



Lao People's Democratic Republic
Peace Independence Democracy Unity Prosperity
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Summary

National Export Strategy (NES) for the period of 2011-2015

The National Export Strategy (NES) is divided into three parts as follows:

Part One: Export Situation and Recent Performance of the Lao PDR
(Based on 2008 data)

Part Two: The Contents of the National Export Strategy - 9 Sectoral Strategies
and 6 Cross-Sectoral Strategies -

Part Three: NES Implementation Measures

Part I. Export Situation and Recent Performance of the Lao PDR

(Based on 2008 data)

In the past few years, the composition of the country's exports comprised mostly of raw materials without any value-addition to its socio-economic development, particularly the export of agricultural and forestry products to neighbouring countries. Those raw materials will be processed into finished products to add more value, and then be re-exported. Such products include coffee, wood and minerals.

Since 2005 until now, processing industries for the domestic and export market (including furniture, canned sweet corn, cassava powder, coffee, and semi-finished sugar) have been developing gradually but are still at an infant stage. If we compare the export volume of finished products to the export of raw materials, finished products account for only a minor proportion of overall exports.

The FY 2007-2008 marked as a historic year for the Lao PDR as the country reached a trade balance: export values reached US\$ 1.06 billion, in which minerals accounted for US\$ 640.9 million (about 49%); garments - US\$ 258 million (25.65%); other industrial products - US\$ 17 million (1.75 %); electricity - US\$ 97.1 million (9.68%); agricultural products - US\$ 60 million (6%); wood products -US\$ 59.3 million (5.9%), polished diamonds (imported for re-export) - US\$ 27.6 million (2.75 %), and others.

In the same period, the tourism industry (export-in-place), which has been excluded from the calculation of the trade balance, amounted to US\$ 270 million, with the number of tourist arrivals at approximately 1.7 million people. Deforestation, on the other hand, that causes a great loss to the environment and brings less financial benefit to the nation, accounted for only US\$ 59 million. Conversely, the unpolluted sector of tourism brings

annual benefits for the country of around US\$ 270 million. Therefore, over the last three years, export volumes have tended to rise despite the major proportion being raw materials. In the same FY, import values amounted to US\$ 979 million with a positive trade balance (+), of which imports for domestic manufacturing and foreign investment accounted for 25%, consumption covered 49%, with the rest (about 26%) were goods for temporary import, for exhibitions, duty free shops, grants (assistance) and border trade.

In summary, domestic production or manufacturing of finished products for various purposes (domestic consumption and export) was conducted in compliance with market-oriented mechanisms under the guidance of the Party and administration, and regulation by the Government. These and other factors such as infrastructure, logistics support, labour skills, and public services need to be examined. Based on our observations, major exports were raw materials due to many objective and subjective reasons that require an in-depth analysis of the strengths, weaknesses, opportunities and threats (SWOT) of the concerned sectors, particularly, agriculture and forestry, transport, industry, trade, finance, banking sectors and so forth.

This document summarises some difficulties and problems occurring in the following export businesses:

- (1) Large-scale projects related to commodities production for export, with large concession areas (e.g. mining exploitation, eucalyptus and acacia plantations for paper pulp and fibre, sugarcane plantations, rubber plantations, etc.) are funded by foreign investors who also bring new technology and a market. Laos will benefit from these projects in the long-term. However, these projects will negatively affect rural people who once lived in those concession areas. If there are loopholes in agreements (or contracts) on the usage of land concessions, it will affect the fate of our posterity (future generations);
- (2) Commodities production projects for export by domestic investors are relied upon by bank loans and joint-venture investment (e.g., cassava powder, garments, furniture, handicrafts, etc.). These projects need support from the Government in the form of marketing, access to finance, and trade information. Their capabilities on international trade relations (bilateral and multi-lateral agreements) are still at the infant stage and are performing inconsistently, in other words, everybody is doing things their own way. The formation of groups and associations in order to create more bargaining power is just a guideline put forward by the Government and implementation remains weak;
- (3) Major challenges for the export sector of our country are the opening of the regional free trade area (AFTA) and the accession to become a member of the World Trade Organisation (WTO), so that in these forums, the Government must train its export business entrepreneurs to be ready for all aspects by using all of their potential and capacity to bring maximum benefit for the nation. The private sector alone cannot do this;

- (4) The Tourism Industry (export-in-place) is playing an important role in our national socio-economic development (NSED) because exporting products is risky with great distances between suppliers and overseas customers. In contrast, tourism brings customers into the country. Incoming foreign tourists consume in our country so we don't need to deliver goods abroad. Instead we can receive hard currency without paying transportation costs and without taking unnecessary risk.
- (5) In-country transportation costs are very high due to global oil price fluctuations that affect commodity prices, which in turn discourage producers from selling their products in the country. This indicates that the distribution of goods does not follow targets set by the Government: the price of goods in mountainous and lowland areas must be reasonable, according to the market economy mechanism, and any price speculation should not be allowed.
- (6) Investment in logistics service systems are needed in order to create an enabling infrastructure and facilitations aimed at turning the Lao PDR from a land-locked country into a land-linked country. If a system is still facing difficulties and providing low quality services at high cost, then no country will use the Lao PDR as a transit corridor.
- (7) The process of land allocation for commodities production for export is still not stable and clear. Currently, there are many conflicts of interest between local and foreign investors and landlords who reserve empty land for crops growing and animal breeding.

Part II. The Contents of the National Export Strategy-9 Sectoral Strategies and 6 Cross-Sectoral Strategies-

The formulation of sectoral strategies is based upon the potential and characteristics of our country with the following aims: these 9 sectoral strategies of NES will drive the National Economy of Lao PDR to grow gradually, serving as an efficient tool for the five-year Socio-Economic Development Plan (SEDP) during the period of 2011-2015, the National Poverty Eradication Programme, the 10-year Strategy and Development Plan of the Industry and Commerce Sector from now until 2020.

Therefore, the NES formulation is an urgent need, to act as a reference point for entrepreneurs, particularly to help them create their own business strategies and plans, both short-term and long-term. In the past their export businesses have been carried out in a desultory fashion by which the private sector operated without any common strategies formulated by the Government.

❖ Consistency of NES with expected outcomes of domestic and foreign investors

In the study and preparation phase of NES formulation, many documents have been

used as references, namely:

- (i) Resolutions of the 8th Congress of the Lao People's Revolutionary Party (LPRP);
- (ii) National Poverty Eradication Programme;
- (iii) Overall Vision on National Economic Development and a 10-year Development Plan of Sectoral Industry and Commerce (2010-2020);
- (iv) 6th five-year Socio-Economic Development Plan (2006-2010);
- (v) Number of relevant policies, legislations and laws related to trade and export;
- (vi) Current export performance and statistics during the years 2005-2008;
- (vii) Other documents of relevant economic sectors such as: tourism, hydro-power and mining development, handicrafts, processing industries, commerce, agriculture and forestry developments, etc.

When NES was completed in early 2005, (though not submitted to the Government meeting for approval), there were many export oriented commercial production projects that were invested and operated by the public and private sectors (domestic and foreign), which demonstrated that the formulated NES is complying with policies and with the direction of the Party and Government, the market economy mechanism and expectations of domestic and foreign entrepreneurs. Some of the achievements of the above-mentioned projects that are included in the current Industry and Commerce Strategy are as follows:

- (i) In the Wood Products Export Strategy:

There are large-scale foreign investments in eucalyptus plantations, such as, Lao Oji Plantation Company from Japan, Aditya Birla Lao Plantation Company for dissolving fibre production from India and other companies including smallholder teak plantations and furniture production projects for export by small enterprises and by association levels. Tree plantations for supplying raw materials to factories and for local community use will enable conditions to bring about a decline in the logging of natural forests and a permanent end to the activity in the near future to achieve the government goal: "by the year 2020 forests will cover areas of about 70 % of Lao PDR territory".

- (ii) In the Garment Export Strategy:

The project on capacity development for five Lao companies was completed, which enabled them to turn from contract manufacturing for foreign distributors into direct exporting (the project cost was \$324,000).

- (iii) In the Organic Agricultural Product Strategy:

There are some relevant projects on Homsangthong Organic Rice production in 870 ha in 10 villages in Sangthong district, Vientiane Capital, and Kai Noy Organic Rice in Houaphanh and Xiengkouang provinces, Homsavanh Rice in Savannakhet province, organic cassava production in an area of 120 ha in km 34, Hatsayfong district, Vientiane Capital. In the southern provinces there are some organic agricultural projects, such as Okura cultivation by a Japanese company in Thateng district, Sekong province; a Japanese cucumber plantation, medicinal plants, organic coffee plantation in Laongam District, Saravan Province; Ban Katuad coffee; Paksong and Bolaven Plateau coffee. In addition, there are also organic vegetables' plantation projects in 25 villages and an organic mulberry plantation project in Xiengkouang province.

(iv) In the Handicraft Strategy:

There was a project on Community's Handicraft Promotion and Development in four villages with 49 households in Champasak province. Their products are available in airport shops, in resorts, hotels, and tourist site retail outlets, etc.

(v) In the Medicinal Plants and Spices Export Strategy:

During the formulation of the Medicinal Plants and Spices Export Strategy, there was a regular supply of raw materials from medicinal plants to pharmaceutical factories, both non-traditional and traditional factories. Many of the products were exported and sold in pharmaceutical retail shops, products such as Kaphagnanak (Dragon) medicine, Kanoukham (Gold mouse) medicine and traditional medicines from other provinces. There were books on local traditional medicines published for sale by the Ministry of Public Health as well as ancient books on traditional medicine. These were rewritten from the palm leaves of old traditional physicians, and passed on from generation to generation to our present time.

(vi) In the Tourism Strategy:

As an export-in-place, there are varieties of handicraft products made from cotton, bamboo and wood art sculpture that are sold to tourists and visitors along with the selling of organic foods to restaurants located in communities and touristic sites.

❖ Why a National Export Strategy (NES) is needed?

In any country, there are many economic sectors. Each sector has many different responsibilities. Thus, the only way to better deal with those responsibilities is to prioritise them (based on the level of importance of tasks) and to know how to identify which tasks should be undertaken first to reduce time and cost (labour, capital) and maximise benefits.

