ensure that all officials have extensive knowledge of the objectives and guidelines of the 8th NSEDP
Establish guidelines for implementation	• These should clearly specify sectors, incentives, conditions and timelines
Issue accompanying action plans	• These should guide ministries in defining concrete steps to take along the way, with set and interim milestones
Strengthen governance and rule of law	• This is a long-term work in progress that will reinforce compliance with legislation and regulation

At the provincial level, the implementation of national policies should also be enforced through possible measures including incentivising consistent application, encouraging investment and development in the countryside to balance economic growth, creating and promoting SEZs to attract investment, monitoring EODB and investor friendliness, as well as introducing a competitive element between provinces through a provincial competitiveness index, as in the case of the Vietnam Provincial Competitiveness Index (PCI):

Case Study: Vietnam Provincial Competitiveness Index (PCI)

The Vietnam PCI has been published annually since 2005 to assess EODB, economic governance, and administrative reform efforts to promote the development of the private sector. The PCI ranks provinces according to competitiveness based on entry costs, land access, transparency, time costs, informal charges, policy bias, proactive leadership, business support services, labour training, as well as law and order. As foreign investors can refer to the index in making decisions regarding location or relocation and expansion, the index promotes transparency as well as competition among provinces to improve performance. It also gives insight into what private investment in particular geographic areas may be like.

In all, different methods and models of bridging gaps in governmental coordination mechanisms can also be seen in other countries, such as Singapore and Vietnam. The Lao government can consider extracting applicable and effective measures in such examples to overcome existing disparities:

Case Studies: Coordinating Mechanisms in Singapore and Vietnam

In Singapore, three coordinating ministers cover government functions across national security, economic and social policies, and infrastructure. Inter-agency collaboration and a Whole-of-Government approach is utilised for information sharing and policy alignment.

In Vietnam, several provinces have initiated internal regulations to improve coordination among provincial agencies. The internal regulation consists of rules that clearly delineate the responsibilities of agencies, departments or offices, and officials; it employs methods such as consultations, surveys, conferences, as well as forming a coordinating inter-agency mechanism (such as a steering committee or task force), amongst others.

In considering the case of Lao PDR the challenge in implementation is a function of issues in both the process and incentives aspect. On the process side, there lacks institutionalized mechanisms to socialise policies and create opportunities for alignment across and within ministries as well as between the national and local levels. As such, interventions must address both these aspects. Regular platforms for dialogue and coordination taking inspiration from the Singapore and Vietnam may be considered. In terms of incentives, a combination of positive and negative reinforcements may be useful.

C) Strengthening linkage between planning and promotion

Ultimately, investment policy and execution should be tied to achieving national socio-economic goals. This requires both the investment planning and promotion arms to come into alignment so that resources are maximised and focused towards contributing to realisation of nation-building aspirations.

Policy planners have full view of the country's economic landscape and development priorities. As such, they set policy direction embedding investment into the country's overall growth strategy. They design policies so investments are responsible and sustainable over the long-run. To achieve this, planning can identify particular areas (such as sectors, industries and provinces) as investment priorities. Considerations in doing so are (i) Lao PDR's global comparative advantage, (ii) potential spill over into the local economy, and (iii) benefits to society. Incentives packages are then formed to facilitate inward flows into these strategic areas. To follow through on this strategy, setting investment targets can provide investment promotion agencies with clear direction and purpose. Likewise, responsibility for meeting these targets should be designated.

Meanwhile, the promotion side must reflect planning's intent to harness investment opportunities for socio-economic development. As such, investor targeting, promotion activities, and marketing and communications collaterals must be pursued and designed in line with achieving targets. Resource allocation for promotion and developing internal capacity and competencies, be these sectoral or market specific, should align with priorities as well. Furthermore, through a dialogue platform between planning and promotion, monitoring and evaluation of strategies against outcomes is made possible. This is done by connecting the policy design side with service delivery and customer feedback, to better understand enablers of success and gaps to account for.

This cohesive linkage between planning and promotion enhances resource efficiency and effectiveness, promotes achieving targets faster, and reduces instances where investments pursued minimally contribute, or even run counter to development goals.

To cultivate ties between planning and promotion, processes and coordination mechanisms can be strengthened. First, this may include bolstering internal understanding and awareness of how investment promotion activities on the ground should tie back to development of Lao PDR's economy and nation as a whole. Second, socialising sector development plans and investment targets ensure planning and promotion officials are working towards a shared objective and could increase proactiveness to collaborate. Third, at the senior official level, joint discussions on investment priority areas, policy initiatives, and target setting will help strengthen and align both policymaking and execution.

