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Trade implications of Lao PDR’s graduation from LDC status

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Abstract

ITC estimates that Lao PDR could face a trade loss of \$108 million with its anticipated graduation from the status of least developed country (LDC) in 2024. The novel methodology uses projections of trade and tariffs, thereby accounting for a geographical shift of exports that likely will ease Lao PDR’s exposure to tariff changes by the time of graduation. The paper suggests three strategies for Laotian exporters to mitigate the trade losses: first, moving to the EU + UK’s Generalized System of Preferences Plus (GSP+) rather than the standard GSP could reduce the trade loss by 70%. Second, targeted trade promotion to remove market frictions will help sectors that currently do not exhaust their export potential in certain markets – this is the case for apparel exports to Canada and rice exports to the EU + UK markets. Third, product and market diversification could help focusing resources on alternative products and markets that will not see a change in tariffs.

¹ For the UN official (and more comprehensive) LDC graduation impact assessment, please refer to UNDESA (2020): Ex ante assessment of the impacts of the graduation of Lao PDR from the category of Least Developed Countries (LDCs), mimeo.

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Introduction

Lao PDR is set to graduate from the status of least developed country (LDC) in 2024. Upon graduation, the country will no longer be eligible to export under the unilateral preferential tariff schemes that 23 markets around the globe have in place for LDCs.³ While this implies trade losses of \$108 million for the country, the ITC export potential methodology⁴ suggests that Lao PDR's export products affected by the tariff increase have an unrealized trade potential worth \$52 million in the same group of markets and \$1.2 billion in other markets. The analysis uses a partial equilibrium model to calculate the impact of tariff changes on potential trade outcomes. It extends the existing literature in two directions:

First, we project current trade to the expected level in 2024 (year of expected LDC graduation) using forecasts of each country's gross domestic product (GDP), population, and estimates of income elasticities. Using projected rather than current exports is important to account for a likely geographic shift of Lao PDR's exports towards fast-growing markets that do not have the most beneficial LDC schemes in place. Traditional approaches based on current trade values tend to overestimate the impact of LDC graduation. Likewise, we take tariff rates from that same year to account for changes in Lao PDR's tariff advantages over competitors. This is achieved by including information on tariff reduction schedules from trade agreements that are currently being implemented.

Second, the resulting trade loss is contrasted with untapped trade potential – a figure calculated using the ITC export potential methodology. Whenever the trade loss exceeds the untapped trade potential, Lao PDR may seek better market access through bilateral or plurilateral negotiations. Alternatively, whenever untapped trade potential exceeds the trade loss, Lao PDR may invest in trade promotion and advisory to help companies overcome the frictions that currently prevent them from unleashing the market opportunities. Besides trade promotion, we highlight market and product diversification as alternative strategies for companies to adapt to the trade reduction.

The approach thus provides with estimates of the expected trade changes in 2024 and gives concrete recommendations on actions to buffer the effects and maximize Lao PDR's future exports.

Methodology

In many of the markets granting unilateral preferences to LDCs, Lao PDR benefits from existing free trade agreements (FTAs) or may convert to non-reciprocal preferential tariff schemes that are offered to developing countries. The assessment of trade policy options therefore aims to compare the tariffs from which Lao PDR benefits as an LDC with those available post-graduation. Tariff increases in important markets may lead to trade losses that could in turn call for the conclusion of additional FTAs. The analysis advises at the detailed product and market level where losses are expected to be significant. At the same time, it makes use of the ITC export potential methodology to identify untapped export potential that may be realized subject to targeted trade promotion and that could possibly compensate for any graduation-induced loss of market share.

³ The EU27 and UK are considered as one market.

⁴ Results of this methodology are disseminated through a free online tool, the ITC Export Potential Map: <https://exportpotential.intracen.org>. For a technical documentation, please see Decreux and Spies (2016): Export potential assessment – a methodology to identify export opportunities for developing countries, https://umbraco.exportpotential.intracen.org/media/1089/epa-methodology_141216.pdf.

Alternative tariff regimes available following Lao PDR's LDC graduation

Lao PDR benefits from special tariff regimes thanks to its LDC status in 23 markets. Removing them could imply severe consequences for some of Lao PDR's exporting companies if alternative schemes fail to buffer the effects.

The European Union's (EU) Everything But Arms (EBA) scheme for LDCs offers a three-year transition period during which graduated countries continue to benefit from duty-free quota-free (DFQF) market access.⁵ In 2027, Lao PDR would become eligible for the EU's Generalized System of Preferences (GSP). Under certain circumstances, the extended GSP+ scheme may be available, which grants more preferential market access than standard GSP, but requires Lao PDR's additional commitment to sustainable development and good governance.⁶

Nine other countries that currently grant preferential access to LDCs also have GSP schemes in place that offer some tariff reductions to developing countries. With eight countries (including three which also have a GSP scheme), Lao PDR could trade under an existing FTA. In some cases, these FTAs overlap. The analysis assumes that Lao PDR's exporters can benefit from the minimum tariff available in cases of overlapping FTAs or unilateral preferences. Finally, five countries have no alternative scheme in place so that Lao PDR would export under Most-Favoured Nation (MFN) tariffs to these markets following graduation.