The Strategy is an intention and needs to be implemented. To implement a Strategy, an organisation/sector must build a target-oriented action plan consisting of four harmonized plans: work-plan, human resources requirement plan, financial plan and coordination mechanism. Here, a financial plan is the critical factor for carrying out all other plans. In order to make timely decisions on any problems, both short-term and long-term capital is needed.

The formulation of the NES is based on the geographical and topographical conditions of the Lao country. Mountainous areas cover approximately 80 % of the total country, whereas the lowland areas account for only 20%, therefore all types of commercial production projects for local consumption and for export must be allocated in accordance with the characteristics and potential of each region/province in the country as follows:

- (i) In the high mountainous and hill areas, there are varieties of commercial production projects such as reforestation that preserves watershed flowing to hydropower dams. In the sloping land areas, there will be pasture and fruit plantations, organic vegetable projects for domestic consumption and export.

- (ii) In the hill areas, where there are waterfalls, hydro-power dams will be built to provide electricity for both domestic consumption and export. In the dam basins fish culture activities will be carried out to ensure the food security programme of the country. After generating electric power, the water from the dams will be re-used for irrigation in the lowland areas that double or triple value-addition.
- (iii) In the plateau and lowland areas of central and southern parts of the country there will be industrial crops and fruit plantations, pasture land development for supplying to both domestic and export markets.
- (iv) In the low hill and lowland areas, an irrigation system will be developed for rice, sweet corn, vegetables, fruit tree plantations, both for local consumption and export.
- (v) Underground, Lao territory composes a variety of minerals, which will be exploited and processed into finished products for both domestic consumption and export.

Although existing natural resources serve as a basic factor for wealth creation for the country, if our human resources are lacking knowledge on trade/commerce and management skills, or in other words, people do not know how to trade, the country's rate of development will much be slower.

In summary, in order to trade we must take into account the following points:

- (i) The question of the needs of a society and its consumers (our customers abroad). What kinds of food do they eat? What materials and styles of clothing do they look for? What do they wish for in the home? What medicines and health supplements do they need?
- (ii) Where is the demand and what quantities are needed? Is demand seasonal (change depending on the time of the year)?
- (iii) What level of quality is required and what price is acceptable for a product?
- (iv) What are the transportation costs? How long does it take to deliver goods to the customer?

Considering the characteristics, natural resources and geographical location of the country, the NES consists of 15 strategies, as follows:

a. 9 Sectoral Export Strategies:

- (1) Electricity (Hydro-power);
- (2) Tourism;
- (3) Organic agricultural products;
- (4) Mineral products;
- (5) Garments;
- (6) Lao silk and cotton handicraft;
- (7) Wood products;
- (8) Medicinal plants and spices;
- (9) Products from local talent;

b. 6 Cross-Sectoral Strategies and Concept Note of Drafting a Strategy on Export of Lao labour:

- (1) Export quality management;
- (2) Trade finance;
- (3) Trade information services;
- (4) Competitiveness development;
- (5) Marketing;
- (6) Import for re-export;
- (7) Concept note of drafting a strategy on export of Lao labour.

Based upon the hidden potentials, characteristics of natural conditions and geographical location of the country the vision and overall goal of the NES and the future image of the Lao PDR are set out as follows:

“To convert the Lao PDR to become a ‘battery of ASEAN’, where the electricity price is lower than the price in neighbouring countries; to become a transit corridor of the Mekong sub-region with modern logistics systems and low service costs thanks to the low price of electricity; to grow the tourism industry based on ecological ideas and Lao heritage, to be an industry leading sector; to ensure food safety efficiently responding and satisfying local consumption, and tourist markets, reserving surplus for export; a cheaper price for agricultural products due to chemical-free agricultural production methods; to ensure the availability of varieties of medicinal plants, herbs and spices for use in local healthcare and treatments and for export; to ensure the availability of various kinds of handicraft products with an exclusive identity for domestic consumption, souvenirs and export; a transformed garment industry with low tax incentives; to restore green forests (green gold) to Lao PDR territory by about 70% of its total territory by 2020, serving as water sources (watershed) to the dams of hydro-power stations as well as preventing water sources from depleting in the long-term; if needed, exploit varieties of existing mineral deposits, while taking into account the environment as a very important issue in all strategic sectors’ development.”

a. 9 Sectoral Export Strategies:

1. Strategy on Export of Electricity (Hydro-power)

The Strategy vision is: **“Lao PDR is to become a battery of ASEAN countries. By the year 2020, forests will recover about 70 % of its territory and will have sustainable water sources to feed the dams (reservoirs) in the long-term. What the country wants is lower electricity costs compared to its neighbouring countries.”**

Electricity is one of the energy sources consisting of electric power, electricity voltages and electric energy produced by material-based electric power sources: hydro, wind and solar energies, fuel and coal. The management mechanism of production, delivery and distribution, including the export and import of electricity, by effectively using the potential

of natural resources, contributes to the implementation of the national socio-economic development plan and gradually upgrades the living conditions of all Lao and ethnic people.

The National Economic Structure of the Lao PDR is a multi-sector economy including public, private, domestic and foreign investors, household economies, partnerships and cooperatives. Therefore, the GOL introduced an investment promotion policy in various commercial production and trading projects including the electricity production sector under the Law on Investment in the Lao PDR to meet the requirements of all Lao and ethnic people in urban and rural areas, as well as to develop electricity production for export.

Thanks to the Lao PDR's potential with its water resources and rich forest land, the GOL encourages more investment in hydropower energy over other types of energy by allowing investment in various types such as:

- (i) Sole investment;
- (ii) Joint-venture between the state and other domestic or foreign investors;
- (iii) Cooperative investment or domestic private investment.

There are various forms of investment that can be operated by invested enterprises such as:

- (i) Build , Operate and Transfer (BOT);
- (ii) Build ,Operate , Ownership and Transfer (BOOT);
- (iii) Build ,Transfer and Financial Relations (BTF);
- (iv) The State operates by authorizing the Electricity du Laos Company to operate as an agent;
- (v) Other types of investment.

The cost of electricity is a component of the commodity price structure and of service charges. The government is playing an intervention role on price control and policy formulation by using the price as a lever to promote and develop various sectors and make decisions on the different rates of electricity prices dependant on different periods and purposes. They are divided into four types as follows:

- (i) Export and import prices to and from foreign countries;
- (ii) Domestic price set for industrial and agriculture production;
- (iii) Consumption prices set for users in rural and remote areas;
- (iv) Consumption prices set for users in service sectors and others.

As mentioned above, the Lao Government's goal is to convert Lao PDR into the battery of ASEAN by taking its comparative advantages in water resources (numerous rivers, rich in forest as a major source of water to flow into watershed reservoirs and generate electric power). The export value of electricity of our country has risen steadily and the number of investors in this sector has increased, so in the year 2008, the export value of electricity accounted for US\$ 97.1 million, covering about 9.7% of total export value.

As the main raw material for generating electric power is water, hydro-power dams shall be constructed whilst taking into account environmental protection and be in compliance

with the Electricity Law. Forests, rivers, and their contributories are an integral part of the eco-system, and it is useless to the dam constructions without natural water flows.

The export of electricity to neighbouring countries, such as Thailand is an attraction to investors for developing hydro-power projects in the Lao PDR. The production of electricity is not only for the purpose of export, but should also serve the demands of domestic consumption which is gradually increasing. By 2016 the overall demand will increase by about 13% if we compare to the level of demand in 2007. This demand includes electricity use in:

- (i) The mining industry;
- (ii) Electrification in rural areas to achieve the government's goal in the National Poverty Alleviation Programme of 2015.

Based upon natural water resources and huge investments in hydro-power projects, the Strategy on Export of Electricity will concentrate on the following issues below:

- (1) Concession periods for foreign investors in the electricity sector is ranging from 30 to 40 years before transfer of ownership to the government, insistent upon the use and transferred assets shall be: "in good condition, workable and that any compensation is not required". However, during the concession period there is a need to capitalise on promotional electricity pricing, serving as an incentive to accelerate commercial production, manufacturing projects and logistics services for export without waiting for the expiry date of a concession agreement. That would be too late, bearing in mind that, 'Golden opportunities won't always knock on the door' (Lao proverb).
- (2) Electricity pricing in the domestic market must be the lowest compared to neighbouring countries and the lowest or very near to being the lowest of all ASEAN countries, so that the name, 'Battery of ASEAN' is perfectly suitable.
- (3) Electricity charges in the sector of production for export ranging from raw materials production, manufacturing (processing) shall determine policy differently from commercial production in general and be calculated in foreign currency via bank settlement only (non use of cash) so that the export business can be more flexible and competitive since exporters receive credit from the banks in foreign currency. This is an advantage to the costs involved in currency depreciation caused by a stronger Kip (LAK), which affects the selling price of Lao products in the global market.

2. Tourism Strategy

The vision of the Tourism Strategy is: **"During one's stay, eat organic local food, adopt the styles and culture of the handicraft community, take into account cultural and environmental preservation and embrace the eco-tourism approach, distribute income from urban to poor rural areas by undertaking an active and diversified tourism "Lao people travel in the Lao country"**.

The tourism industry is a comprehensive system of services, comprising of services for immigration processing for travellers, transportation vehicles, accommodation, food, tourist sites and shops. By definition “The tourism industry is a non-polluting factory, or in other words, tourism is an export-in-place of goods. This industry supports the expansion of various types of services such as telecommunications, banking, insurance, transportation and professional business services which do not just facilitate trade, but are also important elements of international trade”.

In the tourism sector, the Lao PDR is named as “Jewel of the Mekong River”. The investment in tourism in the Lao PDR is increasing steadily. For example, in 2008, investment value in the sector rose to US\$ 307 million, in which domestic investment was US\$ 208 million indicating ownership and solid confidence in the future of potential growth of the tourism industry in our country. The tourism industry is an industry that generates income and distributes it to entire communities. Tourism activities are public-characterised activities in which anyone can take part and receive benefits according to personal, community’s and company’s abilities to provide services. Even with a small fund, anyone can join in tourism activities.

The tourism sector in our country is based on comparative advantages, its uniqueness of natural sites maintained in their original state from ancient times, sources of antiques and historical traces of different epochs, various non-repeated traditions and ethnic culture such as decorative design of handicraft products in 17 provinces, each of which has its own identity and characteristics, and rare to see in the developed world. Based on past data, in the FY 2007-2008 tourist arrivals reached 1,700,000 people, generating income of US\$ 270 million for the economy.