Case Study: Investment Planning and Promotion in Singapore

To facilitate planning and execution, Singapore uses statutory boards to implement the wide-ranging policies that parent ministries design. Singapore's Economic Development Board (EDB) is one of several statutory boards under the Ministry of Trade and Industry (MTI), and is responsible for executing the Ministry's foreign investment policies by promoting Singapore has a compelling investment destination. Based on MTI's overall economic and sectoral development planning, EDB strategically designs and executes targeted investing through its offices across the world. In terms of accountability, not only does the head of EDB report directly to the Minister for Trade and Industry, the statutory board's budget is apportioned from that of its parent ministry's.

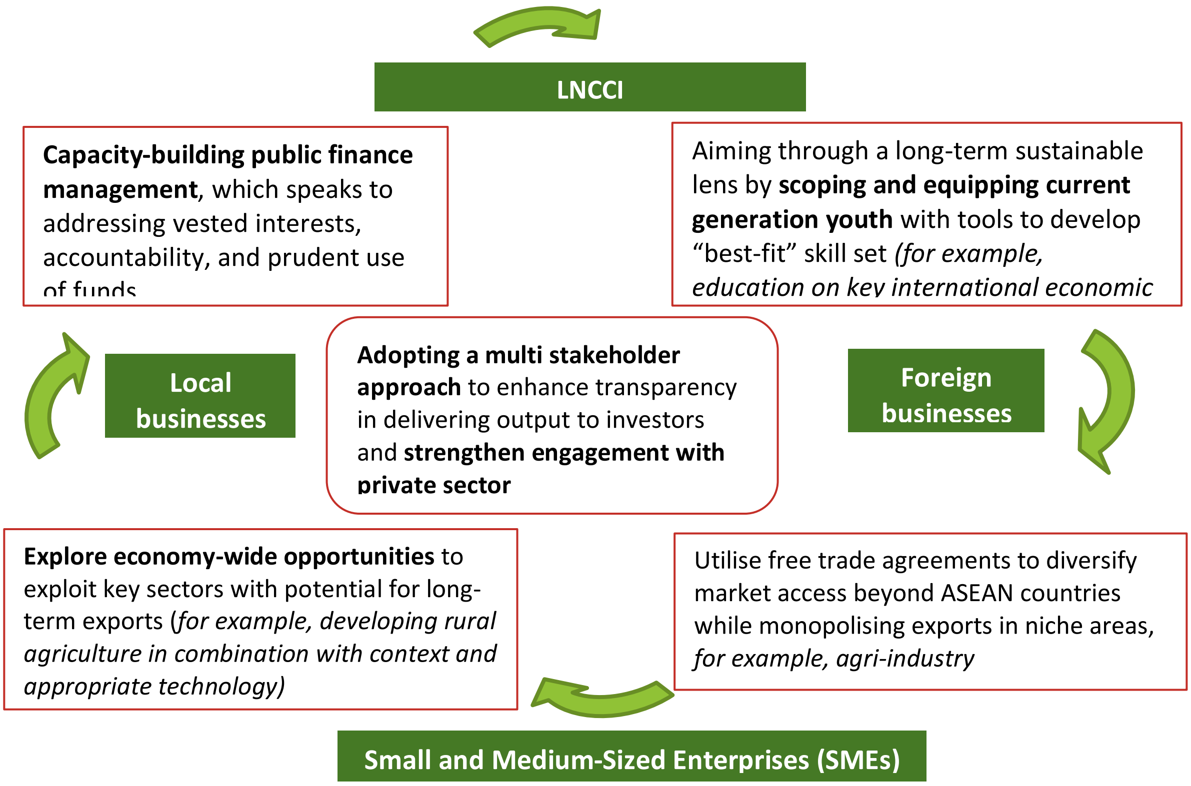
D) Reinforcing the feedback loop with the private sector

Being on the receiving end of policies, laws and regulations, and as the source of investments, the private sector is the other half of the equation that must be targeted. Above and beyond the Lao Business Forum, direct feedback from the private sector must be considered and incorporated into the policymaking mechanism, where practicable. This feedback should be representative of the sector's players. For instance, should the policy concern agriculture, large scale farming corporations, smallholders, MSMEs, processors, traders, suppliers and foreign buyers should, as far as possible, be represented in discussions so that input received is holistic, considers views from across the value chain, and takes under advisement supply and demand side feedback.

