



TRADE POLICY REVIEW

REPORT BY

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Lao People's Democratic Republic is attached.

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PART I – STATE OF PLAY IN THE REFORM PROCESS

1 INTRODUCTION

1.1. In accordance with the objectives and the procedures of trade policy review mechanism, Lao PDR would like to draw attention of the WTO Members to several important topics that are contributors to its economic growth, thus covering major aspects related to economic, trade, business and investment climate of the country.

1.2. During the period under review, Lao PDR's domestic and foreign trade policies focused on four key priorities: (a) ensuring compliance of domestic laws with best international standards and best practices; (b) diversifying away from over-reliance on natural resources and increasing labour productivity; (c) developing and reinforcing the human capital and (d) improvement of business environment and investment climate. In its progress, Lao PDR was largely guided by the Millennium Development Goals (MDGs) and, later, by the Sustainable Development Goals (SDGs) 2030.

1.3. Among the main driving forces for the legal, institutional and economic reforms undertaken so far, are aligning of the national legislation with the legal frameworks of the WTO and the ASEAN, as well as the best international practices reflected therein. The reforms have touched almost all trade-related legislations, with notable progress in customs, most aspects of trade policy in goods and services, public procurement, agriculture, taxation, technical regulations, energy, transport, etc.

2 INTEGRATION INTO THE WORLD ECONOMY

2.1 Brief history of the World Trade Organization accession

2.1. The Government of the Lao PDR applied for accession to the World Trade Organization (WTO) in July 1997 and joined the Organization on 2 February 2013 as 158th Member, the 6th Least Developed Country (LDC), and the 30th economy that joined the WTO pursuant to Article XII of the WTO (Marrakesh) Agreement. Lao PDR had 66 Working Party Members involved in examining its trade policy regime and in negotiating its terms of accession. It had bilateral market access negotiations with 9 WTO Members. The Working Party report of Lao PDR consists of 247 paragraphs of which 26 are commitment texts; 6 commitments, notably those related to trading rights; SPS; TBT; Trade remedies; TRIPS; transparency; and notifications, benefitted from transition periods. Lao PDR enacted and revised more than 90 laws and regulations to ensure that its legal regime is in line with WTO obligations. This legislation covered wide range of areas, including import and export licensing, customs valuation, services, investment, SPS and TBT measures, as well as intellectual property rights. Upon accession, the commitments in trade in goods covered 10,694 tariff lines, with an average bound rate of 19.3% for agricultural goods and 18.7% for industrial goods, compared with applied tariffs of 18.4% and 10.0%, respectively. Most tariff commitments took effect from the date of accession while some were to be reduced transitionally over 5 to 10 years. In services, Lao PDR has opened 10 sectors/79 subsectors. These included: professional services, computer services, research and development, telecommunication, construction, distribution services, private education, environmental services, financial services, private health, tourism, and air transport. The accession to the WTO contributed to the adjustment of the trade-related legal framework of Lao PDR to international standards. It has also commenced the process of implementation of these progressive rules, which is still ongoing and necessitates further planning, monitoring and technical assistance.

2.2. Lao PDR, least developed country (LDC) and landlocked developing country (LLDC) landlocked LDC, is a strong supporter of the rules-based multilateral trading system embodied in the WTO. Lao PDR is of the view that the WTO, offers the best prospects to fully address trade issues accounting for the capacity constraints brought about by differences in the levels of economic development among its Members. Thus, Lao PDR is committed to the completion of the Doha Development Agenda (DDA) mandate with the economic development of the WTO Members being central. Meanwhile, in recognizing the need to keep pace with the developments in the global economy, Lao PDR has also co-sponsored the member-driven initiatives on the "new" issues: e-commerce, Micro, Small and Medium enterprises (MSMEs) and investment facilitation at the WTO.

2.2 ASEAN Integration

2.3. Lao PDR's membership in the Association of Southeast Asian Nations (ASEAN) is one of its strategic priorities. Lao PDR joined ASEAN in 1997. Since the establishment of the ASEAN Economic Community (AEC) on 31 December 2015, Lao PDR has actively worked with other ASEAN Member States (AMS) to implement obligations under the AEC towards the realization of a single market encompassing a free flow of goods, services, and investment in the region. The current efforts in this direction are guided by the AEC Blueprint 2025, which incorporates and carries forward the work of the AEC Blueprint 2015. The AEC Blueprint 2025, relying on the 23 Sectoral Action Plans (SEPs) combined into the AEC Consolidated Strategic Action Plan 2025 (CSAP), aims to strengthen and reinforce the AEC five characteristics: (a) A Highly Integrated and Cohesive Economy; (b) A Competitive, Innovative, and Dynamic ASEAN; (c) Enhanced Connectivity and Sectoral Cooperation; (d) A Resilient, Inclusive and People-Oriented, People-Centered ASEAN; and (e) A Global ASEAN. It also incorporates new focus areas, such as global value chains, good regulatory practices, sustainable development, global megatrends and emerging trade-related issues (promoting innovation and e-commerce, improving trade facilitation, deepening services and investment integration, cultivating conducive regulatory environment and progressing ASEAN external relations). One of the specific objectives set forth in the AEC Blueprint 2025 is to narrow the development gap by providing support to Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) to augment their capacity to implement regional agreements. The implementation of the AEC Blueprint 2025 is supported by the operationalization of the AEC 2025 Monitoring and Evaluation (M&E) Framework through, among others, the development of monitoring tools and databases to support compliance and outcomes monitoring, evaluation, verification, review, and reporting.

2.4. ASEAN has, in the period of review, made progress in deepening internal integration and strengthening external relations. Among ASEAN's achievements were: (i) ASEAN's elimination of tariffs on 98.6% of tariff lines traded among AMS, via the ASEAN Agreement on Trade in Goods (ATIGA); (ii) ASEAN's completion of the 10th package of commitments to remove restrictions to services trade in AMS, under the ASEAN Framework Agreement on Services (AFAS) and entering into next stage of integration on services with a negative listing approach through the recently concluded ASEAN Trade in Services Agreement (ATISA) to supersede AFAS; (iv) Signing of the ASEAN Agreement on Electronic Commerce; (iv) entry into force of the ASEAN-Hong Kong, China Free Trade Agreement (AHKFTA) and ASEAN-Hong Kong China Investment Agreement (AHKIA); (v) improvements to ASEAN's FTAs with China, Japan, Korea, and Australia-New Zealand; (vi) ongoing negotiations of the Regional Comprehensive Economic Partnership (RCEP) Agreement, a 16-Party RTA comprising all AMS and ASEAN's six FTA partners (Australia, China, India, Japan, Korea, and New Zealand); (vii) setting out parameters of the future ASEAN-EU FTA; (vii) feasibility study of an ASEAN – Canada FTA; and (viii) signing of the Memorandum on closer cooperation among members between the ASEAN and the Eurasian Economic Commission.

2.5. The Lao PDR Government began implementing the ATIGA in 2010. As one of the least developed nations and a newer ASEAN member, Lao PDR was able to prolong the implementation of the full obligations of the agreement until 2018. In 2018, Lao PDR has reduced import tariffs on 9,206 items or 96.3% of total tariff lines to zero percent as part of its efforts in establishing the ASEAN Free Trade Area.

2.3 Other Regional Trade Agreements (RTAs), Bilateral Investment Treaties (BITs) and Double Taxation Treaties (DTTs)

2.6. In addition to the ASEAN and the Regional Trade Agreements (RTAs,) in which Lao PDR participates as an ASEAN Member State, Lao PDR is a member of Asia-Pacific Trade Agreement (APTA) and actively participates in trade liberalization under this agreement. Lao PDR is a signatory to total of 27 bilateral agreements for mutual protection and promotion of foreign investment, of which 26 are currently in force. Two agreements – the Bilateral Investment Treaty (BIT) with Belarus (2013, not in force) and Trade and Investment Framework Agreement (TIFA) with the US (2016) were signed during the review period. A prolongation is negotiated for Lao PDR – India BIT. The 1997 Cooperation agreement with EU also covers certain aspects related to trade and investments. Related to taxation, Lao PDR has concluded 15 treaties for avoiding double taxation with its main economic partners worldwide. 13 of these treaties are currently in force, while a Double Taxation Treaty (DTT) with India is negotiated. Lao PDR is a party to the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA) and the New York Convention on the Recognition and enforcement of Foreign Arbitral Awards. In addition, on 1 March 2019, Lao PDR ratified a decision

by the Standing Committee of the National Assembly to join the Vienna Convention on Contracts for International Sales of Goods (CISG). After depositing its accession document, Lao PDR will become the 90th country, and the 3rd in ASEAN, to join this convention in 2020. Even though Lao PDR is not a party to International Centre for Settlement of Investment Disputes (ICSID) Convention, several of its BITs contain reference thereto. Also, 3 claims involving Lao PDR were considered under the ICSID Additional Facility arbitration rules. In August 2019, Lao PDR signed the Singapore Convention on Mediation.