Table 1 Overview of alternative tariff schemes available for Lao PDR in countries currently granting LDC preferences

Country/Region granting LDC preferences	Alternative scheme in 2024
EU27 + United Kingdom (UK)	GSP / GSP + (2027, following a three year transition period with DFQF access)
Armenia, Belarus, Canada, Switzerland, Kazakhstan, Kyrgyzstan, Norway, Russian Federation, Turkey	GSP
Chile, Iceland, Montenegro, Chinese Taipei, Tajikistan	MFN
Australia*, China, India, Japan*, Republic of Korea, New Zealand*, Sri Lanka, Thailand	Regional trade agreement * (and GSP)

Source: Authors' illustration based on data from the ITC Market Access Map (2020).

It is important to consider further tariff reductions that will be phased in for some FTAs until Lao PDR's scheduled graduation from LDC status in 2024. To have a proper picture of the tariff situation in 2024, we make use of already negotiated tariff reduction schedules. This concerns for example further tariff cuts by Australia and New Zealand in the context of the Association of Southeast Asian Nations (ASEAN) FTA.

Estimating the effect of tariff changes on trade

We customize and apply a partial equilibrium model to assess the trade impact of tariff changes to Lao PDR, based on the following assumptions:

- 1) The elasticity of supply is infinite and returns to scale are constant: every country can supply an unlimited amount of the products it currently exports, at current prices.⁷
- 2) The global elasticity of import demand for a product is equal to one.

⁵ For reasons of comparability, the analysis considers the situation in 2024, assuming that Lao PDR would directly move to GSP or GSP+ on the EU and UK markets.

⁶ UNDESA (2020) reports that Lao PDR meets the vulnerability criteria but (at the time of writing) still has to ratify International Labour Organization (ILO) conventions in order to become eligible for GSP+.

⁷ Lao PDR's exporters will not reduce their prices in response to a lower demand for their products.

- 3) Products from different foreign suppliers are substitutable with a constant elasticity of substitution (Armington assumption).⁸
- 4) Preferential tariffs are fully used.⁹

Trade projection

Trade and tariff values used in the model are projected to 2024. We project trade by (i) forecasting country i 's share in market j for a given product using country i 's GDP growth rate relative to the GDP growth rate of its competitors in that product and (ii) evaluating how import demand will develop based on its elasticity to market j 's expected growth rates of GDP and population, and expected tariff changes.¹⁰ We define

$$X_{ijk} = \text{ProjMS}_{ijk} \times M_{jk}$$

where

- X_{ijk} : bilateral exports of product k ;
- ProjMS_{ijk} : projected market share;
- M_{jk} : projected demand.

Tariff projections assume that Lao PDR will move to the next best alternative regime that is available following graduation (table 1). For all other countries, we will reflect the tariff situation in 2024 by integrating information from tariff reduction schedules of agreements that are currently under implementation.

Effect of graduation

First, tariff changes reduce Lao PDR's market share by

$$\left(\frac{1 + t_{LDC}}{1 + t_{grad}} \right)^\sigma$$

Then, the sum of market shares in a given market is normalized to one. This ensures that the first order conditions of the demand by origin optimization are met.

Based on old and new market shares, average tariffs with and without graduation are computed. Overall import demand is reduced by

$$\frac{1 + \bar{t}_{LDC}}{1 + \bar{t}_{grad}}$$

where \bar{t} is the average tariff applied by a market to all suppliers weighted by their market shares.¹¹ This simple procedure leads to the same result as analytically solving the partial equilibrium model described above.

⁸ Elasticities between origins are product-specific and taken from the Global Trade Analysis Project (GTAP) database.

⁹ Note that stricter rules of origin may apply under the alternative tariff regimes, which could prevent Laotian exporters from access to the most preferential tariffs.

¹⁰ Elasticity of import demand to population is assumed equal to 1. Elasticity of import demand to GDP per capita is estimated, see Decreux and Spies (2016). Import demand is increased by the factor $\frac{1 + \bar{t}_{current}}{1 + \bar{t}_{projected}}$ to account for future tariff reductions scheduled in trade agreements that are currently being implemented.

¹¹ The indices *LDC* and *grad* refer to the specific situation of Lao PDR in 2024.

Calculation of untapped trade potential

ITC has established a methodology to calculate the untapped potential a country has in a given product and market. The method calculates potential trade values based on a country's projected share in a given market and the market's projected demand,

$$EPI_{ijk} = ProjMS_{ijk}^{EPI} \times M_{jk}$$

with

$$ProjMS_{ijk}^{EPI} = ProjMS_{ik} \times Ease_{ij} \times MAccess_{ijk}$$

The projected market share of country i in product k and market j combines information of i 's world market share, the ease of trade between i and j , and market access. $ProjMS_{ik}$ is projected based on the growth rate of i relative to its competitors. M_{jk} is projected based on the elasticity of import demand to j 's expected growth rate and expected tariff changes.