In 2016, feedback from 395 Lao businesses and 22 Lao-based European businesses indicated that their expectations about business development are positively- and optimistically-inclined, with the gap between actual developments and expectations narrowing. This translated to increased inflow of investment into both local and foreign businesses in 2016, in possible anticipation of the Amended IPL. The main uncertainty derived from feedback then pertained to the likely impact of the establishment of the ASEAN Economic Community in 2015, which prevented businesses from properly gearing up.

More recently, field studies conducted in early 2018 with foreign and local business chambers in Laos yielded concrete suggestions that were informed by their observations in changes in the Lao investment climate following the finalisation of the much-anticipated Amended IPL in April 2017. Their overall feedback is summarised as follows:

Private Sector Wishlist 1: Overall Investment Climate



Additionally, concrete policy suggestions were made:

<u>Private Sector Wishlist 2: Policy Suggestions</u>

EODB

- Easier and faster process to acquire needed permits for businesses.
- Implementation of OSS for investment.
- Access to investment-related information and statistics.
- Consistent implementation of policies and incentives.
- Allowing full ownership of assets for foreign investors.

Industry development

- Target-based sectoral roadmaps and follow-through.
- Emphasis on Public-Private Partnerships and foreign investment for development of SEZs.
- Tax incentives to be determined by level of promotion (as opposed to by zones – remote, with infrastructure, SEZs).
- Exemption of import of raw materials, equipment, spare parts, and vehicles that cannot be produced or supplied in Laos and directly used for production.

Investor friendliness

- Right for foreign investors (including families, experts) to be provided with facilities (multiple entry visas) into and from Laos.
- Allowing cancellation of investment and allowing investors to be released from obligations and liabilities upon termination of investment.
- More flexible timeline for investors, developers, and enterprises obtaining incentives under the Amended IPL.

While detailed and comprehensive, it was also recognised that the Lao economy might not be ready yet to adopt all of these suggestions. Instead, these suggestions constitute a wishlist of sorts that can guide the Lao government in its journey towards improving its investment climate.

E) Improve trade and investment mix

As Laos adopts a tactical approach by addressing the above pressing priorities in the immediate term, it must also set its sights on longer term improvements. Most important of these is improving its trade and investment mix to avoid reliance on just a few trade/investment partners or sectors.

Diversifying Trade

In trade, Laos could explore enhancing ties with India and Australia, and seek opportunities in the food, apparel and clothing accessories, and electricals sectors.

- Trade with India, while modest at US$100.8 million in 2016, has markedly increased by 110.9% over the last two years, attributed in part to a significant increase in exports to India of natural resources such as semi-precious stones and metals, potentially sourced from mining.

- Although trade with Australia has diminished since 2014, it remains among Laos' top 10 trade partners. Opportunities to revive trade activity with Australia could be explored by looking into non-resource sectors. Based on feedback from the Australian Chamber of Commerce in Laos, Australian investors have transitioned into providing sustainable development services, including in the resource sectors such as mining and agriculture.

It is evident through Lao PDR's trade flows that exports to key partners heavily revolve around natural resources such as minerals and electricity, with the share of electricity exports increasing to 23% of total exports in 2017 compared with an earlier figure of 13% in 2010. While natural resources are abundantly available in Laos, heavy reliance on mineral exports is not sustainable in the long run. Promising trade sectors that would aid in economic diversification are:

- **Food:** Lao PDR's exports range from edible fruits, vegetables, nuts, beverages and spirits as well as processed coffee and tea. In 2017, these collectively accounted for 30% of the value of agricultural goods traded, steadily increasing from 2012. China, Thailand and Vietnam remain the top importers of food products from Laos through the years. China is the top destination for edible fruits and nuts, while Thailand is the top destination for organic vegetables and edible roots. Laos' exports consisting of beverages and spirits has increased over the past 3 years primarily tending towards Vietnam.

Case Study: Lao PDR's Coffee Exports

Coffee is one of Lao PDR's oldest and leading export cash crops with its export revenue accounting for approximately US$74 million (in the first half of 2017) and is slowly gaining prominence in niche markets globally. To successfully leverage and further coffee exports' growth, increasing investment is key for it will boost existing capacity, infrastructure and technology. Capital injection from local investors and foreign direct investment will not only enhance development of the coffee sector, it may help increase access to overseas markets as well.

