Industrial Development Strategies for Lao PDR

The 1st 2018 Regular Meeting
Japanese Chamber of Commerce and Industry, Vientiane
28 May 2018

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“Crossroads” has two meanings:

1. The timing currently Lao PDR is facing when alternative policies and strategies are required. [Industrial development]

2. The geographic weakness of a “landlocked” country turns the potential strength of becoming a “land-linked” country. [Taking advantage of global/regional value chains and production networks]

“Lao PDR at the Crossroads” is one of answers to summit theme in 2016: “Turning Vision into Reality for Dynamic ASEAN Community”, which was a great contribution made by Lao PDR.
Export-oriented manufacturing is the key in terms of:
(1) market size, (2) labour productivity, and (3) job creation.

Drivers of a growth for developing country

- Domestic Market (of a Developing Country)
  - Limited market size

- International Market (Including Advanced Economies)
  - Low return on labour
    - Large job creation
  - High return on labour
    - Small job creation
  - High return on labour
    - Large job creation
  - (Hard to reach)
Strategy 2: Productivity Improvement

- Labor shift benefits the whole economy of Lao PDR by realising:
  (a) Agricultural productivity increase;
  (b) Job creation through industrial promotion.

**Labor Productivity in Each Sector (2013)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Labor Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>0.44</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.38</td>
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<tr>
<td>Construction &amp; services</td>
<td>1.47</td>
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<tr>
<td>National average</td>
<td>1.00</td>
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</table>

**Source:** Calculation from World Bank data.
8 Core Industrial Sectors

1. **Transportation, energy, and SME finance (SME):** Foundation of other sectors;
2. **Agriculture/food processing and tourism:** Drivers of balanced development;
3. **Garment, transport equipment, E&Es:** Drivers of accelerated economic growth by export.

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**Drivers of balanced development**

- Tier 3
  - Agriculture/food processing
  - Tourism

**Drivers of accelerated growth**

- Tier 1a, 1b
  - Garment/other labor intensive
  - Transport equipment
  - Electric/electronics machinery

**Industrial estates**

- Tier 2
  - SME finance
  - External finance

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**Foreign direct investment**

"Foundation of economic activities"
<table>
<thead>
<tr>
<th>Sector</th>
<th>Scenarios</th>
<th>Challenges</th>
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<tbody>
<tr>
<td>(1) Agriculture and Food Processing</td>
<td>• High value addition through ‘sixth industrialisation’</td>
<td>• Capacity building in farming technology</td>
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<td></td>
<td>• Efficient rice production through a ‘best practice’ package</td>
<td>• Procuring packaging materials</td>
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<td>• High-quality commercial crop production at local cooperatives</td>
<td>• Improving cold chains</td>
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<td></td>
<td>• Establishment of a new value chain (e.g. dairy products)</td>
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<tr>
<td>(2) Mining and Energy</td>
<td>• Expansion of regional power interchange</td>
<td>• Establishing a leading position at the ASEAN Power Grid</td>
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<td></td>
<td>• Promotion of bioethanol production</td>
<td>• Partnering with neighbouring countries</td>
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<td></td>
<td></td>
<td>• Establishing a subsidy system to guarantee the profitability of bioethanol</td>
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<td>(3) Garment and Other Labor-Intensive</td>
<td>Garment industry</td>
<td>• Ensuring smooth transport to Bangkok</td>
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<td>Intensive Industries</td>
<td>• Production of high value added products with low seasonality</td>
<td>• Ensuring one-stop service at VITA Park</td>
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<td>• Participation in the fast fashion supply chain for ASEAN nations</td>
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<td>• Other labour-intensive industries</td>
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<td>• Production using a large amount of low-cost labour and electricity, such as copper wire, casting and moulding</td>
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<td></td>
<td>• Production of high value-added light products, such as medical devices</td>
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<tr>
<td>Sector</td>
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<td>Electric and Electronic Machinery</td>
<td>• Production of electronic components with a relatively short commodity cycle and with a flexibly adjusted production volume, such as connectors (LANs, USBs, etc.) and their cables</td>
<td>• Improving distribution</td>
</tr>
</tbody>
</table>
| Transport Equipment (Automobiles and Motorcycles) | • Production and exportation to Thailand of labour-intensive components, such as cable harness and automobile seat covers                                                                                       | • Stabilising power supply  
• Improving road conditions |
| Tourism                       | • Promotion of ‘key visuals’ for core markets (Thailand, Viet Nam, and China)  
• Attraction of visitors from Japan, Korea, and China during the summer vacation season (July–August)                                                                                                   | • Investigating the needs of travellers from different countries  
• Improving sanitation, etc.  
• Relaxing the procedure for applying for a guided tour |
| Finance                       | • Utilisation of funds from international organisations  
• Capacity building of commercial banks in credit assessment  
• Establishment of a domestic and region-wide credit guarantee system  
• Capacity building of SMEs                                                                                                                                                                | • Managing SME finance risks in the banking sector  
• Providing incentives for book-keeping in SMEs |
| Transportation                 | • Launch of consolidation services (Savannakhet Logistics Hub)  
• Utilisation of railways to reduce transportation costs (Vientiane Logistics Hub)                                                                                                       | • Arranging joint operation of the Savannakhet Logistics Hub by several private logistics companies  
• Arranging joint operation of the Savannakhet Logistics Hub between the government and the people  
• Improving customs |