3 RECENT MACROECONOMIC, STRUCTURAL AND OTHER DEVELOPMENTS

3.1. Since its WTO accession in 2013, real GDP growth in Lao PDR has averaged close to 7.3% a year. Growth slowed to around 6.3% in 2018. Construction has been an important element in growth, including significant infra-structural investments. Services, with some 47%, is the largest sector of the economy, followed by agriculture, with a relatively steady share of almost 20%, manufacturing, hovering between 8 and 9%, and mining with a share of around 7%. In consequence of this steady growth, GDP per capita has risen to almost USD 2,600 and poverty has declined to below 20%.

3.2. Throughout the period since 2013, inflation has remained low, averaging under 3% a year and significantly below that in the recent past. Largely due to public investments, the fiscal deficit has been fairly high, although some consolidation brought it down to around 4.4% of GDP in 2018, compared to 5.5% a year earlier: public and publicly guaranteed debt has risen to 57.3% of GDP. The debt is largely externally held, suggesting the possibility of an exchange rate risk for the fiscal accounts. This said, Lao PDR recognizes the need for continued, gradual fiscal consolidation, including by broadening the tax base and strengthening fiscal governance.

3.3. On the external front, since 2013 Lao PDR's current account has been in rather significant deficit but has narrowed in terms of GDP, from a peak of 14.5% in 2014 to around 8% in 2018. Contributing to this narrowing has been a sustained growth in exports, including electricity, minerals (with higher metal prices) and electronic components while import growth has moderated, partly due to the domestic production of some consumer goods and cement. ASEAN is by far Lao PDR's main export market, with a share of almost 64% in recent years – with a Thai share 48% – followed by the People's Republic of China (PRC), with some 26%. These are also Lao PDR's main sources of imports, with Thailand alone accounting for over 60% – out of a total ASEAN share of 75.5% – and then PRC with 17%. During this same period from 2013 FDI flows have increased to almost 5% of GDP in 2017, partly in the power sector and infrastructure, with China and Thailand as the main sources, and reflecting an investor friendly regime, improved by the Investment Promotion Law of 2016.

3.4. These macroeconomic developments are in the context of a still structurally challenged Lao PDR economy. Well over 70% of the non-agricultural workforce is informally employed and productivity is a serious issue; poverty has certainly declined but remains close to 20%. The concentration of both export products and markets as well as the sources of imports and FDI point to the vulnerability of Lao PDR to external shocks, which is exacerbated by the fact that foreign exchange reserves are in the order of 1.5 months of imports of goods and services. This emphasizes the continued need for trade and domestic reforms in Lao PDR. And indeed, this is recognized and addressed in the 8th Five Year National Socio-Economic Development Plan (NSEDP). The 8th NSEDP targets annual average real GDP growth of 7.5%. To achieve this, it seeks to promote economic diversification, enhanced public infrastructure and an improved private investment climate, focusing, *inter alia*, on non-resource-based SMEs, deeper integration into ASEAN and trade and investment facilitation and promotion measures. These are addressed in the balance of this Report.

4 TRADE AND INVESTMENT REGIME

4.1 Lawmaking

4.1. In 2012, Lao PDR has undertaken a major step seeking improvement in transparency, consistency and coherence of its normative framework through adoption of the Law on Lawmaking. The law applies both to laws and the other – inferior – legislative act of general application, issued by the legislative and executive branches of the Government. The new draft legislation as well as amendments to the existing legal acts are subject to impact assessments, addressing both –

regulatory and budgetary implications. According to the said Law, if the provisions of existing legislation and newly adopted legislation of general application are inconsistent with the provisions of international treaties that Lao PDR is party to, the provisions of the international treaty prevails and the provisions of existing legislation or newly adopted legislation shall be revised in due time.

4.2 Constitutional Amendments of 2015

4.2. The amendment of the Constitution in 2015 strengthened the framework of policies and coordination in the Government towards the enforcement of the rule of law. 64 provisions were amended and another 24 introduced, in particular, (i) reinforcing democratic governance through establishment of elected People's Councils and clarification of status and functions of the state organs belonging to each of the state powers – legislative, executive and judicial; (ii) improving accountability with respect to budgetary outlays – by setting the State Audit Organization; and (iii) putting a stronger emphasis on democratic rights and entitlements, including education, public health services and public participation. The new Constitution has clearly articulated the interest of the Lao PDR in promoting foreign investment and highlighted that the lawful assets and capital of investors shall not be confiscated, seized by the State or nationalized.

4.3 Trade Policy formulation and mainstreaming of trade

4.3. The Ministry of Industry and Commerce of Lao PDR carries out the tasks of formulation, implementation and intra- and inter-ministerial coordination of trade policies, represents Lao PDR in business fora and serves as a focal point for the WTO-, RTA- and EIF (Enhanced Integrated Framework)-related developments. While trade is mainstreamed into national development plans (notably, the 7th (2011-2015) and the 8th (2016-2020) NSEDP, wide range of issue-specific strategies and plans are also in place. The latter occasionally overlap with respects to the targets set and implementation strategies adopted (including the allocated budgetary outlays). While *ad hoc* inter-ministerial coordination mechanisms are being often established to address particular issues, ensuring coordination remains difficult and requires improvement, which, in its turn, necessitates further technical assistance and capacity building.

4.4 Engaging with the private sector

4.4. The Government holds regular consultations on trade-related issues with private sector. The latter is represented by the Lao National Chamber of Commerce and Industry (LNCCI), an umbrella organization for local and foreign businesses. Since 2010, LNCCI also serves as the secretariat of the Lao Business Forum (LBF), launched in 2005. The LBF, organized on 4 different levels, holds an annual event (the most recent, 12th, LBF will take place in October 2019). Annual meetings are complemented by the biannual meetings of the Steering Committee (SC) and the Public-Private Consultations (PPF). LBF also operates through 16 Private Sector Working Groups (PSWG). Meetings of the groups are open to private sector members of the PSWG as well as any other companies that are interested in attending. Among those: 12 sectoral working groups: Information and Communications Technology (ICT), Manufacturing, Trade, Services, Agro-processing; Handicrafts; Transportation & Logistics; Construction; Mining; Tourism; Banking & Insurance; Hydropower and 4 other working groups: Cross-Cutting Issues, State-owned Enterprises (SOEs), SMEs, Businesswomen.

4.5 Enhancing Transparency

4.5. During the review period, Lao PDR has undertaken substantial efforts aimed at improving transparency of its trade regime. In 2013, electronic version of the Official Gazette (which was available only in hard copies before) was launched. The Gazette is the official source for all legally-enforceable primary and subsidiary legislation of general application for Lao PDR at the national, provincial and capital levels. Drafting authorities may post a draft legislation for at least 60-day public comment periods on this website, however, they also have the option to post such drafts on another website (typically their own agency website), in printed media or via other means to ensure that the public can have easy access to them. Selected normative acts and draft laws are available in English. Domestic and foreign individuals, legal entities and organizations in both the public and private sectors are eligible to provide comments on draft legislation by sending their comments to the authority in charge of making legislation according to the defined time and procedures. Workshops devoted to particular legal drafts are also routinely organized.

4.6. In addition, Lao PDR has established a Trade Information Portal in goods (<https://www.laotradeportal.gov.la>). It has recently added to this a portal information on trade in services (<http://www.laoservicesportal.gov.la>). Both portals maintain a solid user base and make ongoing effort to keep the content updated. Despite their existence in two language versions – Lao and English, the information is predominantly available in Lao, subject to subsequent and selective translation. Technical assistance and capacity building are required to streamline the translation process.

4.6 Complying with the WTO notification requirements

4.7. Since accession, Lao PDR has made significant efforts to notify the WTO Members about developments in its trade policies as envisaged by the WTO Agreements. Namely, notifications required by the following WTO Agreements: General Agreement on Tariffs and Trade (GATT); General Agreement on Trade in Services (GATS); Agreement on Agriculture; Agreement on the Implementation of Article VI of the GATT 1994 (Anti-dumping); Agreement on Import Licensing; Agreement on Rules of Origin; Agreement on Subsidies and Countervailing Measures; Agreement on Sanitary and Phytosanitary Measures; Agreement on Technical Barriers to Trade; Agreement on Trade Facilitation; Agreement on Trade-Related Investment Measures; Agreement on Preshipment Inspection; Agreement on Safeguards; GATS and TRIPS were submitted to the WTO Secretariat. Lao PDR faces serious difficulties when preparing notifications, mainly due to lack of human resources and technical capacity. This resulted in occasional delays. To address the issue, the Government has prepared a list of the WTO notifications to be completed. In addition, inter-ministerial coordination mechanisms aimed at ensuring timely compliance with the notification requirements are being developed. Nevertheless, technical assistance and capacity building are indispensable to ensure steady progress in the area.