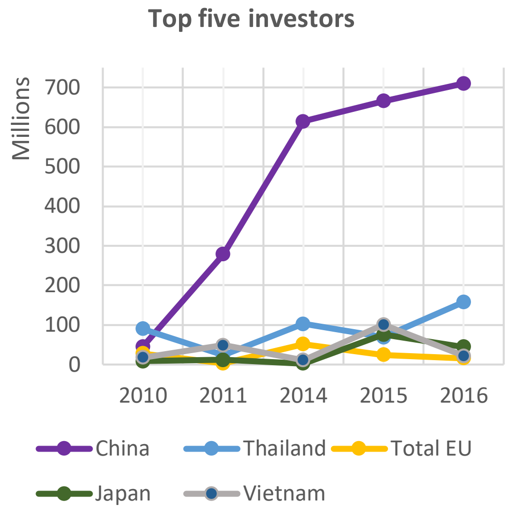
- **Apparel and clothing accessories:** These have potential for moving Laos up the value chain and spurring job creation. Laotian clothing products are in demand from European markets[2], with Germany as its top destination, followed by the United Kingdom (UK), United Arab Emirates (UAE) and Sweden. Laos will also do well to maximise its bilateral trade agreement with the European Union (EU) allowing a number of Lao products, mostly woven textiles and clothing, to be exported to most of Europe.

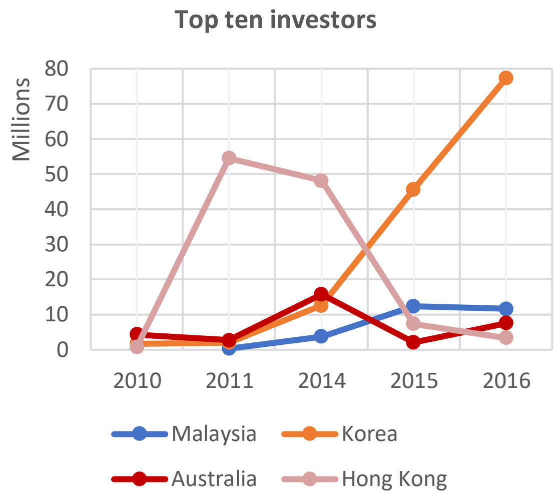
- **Electricals (machinery and equipment):** Laos could also ride on the trend of increasing exports of electricals (machinery and equipment) to Thailand since 2014. This results from the relocation of Japanese manufacturing away from China due to rising costs, and Thailand due to flooding in 2011 and political turmoil.

[2] Laos clothing products in demand by European markets, *The Nation,* Source: "http://www.nationmultimedia.com/news/business/aec/30313117"

Diversifying Investment

Beyond China and Thailand, Laos can consider enhancing investments from its top ten investors. Among them, South Korea has consistently recorded a rapid upward trend in recent years, averaging 217% annually to reach almost US$80 million as of 2016.





Source: ASEAN Stats Database

As for diversifying the investment sector beyond the resource-based industries, potential sectors, as flagged by the proportion of foreign investments received, include services (11%), handicrafts (8%), hotel & restaurant (4%), construction (4%), banking and trading (3%), and telecommunications (3%). These sectors serve as the backbones of various traditional and frontier industries and will contribute towards moving Laos up the value chain.

Maximising SEZs for diversification

Promoting investments in SEZs can accelerate industry development and diversification efforts. Lao PDR can leverage various aspects of the advantages of SEZs to attract investments into SEZs. First, being land-linked and bordering countries such as China, Thailand, Vietnam and Cambodia, can be enticing for businesses who already operate in or export to these markets and want to set up production in lower cost yet accessible locations in the region. Models such as the Thailand-Plus-One[3] supply chain are evidence of this.

Second, investment promotion officers should tell a story of why investing and locating in an SEZ is favourable and present the differences and similarities between zones in a balanced and business-friendly manner. This type of promotion should go beyond presenting fiscal incentives to highlight supportive infrastructure, access to suppliers, and links to markets which are competitive advantages and key decision points for investors. The communication should target investors according to economic and sectoral development priorities and in line with this, support of trade and investment diversification efforts.