Dissemination Activities

The Mekong-Five Economic Forum
(3 July 2015)

The 8th Mekong-Japan Economic Ministers Meeting
(6 August 2016)

National Assembly Training Seminar
(21 July 2016)

National Policy Dialogue
(30 March 2016)
The Follow-up of the Lao PDR at the Crossroads

- The objective of the follow-up is to **effectively and strategically implement policy options** presented by “Lao PDR at the Crossroads: Industrial Development Strategies 2016-2030”.

- This follow-up mechanism forms a significant complement to the “8th Five Year National Socio-Economic Development Plan (2016-2020)” and “10 Year Socio-Economic Development Strategies/Vision 2030”.

- Also, it aims to be consistent with and provide inputs for existing development mechanisms such as Millennium Development Goals (MDGs) formulated by UNESCAP.
Framework and Members

ERIA

• Arrange “process control” workshops where the government of Lao PDR (GOL) and agencies deliberate on how to strategically implement industrial policies.

GOL (MOIC, MPI, MPWT, etc.)

• Organize and manage proactively sub-level working groups together with agencies to discuss the details of projects.
• Communicate with MPI about promising projects if appropriate.

JICA, JETRO, etc.

Cooperate with the GOL to realize projects through continuous discussions
WG 1: Agriculture
- Sending JICA agriculture experts to MOIC
- Business matching between Lao agriculture supplies and Japanese food processing companies based in Thailand
- Strategic paper of agro-processing

WG 2: Labour-Intensive Industries
- Handicraft as gifts
- Strategic paper: (1) garments, (2) wood processing including furniture, (3) Artisan craft including Lao silk, (4) IT in use of cheap electricity charges, (5) One District One Product (ODOP)

WG 3: SMEs
- Start-up support
- Tax–customs incentives and financial support of start-ups and innovation
- Capacity building of white paper writing on SMEs

WG 4: Industrial Parks
- Survey study on best practices of industrial estates and special economic zones in Cambodia, Myanmar, Thailand, and Vietnam
- Capacity building for improvement of management skill
Time Frame

The intended outcome is assumed by 2020.

1. **1st workshop** (28 February 2017):
   Discuss interested projects between the GOL and agencies

2. **2nd workshop** (8 May 2017):
   Present GOL’s interested projects to agencies and have a discussion

3. **3rd workshop** (5 September 2017):
   Report on the agreed projects and discuss how to promote these projects

4. **4th workshop** (6 February 2018):
   Review and report on the progress of the projects launched in 2017 to the MOIC Minister, the Ambassador of Japan and the ERIA President

5. **5th workshop** (September 2018):
   Progress report and new round of finding out new projects between the GOL and agencies