4.7 Improvement of overall Investment climate

4.8. In the course of the review period, Lao PDR has taken steps towards improvement of its investment climate. The relevant legal framework was streamlined through amendment of the Law on Investment Promotion, which has reflected numbers of the Organization for Economic Cooperation and Development (OECD) recommendations and is aligned with the ASEAN Comprehensive Investment Agreement (ACIA). An Investment Promotion and Supervision Committee was established in 2018 to ensure the inter-ministerial coordination in the area. In 2019, a Decree on Approval the List of Controlled and Concession Businesses of Lao PDR refined controlled and concessional businesses lists and the process of investment project approvals therein. For all types of investments, such process proceeds through one-stop service, albeit, with different timeframes, ranging from 10 to 65 working days. The registration tasks are shared between the Ministry of Planning and Investment (for the controlled and concessional activities) and the Ministry of Industry and Commerce (for the other activities). Further, a Prime Minister's Order No. 02/PM on Improving Regulations and Coordination Mechanism on Doing Business in Lao PDR was issued in February 2018 to streamline the registration procedures. The process of enterprise registration has also recently been simplified. In result of the above measures, the reported cumulated investment demonstrates a significant increase.

4.8 Resolution of economic disputes

4.9. Lao PDR undertakes steps aimed at improvement of resolution of economic disputes, as a part of its strategy to ameliorate its investment climate and facilitate doing business. Namely, specific trainings are organized for the judges involved in resolution of economic and intellectual property disputes, often relying on support from the international partners. Also, the Law on Resolution of Economic Disputes, as amended in 2018 has reinforced mediation and arbitration as alternative dispute resolution mechanisms available to businesses, in particular, via establishment of the Centre of Economic Dispute Resolution (CEDR), at central level, and Offices of Economic Dispute Resolution (OEDR), at provincial levels. Nevertheless, further developments appear to be necessary. Among those – creation of separate specialized commercial courts and further reinforcement of international arbitration procedures by bringing the relevant legal framework in compliance with the 1985 UNCITRAL Model Law on International Commercial Arbitration, among other things, by making arbitral awards final and prohibiting parties from further bringing the same dispute to courts. This could contribute to bridging the gap of confidence and would allow for designation of Lao PDR as a seat of international arbitration proceedings and potential venue for recognition and enforcement of foreign arbitral awards. At present, cases involving foreign investors are considered by the

international arbitration centers, such as Singapore International Arbitration Centre (SIAC) or Asian International Arbitration Centre (AIAC). Recognition and enforcement pleas are also deposited abroad, with no public record of recognition and enforcement by the Lao PDR People's Court currently available. Further support through technical assistance and capacity building could enhance the necessary developments described above.

5 SELECTED TRADE POLICIES AND PRACTICES BY MEASURE

5.1 Implementation of the Trade Facilitation Agreement

5.1. As a landlocked country, Lao PDR has a keen interest in full implementation of the Trade Facilitation Agreement (TFA), in order to expedite all trade and customs procedures. It has accepted the Protocol incorporating the TFA into the WTO Agreement on 29 September 2015, being the second LDC to do so. It has notified A-type commitments under the TFA (13) on 17 September 2015, following by notification of the B-type commitments (6, to be implemented by 31 December 2020) and C-type commitments on 2 March 2018. Actual implementation has started on 21 February 2018.

5.2. The new Trade Facilitation Road Map (TFRM) of Lao PDR for 2017-22, which builds on the Trade Facilitation Strategic Plan for 2011-15, focuses on facilitating documentary compliance, including through establishment of the single window, and sets the following four practical targets: Reducing the time of export by 50%; Cutting the cost of export by 20% (predominantly through establishment of national single window and streamlining of NTMs relating to exports, particularly of minerals and agricultural products); Reducing the time of import by 50%; Reducing the number of import documents by 30%. The results are expected to be achieved through (i) Developing institutional mechanism for effective coordination among line departments through Trade Facilitation Implementation Unit; (ii) Strengthening governance structure at sub-national level for improved communication, monitoring and implementation of the trade facilitation measures; (iii) Cross-border cooperation and regional integration; (iv) Collaboration with the private sector (v) simplification of procedures, like Single Window, One Stop Inspection and One Point Payment and publication of the relevant measures online; and (vi) Review of Non-Tariff Measures (NTMs) for their drastic reduction and streamlining compliance procedures. Majority of the measures provided for in the roadmap are already implemented. Among those: single window; single stop inspection; post-clearance audit; risk management; advance rulings; pre-arrival clearance; introduction of procedure for appeal and enhanced transparency.

5.2 Streamlining of Customs procedures

5.3. Throughout the review period, Lao PDR has continued to improve and expand the functionality of Automated Systems for Customs Data Management (ASYCUDA World). The system is currently used at 25 major border posts and offices, covering around 90% of formal trade. Risk management approach is applied. Electronic duty-tax payment system (SMART-Tax) has been in operation at ASYCUDA-enabled customs ports. With automation system, businesses are able to file customs declarations electronically, however the submission of the printed copies is still required. As per the Time Release Study (TRS) conducted in 2016 by Lao Customs Department, the average clearance time of imports was 6 and a half hours, which indicates significant drop from the average clearance time of 11 and a half hours in 2012. Besides the measures taken by Lao Customs Department aiming at trade facilitation, the improvement of the border procedures has been a combined result of efforts made under Greater Mekong Sub Region and ASEAN initiatives, particularly under the ATIGA and the ASEAN Framework Agreement for the Facilitation of Goods in Transit (AFAFGIT). Streamlining of customs clearance process in Lao PDR was positively noted by the World Bank in its Ease of Doing Business Report 2019. The AEO (Authorized Economic Operators) scheme is expected to be launched by the end of the 2019. The responsible authority has formed the AEO Steering Committee in order to drive the project smoothly. In 2016, Lao PDR acceded to International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention).

5.3 Tariffs

5.4. Since 2014, the simple average applied MFN tariff has declined from well over 10% to 8.5%; in fact, the weighted applied average tariff is considerably lower, giving the 0.2% average rate on imports from ASEAN. Moreover, the tariff is predictable: 100% of the Lao PDR tariffs are bound, at

an average rate of 19%, and therefore with relatively little scope for raising applied rates (26 tariff rates were misstated due to technical errors, which had been addressed and corrected).

5.4 Import Licensing

5.5. Lao PDR adopts a uniform licensing policy and procedures which have been notified and accepted by WTO during the accession process. Three types of licences are in place: (i) Enterprise registration certificate, e.g. registration of a company which wants to do business in Lao PDR. The licence is granted within 3 days through the process that follows international best practices; (ii) Issuance of a business operating licence, which requires information on the kind and the field of the business envisaged. Approval time and conditions depend on the sector; (iii) Import licensing for particular products. For the latter category, both automatic and non-automatic licensing is in place. Non-automatic licensing applies to the products included in the list established in 2012 for specific legitimate reasons (national security; protection of human, animal or plant life or health; and protection of environment). The relevant procedures are increasingly streamlined. For instance, import licensing for vehicle is carried out through the National Single Window (NSW) since September 2019. The same (NSW) procedure is followed as far as the licensing of the motor vehicle is concerned. Finally, the list notified to the WTO in the course of accession contains products importation and exportation of which is prohibited on the basis of international obligations or for the sake of environmental protection. Additional internal licences are requested (quality control, etc.) for distribution of the products in Lao PDR.

5.5 Trade Remedies

5.6. Lao PDR has recently made progress in creation of the WTO-consistent legal framework with respect to trade remedies. The law on Safeguards was promulgated on 7 December 2017, while the law on Antidumping and Countervailing Measures was approved by the National Assembly in June 2019 and is expected to come into effect by the end of 2019.

5.6 Export Policies

5.7. Lao PDR maintains export duties on a number of products. The list of such products has remained unchanged as per the Edict of the President on the List of Goods and Export Duty Rate of 2012, as notified to the WTO upon accession. Lao PDR does not grant any agricultural export subsidies. For the products subject to export licensing, procedures identical to those used in import licensing are applied. Lao PDR does not provide any funding for export finance, export insurance or export guarantees.