Any gap between potential and actual trade indicates additional room for export growth.¹² This untapped export potential may be realized through targeted trade promotion, by helping firms to overcome non-tariff measures, comply with the rules of origin or meet the consumer preferences in the target market. Contrasting the untapped potential with the potential trade losses helps Lao PDR set priorities – either on the negotiation of better tariff regimes or on trade promotion.

Data

The model uses trade and tariff data, coming from the ITC Trade Map and Market Access Map databases, respectively. For trade projections, we use an arithmetic average of direct and mirror flows when both countries are estimated to be reliable reporters of their trade statistics (or when neither is reliable but both report a trade flow for the same given product).¹³ When only one of the trade partners is reliable, this country's reported trade flow is retained. Over the analysed timeframe, Lao PDR has reported its trade between 2010 and 2016, but it has not been assessed as a reliable reporter of its exports or imports; hence, mirror data is used. For the calculation of export potential, we use a geometric average of reliable direct and mirror flows. To reduce the impact of outliers, a weighted average of 2014-2018 data is calculated with a higher weight given to years that are more recent. Import demand and Lao PDR's exports in current \$ are projected to 2024 using the International Monetary Fund (IMF) GDP forecasts and an estimation of import demand elasticities.

Two sets of tariffs feed into the calculations: the first one corresponds to tariffs during the observation period (2014-2018), while the second one corresponds to tariffs during the projection period (2024). The elasticity of substitution is taken from the Global Trade Analysis Project (GTAP) database. GTAP elasticities are computed at the sector level and applied to product groups based on the 6-digit level of the Harmonized System (HS).

Results

Lao PDR has exported products worth almost \$4.7 billion on average over the period 2014-2018. According to our projections, Lao PDR may expand its exports to \$12 billion by 2024 in a hypothetical

¹² Please refer to Decreux and Spies (2016) for a detailed description of the method.

¹³ An earlier version of the reliability assessment is described in Decreux and Spies (2016). An update will be published later this year.

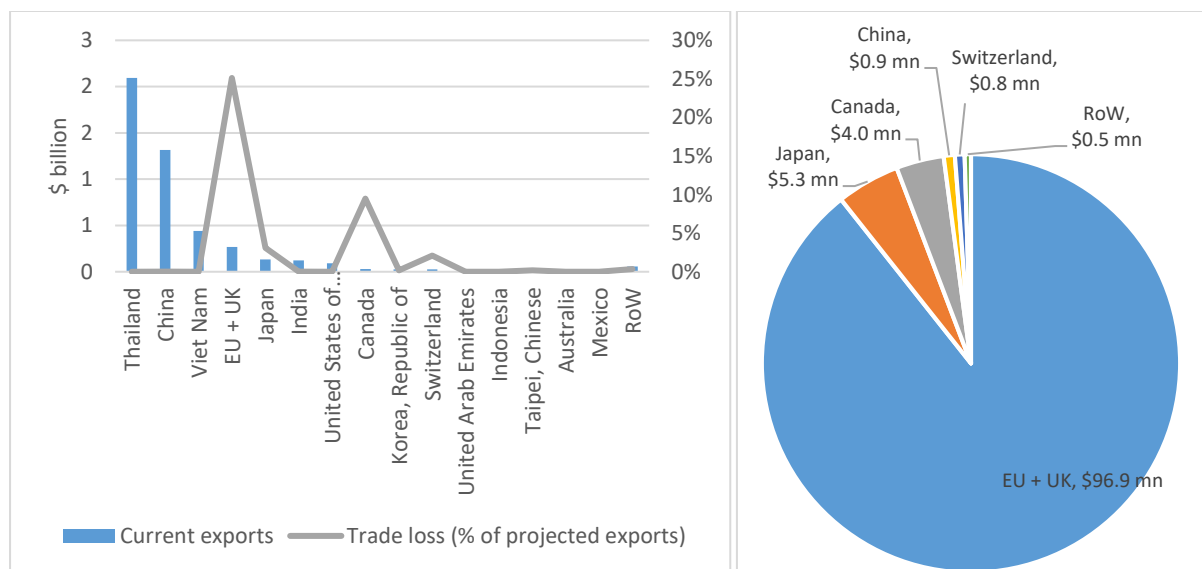
situation where it continues to benefit from LDC preferences. Moving to the next best alternative regime would result in a total trade loss amounting to \$108 million.

Trade policy assessment

Lao PDR's tariff conditions will change in 13 out of the 23 markets that have specific LDC schemes in place. Most of the countries that are offering beneficial LDC schemes to Lao PDR are expected to see low growth of import demand in the coming years, implying that the share of exports affected by the tariff change will reduce from 5.6% today to 3% by 2024.

Figure 1 shows that among Lao PDR's largest trade partners, significant losses will likely only be felt in the EU + UK's, the Japanese and the Canadian markets. The EU + UK and Canada are also the only markets where the expected trade loss accounts for a significant share of Lao PDR's projected exports to these markets. Losses in Lao PDR's most important partner markets will be insignificant (China) or zero (Thailand and Viet Nam).