[3] When companies with industrial operations in Thailand extend the supply chain by transferring certain parts of the production process to neighboring countries

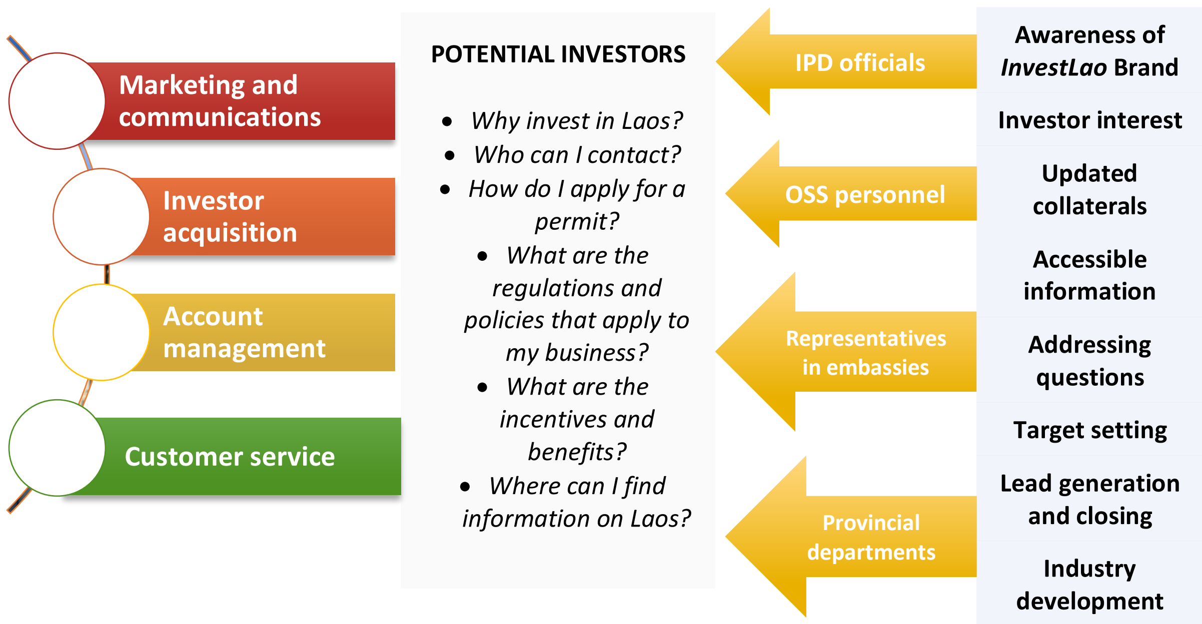
Third, there are successes to amplify, particularly in Savan Seno Zone C or "Savan Park" which boasts of (i) an efficient OSS able to cut through bureaucratic processes; (ii) proximity to logistics services with the country's only dry port at its doorstep; and (iii) having a number of satisfied investors (including in high value-added sectors) already operating in its zone to speak for the SEZ. IPD and the SEZ Promotion and Management Office (SEZO) should strategically communicate these successful cases as proof points for potential investors.

Ultimately, for Lao PDR to be truly competitive, aligning investment promotion activities with economic strategy and priorities must be underscored. As such, working towards moving up the value chain and leveraging SEZs to diversify exports and sector investment will be key. In turn, strategically targeted locators in SEZs will help stimulate international trade, bring jobs, and create backward linkages and meaningful spillovers to the Lao economy.

F) Invest in capacity-building

Given that the Lao government's investment-boosting policies will be executed by its officials and investment-facing service personnel, investing in their capacity to understand the policies, implications and execution of related policies is crucial. Starting with the basics, the Lao government can consider 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.

Capacity-Building Flowchart to Boost Investment



First, effective marketing involves communicating the *InvestLao* brand, highlighting the country's competitive advantages and unique selling point to investors through targeted messaging, expanding the reach of messages by harvesting social media platforms, campaigns, driving traffic towards the *InvestLao* website, and ground marketing, as well as developing content and collaterals that capture investor interest.

Next, sessions on investor acquisition should guide goal-setting (for example, on revenue, industry priorities, or sustainability), generating leads to fit aims; train participants to make tailored sales pitches and value propositions; as well as sell ‘packages’ (for instance, cost advantage of input, incentives, trade partners, and market) that fit investor priorities.

Third, guidance on account management should cover how to organise the IPD to create dedicated points of contact within the IPD for investor concerns and questions; account planning and ensuring that investors are guided from end-to-end; relationship-building skills; and crafting strategies to grow investments.

Last, customer service training should prepare the involved parties for managing complaints and grievances, troubleshooting, investor aftercare and assistance, as well as addressing policy and regulatory concerns.

Capacity building can be done through the rollout of a two-part introductory workshop series. In the first tranche, investment promotion basics focusing on foundations immediately necessary to investment promotion are scaled. This includes (i) organisational effectiveness; and (ii) account management and aftercare. The first ensures a solid foundation is laid for investment promotion agencies to succeed by structuring and staffing these appropriately. The second aims to have efficient systems in place which are executed well by trained staff capable of taking potential investors from the inquiry phase all the way through to re-investment.