In contrast, the export value of wood products was only US\$ 59 million. This relatively low figure highlights the fact that our forest environment is being severely damaged in return for minimal contributions to the nation’s economy. Moreover, these contributions could be considered worthless if we compare them to the value lost in forest and biodiversity. In summary, the amount of timber being smuggled and exported along our borders do not create value-addition for the country, but has created it in neighbouring countries at a value of billions of US\$. In contrast, the tourism industry creates a greater flow of revenue into our economy via service provisions and enabling facilitations in all sectors nationwide.

In order to develop the tourism industry steadily, the Lao National Tourism Authority has its own development strategy. The Industry and Commerce Sector will focus on only some areas that relate to commercial production and marketing. The Tourism Strategy will concentrate on the following issues:

- (1) Encourage a décor-style in hotels, guesthouses, and restaurants and to become markets for items of high quality environmentally friendly products, such as naturally dyed cotton and silk textiles, handicrafts and bamboo products. Encourage the consumption of Lao-made products and introduce a strict regulation on domestic consumption.

- (2) Turn the kitchens in hotels, restaurants, and cafes into centres for selling organic agricultural products. This will be one of solutions for poor villagers to eradicate poverty.
- (3) Introduce bank loans with low interest rates to actively and extensively support community tourism activities such as credit for organic agriculture and ethnic handicraft production, using the One District One Product (ODOP) process, as well as ‘home- stays’ that provide accommodation for tourists visiting rural areas.
- (4) Allocate and renovate eco-tourism sites, with community participation maintain the primitive locality and cleanliness, history, lifestyle, tradition and ethnic customs. Prevent socially unacceptable behaviour from entering tourism areas.
- (5) Revise existing regulations to permit travel and domestic stay in a consistent manner, for example, tourists are able to renew their visas in every province, permission is granted to tourists that hold border passes to travel through 2-3 provinces, and roll out community touring and local campaigns - “Lao tours Lao activities” as a national movement, especially during the widespread global financial crisis and as one of the measures in implementing the National Poverty Eradication Programme.

3. Organic Agricultural Products Export Strategy

The vision of the Organic Agricultural Products Export Strategy is: **“To turn domestic consumption into a market for organic agricultural products within a holistic and comprehensive system. Organic products for export and for domestic consumption are of the same quality with packaging being the only difference”**.

As a result of underdevelopment and backwardness, the country’s environment of natural resources, land fertility, and water has held its original diversity. The use of chemical fertilisers in the Lao PDR was on average, only 12 kg per hectare and in many remote areas there is no use of chemical fertilisers at all. Compared to neighbouring countries, Laos has shown great potential and opportunities exist for the development of organic agriculture. Currently, varieties of organic agricultural products have started to be developed, such as Homsangthong rice, Kaynoy rice, vegetables, fruits, Ban Katouat coffee of Paksong District (Champasak Province), coffee of Laongam District (Saravan Province), and fingernail beans of Thateng District (Sekong Province).

At present, the promotion and development of organic agricultural products in the Lao PDR is reaching to a point that:

- (i) There is a marking system for a quality guarantee issued by the Ministry of Agriculture and Forestry;
- (ii) An association of organic agricultural products has been set up;
- (iii) Regular training/workshops for farmers are conducted to educate them to have a deeper understanding of the great importance of organic agricultural products, good quality agricultural products with chemical inputs, following technical rules, but without residues. For this, the Department of Agriculture has published detailed instructive handbooks to guide farmers;

- (iv) Trade fairs on organic vegetables are being organised twice a week (on Wednesdays and Saturdays) in Vientiane Capital nearby That Luang square. Currently, it is in the process of seeking a permanent outlet for the organisation of such fairs.

However, the understanding of organic products is still not wide-spread among the public, because it is middlemen that collect products from organic farmers, not the consumers. Furthermore, the high price of products and crop smuggling along the borders also make for confusion among consumers. Therefore, the Organic Agricultural Products Export Strategy will emphasise the following issues:

- (1) Build a unified standard for organic agricultural products in the producer markets (for their own consumption), markets in the big cities and wholesale markets for restaurants and hotels, and export;
- (2) Build a network for farmers along with quality control and packaging warehouses and price setting based on quality standards, GI (product geographical indicator) and existing guarantee logo already widely accepted by domestic and foreign consumers;
- (3) Allocate specific markets for organic agricultural products in provincial areas starting as a pilot activity in a suburb of Vientiane Capital and reduce the import of chemical substances in crop plantations that aim to reduce costs and save foreign currencies, (currently there are 6 markets in four provinces established under the Small Holder Development Project using loans from ADB, which can be used for this purpose);
- (4) Build the Lao Promotion Organic Product Association's network with foreign sales agents (distribution) via exhibition centres, seminars and study tours in organic crops gardens, and place advertisements through the mass media etc.;
- (5) Use organic crops gardens as various tourism sites, as training centres for youth studies on the eco-system etc.

4. Strategy on Export of Mineral Products

The vision of this strategy is: **“Mineral products can create a large amount of money. However, if we spend that money unwisely, the revenues can quickly disappear. Therefore, we should divide funds into several parts: one part to be put into a fund for agriculture and livestock. A second part will be used for reforestation (buried green gold on the ground). The third part will form a heritage fund for multi-generation posterity. Our children, grandchildren and great-grandchildren will know and understand clearly that the source of this money were from exploited minerals from underground”.**

Over many years, mineral products have played an essential role in our national socio-economic development, such as in the FY 2007-2008, Lao PDR achieved a trade balance which marked an historic milestone for the country. If we add in the income of US\$ 270 million from the tourism sector, the trade surplus balance would be greater.

Currently, the mining sector is in the process of revising its existing law, which private investors are following.

Exports of mineral products are increasing steadily, for instance, in the FY 2004-2005, the export value of minerals was US\$ 45.3 million (covered about 9.95%). Then, in 2008 the export value jumped to US\$ 640.9 million which covered 49% of the total export value of the Lao PDR.

The value of mineral products covers the highest proportion among all exported products. Nevertheless, the mineral products being exported were still in the form of raw materials (copper ore) and semi-processed products (gold bullion). Until now the export quantities of mineral products are as follows: Gold - 7 tons per year and copper ore - 60,000 tons per year. Besides this, the importation of rough diamonds for polishing and re-export has a value of US\$ 27.6 million which covers about 2.7% of total exports.

At present, there are 132 mining companies in operation including the Sepone Gold project in Savannakhet Province, which has exported gold products for many years.

In addition, there is also Phoubia Company's gold and copper project that produced copper ore of about 65,000 tons (at the end of 2009) and an ongoing bauxite project in Bolaven Plateau with an investment amount of US\$ 4 billion.

Government policy supporting the mining sector is as follows:

The Government applies the newly amended mining Law as a tool to regulate and develop the mining sector in parallel with the newly amended Law on Investment in the Lao PDR.

While the Lao PDR lacks huge capital to develop the mining and other sectors, the Government encourages both domestic and foreign investors to invest in the country in various forms in order to develop and strengthen the industry contributing to the rapid growth of the Lao economy. The Government has a policy to allow investors to conduct exploration and create a mine database, but many investors do not want to disclose accurate information for reasons of business confidentiality.

However, the Ministry of Energy and Mines (MEM) has completed a geological survey covering 65% of total territory of our country. The remaining areas were assigned to local authorities to complete the survey by 2015. The preliminary survey indicated that Laos has large reserves of different types of minerals some of which are as follows:

Coal ore—about 374 million tons, limestone—44 million tons, bauxite—125 million tons, iron ore—14 million tons, gypsum —128 million tons, potassium—399 million tons, copper ore—182 million ton, gold ore—17 million tons, and others.

Mineral products are valuable underground resources. They are depleting and once they are fully exploited, they will be depleted forever. In this sense, mineral products are completely different from agriculture, livestock and forest products that have their own

growth rotation in seasonal cycles. Therefore, it is true that “goods and money earned from the sale of mineral products must be used wisely and cautiously. These mineral products must be processed only into finished products so that they can create maximal value addition to the country before being exported. Furthermore, the financial benefits that mineral products bring are worthless compared to the potentially extreme negative impacts on the environment. There must be a balance otherwise it doesn’t make sense to exploit them. “It is better to prevent the small flame before the wind blows and lets the fire spread everywhere”. (Lao proverb)

Some of the issues in the mining sector, in terms of future impacts, have been addressed with data collected by some foreign countries. These data must be taken into account and are as follows:

- A declining economic and financial situation due to the large amount of money that used to be earned annually will not exist anymore once minerals are depleted. Then, workers that used to work in the mining sector, will lose their jobs and they would need time for re-training in new jobs;
- Possible increases in waste, corruption and conflicts of interest in the mining business;
- Strong correlation between high mineral dependence and increased poverty and income inequality;
- Environmental and social impacts;
- Damage to land and water resources;
- Pollution;
- Clean up costs. (companies should not leave the government with a mess to clean up);
- Damage to other sectors of the economy due to the National Budget Deficit, the meaning is that revenue received from the mining sector has since disappeared;
- Reduced regular tax collection after the minerals’ depletion.

Given the realistic feature of the mining sector as an important sector of the economy in generating huge funds for the nation and as a sector that requires close and cautious attention, the Strategy on Export of Mineral products will focus on the following issues:

- (1) The environment is even more important than minerals because the production of goods (agriculture + livestock) for many centuries has a higher value compared to the exploitation of minerals. Thus, if the reserve of minerals is worthless to invest in, it would be better not to do so. Much evidence shows that many countries in the world have become rich, not simply by depending on the sales of mineral products.
- (2) Minerals to be exported should be processed into finished or semi-finished products. Allowing the export of minerals in the form of raw materials will discourage the construction of factories. Minerals as raw materials are somewhat different from raw materials in agriculture and forestry sector.
- (3) In the mining sector there are always transfers of concession rights as apparently found in the past. Therefore we must be careful, while the first investor of the concession takes the benefits and then disappears, and it also happens that the last investor, of the same concession, will not pay attention to the previous feasibility

study report proposed at the time of asking for the concession. In the end it is the government that has to recover the situation and make-good, for example, refilling pond areas (where the minerals had been exploited) and provide for reforestation. Without preventive measures at the beginning investors will abandon local people and the government will be left responsible to recover the situation.