Figure 1 Lao PDR's trade and estimated trade losses, by partner market

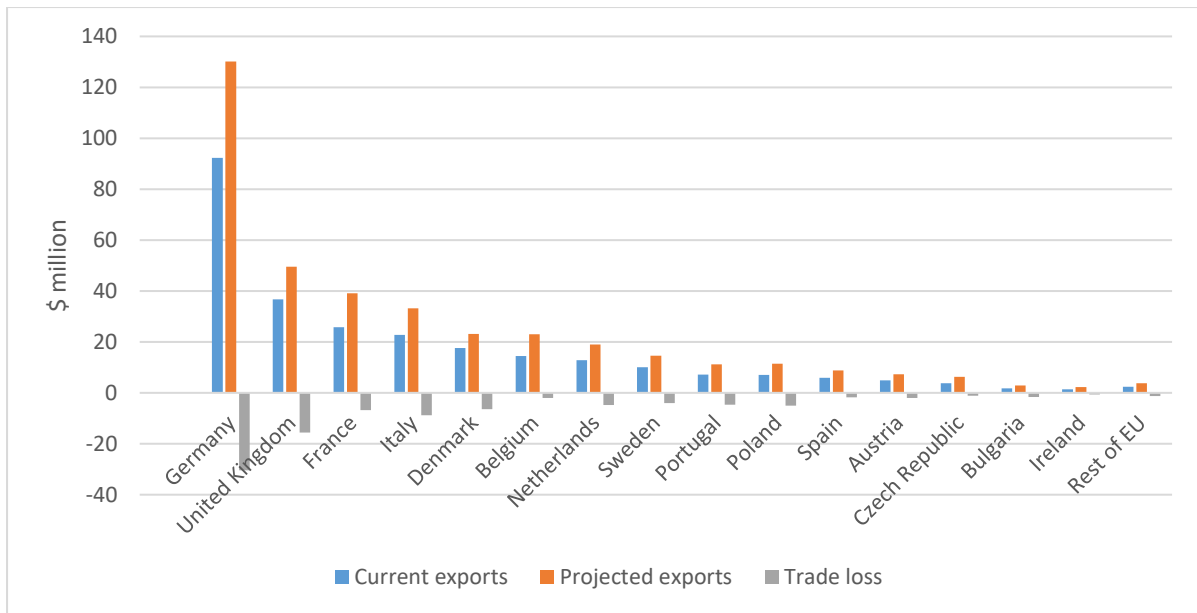


Source: Authors' calculation based on data from the ITC Market Analysis Tools (2020).

The EU + UK market would account for 89% (\$97 million) of the total reduction. Among the EU member states, exports to Germany, currently Lao PDR's largest EU trade partner, would be affected the most with a potential loss of more than \$30 million of exports. The UK would experience losses amounting to almost \$16 million (see figure 2).

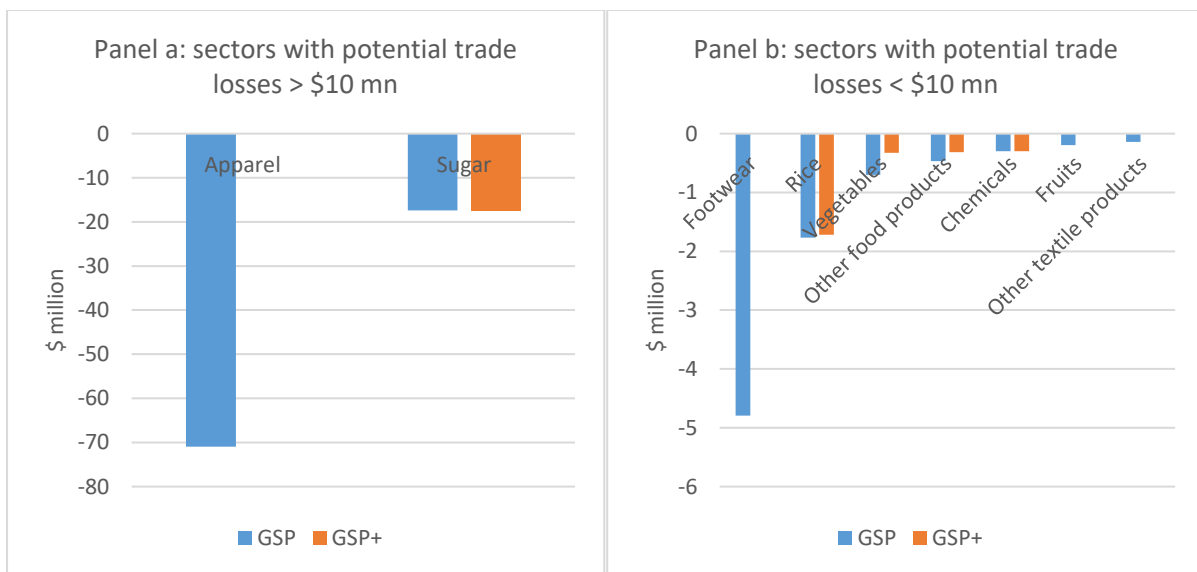
The trade loss is concentrated in a few products. At the HS 6-based product group level, only 20 products will see an impact of >\$1 million, of which 16 are in the garment sector. On EU + UK markets, this sector should expect trade losses amounting to over \$71 million. Sugar will see a reduction of \$17 million, followed by footwear with \$4.8 million and rice with \$1.8 million. No other sector's exports will decline significantly following the LDC graduation-induced tariff changes. On non-EU markets, only footwear and apparel exporters should prepare for losses of \$5.4 and \$4.9 million, respectively.