5.7 Special and Specific Economic Zones

5.8. SEZ development is taking a central role in the government investment promotion strategy, in particular, as far as investment in manufacturing is concerned. The SEZ are aimed at diversifying the economy integrating it into both – regional and global value chains, *inter alia*, adding value to strategic position of Lao PDR in the South-East Asia transport corridors. Lao PDR currently hosts 12 Special or Specific Economic Zones (SEZ). Nevertheless, many zones are still at an early stage of infrastructure development. Only few zones have started production and exports. Incentives available in different SEZ vary. In 2018, the value of investment in the SEZ has reached some USD 3.34 billion, of which USD 50 million were invested by Lao PDR Government, USD 2.54 billion – by developers, and USD 696 million – by retail investors. The focus of each zone reportedly varies from export processing to tourism and logistic services and combination, depending on the potential of the areas and objective of development. There are about 597 business units registered in the zones to date, more than half are from China, followed by Thailand, Japan, etc. Some of the investors moved parts of their production facilities to Lao PDR. Jobs have been created for about 44,000 people. Laotian workers account for almost half of total employment in the zones. However, the two export processing zones, Savan-Seno Special Economic Zone and Vientiane Capital Special Economic & Trade Park (VITA Park), account for nearly 80% of total number of Laotian workers. SEZs have yielded USD 31 million for the national budget and it is expected that this figure will more than double in the future as many factories have been built and some are now starting production. In 2018, Decree on Special Economic Zone in Lao PDR, was promulgated aimed at simplifying procedures for investors, making them faster, more transparent and fairer, and ensuring that investors have confidence in the system.

5.8 State Owned and State Trading Enterprises

5.9. Lao PDR does not have any state-trading enterprises (STEs) within the meaning of the GATT Article XVII. State-owned enterprises have a role to play in the economic development along with other private enterprises, especially in the provision of public services. There are currently 187 SOEs. Of these, 135 have Government as a majority shareholder while 122 are entirely owned by the State. All state-owned and private enterprises are operating under the same environmental and legal conditions. The Government envisages to reform SOEs by using measures and issuing various legal frameworks, such as: Decree on State-Owned Enterprise, Master plan for SOE development and reform in 2019-2020, and an Enterprise Development Strategy up to 2030.

5.9 Reinforcing Protection of Intellectual Property Rights

5.10. Since its accession and in line with the commitment to bring its Intellectual Property (IP) regime in compliance with the WTO requirements, Lao PDR adopted a new Intellectual Property Law in 2017. The New IP Law is moving the relevant regulatory framework of Lao PDR in closer consistency with international treaties and best practices. Among the major developments: third parties are provided with fuller rights to protect their trademark through opposition procedures; the customs could seize goods in ex-officio action; the scope of administrative remedies is limited in favor of judicial proceedings; the grounds on which a criminal offense can be substantiated, according to the types of rights, products, or infringement levels are simplified; the importance is given to new plant varieties along the lines of the requirements set forth in the International Union for the Protection of New Varieties of Plants (UPOV) Convention. At least 4 specific regulations dedicated to: plant varieties, IP agent's qualification requirement, relevant customs procedures and administrative dispute resolution related to the IP violations are envisaged or being drafted.

5.11. Lao PDR has also joined the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (7 March 2016); Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property (22 March 2016); and Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization to the Convention on Biological Diversity. An internal process aimed at joining the Hague Agreement Concerning the International Registration of Industrial Designs is expected to be finalized in 2020.

5.12. Lao PDR is in contact with the Office of the Union for assistance in the development of its relevant legal framework based on the UPOV Convention and has acquired an observer status with the UPOV. The principal rules related to plant variety protection are incorporated in the Article 69 to 91 of the 2017 Intellectual Property Law of Lao PDR. Moreover, Plant Variety Protection division was established in 2015, at the Department of Intellectual Property with the role of administration and promotion of new plant varieties protection. Ministerial Decision on New Plant Varieties Protection is being drafted. Preparation of a guidebook for technical officers and operational use; training of the officers and the selection of the DUS Test Centers are envisaged as next steps.

6 TRADE POLICY BY SECTOR

6.1. The sectoral trade policy of Lao PDR is aimed at (1) ensuring robust and stable economic growth that is not dependent, as it is at present, on a few sectors such as exhaustible mineral resources; and (2) narrowing the current development gaps between and within regions in the country.

6.1 Goods

6.1.1 Agriculture

6.2. Agricultural sector maintains an important role in the economy of Lao PDR, contributing to maintaining food security and combating poverty. It significantly contributes to the GDP (15.7%), even though this share has declined during the review period in favour of manufacturing and services. The value of the agricultural production increased by 6.3% in 2018, following a trend of steadily growth. The share of agricultural products in total merchandise exports has risen from 14.1% (2013) to 21.3% (2017). The top three export items are rubber, fruits and vegetables, and coffee. Given the level of self-sufficiency attained in several products, notably – in rice production, any increase of production has become available for export; moreover, existent land concessions

produced predominantly for export. Despite substantial total employment, which has ranged to 61.3% in 2017, low labour productivity and limited advanced technology constitutes a major impediment to development.

6.3. Lao PDR has several agricultural programmes to enhance the productivity of the agricultural sector in particular through introduction of modern technology, expansion of irrigation and providing services to the farmers. Some of the inputs belonging to such programmes (in particular irrigation, electricity rates for the farm sector as well modern inputs) are subsidized. All subsidies fall under the green and development categories and are therefore deemed to be WTO consistent.

6.4. In addition, Lao PDR has distributed land concessions to foreign and national investors, which largely produce export crops and have significantly contributed to the growth of agricultural exports. A moratorium has been declared on new concessions, while the Government analyses the costs and benefits of those concessions and new regulations for their approval, which would include consultations with the local population. Among the objectives of the review is too see how the linkages between those concessions and traditional farmers can be enhanced so as to ensure the spread of new technology as well as integration of the farmers into the processing of agricultural goods.

6.5. The Law on Agriculture of 1998 has not been amended and remains valid. The Government has decided to complement and operationalize the law by promulgating subject-matter specific legislation at the Ministerial and Department levels.

6.6. Lao PDR may ensure minimum prices for certain agricultural products in case this is necessary for food security purposes. However, only a minimum farmgate price for rice remains in place and no other form of relevant market intervention has taken place.

6.1.2 Forestry

6.7. During the review period, in accordance with the 8th NSDEP, Lao PDR concentrated its efforts on sustainable recovery and effective management of its forests; forest development; as well as forest and forest resources protection. To address the persistent issues of illegal logging and timber trade, the Government of Lao PDR announced its interest in negotiating a Voluntary Partnership Agreement (VPA) on Forest Law Enforcement, Governance and Trade with the EU in February 2012. In October 2013, the Ministry of Agriculture and Forestry opened a Forest Law Enforcement, Governance and Trade (FLEGT) Standing Office with support from Germany's Agency for International Cooperation (GIZ). In 2015, the FAO – World Bank Cooperative Program, the SUFORD-SU project (Scaling up participatory sustainable forest management project, financed by World Bank and Finland) and the GIZ ProFLEGT project have developed the Forestry Legality Compendium, which comprises all relevant legal provisions and provide a summary analysis on the forestry legal framework, including legislation associated with forest and forestland and the use of forest products, including from production forest, plantations, forest conversion/concession areas and village use forests. It covers planning, harvesting, transportation, processing and trade in unprocessed and semi-processed wood and finished products. Formal negotiations have begun in 2017 and are ongoing. The Department of Forest Inspection under the Ministry of Agriculture and Forestry is the national focal point for developing the VPA.

6.8. By entering into the VPA with the EU, Lao PDR aims to improve opportunities for the Lao PDR timber industry to access the EU market, diversify their timber products and increase revenue from timber exports. The Government hopes to increase the portion of skilled jobs with higher wages and to develop opportunities for technology transfer to the Lao PDR timber industry. Lao PDR also aspires to help ensure sustainable development of the forest sector, stop illegal logging, raise awareness of the benefits of timber legality in the country, enhance transparency and good governance and strengthen existing timber management policies.

6.9. Lao PDR has also introduced a ban on exports of unprocessed wood from natural forests with the aim to better control illegal logging and to promote the transformation of wood in Lao PDR.