As previously explained, minerals are non-renewable assets and if over-exploited, they will disappear forever. Once the environment is damaged, it is not easy to return nature to its original state. Therefore, in the national budget it would be desirable to separate some parts of the budget revenue collected from the mining sector from regular revenue, and allocate mining revenue into an environmental recovery fund or into the special agriculture and forestry development fund. This could provide credit with low interest rates to export-oriented commercial production projects and to local farmers for plantations and animal-raising. This is a method of burying minerals on the ground and making them never depleted. On the contrary, if we put all money into a single basket, it is hard to identify the money earned from the mining sector from what is used for administrative purposes. Because in the FY 2007-2008 the export value of our country was over the import value as a result of the high value of minerals export. In the future, if minerals are depleted, this revenue will cease. If we create a fund, we will be able to examine instantly that the money earned from the sales of minerals is growing. This is a valuable gift for the future of our young generation.

5. *Garments Export Strategy*

The vision of the Garments Export Strategy is: **“To transform domestic and export markets of Lao garments to become a common and single market; to prevent waste of garment products, products with low quality and low price from penetrating the domestic market and to avoid our country being a waste bin of neighbouring countries”**.

Based on the latest information, in the FY 2008-2009, garment exports dropped by about 10% as a result of the global financial crisis. However, the garment sector was still able to maintain its existing market and export volume. For instance, in 2008, garment exports amounted to US\$ 258 million covering 25.6% of the country's total export volume. Since the Lao PDR's declaration of independence, the garment sector has been constantly developed and improved, and has become a sector strong in helping prevent unemployment by creating secure jobs, particularly for Lao women, for around 28,000-30,000 people per year. Despite the garment sector's many export achievements, with the current challenges posed by the global financial crisis, the sector must revise its previous strategy to mitigate the negative impacts of the crisis and seek ways to turn it into an opportunity. We all understand the background of the garment export sector, that there were foreign investors who brought capital and markets and utilised the preferences of the MFN (most favoured nations) granted by developed countries to LDCs (Least Developed Countries), such as the free quota system for imports (e.g. EBA), the non-tariff system, and hired low cost labour in our country. Over past years, domestic investors have learned lessons and gained experiences from its previous generation. There were many forms of investment in this sector, such as joint-ventures, CMT

(Cut, Make and Trim), direct export and others with the aim of retaining more benefit in the country.

Taking into account the significance and past achievements of the garment industry, this strategy will concentrate on the following issues:

- (1) To maintain existing markets in the long-term so that unemployment is prevented in the sector;
- (2) To apply the lessons and experiences of the new era to support the garment sector by using various forms of investment, such as foreign and domestic investment, joint-venture, CMT and direct exporting;
- (3) To re-study the domestic garment market in order to prevent the importation of 'idle' garments from neighbouring countries, of low price and quality, that hit the domestic market;
- (4) To transform the garment industry sector into a modern industry by replacing old machines with new ones in its factories;
- (5) To focus seriously on implementing cotton plantation projects and sericulture projects;
- (6) Besides general skills development centres, the Association of the Lao Garment Industry must have their own training centre with tripartite participation (public, private and support from international development partners).

6. Strategy on Export of Lao Silk and Cotton Handicrafts

The vision of this strategy is: **“Cotton and silk handicrafts are our heritage passed down through generations and used to reflect the national customs of Lao citizens such as government officers, and used in decorative items, uniforms for schools, colleges, institutes, universities, hospitals, resorts, hotels, restaurants, community touristic sites etc., also used as gifts and souvenirs for visitors. In addition with efforts of designing and developing them consistently, they became attractive and demanding items for overseas customers”.**

Cotton and silk handicraft products are one of the locally handmade products that were the result of heritage effort from previous generations to our current generation (such as naturally dyed clothing, cotton plantations, silkworm-raising or sericulture). We can say that cotton and silk handicrafts are not only gifts and general goods to buy and sell in the market, but they also demonstrate our Lao treasure, heritage and culture as well.

Handicraft activities are closely connected with the lifestyle of all Lao ethnic minorities from various generations and eras, beginning from ancient times to the present day. Handicraft skills have become the culture, with a familiarity in traditions and customs, and in lifestyle giving an identity for each ethnic minority and locality. Colourful art shown in handicraft products demonstrates art that is neat and beautiful and created with great effort and imagination, e.g. wood sculpture, wood carving, bamboo craft, weaving and embroidery, made by each ethnic minority in a different way making it very hard to evaluate the true value

and calculate the appropriate price for the finished product. Interested buyers can only make decisions based on their own evaluation.

In ancient times, handicraft products were produced without targeted marketing. Some products were produced for household consumption only, for the next generation that aimed at letting the young generation know about family hard work, and for gifts, souvenirs, etc..

The export of traditional naturally dyed cotton and handicraft products were in many forms, such as gifts selling to different levels of guests, tourists, through post office services, parcels for passengers, and selling at trade fairs and festivals.

The data on export values of handicraft products, including cotton and silk products, is not outstanding due to their high price. However, they are still highly profitable and with their low weight, transporting products by air is not cost prohibitive. Cotton and silk handicraft products for domestic consumption can play a role in substituting imports saving millions of dollars per year. They are exported through various forms as explained above. The production of silk and cotton handicraft products requires a minimal investment, but can generate huge profits or earnings and higher than expected due to neat skills and imaginative design - products with outstanding features and high implicit value.

The income generated from the sale of silk and cotton handicraft products is not a lump-sum amount of money, but regular income that can support Lao families all of the time, for instance, to support their children's education. Generally, the cotton and silk product export sector has actively and steadily contributed to the socio-economic development of the country. Despite the consequences of the global financial crisis, the sector can survive and continue to develop gradually.

However, taking into account the difficulties and challenges the sector is facing, the cotton and silk handicraft products export strategy will emphasise the following issues:

- (1) Turning the supply of raw materials (cotton and silk) to be secured and systematic in cotton promotion, silkworm-raising, the allocation of forest areas for colouring bark, cotton plantation areas and sericulture;
- (2) The supply of equipment and efficient technology to provide strong support to the sector;
- (3) The joining as a group to create a trade bargaining power. Skills development training is a must and be paid serious attention;
- (4) The establishment of a handicraft development fund as one of the alternatives for handicraft groups including the cotton and silk sector. For those who can already have access to a bank, they shall concentrate on creating sustainable sources of raw materials for the sector, especially cotton plantations and sericulture to be able to increase more coverage in terms of the bank credit system;
- (5) The arrangement of booths/stands and regular shops, within the country and overseas, is needed. In countries where these products have already penetrated the market, an additional in-depth and serious market study of handicraft products is needed.

7. Wood Products Export Strategy

The vision of the wood products strategy is: **“Forest (wood) is green gold on the ground that can gradually create value-addition in all production chains. Wood is exploited without depletion, for instance, from plantations areas owned by farmers and companies, both local and foreign, from planted forest certified by the Government and international agencies with a current area of about 3.08 hectares. Each year the certified area will be increased by up to 3.2 million hectares by 2020”.**

The export of wood products is similar to other types of products that are affected by the global financial crisis, due to a declining demand in the world market, as consumers become more cautious with their household expenditure.

Product development in the forestry sector is closely linked to the environment when, for example, land is cleared to convert natural forest areas into plantations. In the rush to meet market demand, the absence of surveys or detailed analysis of land allocation can have a detrimental effect on the environment. For example, in the plenary session of the National Assembly held during June to 9th July 2009, all expressed concern and displeasure at the great loss of natural forest (particularly, the National Conservation Forest Areas) and environment destroyed by groups of unscrupulous people, and which contradicts government policy, that focuses on sustainable development and implementing the Strategy on Forestry Development from now until 2020 (the improvement and increase of the current degraded forest condition (42.5%) to the expected level (70%) by the year 2020), a challenging target for the nation and Lao people.

Export values of wood products in the year 2008 stood at US\$ 59.3 million and accounted for 5.9% of total export volumes. Compared to US\$270 million revenue earned by the tourism industry for socio-economic development, it is obvious that any ‘benefits’ of destroying natural forests are valueless.

The concerns over losing natural forest have reached maximum level. The following clause has been raised in the 7th session of the VIth National Assembly:

“The encroachment on protected areas is the result of the expansion of industrial crop plantations. Deforestation has occurred due to a lack of land surveys for commercial crop plantations and a lack of clear land allocation policies, particularly in Luang Namtha and Attapeu provinces. Forestry loss was related to the failure of monitoring the implementation of investment projects. These affected the livelihoods of local people and the potential of hydropower development of our country”.

We all recognise that the neighbouring countries they use our raw materials (from natural forest resources) to create value-addition (of billions of dollars) because they have the highly-skilled labour and market. As for us, we sell natural forest resources in substantial quantities, but our country and people are still not able to rise above poverty status in the short-term. Thus, we need to revise our previous strategies that were set in the past and modify them so that they are consistent with current changes.

Future expectations in implementing the Wood Product Export Strategy of our country are as follows:

- (i) From now till the year 2020, forest coverage is expected to return to a level of 70%. At that time, trees will become green gold on the ground and will be economically used by using high technology. All parts of planted and natural forest wood will be effectively used and in a sustainable way;
- (ii) Paper production factories using eucalyptus and acacia wood from foreign investment (Japanese Oji Lao Plantation and Chinese Shan Dong Sun Paper Industry Company) will be established in Laos;
- (iii) A pulp production factory using eucalyptus wood from Lao Aditya Birla Plantations (India) will be established;
- (iv) Lao furniture will reach international standard and have a national brand in order to sell to government and private offices locally as well as to export to the overseas market.