Figure 2 Lao PDR's trade and estimated trade losses, by EU + UK partner market



Source: Authors' calculation based on data from the ITC Market Analysis Tools (2020).

Figure 3 Trade loss on EU + UK market, by sector (GSP versus GSP+) (> \$100,000)



Source: Authors' calculation based on data from the ITC Market Analysis Tools (2020).

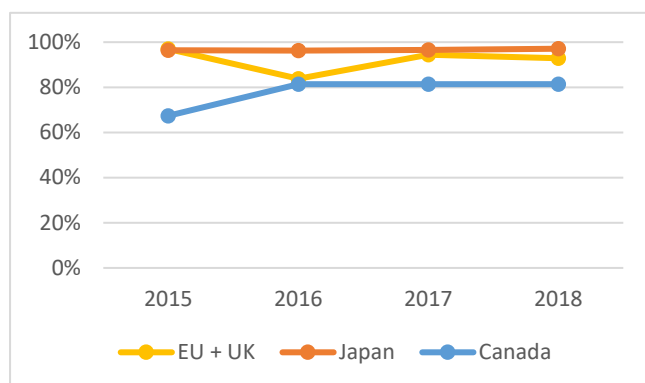
Reverting to GSP+ would give Lao PDR's exporters more preferential access to EU + UK markets for some of its key export sectors and therefore help limit the total trade loss to \$32 million. Apparel and footwear exports would enjoy duty-free access under the EU's GSP+ scheme if exporters manage to comply with the more stringent rules of origin.¹⁴ Sugar and rice would hardly benefit under GSP+ (see figure 3).

¹⁴ UNDESA (2020) indicates that double transformation will be necessary for the garment sector to benefit from GSP tariffs.

Utilization rate of preferences

Tariff changes are problematic only for those exporters that have taken advantage of the LDC preferences in the past. Information from the World Trade Organization's (WTO) Integrated Database (IDB) indicates that on those markets where Lao PDR's exporters will see the largest impact, the utilization rate of preferences has ranged between 67% (Canada, 2015) and 97% (EU + UK, 2015 and Japan, 2017 and 2018).

Figure 4 Lao PDR's utilization rate of preferences in selected markets



Given the high utilization of preferences in the past, it is likely that Laotian firms indeed will be affected by the tariff changes.¹⁵ To smoothen the transition, policymakers may therefore strive for schemes that offer more favourable tariffs, such as GSP+, or aim to remove other frictions that have been hindering Lao PDR in exhausting its export potential across sectors in its existing or in new target markets.

Source: Authors' calculation based on data from WTO's IDB (2020).

Export potential assessment

Contrasting the results on trade implications of tariff changes with figures on export potential reveals that overall, trade promotion activities addressing the bottlenecks exporters currently face could result in additional exports worth \$6.8 billion.¹⁶ However, the major part of this export growth potential adheres to markets and products unaffected by the trade policy change. Targeted trade promotion in the same markets and products that will face a change in tariff could bring trade gains worth \$52 million and thus, to some extent compensate for the graduation-induced losses. This will be possible in particular for apparel and footwear exports to Canada and for rice, other food products, chemicals and fruit exports to the EU + UK as in all of these sector-market combinations the untapped potential exceeds the anticipated trade loss (see table 2).

In other sectors, a direct compensation of the trade loss by targeted trade promotion in the same market may not bring significant export increases. Yet, the export potential assessment can also point to alternative (existing or new) markets where Lao PDR still has considerable export growth potential. For instance, the sugar sector could realize more than \$14 million of additional exports in markets outside the EU, such as Indonesia, Japan and Viet Nam. Lost footwear exports to Japan may be compensated by a diversification of target markets as well. Viet Nam, China and the EU + UK offer the largest scope for additional exports, summing up to over \$20 million.

¹⁵ Even with identical tariffs under newly available preferential regimes (FTAs, GSP), rules of origin may become tougher, making it harder for companies to remain eligible for preferential treatment. Please refer to UNDESA (2020) for a discussion of rules of origin changes and to the ITC Rules of Origin Facilitator for a web-based application hosting country- and product-level information on rules of origin for 347 trade agreements (www.findrulesoforigin.org).