6.1.3 Mining

6.10. The mining sector in Lao PDR used to generate significant revenue and has contributed to the steady growth of the economy for many years. Nevertheless, lately, the major mining operations in Lao PDR have seen a fall in production, predominantly due to drop world prices on minerals, and the suspension of new mining concession allocations since 2012. Under the 8th NSEDP Lao PDR's objectives for the sector include increasing the promotion of mineral processing by reducing the export of unprocessed minerals to increase the value of mineral products and ensure that the benefits from this sector contribute to improving people's livelihoods. The Law on Minerals was last revised in November 2017 in line with the above objectives.

6.1.4 Electricity

6.11. Electricity is a major source of foreign exchange as most of the production is exported to the neighboring countries (mostly Thailand). Abundant, relatively cheap and ecological energy sources are also a major comparative advantage of the Lao PDR economy that the Government intends to exploit further. Power exports represented about 26% of total exports in 2017. Lao PDR is developing a strategic plan to become the network center for a regional electricity transmission system by 2025. Export markets include Thailand, Viet Nam, Malaysia, Cambodia, and Myanmar.

6.12. Lao PDR has 61 hydropower plants with an installed capacity of 7,207 MW which can collectively generate about 37,300.6 GWh per year. Additional 36 hydropower plants are currently at various stages of construction. With an overall installed capacity of 4,184 MW, these plants will add another 20,892 GWh per year to the nation's power grid. Hydropower plants currently produce more than 86% of the country's electricity. Nevertheless, Lao PDR is mindful that over-reliance on hydropower could lead to several problems: (i) limited potential, expected to reach its maximum by 2030; (ii) need to install hydropower facilities along the watercourses and then transport the energy via inefficient power grid, often facing up to 20% losses in power supply, leading to the need to import electricity; (iii) seasonal factors, e.g. disruptions during dry season; (iv) potential risk harm to environment and people. Recognizing the need to diversify energy generation, the Government of Lao PDR has started exploring the potential of non-hydro renewables. It has established the development of renewable energy other than hydropower as one of its main priorities, aiming to increase the share of non-hydro renewable energies to 30% of total consumption by 2025. Studies show that Lao PDR has potential to develop solar power. Nevertheless, additional investments are necessary to make this happen. While the use of solar power was first recorded in 2014, its overall production remains insignificant in comparison to other sources.

6.13. Since 2005, a Rural Electricity Fund (REF) promotes the use of renewable energy in rural areas on the basis of a revolving capital principle with funding support from the International Development Association (IDA), the World Bank and the Norwegian Agency for Development Cooperation (NORAD). According to the updated the Rural Electrification Master Plan (REMP), the Government has set the national electrification target at a household level to 94% by 2025. As of now, about 92% of the households are electrified. While the electrification program nears its completion, the power grid is increasingly facing new challenges related to the fast growth of electricity demand. The main challenges are persistently high distribution losses, with some areas experiencing losses of over 20%) and sub-standard electricity services, including low reliability of electricity supply due to overloading of the distribution grid particularly in major load centers such as Vientiane capital, Khammouane, Savannakhet, Champasak provinces. Lao PDR is addressing the issue and is, receiving some technical assistance for its resolution, for instance, from the World Bank.

6.14. Since 2013, biomass has also been used to produce electricity and accounts for roughly 0.02-0.03% of Lao PDR's overall energy portfolio. Since 2015, when the Hongsa power plant came on line, coal has also been used, and accounts for 14% of total electricity production.

6.1.5 Manufacturing

6.15. Total value of manufacturing exports has significantly grown from about USD 270 million in 2013 to USD 780 million in 2017 driven mainly by exports of electronics, telecommunication and electrical equipment from the two SEZs (Savan-Seno Special Economic Zone and VITA Park) to Thailand, as well as of food and beverages. While the manufacturing sector was traditionally concentrated around garment and food and beverage processing, electrical and electronic parts

accounted for around half of total manufacturing exports in 2017. This shows that Lao PDR is getting integrated into the regional value chains. Addressing constraints to doing business outside of the SEZs and clarifying the incentive policies applicable within can create potential for further enhancement in exports. Nevertheless, contribution of services in value-added exports remains very small, ranging to less than 5%. Inadequate supply of financial and telecommunication services may also be a constraint on the diversification and upgrading of manufacturing firms, preventing them from moving up the value chain. Both for export-oriented and for domestic activities, Lao PDR's manufacturing sector relies less on services inputs than peer countries.

6.2 Services

6.2.1 Financial Sector/ the Bank of Lao PDR (BOL)

6.16. The Bank of the Lao PDR (the BOL) is an entity and an agency equivalent to Ministry. The BOL is in responsible for conducting monetary policy, financial stability and payment policy. It is the only agency by law to have right to issue money or national currency – kip. The operations of the BOL aims to maintain price stability through the stability of national currency; ensuring sound system of credit institutions and non-bank financial institutions; and contributing to socio-economic development plan of the Lao PDR. The Governor of the BOL also serves as the Chair of the BOL's Board of Directors.

6.17. The amended legislation on the BOL (2018), the Law and Commercial Bank (2018); and the establishment of the Law on Payment System (2017) provide an opportunity for the BOL to take into account good international practices, including on management of the BOL and modernizing the instruments of the central bank while the Law on Commercial Banks allowed the BOL to move toward risk-based supervision and introduced relevant provisions on crisis management and bank resolution. To ensure the expansion of financial technology and cost-efficient payment system are safe and risks being addressed, the BOL has closely supervised the payment system through the establishment of the Payment System Department. Reflecting an anti-money-laundering effort, the Lao PDR was also delisted from the grey list in 2017. Following the latter, the Anti-Money Laundering Office has been working closely with line ministries and associated competent authorities to conduct national risk assessment on Anti-Money Laundering (AML)/Counter Financing for Terrorism (CFT) in preparation for the upcoming Mutual Evaluation under Financial Action Task Force (FATF) new 40 recommendations in 2020.

6.18. During the review period, the BOL has continued to implement monetary policy and managed floating exchange rate regime aiming to maintain national price stability as well as to support economic growth. The BOL also supervises financial system to ensure safe and sound implementation, expanding service network to access diversification of financial services countrywide, enlarging the electronic payment system to be prompt, modern and safe response. The above steps enabled the BOL to maintain its targets: the inflation rate remained low, ranging to 2.04%; the LAK/USD exchange rate remained favorable; money supply (M2) grew by 8.37% compared to the same of last year; the commercial banks are growing and sound with deposits to GDP ratio accounting for 48.33% and credits for 45.30% of GDP; the Non-Performing Loan (NPLs) to total credits ratio marked 3.12% and overall foreign reserve covered 3.23 months of imported of goods and services. In 2018, the BOL has also established risk-based supervision manual, commercial bank's balance sheet and auditing instruments and created early warning system aiming to supervise the soundness of banking system. At the same time, commercial banks assessment was initiated, supporting risk-based approach to supervision. Moreover, the BOL has continued to encourage commercial banks to improve their services via mobile application in an aim to facilitating in settlement to be modern and sound such as land tax, electricity-water payment, and leasing and road tax.

6.19. At the end of 2018, there were 43 commercial banks (including 3 state-owned banks, 1 specialized bank, 3 joint-venture banks, 8 private banks, 9 subsidiary banks, and 19 foreign branch banks), 109 branches of commercial banks, 533 service units, 35 exchange bureaus, 1,225 ATM machines, 3,852 EDC countrywide and 1,426,966 ATM card. There were 185 non-banks (of which, there were 20 deposit-taking microfinance institutions, 77 non-deposit-taking MFIs, 30 savings and credit unions, 29 leasing companies, 27 pawn shops, and 5 transfer agencies).

With regard to capital market mobilization, the Lao Securities Commission has worked on improving regulations of securities supervision task including securities exchange, market intermediaries and listed companies in order to ensure compliance with regulations. The Law on Securities is also being revised and is expected to be submitted to the National Assembly by the end of 2019.

6.2.2 Telecommunications

6.20. The telecommunication regulating agency in Lao PDR is the Lao Telecommunication Regulatory Authority (LTRA), established in 2017. Lao National Internet Center (LANIC) under MPT provides National Voice Exchange (NVX) facilities for interconnection between domestic telecom operators, International Voice Gateway (IVG) for being national gateway for international calls. The functioning of the LTRA is guided by the following principles: (i) promotion of competition, connectivity and coverage; and (ii) ensuring independence in the governance and in the allocation of telecom resources according to Lao PDR law and regulation. Accordingly, the LTRA is fully independent from interference by operators not receiving any benefit from them so as to ensure a level playing field in terms of competition, numbering assignment, consumer safeguard and licensing. The Ministry of Post and Telecommunications is responsible for policy formulation and implementation in this area, and prior to the establishment of LTRA, it ensured regulation in the sector.