Based on characteristics and potentials of Lao forest, the Wood Product Export Strategy will concentrate on the following issues:

- (1) Upgrade Lao furniture to international standard and sustain the domestic market in times when a global financial crisis occurs;
- (2) Improve existing wood processing factories to reach a standard with four dimensions proportional to the market-oriented mechanism (raw materials from planted gardens and internationally certified natural planted forest, processing technology, capital and market) so that the wood can create a value-addition in each production chain;
- (3) Allocate and create stocks of raw materials (logs) to supply the processing factories in the long-term and in a comprehensive manner (from planted gardens of firms and farmers, from natural planted forests allocated by the Government and internationally certified by the FSC - Forest Stewardship Council);
- (4) Develop human resources in the wood processing sector to upgrade labour skills continually in the short-term; building vocational schools; hiring permanent foreign craftspeople and experts;
- (5) Building national and provincial furniture and decorative product exhibition centres in suburban areas by linking with studies, research, cultural and wood handicraft tours, rare-tree plantations (e.g. rosewood and khamhoung). Currently, there are few companies dealing with these activities;
- (6) Modernising tree plantations and wood processing industries by introducing new equipment and state of the art technology into the sector, Classifying the export of finished wood products into three levels (small, medium and large scale) according to their own permanent clients and market demand starting from restructuring the most mature factories, and then gradually expanding them over time;
- (7) Modify the management methods of enterprises and the Government by collaborating on searching for the market penetration instead of just waiting for buyers at home;

- (8) Organising active tree plantation campaigns following the slogan: “Tree growing activity is like burying green gold in the gardens which will become a heritage for our next young generation. While trees are grown, they can be sold and replaced through reforestation. It is much better than gold ore filtering along the rivers searching for luck”.
- (9) Linking five plans together (work plan, financial plan, marketing plan, financing plan, raw material requirement plan and coordination mechanism).

8. Medicinal Plants and Spices Export Strategy

The vision of this strategy is: **“The Pharmaceutical industry is the main market for rural people living in 47 of the poorest districts who grow and collect traditional medicinal plants from natural forest. Small scale export of these products will be carried out by traditional medicine (e.g. medicinal plants) business units. The use of traditional and main-stream medicines in the country is considered as an export-in-place, with knowledge spread by the word-of-mouth of patients. To promote and use of traditional medicine, as well as the use of modern medicines, and administering to patients from the first signs of illness will cure the patient rather than just leaving to the hands of alternative medicine doctors”.**

Traditional medicines made from crops, vegetables, plants from gardens and the forest, originated in ancient times, well before the existence of modern medicine. In spite of the many breakthroughs modern medicine in the science era, there are some types of diseases that modern physicians cannot cure. The traditional physician’s knowledge and wisdom passed down through generations can be a last resort to bring healing or relief to terminally ill patients.

Such facts are the true stories of traditional medicine adding variety to the medicinal sector in our country, to include both non-traditional and traditional physicians. Drugs and traditional medicines in the form of tablets, herbs, tree bark and roots boiled in water and liquid types are available to patients and gives them alternatives for them to use, for example, Dragon brand, Golden mouse brand, etc..

Exports and sales of Lao traditional medicines in local markets are known to people through word of mouth, and through the guidelines and instructions of traditional physicians.

Due to the great importance of traditional medicines, this Strategy will focus on the following issues:

- (1) Instructions, guidelines and advice on how to take tablets in the right manner, explaining the dangers as well as usefulness of various traditional medicines; the building of village clinics where both non-traditional and traditional physicians jointly work and advertise their importance of place;

- (2) Forests, as major sources of traditional medicines have been destroyed due to the ignorance (lack of knowledge) of local villagers. Therefore, it is essential to preserve forests and replant them for sustainability;
- (3) The promotion of exporting traditional medicines with national high quality standards that are certified by traditional physicians and the national medical profession;
- (4) Promotional activities related to the preservation of plantations, the buying and selling of products from medicinal plants and spices is considered as a profession for rural people to regularly supply raw materials to factories so that they become activities of poverty eradication. Currently, there are 195,709 poor people living in rural areas, mainly in the northern part of the country accounting for 51%, in the central part about 32 %, and in the southern part about 17%.

9. Export Strategy on Products from Local Talent

The vision of the Strategy on Export of Products made from Local Talent is: **“Talent passed on from previous generations. As human beings, mankind must learn and observe. Spirituality in products will lead to country civilization”**.

By definition, any product from local talent always refers to products using local raw materials, historical and cultural items (products) that do not require huge investment and expensive technology that are beyond the capacity of local people.

Some products made from local talent may cover the “One District One Product - ODOP) which is an active ongoing commercial production process across the country.

Furthermore, products made from local talent will also include artistic products, cultural products, cotton and silk handicraft products, sculptured wood products, decorative products made from diamonds, gold, silver, brass and precious stones. These products are of low weight with compact forms, and high in price. They can be shipped by air by parcel, or carried in passenger suitcases. Transportation costs do not affect the profitability of producers and traders.

Currently, there are a variety of products in our country locally made by local talent. Full information (statistics) on these products is still not available.

Therefore, the Strategy on Export of Products made from local talent will focus on the following issues as below:

- (1) The main market for products made from local talent is: export-in-place (selling to tourists; selling to domestic and foreign guests in forms of gifts; selling at festival events and trade fairs);
- (2) Some products made from local talent are “ODOP” products. Their markets are domestic festival events; offices, schools, hospitals, companies, hotels (selling in the form of uniforms); art performance shows; clothing or logos for various conferences,

such as Party, Youth, Women, Trade Union's conferences at different levels. The use of these products will help to economise hard currency as well as make for import substitution;

- (3) Products made from local talent also include high-skill handicraft products, such as clothing, cotton and silk cloths, woodcrafts, pictures crafted into silver plates, decorative products, silver, gold and bronze items designed by skilled designers, difficult to imitate or copy. These products have a high value without the need of price bargaining in general markets, have compact forms, and are light-weight easily carried by air transport, and sent overseas for participating in international exhibitions and trade fairs.

b. 6 Cross-Sectoral Strategies and a Concept Note of Drafting a Strategy on Export of Lao Labour:

1. Strategy on Export Quality Management

The vision of the Strategy on Export Quality Management is: **“To ensure the three dimensions of management: (i) Quality control of products in the long-term and in a sustainable manner, (ii) Export services, and (iii) Prevention of contaminants inside the product or products lacking in any standard that can cause harm to consumer health”.**

An export process has many stages and involves the work of different agencies, such as export documentation services, logistic systems, revenue collection from export businesses, ISO certification at different levels (factory level, national level, regional level and international level) and Sanitary and Phytosanitary control. If concerned administrative bodies do not work in the same and systematic manner, the export process cannot be efficient or will face high costs causing delays in supplying goods to consumers or goods being returned to the exporting country because of contract breaching. In addition, the quality standard certifying agency (institution) is not strong enough and still lacking in modern instruments due to the lack of appropriate Government budget allocated for this activity.

Therefore, the Strategy on Export Quality Management will concentrate on the following main issues:

- (1) The formulation of export policy must be precise and compact, for instance, the utilisation of a one stop service (OSS); the required documents by governments and documents required by foreign partners (such as, contract, sanitary and phytosanitary -SPS-certification);
- (2) Quality and standard creation for products must be done in place (inside the factory). Production units and the workers themselves must have good discipline, ethics and motto. They must recognise that the life and safety of the product's consumers are their responsibility and follow procedures stringently. Only a small amount of contaminants found inside the product can lead to the loss of brand image and suspend business immediately, or even cause the collapse of the company. Therefore, training on quality standards and product quality control must

- be seriously considered. The creation of a quality control unit inside the factory at internal level is essential and brings credibility and good reputation;
- (3) Budgets shall be allocated appropriately to upgrade technical skills in the factory at the beginning and upgrade production techniques and technology into a certain ISO level. The design and construction of factory must be internationally recognised;
 - (4) Actively promote or carry out campaigns on the use of high quality standard products domestically made as main measures to combat imported idle products of lower quality and cheap price. The latter will turn Laos into becoming a country for the garbage bins of neighbouring countries. Advertising that consumption of high quality products made domestically shall prevent hard currency from flowing out of the country.

The creation of a Lao product brand that meets a national standard will be a good starting point for the development of standards at regional and international levels. Foreigners and tourists, through word-of-mouth, will be one of the mechanisms for the promotion of quality products made domestically in Laos. At present, a design for the Lao National Quality Product Standard (Lao product brand name) has been completed. This activity has been supported by the project, “Product Geographical Origin Indications”, under the supervision of the Agriculture and Forestry Research Institute (NAFRI).

2. Strategy on Trade Finance

The vision of Strategy on Trade Finance is: **“To redefine new forms of cash financing, goods-money (the cycle of converting goods into cash), and create commodity funds among commercial producers’ and business groups. The bank will be only a national cash service provider and administrator, not a real creditor and cash borrowers not a real debtors due to the collateral value used for loan guarantees, including objects and items in the farm assets and inventory values in the warehouses of borrowers are higher than cash amounts withdrawn from the bank. In other words, both parties (bank and investor) are investment partners whereas the bank invests in cash and the investor invests in in-kind”.**

Trade hereafter refers to overall production and business operation. Currently, conducting business in the Lao PDR is still faced with difficulties. For instance, the implementation of existing laws and regulations is still ineffective, particularly the newly amended Investment Promotion Law which has been approved by the National Assembly and is now under the enforcement process. In summary, all short-term and long-term investment projects are based on this Investment Promotion Law.

Credit financing, provided by the banks presented in this Strategy, is given special focus on the particular issues since access to finance (credit), especially long-term credit for agricultural and forestry production projects, is very difficult due to their high risk and the banking system itself that lacks long-term financial resources. This is going against the policies and directions of the Lao government that considers the agriculture and forestry sector as a core sector. In 2007, commercial banks provided loans to this sector of only 10%.

The underlying reasons are due to short-term deposits that stayed in accounts for an average of from three to twelve months.

The difficulties of dealing with credit from the banks are due to many reasons, from the capacity of borrowers to the banking system itself.

The banking system of the Lao PDR is very small compared to the size of the country's GDP as opposed to the lending capacity of its neighbouring countries and their GDPs. Deposit mobilisation is a challenging issue due to the demands of loans being higher than deposits, especially in long-term project development with long repayment periods. This is the main reason why the banks cannot provide loans as we can see in these examples: at the end of 2005, the total assets of the banking system amounted to 6,858 billion Kip (equivalent to US\$ 686 million). In the same year, all commercial banks that were able to lend to projects amounted to 2,525 billion kip (equivalent to US\$ 252 million) whereas in the FY 2008-2009, the loan amount was 26% higher than the deposit amount (9,979 billion Kip of deposit and 12,573 billion Kip of loan).

In 2005, although lending activities increased rapidly, but only covered 7.3% of the GDP which was still small compared to neighbouring countries, for example, in Cambodia covered (7.8%), Vietnam (58.9%), Thailand (78.1%), Malaysia (112.8%), of GDP. Therefore, there is a need to reform the Lao banking system to be stronger in all areas (higher volumes of long-term capital, risk management , technical skills, loan monitoring, etc...) in order to meet the increasing demand for credit in the private sector.