¹⁶ For a detailed analysis of Lao PDR's export potential in the processed wood and niche agricultural sectors, please refer to ITC (2019): Export potential in Lao PDR, https://umbraco.exportpotential.intracen.org/media/1133/lao-report_final-draft.pdf

Table 2 Adaptation strategies for markets and sectors with significant trade losses (> \$100,000)

Market	Sector	Current exports (in \$ mn)	Trade loss (in \$ mn)	Trade loss GSP+ (in \$ mn)	Untapped export potential (in \$ mn)	Untapped export potential in alternative markets (in \$ mn)	Strategy
EU + UK	Apparel	180.0	71.0	0.0	19.1	Japan (16.6), United States of America (16.0), China (14.4)	GSP+
EU + UK	Sugar	18.1	17.4	17.4	2.1	*Indonesia (5.3), *Japan (3.0), Viet Nam (1.9)	Market diversification
Japan	Footwear	17.4	5.2	-	0.3	Viet Nam (8.0), China (6.7), EU + UK (5.0)	Market diversification
EU + UK	Footwear	16.1	4.8	0.0	5.0	Viet Nam (8.0), China (6.7), United States of America (1.8)	GSP+
Canada	Apparel	6.3	3.8	-	5.2	EU + UK (19.1), Japan (16.6), United States of America (16.0)	Trade promotion
EU + UK	Rice	4.0	1.8	1.7	14.8	*Korea, Republic of (72.1), China (1.3), United States of America (1.2)	Trade promotion
China	Coffee	3.2	0.9	-	0.3	EU + UK (39.2), Thailand (12.4), United States of America (5.1)	Market diversification
Switzerland	Apparel	6.7	0.8	-	0.2	EU + UK (19.1), Japan (16.6), United States of America (16.0)	Market diversification
EU + UK	Vegetables	2.9	0.7	0.3	4.5	China (160.7), Thailand (143.1), Viet Nam (29.1)	Market diversification
EU + UK	Other food products	4.0	0.5	0.3	7.7	China (12.7), Japan (4.8), Viet Nam (4.0)	Trade promotion
EU + UK	Chemicals	1.2	0.3	0.3	5.3	Thailand (4.9), China (4.2), *Viet Nam (845.8 thsnd)	Trade promotion
Turkey	Apparel	0.5	0.3	-	0.1	EU + UK (19.1), Japan (16.6), United States of America (16.0)	Market diversification
EU + UK	Fruits	2.0	0.2	0.0	4.4	China (13.3), Viet Nam (12.3), *Japan (1.4)	Trade promotion
Canada	Footwear	0.3	0.2	-	1.1	Viet Nam (8.0), China (6.7), EU + UK (5.0)	Trade promotion
EU + UK	Other textile products	0.5	0.1	0.0	0.5	United States of America (486.9 thsnd), *China (306.4 thsnd), *Canada (96.7 thsnd)	GSP+

Source: Authors' calculation based on data from the ITC Market Analysis Tools (2020). Notes: *indicates that the market would be new for Lao PDR's exporters in this sector.

A final possibility would be to focus production and exports on products that are unaffected by the tariff change but offer growth potential in the same markets. Such strategy will have good chances of successfully mitigating impacts of LDC graduation if the alternative products are similar to those that are facing trade losses. Similar products should meet the following criteria to be considered as viable alternatives:

- 1) located in the same or a related sector as the one facing a trade loss
- 2) be 'within reach' for the country and have good chances of market success
- 3) continue to see favourable tariff conditions in the target market following Lao PDR's LDC graduation

Products 'within reach' are products relying on similar capabilities. Ricardo Hausmann and César Hidalgo have developed an approach (the 'Product Space') that identifies similarities in production factors based on observable trade outcomes.¹⁷ For each product pair, conditional probabilities of exporting product B if a country already exports product A are calculated. Calculating a weighted average of these conditional probabilities allows inference of how 'close' a given product is to the existing export basket of a country. Combining this information with demand and market access conditions allows computing an indicator of diversification potential that is used to select products with good chances of being successfully exported to the target markets. Figure 5 below identifies alternatives that meet the above criteria for some of the most affected products and sectors.

Apparel and footwear exports to the EU + UK face a potential trade loss of \$76 million when moving from EBA to GSP duties. Yet, the sectors offer alternatives that benefit from duty-free market access even under the EU's GSP. Figure 5 (upper left panel) below shows the products with the most diversification potential in the EU + UK. Lao PDR already exports nine of these products, eight of which including to the EU + UK. These markets' total import growth potential from all suppliers amounts to \$8.1 billion for the top products and to \$17 billion for all alternative products.

Lao PDR's sugar exporters will be confronted with trade losses augmenting to over \$17 million. Neither EU + UK nor other markets seem to offer sufficient export growth potential to absorb this reduction. In light of these circumstances, it may be worthwhile for farmers to consider a reallocation of land and other resources to the cultivation of other crops or vegetal products. With the exception of cocoa beans and palm oil, Lao PDR already exports all of the products highlighted in the upper right panel of figure 5. EU + UK hold a total import growth potential for alternatives in the horticulture and other vegetal products sectors amounting to \$9.5 billion (top products) and \$26 billion (all products).

Lao PDR's footwear exports may experience significant losses also in the Japanese market. Already exported alternatives not subject to tariff changes comprise some of the products that are exempt from tariff changes in the EU + UK markets as well. Japan's total import potential for these products stands at \$1.3 billion annually by 2024. Note that even though footwear uppers face rather significant tariffs of 16.7%, Lao PDR still benefits from a small tariff advantage over its competitors in the Japanese market.