6.2.3 E-commerce

6.21. Lao PDR has taken meaningful initial steps in drafting legislation related to e-commerce. It has introduced the legal framework for the recognition of electronic documents and signatures, adopted provisions limiting intermediary liability. In addition, some of the regulations already implemented should be updated to ensure consistency with dynamic global trends, as well as complemented with regulations meant to foster trust in digital markets, such as the protection of online consumers and data privacy. The Decree on E-Commerce aimed at bringing the relevant legal framework in compliance with best practices is currently drafted.

6.2.4 Transport

6.22. Transport is one of the key means for Lao PDR to support the transformation from a land-locked to land-linked country. To achieve this, the 8th NSEDP emphasizes on developing economic corridors; reducing trade barriers, promoting cross-border investment, and capitalizing on the benefits of being member of regional and international economic integration and corporation. To promote regional integration and economic growth, Lao PDR participates in the two major regional agreements, the Cross-Border Transport Agreement (CBTA) and the ASEAN Free Trade Area.

6.23. Being a landlocked country, Lao PDR depends heavily on road transport for trade links both externally and internally. The transport sector in Lao PDR can be described as thin, consisting of a dozen large players (defined as having a fleet size of more than 50 trucks) and many small firms (companies with less than 5 trucks or owner-operators). Productivity levels in the Lao PDR transport sector are generally very low. The low annual mileage, together with the high cost of capital and low profit margins, prevent companies from investing in more expensive, yet more cost-efficient vehicles, which in turn increases variable operating costs.

6.24. Meanwhile, the development of the road network is vital in reducing transport costs and boosting trade. Rural areas, where the infrastructure is still largely lacking, are particularly concerned. In 2017, during the 10th Regional Environmentally Sustainable Transport (EST) Forum in Asia, Lao PDR joined Vientiane Declaration on Sustainable Rural Transport towards Achieving the 2030 Agenda for Sustainable Development, expressing its commitment to promote inclusive, affordable, accessible and sustainable rural transport infrastructure and services, thus facilitating improved access to basic utilities and services including health and education by the rural farmers, agricultural workers, girls and women, youth, and differently abled and vulnerable groups.

6.25. The biggest recent development in the Lao PDR economy is the construction of Lao-China railway. This is an area of common ground between the private sector and the Government of Lao PDR. The construction is expected to conclude in 2021. The railway is 414 km long and runs from Vientiane capital to Boten border, where it connects to Chinese railway.

6.2.5 Tourism

6.26. The Constitution of Lao PDR, as amended in 2015, stipulates that the State and society shall promote, develop and open up the country to cultural and historical tourism and eco-tourism. According to revised 2013 Law on Tourism, the Government of Lao PDR sets policies for tourism development. Tourism is one of the eight priority programmes of the socio-economic development of the Lao PDR Government. It has a strong contribution to employment. Notably, the percentage of women employed as housekeepers in Lao PDR's accommodation subsector is nearly 100%.

6.27. Improved of transportation system is a key for tourism development of Lao PDR. Development of the sector has been assisted by financial institutions and donor countries such as the construction of roads No. A3, No. 8, No. 9, No.12, No. 18B; the construction of Mekong bridges; improvement and construction of access roads to tourism sites, etc. At present, 22 of 27 international checkpoints are able to issue visa on arrival. In July 2019, electronic visa service was also launched. There are now 4 international airports – in Vientiane Capital, Luang Prabang, Savannakhet, and Pakse. These expand the alternatives for tourists to reach and visit the country. Major efforts are paid towards further improvements of infrastructure and quality of the services available to the visitors.

6.28. Because of its strategic location (in the center of Indochina and South-East Asia), Lao PDR is often considered to be a "*add on destination*". Therefore, tourists' circuits integrating Lao PDR with neighboring countries and increase in tourism cooperation with regional partners, including ASEAN, are the essential factors to contribute to the success of Lao PDR tourism.

6.29. In recent years, Lao PDR has seen very impressive tourism development. Various activities have been organized throughout the country, tourist attractions have been improved and festivals staged, thus enhancing Lao PDR's appeal as a tourist destination within the region. In 2018, more than 4.1 million overseas tourists visited Lao PDR within the framework of "Visit Laos Year 2018", an 8.2% increase compared to 2017. Tourism generated revenue of more than USD 755 million in 2018 alone. In 2019, it is expected that at least 4.5 million people will visit Lao PDR, generating revenue of more than USD 700 million.

6.30. Lao PDR works closely with other sectors and local authorities to explore plans and develop visitor attractions in a way that is as sustainable as possible. Tourist sites have been classified into three categories: natural, historical and cultural. So far, 985 sites have been surveyed and identified.

PART II – MAJOR THRUSTS OF LAO PDR'S TRADE POLICY REFORMS IN THE UPCOMING YEARS

1 INTRODUCTION

1.1. As described in Part I above, since its accession to the WTO, Lao PDR has made a substantial effort in bringing its trade regime and economic policies in line with best international practices. Lao PDR has adopted necessary laws to comply with best international practices and has revised its laws in line with the requirements of its international and regional commitments. It has adopted a large number of plans and policies in view of transforming its economy and trade pattern to the requirements of international and regional integration and to ensure that the private sector benefits of a conducive environment to develop its entrepreneurial spirit and to become competitive so as to be able to benefit from its comparative advantage. The export strategy defined how Lao PDR wants to take advantage of its integration into the world economy. The Law on Lawmaking ensures that new laws and regulations are drafted in a transparent way and that effects of laws and regulations on the environment and other public goods are accounted for. Many technical regulations have been adopted and sanitary and phytosanitary measures – implemented to ensure that products respond to the demand of the global market. Lao PDR has adopted Intellectual Property Rights legislation responding to international standards and a trade regime in line with the accession commitments. It has also revised investment legislation to ensure equal treatment of foreign investment and defined a policy for Special Economic Zones to attract foreign investment.

1.2. As a result, now Lao PDR has laws, policies and programmes, which should facilitate its integration into the world economy and lead to the required diversification of its economy and an inclusive development, putting special emphasis on underprivileged regions and people. However, the Government of Lao PDR is aware that adopting laws and programmes is one thing, their efficient

implementation another. Lao PDR can only reap the benefits of new laws and programmes, if they are implemented effectively and efficiently. This is unfortunately not yet fully the case. There is sometimes still confusion, which laws and regulations apply; how to ensure that they are implemented according to their purpose. A lack of full understanding of the laws, which negatively affects their application, and the absence of monitoring and control systems are the major impediments. Therefore, the Government's priority in the coming years will be to address three major issues: (i) Implementation of the laws and development programmes; (ii) Increasing efficiency and effectiveness of the reform policies; and (iii) Taking advantage of participation in regional and multilateral rule making.

2 IMPLEMENTATION OF THE LAWS AND DEVELOPMENT PROGRAMMES

2.1. The Government of Lao PDR intends to address the following identified issues of implementation:

2.1 Measures to ensure that implementation instruments are established within a reasonable time frame after the promulgation of the laws

2.2. Still too often new laws are passed, but implementation instruments containing necessary instructions on how to implement them are delayed. This creates insecurity of law which hampers development and creates confusion among the authorities, which are requested to implement the law, as well as among the economic agents supposed to follow the laws. The Government is aware of the issue and will evaluate the situation in view of improving the implementation of the laws in a timely manner.

2.2 Measures to ensure that that the implementation instruments are fully consistent with the spirit of laws promulgated

2.3. While decrees are checked concerning their consistency with laws and other instruments are often passed without scrutiny by the authorities in charge to ensure compliance with international commitments. At the same time, provincial authorities, within their mandate of maintaining peace and stability in their provinces, adopt acts which are not in line with the laws of the land. The Government is looking into ways and means to ensure that implementation instruments are fully consistent with the spirit of the law and applied uniformly on the whole territory.

2.3 Training measures proposed for Ministries and Agencies in charge of implementation to ensure efficient and coherent implementation.

2.4. Often agents required to implement new measures are not sufficiently informed or trained to be able to apply them. Therefore, they continue to apply the old procedures with which they are familiar leading to inconsistent application of laws and insecurity. The Government therefore intends to review the training needs of all agents in charge of implementation of the new laws to define a corresponding training programme. The Government would need technical assistance to develop and implement such a training programme and submits hereby a respective request to the Members of WTO.