In addition to financial resources from the banks, commercial production and trading in household businesses and SMEs rely on various financial sources such as:

- (i) borrowing from friends, relatives;
- (ii) borrowing from saving groups e.g. women's union at village level;
- (iii) pawnshops;
- (iv) cash and materials (equipment) in advance under contract farming;
- (v) micro-finance provided by domestic and foreign sources;
- (vi) informal sources of finance;
- (vii) other sources.

In general, in many countries around the world, if there is a proven market for a product there should not be problems concerning access to credit. On the other hand entrepreneurs in the Lao PDR are still facing many difficulties especially amid the global financial crisis now affecting the country, while foreign banks abroad provide lending at low or zero interest rates and Governments bail out businesses that are the basis of tax collection for budgets in the future, after the crisis and economic recovery.

Despite the difficulties, with the official introduction of the Lao Stock Market there will be a historic change to the situation of market capital in our country and entrepreneurs will have more options, as follows:

- (i) Domestic market capital, once created, will be linked and integrated into regional market capital and will serve as one of the ways to help strengthen the securities business;
- (ii) Create conditions for generating huge long-term capital, which currently does not exist in the Lao PDR;
- (iii) Management and development of market capital to become stronger, more transparent, secure and protective for investors.

In parallel with the opening of the forthcoming Stock Market, the number of both domestic and foreign banks are rapidly increasing, among others, Indochina Bank, Phongsavanh Bank, ST Bank, ACLEDA Bank Laos Ltd, etc., are creating new options for entrepreneurs, with more competition in the banking sector between commercial state-owned, domestic private and foreign banks.

Restoring confidence among domestic and foreign investors remains a challenge and based on the real situation of existing financial institutions, particularly the competency, honesty and confidence among lenders and borrowers, the Strategy on Trade Finance will focus on the following issues:

- (1) All financial institutions must improve their service system and build good and strong relationships with borrowers; seeking a source of long-term of financial resources in various ways is needed (such as, selling lucky bonds, the issuance of certificate of share transfer, joint venture with foreign banks, etc.);
- (2) Create a real model of turning the property of household farmers into collective capital for commercial production and trading groups with simple, clear, transparent and stringent funding regulations so that they can apply immediately, especially the creation of commodity funds among commercial production and trading groups;
- (3) Turning some personal lending of the banks into group lending with more effectiveness. All group members share responsibility and avoid using the fund with the wrong objectives. There will be no problems about paying monthly interest because in the group, some members will sell products and pay for them on behalf of the group (its members), which will be calculated in detail for fair profit distribution at the end of the year;
- (4) Improve the existing L/C system so that it can be used extensively in the export – import business and review the understanding of the concept of goods-money, especially inventories that are ready to export, but still cannot be used to prove that, in fact, the loan is already included in those inventories;
- (5) Change the creditors and debtors terms into investment partners between cash providers (banks) and cash borrowers (customers) because the value of equipment (materials, commodities) of borrowers are higher than cash amounts withdrawn from the banks (creditors);
- (6) Organise public seminars (workshops) prior to the inauguration of the Lao Stock Market in 2010 so that all communities and people can understand the investment concept as well as more diversified financial institutions (many emerging), because in the past the number of banks were small, and most of them state-owned;
- (7) Revise the existing administrative regulations of the fund at grass-root levels and turn them into village banks, step-by-step, so that they can provide credit for small

- projects or simple production units and trading activities at village and village development groups (VDG) level;
- (8) Implement strict rules in lending contracts, making them legislatively effective, enforcing penalties on customers who violate the terms of contract. In this way customers are aware of their responsibilities, which create an honest and sincere culture among all bank customers, and create a good image for the bank.

3. Strategy on Trade Information Services

The vision of the Strategy on Trade Information Services is: **“Accuracy of information comes first, so the provision of accurate information must become available as soon as possible, in part, without waiting for compilation of the whole information”**.

Information is very important to ensure that the decisions that are made are correct. In the Lao PDR, the National Statistics Centre and the Planning and Investment Department in each province provide statistics and compile socio-economic development plans at local level. Data is provided from different sectors (such as agriculture and forestry, industry and commerce, finance and others) and are available at ministerial and provincial levels. Nevertheless, the need for clear and accurate data, especially business and trade-related data at different levels still remains high.

Currently, industrial and commercial sector data at ministerial and provincial levels also provides information on commercial production in the agriculture and forestry sector, handicraft commercial production projects, import and export data and others as required by the users. However, the information provided is not comprehensive and accurate, and does not meet the expectations of users. Obtaining accurate information requires surveys at business units which take times, and needs technical teams and funding, therefore, this Strategy on Trade Information Services will focus on the following issues:

- (1) Create teams to conduct surveys on trade information to be based at industrial and commercial offices at district, provincial and ministerial levels to analyse the accuracy of information and compile them in a database kept at the office of the National Export Promotion Council (NEPC) and then provide them to users, particularly business units and interested parties, both foreign and domestic, via different means as needed;
- (2) Build a network for collecting and providing information to concerned business units to examine the accuracy of information and report them in a timely manner to the information centre located at NEPC and provide services to the network;
- (3) Building a database requires an investment, therefore there needs to be rules on what information can or cannot be disclosed for confidentiality reasons. Also whether information is provided free of charge or on a fee basis if the costs involved in data compilation and analysis are high.

4. Strategy on Competitiveness Development:

The vision of the Strategy on Competitiveness Development is: **“Academic institutes can not provide all the required knowledge. Thus, the school of doing business is: learn by doing the job. That can lead to either of two consequences: either you lose or you win. To gain competitiveness, one requires learning from the two mentioned sides”.**

In the business of trade and export, having high quality products is always an advantage in price setting. Having accurate information only is not sufficient, export managers must possess other skills, such as the English language (or knowledge of the language of their trading partners), business management, strong communication and negotiation skills, coordination skills at different levels, as well as a good personality.

The competitiveness of any export units shall relate to many aspects, as mentioned above, starting from enabling the environment and facilities supported by government and concerned authorities and sectors, including credit services and payment systems to international standards. These are very important because businesspeople, who mainly focus on management quality and standards and delivery of goods based on the time schedule specified in a contract is not enough. If there is a delay in the export documentation process, the competitiveness will cease automatically. National competitiveness refers to national productivity and the working efficiency of its citizens in both public and private sectors.

It is recognised that the National Export Strategy will be managed by the NEPC serving as a tool and focal point of measures and all export-related issues including enhancing the competitiveness of exporters and government staff. Therefore, the Strategy on Competitiveness Development will focus on the following issues:

- (1) The public sector shall provide facilitation in all steps involved in the production process for export. Required documentation in the country shall be one document only which is the report on statistics of production units. Any other documents are used according to the international buyers' requirements only;
- (2) The management team of the NEPC is responsible for organising training each year to existing and aspiring exporters to upgrade their knowledge and skills in various fields (such as: quality and standard improvement and control, product design, negotiation skills, foreign languages, improvement of logistics systems, banking payment mechanisms, access to finance and others);
- (3) The management team of the NEPC shall organise various business meetings for Lao and foreign business people and from time to time, organise domestic and overseas exhibitions, study tours and conduct negotiations with trading partners;
- (4) The management team of the NEPC designs business and export training courses in collaboration with different levels of educational institutions. The training courses will later teach students and young businesspeople so that Lao exporting becomes a daily activity among young people, as they are the ones who will describe the history of Lao exporting for the next and future generations;

- (5) The management team of the NEPC shall introduce export business techniques to producers' groups helping them to thoroughly understand the issues and publish monthly magazines on the export business for wide public awareness.

5. Marketing Strategy:

The vision of the Marketing Strategy for Lao products is: **“Select markets appropriately to the characteristics, long-term comparative advantages, characters, knowledge and competence of Lao citizens and, then, modify their behaviour following the market economy mechanism. Under this mechanism, we must prove that it is a single channel leading them to eradicate poverty”**.

Generally, in the Lao PDR, most people only understand the market for the buying and selling of goods (or trade in goods –TIG), but never studied, in-depth, about market services (or trade in services – TIS). Whenever the word “market” is mentioned, it means:

- (i) Market of goods (domestic and overseas markets);
- (ii) Labour market;
- (iii) Stock market (or capital market).

The present marketing strategy will specifically emphasise the domestic and overseas markets of Lao products based on the characteristics of the geographical location of the Lao PDR, advantages and trends of socio-economic development in a long-term perspective from now till 2020. The marketing strategy will focus on the demand of each market (domestic or overseas) as a starting point of commercial production by comparing with existing factors and conditions and may occasionally dismantle the obstructing mechanism within the country in order to reach export targets. Five points raised for analysis are as follows:

- (i) Border trade;
- (ii) Domestic market for goods;
- (iii) ASEAN market of goods and Chinese, Japanese and South Korean markets;
- (iv) EU and Australian Markets;
- (v) US Market.

All markets, as mentioned above, refer to the existing permanent markets of Lao products, so the strategy will emphasise keeping the old clients as much as possible, based on the long ties of business connection. Some of the issues that will be considered and taken into account in the Marketing Strategy are as follows:

- (1) Before producing and exporting products, it is required to conduct an in-depth market research study to reduce risk in producing products subjectively (whenever the products cannot be sold, then, pass the buck to the Government);
- (2) Producers (exporters) shall reduce their greediness and should not promise and sign a contract beyond their own capacity, or in other words, they should not lie to their trading partners;

- (3) Readiness and products stockpiling are necessary. Before signing an agreement, it is required to examine their own real capacity level, identify which job to transfer to permanent clients and which ones to hire an extra-service;
- (4) Readiness hereafter refers to all activities and tasks related to the contract implementation, in particular in the Lao PDR, short-term trade financing while export products are ready in the warehouse but cannot be converted to valuable assets and used as collateral for getting money for the payment of labour costs, costs of raw materials, transportation costs and others, even if a Letter of Credit (L/C) is on hand;
- (5) The L/C system must be revised in more detail because the payment system of our banking sector still cannot be internationally linked. This affects the implementation of the marketing strategy;
- (6) Market patrol searching for overseas trading partners is a new attitude of Lao exporters. Therefore, the old concept of sitting and waiting for investors or customers to come must be left behind;
- (7) Collection of statistics shall be done only at the production unit. The movement of raw goods within the country must be freely done without any notes of goods' delivery and without checkpoints between provinces;
- (8) Buying and selling products and services at the present time requires accurate and updated information and this should be linked to online services (e-commerce and e-banking), which is low in cost, fast and efficient.