In Canada, the apparel sector risks a trade reduction of \$3.8 million, out of which \$1.8 million is due to losses in men's underpants & briefs of cotton, knit/crochet (HS 610711). Baby garments, labels and

¹⁷ Hausmann, Hidalgo et al. (2007): The product space conditions the development of nations, https://www.researchgate.net/publication/6181618_The_Product_Space_Conditions_the_Development_of_Nations.

a few other textile products however are not affected by the tariff change and offer \$115 million in total untapped import potential from all suppliers.

Lao PDR's coffee and wood sectors

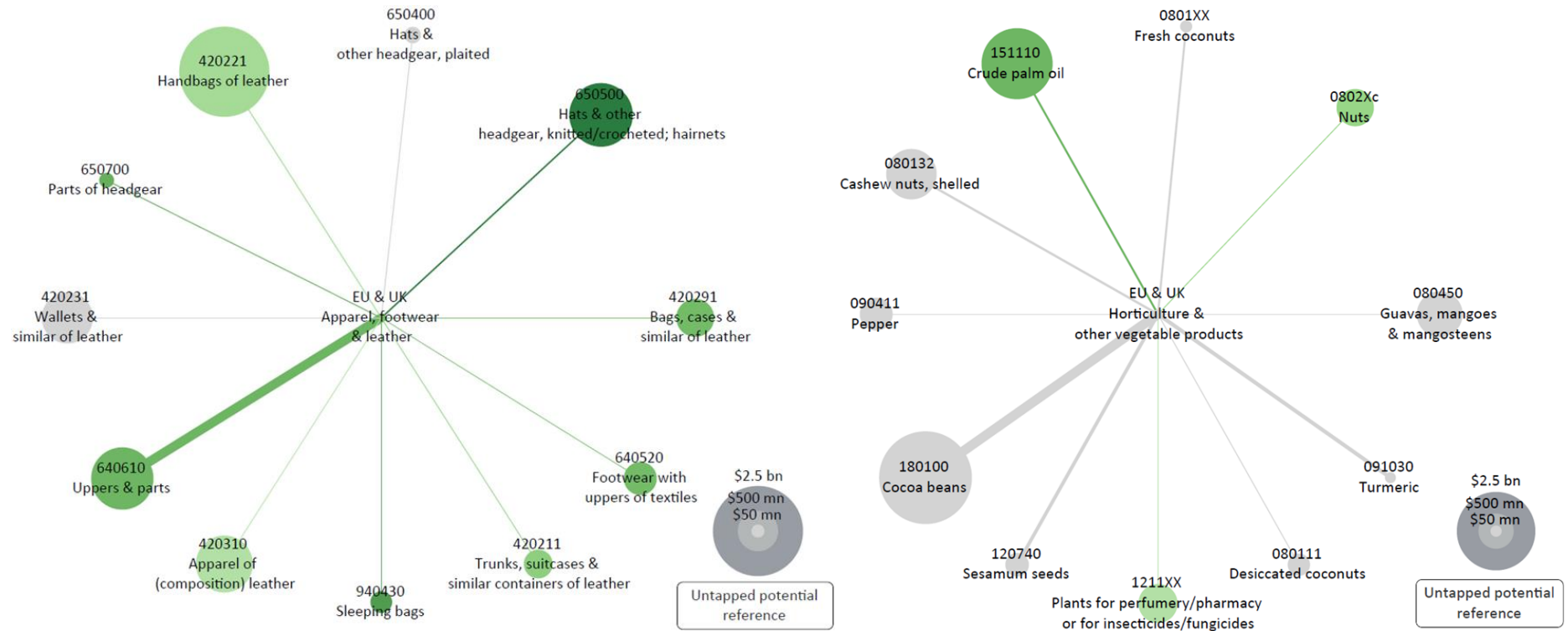
The EU-funded ITC project “The ASEAN Regional Integration Support from the EU Plus – Lao PDR (ARISE + Lao PDR)” focuses its trade support interventions in two sectors: coffee and processed wood. These are not among the most affected sectors by Lao PDR’s LDC graduation with expected trade losses at \$960,568 and \$40,799, respectively.