2.4 Measures with respect to review and streamlining of the procedures

2.5. The proliferation of new laws and procedures has led to confusion and incoherencies. Moreover, experience over the last few years has shown that some of the measures did not have the intended effect or had unintended effects, which were negative for the development. The Government has therefore identified the following needs:

- (i) Review of the licensing procedures: The Government has recently requested the implementing authorities to propose ways and means to streamline licensing requirements and procedures and to conduct a critical review of all licensing requirements in terms of their need and usefulness, so as to avoid unnecessary requirements hampering the economic development. At the same time, the Ministry of Industry and Commerce is reviewing automatic and non-automatic licensing requirements with a view of abolishing most of the automatic licensing requirements. Indeed, the purpose of the automatic licensing requirements was largely statistical. The Department of Import and Export (DIMEX), has well advanced in its work and

is expected to submit a proposed list of all licensing requirements at the beginning of next year. Given the improvement in the customs procedures, it is no longer necessary to have this additional requirement. Through the new licensing policy, the Government aims to reduce the burden on the private sector and improve its rating in the business environment index of the World Bank. Technical assistance in establishing this new licensing policy would be appreciated.

- (ii) Improving coherence of various regulations and coordination between central and provincial applications: Promulgation of laws and regulations has responded to specific needs of reform and have not always been made considering the overall requirements of the changing environment. A review of the consistency of the measures and ensuring coherence of their application both at the central level and at the provincial levels is now required. In particular duplication of measures and procedures at the central and provincial level or variations in application of the same measures at the two levels have to be addressed. The Government therefore intends to make a review and evaluation of all the measures in terms of their consistency, avoidance of duplication of measures as well as with the aim of streamlining them. For this purpose, the Government envisages to undertake the study with the support of a regional expert having experience in this field in other ASEAN Member States and who can bring best international practices to this exercise. Technical assistance in support of this project would be highly value.
- (iii) Improving transparency and accountability: Implementation of reforms depends on transparency and accountability. Only if the governmental agents and the private sector understand and agree with measures proposed, will they be fully implemented. Agents have to be aware that conformity of their action with the measures promulgated will be checked. For this purpose, the Government will:
- (a) *Ensure that laws, decrees and regulations are published promptly in an accessible way to everybody*: The Government has made great progress in this domain by publishing online the Official Gazette as well as the trade portals on all procedures and regulations which have a direct linked to trade in goods and in services. Continuing to provide the necessary resources to ensure that those platforms are up to date and relevant is a priority of the Government. One bottle neck is the translation of the information into English. While Lao PDR benefits from technical assistance to keep up the portals, it will need financial support to ensure the up-keep and especially the translation of the content of the official Gazette.
- (b) *Inform and consult with the private sector*: Regular consultations with the business community through the dialogue has greatly improved the coordination between the Government and the private sector and is deemed very useful by both sides. Such consultations could be used to identify problems with implementation of new measures and reforms. The private sector which is at the receiving end of measures is an excellent monitoring source of how well measures and reforms are implemented. The Government intends to strengthen this dialogue in particular in the following ways:
- Ensure participation of MSMEs and underprivileged segments of the society. Unfortunately, currently, the consultations are largely limited to bigger companies, which have resources to participate, while MSMEs are often lacking means and knowledge to effectively engage in such consultations. Special efforts to inform and train MSMEs and underprivileged groups (especially women entrepreneurs) are needed. Technical assistance for this purpose would be highly appreciated and necessary;
 - Conduct regular assessment of implementation and the effects of various measures. Such oversight would allow to adapt laws and procedures to the requirements of development. A monitoring and evaluation system which provides timely statistics on the effects of the measures implemented would allow the Government to adjust reforms and policies according to their purpose. To start, the Government intends to distribute to the private sector specific questionnaires on various measures implemented to monitor and evaluate their impact. Technical assistance to establish these questionnaires would be necessary.

(iv) Continue implementation of the trade facilitation roadmap: The Government is successfully implementing a road map for the trade facilitation exercise and considers this activity essential to ensure that Lao PDR can participate in regional and global value chains by ensuring speedy and efficient flow of goods, services and technology. The Government believes that an integration of the trade facilitation measures with the activities mentioned above will greatly enhance the business environment in Lao PDR and equip it to integrate as much as possible in regional and global distribution of value-added activities through value chains.

3 INCREASING EFFICIENCY AND EFFECTIVENESS OF THE DEVELOPMENT AND REFORM POLICIES

3.1. Lao PDR has, in the last few years, adopted a tremendous number of policies in view of integrating its economy into the world trade system and of ensuring efficiency of its private sector – the main source of development. Unfortunately, the resources and measures adopted have not necessarily been explicitly linked, so that an establishment of a causal relationship between the measures and the intended objectives is neither possible, nor feasible. The Government has established programmes to address perceived weaknesses in its economic structure such as the issue of increasing income disparity and the distribution of benefits of development; the need to diversify its economy as well as increasing the value added created in the economy (in particular through the transformation of its natural resources, including its agricultural potential), access to technology and foreign investment. However, the effects of those measures in terms of their objectives seem to be lagging behind. Establishing the efficiency and coherence of the various programmes will now be a priority for the Government.

3.2. For this purpose, the Government intends to implement the following measures: (i) review of the various policies and programmes adopted and their coherence; (ii) establishment a causal relationship between measure and their objectives (the Government has already started to review its SOEs, their justification and their efficiency, the issue of licences and the policy of land concessions); (iii) attribution of various measures and budget outlays to particular development programs so that their efficiency and effectiveness can be traced; (iv) establishment of a monitoring and evaluation system for major development initiatives and measures. Nevertheless, the Government does not have the necessary resources and capabilities to fully implement this ambitious plan and would need technical and financial assistance.

4 TAKING ADVANTAGE OF PARTICIPATION IN REGIONAL AND MULTILATERAL TRADE POLICY NEGOTIATIONS

4.1. The Government intends to fully benefit its participation in regional and multilateral trade negotiations and fora. Its objectives in those negotiations are threefold: (i) ensuring access to the markets for its products and services: the Government shifts its attention there from tariff measures to SPS, TBT and other restrictive measures (safeguards and unilateral measures) which are the major obstacles to its exports. The Government believes that such unilateral measures should not be applicable to the lower income developing countries (LIDCs) which appose no threat to any Member given their small export amounts; (ii) creation of a development-conducive environment for Lao PDR's, among others, with respect of the subsidy disciplines, which ensure that Lao PDR has a fair stake in international trade and still can implement measures to improve the efficiency and to bridge the technological gap in its economy; (iii) adhering to the best trade practices: regional and multilateral negotiations help Lao PDR to adapt its trade and economic policies to best international practices. Lao PDR is fully aware that most benefits a country could reap from liberalization is not the concession from other countries, but the implementation of reforms in its own economy. Lao PDR has used its accession to the regional trade agreements as well as its WTO accession to modernize its policy framework. It uses the on-going negotiations as a guide for further adaptation of its policies to the ever-changing international environment.

4.2. Lao PDR recognizes importance of participation in the regional trade agreements (implementation of the strengthening of the integration within ASEAN; RCEP negotiation and various bilateral trade agreements, BITs and other investment agreements, as well as agreements for avoidance of double taxation (DTTs). Regional integration of its economy is essential for Lao PDR given its high concentration of both imports and exports within the region, due in large part to its landlocked position, and the high growth potential of the region.

4.3. Lao PDR also puts a high emphasis on an inclusive multilateral system with WTO as its guarantor. It shows its commitment to WTO by:

- (i) *fulfilling its notification obligation to the Organization to the best of its capacities.* Lao PDR will devote 2020 to making sure that it is up to date on its notification commitments. The relevant schedule of notifications was developed by the Ministry of Industry and Commerce and is now being progressively implemented. Lao PDR puts great emphasis on the transparency function of WTO and therefore believes that it has to lead by example. However, Lao PDR is of the view that the notification obligations should consider the importance of the member state in international trade. Low income developing countries, which do not influence the international market (neither as importing nor as exporting country) and that have only limited resources to influence the trade regime, should regularly report changes in the trade regime, but may not need to provide regular information on certain other measures, for instance, subsidies, for which they have no means and which therefore do not change from one year to the other in significant amounts.
- (ii) *participating actively and in a consensus-oriented way in the on-going negotiations.* Lao PDR is concerned about the present crisis in the multilateral trading system and the increase in unilateral measures and protectionism. Lao PDR is aware that it cannot contribute significantly to the resolution of the issues which are responsible for the present crisis. However, it believes that each Member should do whatever it can to confirm the usefulness of the system and to demonstrate its attachment to its preservation. Lao PDR shows this by the following: (a) It intends to sign on to the Information Technology Agreement (ITA) I and ITA II agreements, thereby manifesting its willingness to abide by further liberalization measures; (b) It has decided to join the work under all the three Joint Statement Initiatives addressing the "new" issues – the Joint Statement on E-commerce, the Joint Statement on Investment Facilitation for Development and the Joint Statement on MSMEs, thereby showing its willingness to compromise and to accept that so called new subjects need to be introduced into the system. Nevertheless, Lao PDR believes that the unresolved issues of the DDA should have priority and is concerned about not having the required resources to fully participate in the negotiations. However, Lao PDR is confident, that the other WTO Members would consider its constraints and the need not to neglect issues like domestic support in agriculture, issues which are essential for its rural development.
- (iii) *support of the current efforts to reform the WTO,* which Lao PDR considers to be an essential element for the survival of the inclusive multilateral trading system. Lao PDR acknowledges the need to improve the functioning of the WTO system in a way that takes into consideration the changing global realities to be inclusive, transparent and rules-based system.