(i) Border Trade:

Due to a significant number of the Lao population still living in poverty, it is impossible to emphasise the production of high quality products. Thus, making border trade as free as possible and setting the precise, clear scope and areas of border trade movement are paramount, in parallel with preventing smuggling goods from penetrating, without taxation, to the shops and the markets in the urban areas.

As for markets in ASEAN countries, Japan, China, Europe, Australia, Canada and the USA, we shall follow the strategy of foreign investors who have funds, technology and market, including joint ventures, trade negotiations at various levels based on comparative advantages and the competitiveness of goods according to the sales contracts.

(ii) Domestic Market:

It is necessary to establish a wholesale market that plays a role in the quality inspection and pricing of agricultural products prior to their distribution for retail sale. This is one of the measures to protect consumer rights, raise gradually the quality of products made, and sold in the country to the same standard of those that are exported. The price of local products should be reasonable and should not be compared with the price of exported goods because the cost of living in the country compared to that of foreign countries is different.

Maintain the retail price of goods within small gaps between urban areas and rural remote areas by applying the same flexible trade promotion policy similar to the investment

policy defined in the new amended Law on Investment, because the movement of goods to the poorer districts and the collection of goods in those districts require money as well. The consumers in rural remote areas have low income and the risk of business failure is quite high. Thus, income tax and fees set for the sales of goods in the 47 poorest districts should be exempt. Some money from the poverty eradication fund should be used for local traders to buy goods that are sold in the 47 poorest districts, allowing them to perform. All barriers (obstacles) within the country must be removed. Any notes of goods' delivery must not be required and no checkpoints must exist anymore between provinces. The utilisation of the e-commerce system serving the marketing strategy is necessary in order to change the traditional business methods into online businesses using the internet to search for trading partners and facilitate business transactions.

The numbers of SMEs in the Lao PDR accounts for more than 80% of the total number of enterprises, but their access to customers is very limited. Their participation in trade fairs and exhibitions, product advertising and business missions require high expenses making it very difficult for them to participate. However, if they can use online techniques, communication and trading via internet (that only requires low expenditure), they will become more competitive, particularly in the selling of handicraft products which can be compact, light in weight and sent quickly by courier to foreign customers.

At present, there are many business units that recognise and appreciate the significance of online products' sales as they can communicate and trade with countries worldwide.

An expansion of the components of internet system will help a number of SMEs in doing business more easily, more conveniently, and with shorter procedures, for instance, e-banking. Thus, the strategy for online trading emphasises the following issues as below:

- (1) Organising various training courses and urging a wide range of SMEs to participate so that they can recognise the great importance and have an in-depth understanding of the methods and techniques of online buying and selling;
- (2) Promoting a sufficient investment in the IT sector so that business units can reduce their existing high expenses on IT equipment and internet services automatically.
- (3) Creating a common website for advertising all kinds of Lao products and, in parallel, encourage business units to create their own websites;
- (4) Developing more IT human resources in parallel with creating appropriate training curriculum and using a participatory approach with entrepreneurs.

6. Strategy on Import for Re-Export

The vision of this strategy is: **“Create wealth for the Lao nation and poorer people by using capital and expertise from other nations (the achievements of foreign investors) using the potential and comparative advantages of geographical location of the country without re-investment, but by formulating appropriate, clear, compact and precise policies. By doing this, income will increase instantly which in turn can be used to accelerate the development in the 47 poorest districts of the country”.**

Types of imported goods for re-export often refer to finished products (ready for consumption) that the government will not put any additional investment into them, but just utilise the existing infrastructure. These products are of the highest quality with a brand name and are usually sold in supermarkets or designated free-trade areas. This type of business does not cover the following activities: import of raw materials for manufacturing of finished products for export (this is a value-added creation, not a re-export), production for export in economic special zones and transit goods' services. These activities require additional investment.

Importation of goods for re-export often refers to the wholesale and retail sales of high quality goods with a brand name in demarcated (specific) zones. Their consumers are tourists and high income people from overseas including foreign companies because the price is cheaper than that in their own country.

As an LDC country, the financial and economic structure of the Lao PDR is relying upon foreign grants and loans for the sake of survival and for gradual and sustainable development. Grants and loans to our country are one of the ways to build basic infrastructure and to gradually become strong and self-reliant. Those monies shall not be used for administrative purposes and salaries. In the socio-economic system of any country, it is impossible to produce all kinds of products and be self-sufficient in everything. However, in the economy and trade system, there is a need to build the mindset of all Lao citizens to become nationalists, similar to the Japanese, in the sense of buying and using local products. Nationalism in using local products is a better way when the country is threatened by the global financial crisis. Apart from grant and loan sources, imports of well-known brand name goods for re-export is a great potential for our country because re-exporting is an excellent income-generating activity without extra investment (a win-win business). The benefits from the re-exporting of goods will be shared between goods' owners and the Government (Ministry of Finance).

Based upon the location of the Lao PDR that strategises the transformation of the country from being land-locked into being land-linked as a country and known as the battery of ASEAN, the Strategy on Import for Re-export will focus on main issues as follows:

- (1) Most Lao people still remain in poverty. If we import premium high-quality goods for selling to Lao citizens they are only going to be purchased by a fraction of the population. If wealthy people can buy those goods, it is all well and good and there are no negative impacts. However, the money used for buying those products must be from legal sources and from legal activities in the public sector. With regard to this, there has already been an enacted PM's Decree relevant to national saving and anti-corruption;
- (2) Imports of high quality goods for re-export to third countries or export-in place shall not be subject to duties, taxes or any fees. There will only be profit sharing within the importing companies and the Government (MOF). The brand name control of those goods is the responsibility of the good's owners;
- (3) Operating an import for re-export business is not an activity for hesitation, and government should not have fears about achieving annual budget set targets. There

must be a determined perception on both sides (importing companies and government) because in this type of business the investment required is very low but returns can be very high. However, in case of goods not being sold, the goods' owners shall take responsibility;

- (4) This type of business does not need to search for markets because the investors themselves already have their market. However, they use our comparative advantage of geographical location and incentive policies in order to search for new markets and create more income. Even if they don't have their own market, we would not be able to find the market for them;
- (5) Imports of high quality products for re-export to a third country or selling to tourists is not included in the trade balance (import-export balance) because foreign currency is used for trading. Thus, elimination of all kinds of trade barriers for the import of these products is urgently needed. The utilisation of the additional income from this business must be clear and transparent and should be included in the budget under the National Poverty Eradication Programme (NPEP). The issue on how much of this income should be shared with the Poverty Reduction Fund must be submitted to the National Assembly meeting. The target of utilising this income must be transparent and declared every year. It is expected that this activity will contribute to the success of the NPEP and be achieved before its deadline in 2015;
- (6) The import of raw materials for local production of finished products for export is not included in the list of re-exported goods. However, high-price products bought by tourists are considered as re-export goods. The creation of enabling facilities for the enforcement of laws and regulations is essential. Indeed, liberalising the country means the country has freedom under regulations, freedom under rights and duties stated in the laws. This strategy will focus on local transparency and will be disclosed to rural areas so that all poor citizens' strata can have an in-depth understanding of this amount of income source;
- (7) An improvement of the logistics infrastructure and services system in the Lao PDR is needed so that they can make considerable contributions to transforming the country into an efficient transit point of the goods' of neighbouring countries. Transportation and service systems must be modern and meet huge volumes of transit goods in the future. Some issues that should be taken into consideration are as below:
 - Construct a warehouse service system for temporary transit goods and build a national unified standard for logistics management;
 - Upgrade human resources' skills and facilitation in the transportation process and eliminate informal fees completely. The inspection of goods must be performed at one checkpoint only (in the warehouse while loading onto trucks). Inspection along the transit ways will not be permitted.

Due to its geographical location, the Lao PDR is appropriate for transit services to and from countries in the sub-region, therefore, besides the import for re-export process of finished products mentioned above, import for re-export also covers the system of goods' transit that does not transit Lao territory in order to use untapped potential and bring maximum profit (interest) to the country, for instance: a re-export company buys goods from any foreign countries and resells them to a third country. There are three possible forms of doing such business as below:

- (i) A re-export company buys goods from any foreign countries and then sells them directly to the third country without transiting Lao territory;
- (ii) A re-export company buys goods from any foreign countries in order to sell to the third country by transiting Lao territory;
- (iii) A re-export company buys goods from any foreign countries and then packages (or processes) at temporary warehouses in order to create value-addition before re-exporting them.

The three forms mentioned above must respect the import regulations of the partner (importer) country at destination point. This differs from the initial definition stated, that “re-export products are finished products without additional expenses”. Thus, products under these three forms are classified as types of transit goods which create value-addition and require an investment from public, private and foreign sources for modernising logistics infrastructure, improving the quality and efficiency of transit services to reach international standards with minimal (reasonable) fees. This will result in bringing income into the country using the potential of the country’s location and, ultimately, eradicate poverty ahead of time.

7. Concept Note of Drafting a Strategy on Export of Lao Labour

The vision of the Strategy on Export of Lao labour is **“To upgrade the skills of the Lao labour market to the same quality and standard, whether for local use or for export to other countries; to sufficiently meet domestic labour market demand first, and export if required. The determination of wage and salary rates should be motivational and reasonable. It is time to put a stop to the low wage proposals of foreign investors who are undermining the skills-progression of Lao labour”**.

Training for upgrading the skills of Lao labour has been conducted consistently, for instance, in 2009, 29,766 people were trained, in which 7,632 people were from the agriculture sector, 12,336 people were from industrial and commercial sectors, and 9,798 people were from service sector. Curriculums on 8 relevant subjects have been written. 210,922 labourers were domestically recruited and 4,027 labourers were exported. In the same period, about 3,416 foreign labourers were imported and allowed to work in our country. Currently, there are around 120,580 people working in Thailand. Among them, about 61,929 people are already registered officially and 14,400 people have returned home.

Export of Lao labour has actually been existed for many years. 9 companies are currently dealing with this kind of business but just provide documentation services and only seek short-term profit returns without the longer-term vision of developing Lao labour with the skills and quality accepted by domestic and foreign markets.