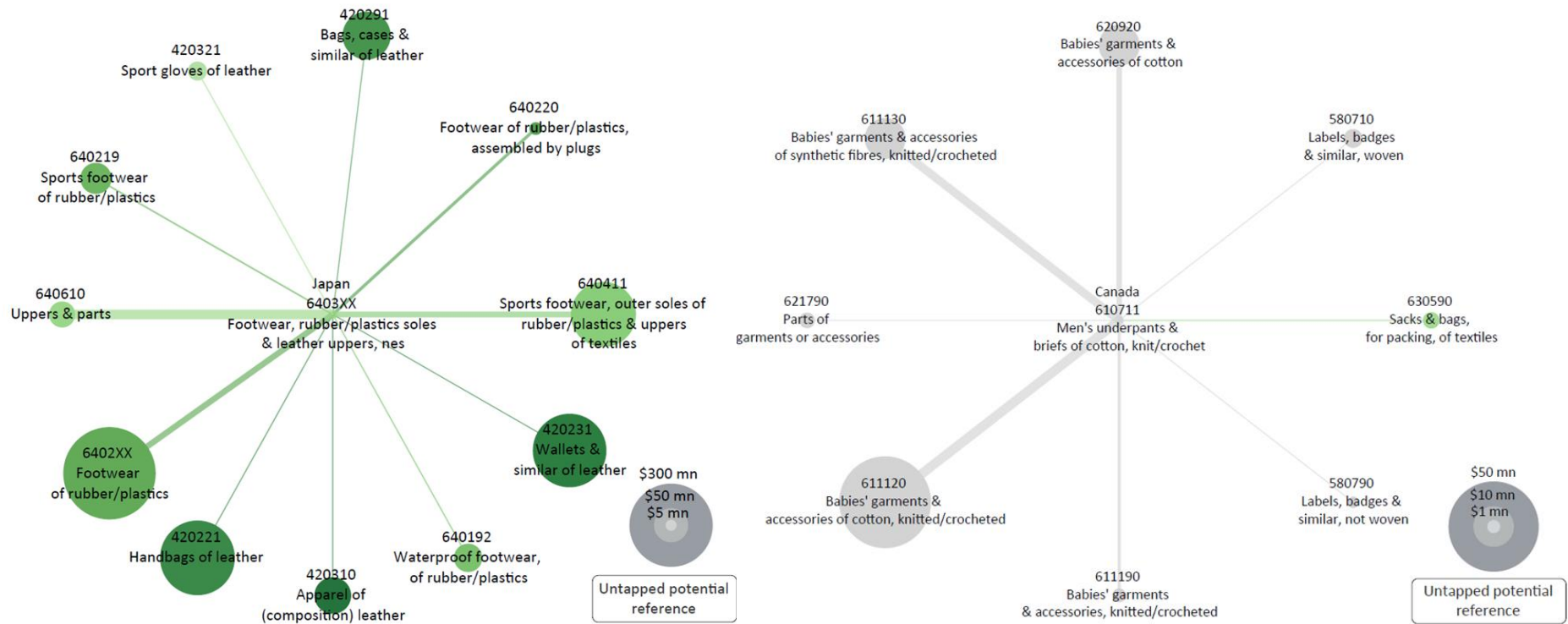
The overwhelming part (97%) of the impact on the coffee sector concerns the export of “Coffee, not roasted, not decaffeinated” (HS 090111) to China. Lao PDR’s exporters are already exhausting their potential to export coffee to the Chinese market, but have vast opportunities to realize additional exports worth \$69 million in other markets. Germany (\$22 million) and Thailand (\$12 million) are the most attractive destinations for future Lao PDR’s coffee exports. In both markets, tariffs will not change with Lao PDR’s graduation from LDC status.

In the wood sector, minor losses mostly concentrate in the Korean market. Given the sector’s export growth potential of \$36 million (in products exempt from the export ban), the graduation effect is negligible.

For more details on export growth opportunities in these two sectors, please refer to ITC (2019): Export potential in Lao PDR, https://umbraco.exportpotential.intracen.org/media/1133/lao-report_final-draft.pdf.

Figure 5 Alternatives for products with trade losses





Source: Authors' calculation based on data from the ITC Market Analysis Tools (2020). Notes: the graphs show the top products in terms of diversification potential in the respective target market. Bubble size represents the market's total untapped import potential. Line width indicates the average proximity of Lao PDR to the alternative export products. Products for which Lao PDR has a tariff advantage in the market appear in green (the darker shades of green indicate a larger advantage). Products with neither a tariff advantage nor disadvantage appear in grey.

Policy recommendations

The analysis in this paper reveals that Lao PDR should prepare for foregone trade revenues up to the amount of \$108 million following the tariff changes it will face in several markets upon its graduation from LDC status. Lao PDR may respond to this as follows:

- Most of the trade loss will be in the EU + UK market. Aiming at improved market access under GSP+ tariffs will help lower the total trade loss by 70%. This will mostly benefit Laotian apparel and footwear exporters that would continue to benefit from duty-free access to the EU + UK market. In these two sectors alone, GSP+ would help avoid trade reductions amounting to \$75.8 million.
- In other products and markets, targeted trade promotion that helps companies overcome current frictions and fully use their export potential promises to compensate the trade losses. This would be the case for apparel and footwear exports to Canada and rice, other food products, chemicals and fruit exports to the EU + UK. In all these sector-market combinations, Lao PDR has significant export potential that is yet to be exhausted regardless of the tariff regime.
- For sugar and vegetable exports to the EU + UK, footwear exports to Japan, coffee exports to China and apparel exports to Switzerland and Turkey, market diversification may offer a way to balance out the graduation-induced trade losses. These markets do not offer further growth potential for Lao PDR's exporters of these products based on supply, demand and market access considerations. Other markets however offer room for additional exports.
- An alternative strategy could be to shift resources into products that do not face tariff changes in the same markets. This will be easiest for products that rely on similar production factors as those that risk significant trade reductions. The apparel and footwear sectors offer opportunities for product diversification. For instance, the EU's GSP scheme foresees duty-free market access for several footwear or other leather products for which Lao PDR could consider intensifying its production. Similar strategies could be pursued to compensate these sectors' losses in the Canadian and Japanese markets.