In the second tranche, refinement of skills is the focus enabling investment promotion officers to deliver greater investments. The second tranche will also prepare officials to think more strategically in terms of closing deals. Modules to be taught focus on (i) marketing and communications; and (ii) investment acquisition. In the former, officials will learn how to be savvier in selling Laos as an investment destination through various platforms including face to face engagement, leveraging online platforms and developing enticing collaterals. In the latter, officials will learn how to strategically approach investor targeting, pitching and negotiation so that they can maximise opportunities available.

As Laos sets its sights further afield, capacity-building objectives may expand to also include public finance management, public-private sector cooperation, sustainable development, among other priority issues.

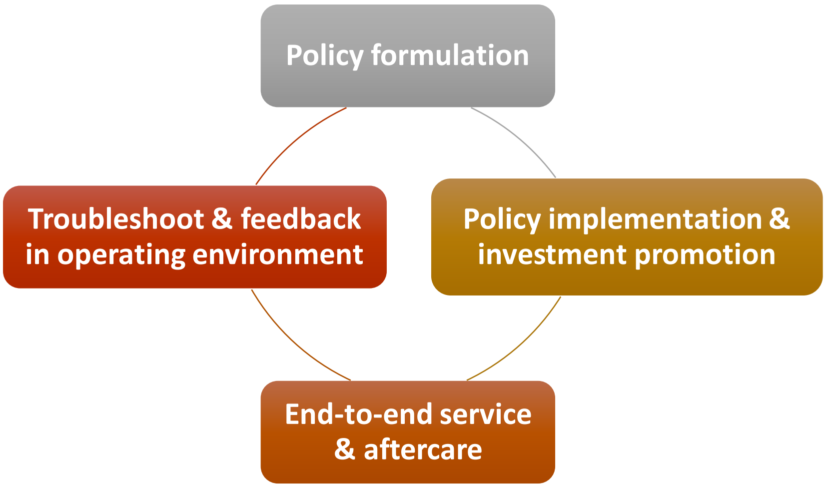
Laos Tomorrow: What is a Picture of Success?

In charting the way forward to achieving its Vision 2030 goal of quadrupling per capita national income, Laos has carefully laid out a five- and ten-year plan through the 8th NSEDP (2016-2020) and the Ten-Year Socio-Economic Development Strategy Outcomes (2016-2025) respectively. With these detailed plans in hand and with strong fundamentals in place, Lao PDR is well-equipped to transform these plans into action by galvanising the Party, officials and the private sector.

As domestic and foreign investments are the key to rejuvenating economies and turbo-charging growth, Laos must seize the momentum of the recent changes it has unveiled in the investment sector in order to sustain business interest and confidence. Concrete action must be taken to quickly improve its EODB ranking; strengthen policy consistency nationally and locally; demonstrate its sincerity in incorporating private sector feedback into policymaking; and enhancing the Amended IPL. With the Vision 2030 in mind, long term planning must go into diversifying its trade and investment mix – especially beyond China which dominates large swaths of the Lao economy – to ensure that its overall economy remains resilient and robust; and serious efforts must go into capacity-building to ensure that its agencies and officials are fit-for-purpose *and more*. At the same time, given the complexity of the task at hand, it is important to also remain pragmatic and flexible; where relevant, it will sometimes make more sense to adopt the spirit of the law than to dogmatically abide by the letter of the law.

Looking beyond its shores, Laos must also shift its mindset from a domestic-oriented worldview to being plugged into the wider regional ecosystem, where seizing opportunities from the advent of technology, digitalisation, innovation and entrepreneurship will enable Laos to leapfrog into a modern economy. It should also look to its neighbours as benchmarks and to adopt best practices, tailored to its unique circumstances. As the region rapidly continues with its economic integration efforts, Laos cannot afford to rest on its laurels and must keep in mind the opportunity cost of doing nothing when its neighbours and competitors are charging ahead.

Picture of Success: A Holistic Approach to Attracting Investments



In envisioning a picture of success, Lao PDR should set out to create a sustainable investment framework by adopting a holistic approach to attracting investments. This involves systems thinking and following through with action. An iterative process involving policy formulation and implementation, end-to-end service and aftercare, and troubleshooting and feedback in the operating environment will ensure that the investment climate is nimble and responsive to external changes and private sector needs.

Today, Lao PDR is in prime 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, getting to the Lao PDR of tomorrow as envisaged in Vision 2030 is well within reach.

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