Exported Lao labour is of low quality and standard only replacing the empty positions of the general labour market or occupy positions that the host country’s labour force refuses to do. According to the Lao labour situation, as mentioned above, when designing the Strategy on Export of Lao Labour, the following issues should be taken into account:

- (1) Qualities that exist in the character of Lao labour include sensitivity, respectfulness and are generally non-confrontational, but are unyielding when put down or put under pressure by hard employers. These behaviours are the common qualities of Lao labour and can be considered as a potential for the export of Lao labour;
- (2) Most Lao people are not diligent in studying, and reading is especially not of a high level because there is not a favourable environment. Therefore, training for Lao labour for export should not focus too much on theories (about 30%), but concentrate more on practices (about 70%);
- (3) Regarding the balance of Lao labour, the local labour market is still not stable and lacks the detail needed in vacant job positions, i.e. which position is reserved for Lao nationals and which ones are open to foreigners. As a result, foreigners have taken jobs from Lao citizens, whereas Lao labour has flocked to work illegally in Thailand for years, with a number of up to 120,850 people;
- (4) The construction of training centres for Lao labour should be linked with potential sectors such as nursing, and according to the demands of the export market;
- (5) Apply courses on technical development, the understanding of social, cultural and traditional contexts in order to understand the psychology of citizens in countries where Lao labour will work and live;
- (6) Upgrading English language skills or any local language of the Lao labour force is also required, in parallel with technical training courses;
- (7) Companies should have their own general training centre or they may hire a private training centre to train people before sending them to work abroad;
- (8) Pay attention to Lao labour that used to work illegally in Thailand. Those people have certain experiences that can be utilised for training and as an additional source for existing courses.

Part III. NES Implementation Measures

The National Export Strategy (in short “NES”) is the result and outcome of studies of all sectors involved. Thus, the implementation of the NES shall proceed following a common action plan including work-plan, financial plan and human resources plan.

The NES covers 15 strategies including 9 sectoral strategies and 6 cross-sectoral strategies. In addition, there will also be other product export strategies (such as, rice, banana, cassava powder, coffee, sugar, sweet corn, maize, biofuel crops) that are not submitted to the government, but will be included in the NES. Currently, the Ministry of Industry and Commerce is not yet prepared for GOL approval on these strategies.

The formulation of the draft for the NES is much easier than its implementation. The strategy is an intention that must be implemented for achieving its objectives. Without serious implementation measures, the strategy is just a Bible (or simple paper) and cannot become an efficient tool to meet the objectives of the national socio-economic development plan.

Therefore, defining strict and certain measures to support the implementation process of this strategy in the same direction is of extreme importance.

We all know that: **“Public and private organisations have different roles, rights and duties. When performing tasks, these organisations don’t overlap and cannot replace each other”**. Thus, **“The NES” shall concentrate on the export of products and the selling of products to tourists and foreigners who bring foreign currency to spend in our country (export in-place). However, NES shall not focus on technical matters that are currently operated by line ministries, such as agriculture and livestock, hydropower dam construction, mining and others.**

The NES is of national importance so leaving one sector (or ministry) to deal alone with its implementation would be impossible. The measures for implementation shall be comprehensive, including a work-plan, financial plan and human resources plan. An office should be established as a coordination agency at central and provincial levels because each province has its own export products. The term “financial or money plan”, here, also includes money from the National Budget because in the past there was a confused understanding and the Government relied too much on the private sector forgetting that: the expenses made by private investors are for their own business objectives. If the Government wishes to reach its objectives, an appropriate proportional investment must be made.

Therefore, all measures as defined for the successful implementation of the NES will be divided into two parts as follows:

- (1) All export issues related to enabling facilitation for NES implementation that are not able to be solved by macro-economic sectors shall be compiled at the Government Secretariat Office for further consideration by the highest authority;
- (2) All issues related to the exporters themselves and related to public export services (macro-economic sector) shall be compiled at the National Export Promotion Council (NEPC), serving as a platform to promote and arrange consultation of concerned stakeholders (public, private, donors and exporters).

Once the NEPC is established, all issues related to exporters, are to be solved by macro-economic sectors, business groups and associations, and will be brought for discussion and problem solving within the NEPC. In cases where those issues cannot be solved by the NEPC, they will be submitted (on behalf of the NEPC) to the Government. The Government will not consider any individual issues submitted directly from business groups, associations or companies, as has been the case in the past.

NEPC differs from the present LNCCI (Lao National Chamber of Commerce and Industry), but a member of NEPC can also be a member of LNCCI or other social organisations operating legally in the Lao PDR. NEPC is a professional body for existing and aspiring exporters and their supporters of export. In addition, this council will include also representatives from public agencies. Thus, NEPC is, somehow, a collective organisation or agency of public and private sectors with financially independent status and politically under the supervision of industrial and commercial sector at central and provincial levels.

The main objective of NEPC's establishment is to manage the NES, aimed at achieving the objectives as set in the existing 15 strategies and other upcoming product export strategies that will be submitted to the Government, such as sweet corn, cassava powder, sugar, banana and others.

The budget to be used for NES administration, in addition to the Export Promotion Fund (EPF) and member contributions, the National Assembly will allocate a state budget to NEPC following projects that are included in all tasks that support and promote exports of the country according to the state financial policy on export issued in each period.

An establishment of NEPC will not require a PM's Decree and Government Declaration. It will be automatically approved at the same time as NES approval because the NEPC is established especially for managing the NES. If the NES does not exist, then there is no need to establish the NEPC.

The management of the NEPC and export promotion related activities nationwide will be a duty of the NEPC, where all issues of NEPC's members and some export-related problems of the public sector are gathered before submission to the Government for consideration, and they are proposed to a Business Forum that is organised at six month intervals, chaired by the Prime Minister.

Therefore, in the NEPC's structure, the composition of its members will be from two sectors: private sector (exporters and export-supporters) and public sector. Those who are from the private sector will be permanent members of the NEPC, whereas those from the public sector will be non-permanent members of the NEPC (they would need to attend the annual ordinary meetings and play a coordination role for their own sector at central and provincial levels, but will not be involved with the routine work of NEPC). Permanent members of NEPC are current and aspiring exporters.

NEPC's members will elect a management board. The term of this board will be 3 years. The NEPC will have its own regulations that have to be approved by all NEPC's members. The NEPC will have a management budget collected from members and other sources of income. NEPC's members will not receive salaries, but will get some fringe benefits. The NEPC will set up its own promotion fund called Export Promotion Fund (EPF), which has been adopted under the Prime Minister's Decree No. 34/PM, dated 14/02/2006. Regarding this fund, one more consultative meeting will be held to get consensus on the implementation of this Decree, given the fact that this Decree was enacted before the approval of the NES.

NEPC will convene its annual ordinary meeting to consider and approve its annual plan and may also organise extra-ordinary meetings, depending on requirements, for instance: to consider and approve urgent documents of priority projects. The objective of the annual ordinary meeting is to discuss plans or projects, resolutions and agreements, revisions of operational by-laws and regulations, improvements or amendments to the NES (addition of new products), summary reports and other concerned documents.

NEPC has two operational levels: central and local (provincial) based on the requirements of export units in each province (17 provinces nationwide) because every

province has its own export products. Regarding the Secretariat Office of NEPC that needs to deal with all administrative works of NEPC (such as, coordination, office administration, preparation of meeting documents), according to the role of the economic sector, at initial phase, this Secretariat Office will be set up at the Ministry of Industry and Commerce and will have focal (coordination) points at the Industry and Commerce Services (Departments) located in all provinces. Staff working at the NEPC's Secretariat Office will be from public and private sectors depending on the appropriateness of each task. In the future, when the NEPC has strong financial status, it will establish its own independent office.

NEPC is a gathering centre of all issues, export-related legislations, regulations, tax incentives, awards and sanctions (punishment) for NEPC's members. Thus, any export-related documents to be submitted to the Government from the sectors concerned must be passed through the NEPC's Management Board. Individual requests from companies are not permitted. As mentioned above, each sector, including public and private sectors, cannot perform by overlapping each other's tasks in the future. The NEPC will gather all export-related issues from public and private sectors.

Therefore, for NEPC to efficiently manage and implement the 15 existing strategies, the building of a consistent and harmonized coordination mechanism with the support and direction of the Government is essential.

To implement NES efficiently, the NEPC Management Board must, each year, jointly formulate an Action Plan with all concerned sectors. This plan must be presented to the Government. The Government, requested by NEPC, will issue a notification letter to all concerned authorities asking for their cooperation in the implementation of the Action Plan and commodities projects for export that aims to get a common consensus that follows the same direction, and to understand together that: **“Export products and the tourism industry (export-in-place) bring foreign currency to the country and create trade balance, whereas grants and loans in forms of foreign currency are for long-term development. Eventually, these loans will be repaid in original hard currency. Therefore, if we don't sell products in foreign currency (export), it is hard to find foreign currency to repay foreign debt”**.

Vientiane Capital, 15 January 2010

The NES draft, prepared and formulated by Department of Production and Trade Promotion (DPTP) of the Ministry of Industry and Commerce (MOIC), has been officially approved in the Government Meeting in October 2009 (30/10/2009). The Notification Letter No. 2040/GSO, dated 03/11/2009, has been issued, some contents of which are as follows:

“In principle, the Cabinet Meeting agrees to approve the draft of NES according to the proposal of the MOIC. However, there are some points that have to be improved according to the comments of the Government members. In addition, a draft of strategy on Lao labour export should be added to the NES. After improvement, the NES shall be sent to the Government Secretariat Office for further final consideration and approval of the Prime Minister and Deputy Prime Ministers before using as a reference for implementation”.

The Ministry of Industry and Commerce has improved some points and contents according to the comments of the Government members and had re-sent to the Government Secretariat Office for the third time.

Later on, on 16/12/2009, the Prime Minister issued the Decree No 344/PM on the adoption and official promulgation of the NES. The detailed contents of this Decree are attached in the first page of this NES document.

This is the unofficial translation implemented under the Project on Support to Trade Promotion, which is the 3-year Technical Cooperation Project (March 2009 - March 2012) between Department of Production and Trade Promotion (DPTP), Ministry of Industry and Commerce (MoIC), and the Japan International Cooperation Agency (JICA).