PART III – LAO PDR'S GRADUATION PREPARATION POLICY

1 INTRODUCTION

1.1. Lao PDR is well on its way to fulfill the graduation criteria and to pass from the status of an LDC to the one of a developing country: it fulfills the 2 out of the graduation criteria (income per capita and the Human Asset Index (HAI), and if this is confirmed in 2021, which seems very likely, Lao PDR will graduate in 2024 and has to prepare a transition strategy with the United Nations support so that effective graduation would take place. Graduation from the LDC status is a positive development and a natural consequence of Lao PDR's successful development. It welcomed by the Government. Graduation, however, poses new challenges for the sustainable development of Lao PDR as its conditions on the international markets will become more difficult.

1.2. The purpose of Lao PDR's policy response to this challenge is to ensure that the graduation is not hampering its sustainable development by (i) identifying possible risks associated with the graduation and (ii) implementing the appropriate measures to respond to this new challenge.

1.3. Lao PDR's development issues are well-known and are already being addressed by the Government. To ensure a continuation of Lao PDR's successful development, Lao PDR needs to address some longer-term issues related to its macroeconomic framework, its external vulnerability and its human resources development. These issues are being addressed by the Government, especially in its implementation of the 2030 SDG Agenda. Full implementation of the measures

outlined in the agenda will greatly contribute to ensuring that Lao PDR's development will be sustained and that graduation will not negatively affect its development strategy. The transition strategy for the graduation process therefore is closely linked to a successful implementation of the 2030 Agenda, which will have to be fully integrated into that strategy.

1.4. In addition, to ensure a smooth transition during the graduation process, Lao PDR will have to define a certain number of short-term measures to ensure that the change in status is spread over a time period in line with the needs of Lao PDR to adjust to the new status.

1.5. Therefore, the Government is adopting the following approach to the design of its transition strategy: (i) Short-term measures to ensure a smooth transition of Lao PDR from its LDC status through providing sufficient time for the economy and its actors (both public and private) to adapt to the new conditions in the international market; (ii) Longer term measures to ensure that the identified bottlenecks towards a sustainable and inclusive development of Lao PDR are lifted by concentrating in a targeted manner the main obstacles.

2 SHORT-TERM MEASURES TO ENSURE A SMOOTH TRANSITION FROM THE LDC STATUS

2.1. The loss of LDC status affects Lao PDR's development in the following three ways: (i) Loss of LDC-specific preferences in trade relations; (ii) Loss of certain flexibilities in terms of specific flexibilities at the WTO granted to LDCs; (iii) Possible loss of ODA or being subject to more restrictive terms.

2.1 Loss of trade preferences

2.2. LDCs benefit of special preferences of access to the markets in both goods and services.

2.1.1 Trade in goods

2.3. As an LDC, Lao PDR has been granted by most developed and many emerging markets "duty free/quota free" (DFQF) access. Nevertheless, the loss of these preferences will be minimized for Lao PDR for the following reasons: (i) the preferences in industrial good are rather minimal and often are not used due to high logistical costs and fierce competition from the other Members, including LDCs. In agriculture the preferences can be more important, however Lao PDR uses preferences of only three countries (Canada, EU and Japan) in a meaningful way; (ii) Lao PDR is the LDCs that has a large share of trade (90% of exports) covered by the Free Trade Agreement. The change in the LDC status will only affect very marginally the access of Lao PDR to those markets. Lastly, (iii) the large part of Lao PDR's exports (natural resources) is not affected by tariffs and therefore will not face additional impediments in its markets. However, Lao PDR takes step towards diversifying its exports and producing more value-added manufactured goods. For this purpose, Lao PDR's strategy is first and foremost the integration into regional and global value chains. This strategy will be affected by the preferences for LDCs only marginally.

2.4. The strategy of Lao PDR in terms of mitigating factors in its transition is based on the following measures (i) further integration of its economy into the regional market and labour distribution process through strengthening its regional Free Trade Agreements (especially ASEAN, ASEAN +6 and RCEP) and (ii) negotiating with preference granting WTO Members a smooth transition from references granted to LDCs to preferences granted to developing countries. In terms of its present ad potential markets the following countries will have priority:

- China, Japan and Republic of Korea: Lao PDR within its free trade agreements with those countries (ASEAN 16 and RCEP) would strive to ensure that it is excluded from exemptions to the free trade agreements for products of interest to its export sector, in particular in agricultural and agro-processed products.
- European Union (EU), Canada and the United States of America (U.S.): The EU is probably the most interesting market for Lao PDR's exports outside of the region, especially if Lao PDR diversifies its manufacturing capacity. Lao PDR will lose its access to the EU market under Everything but Arms (EBA) programme which is limited to LDCs. While the EU grants graduating LDCs a 3-year extension of the EBA access to its market, to continue to profit from substantial preferences Lao PDR has two options: (i) benefiting from the

region to region FTA being discussed and (ii) apply to EU's preferences + scheme. Given the potential of the EU market for Lao PDR's diversification strategy, Lao PDR envisages to seek adhesion to the EU preferences + scheme. This needs careful preparation as granting of these preferences is conditional upon ratification and implementation of the 23 international conventions. Therefore, the immediate discussion about its participation in the EU preferences scheme is crucial and the EU's addition supports to provide Lao PDR in this field through an extension of the ARISE + programme are needed.

2.5. Lao PDR is, at present, not eligible for the US preferences scheme as it does not fulfill the political conditions attached to it. The US is potentially an important market for Lao PDR's policy of diversification of its exports given the size of the US market, the on-going changes in the USA import regime and the continuing dislocation of labour-intensive industries out of China into South East Asia. Given a certain similarity between the US and the EU requirements attached to preferences, Lao PDR seeks negotiations with the United States to combine its efforts to have access to the two preferences schemes as well as the support to be able to join them.

2.6. Lao PDR has also started to look into the feasibility of negotiations with Canada and some other markets for its product to ensure both (i) an extension of the application of their preferences for LDCs as well as (ii) the future arrangements of preferences based on its export structure and capabilities.

2.7. Lao PDR will also use these negotiations to discuss the specific support they may agree to provide Lao PDR in its graduation process in particular the development of its production capacity in line with export potential in those markets.

2.1.2 Trade in services

2.8. Lao PDR will also lose the preferences granted by some 23 WTO Members under the services waiver. The loss of those preferences is, however, of very limited importance to Lao PDR for the following reasons: (i) the preferences granted are of small interest to Lao PDR; (ii) Lao PDR's exports of services is largely limited to tourism and transport, which are not benefiting of preferences and/or which are covered by regional free trade agreements. Lao PDR's strategy therefore is to start negotiations with potential services market on a product-targeted basis to define programs of enhancing trade in services which encompass access and the promotion of its delivery capacity considering potential services exports rather than actual exports, which are minimal. For the purpose of the above actions, the Ministry of Industry and Commerce is already creating a negotiation team in charge of those negotiations with focal points in the relevant Ministries and in cooperation with the private sector.

2.2 Loss of certain flexibilities granted to LDC WTO Members in terms of commitments

2.9. Lao PDR, as a recently acceded WTO Member has taken many commitments which LDC Members were not required to undertake. Therefore, the loss of LDC flexibilities will be limited:

- (i) the Trade Facilitation Agreement (TFA): Lao PDR's right to have access to the category C measures of the Trade Facilitation Agreement is not affected by its change in status;
- (ii) the Agreement of Agriculture: Article 9.4 provides Net Food Importing Developing Countries (NFIDCs) with flexibilities in granting export subsidies. Lao PDR does not provide export subsidies for agricultural products and does not intend to provide such subsidies. It has, however, not forgone its right to do so in the future. As Lao PDR continues to be a NFIDC, it will continue to benefit from this right. However, given Lao PDR's impressive increase in agricultural production and the fact that it has currently become self-sufficient in most food items and it is now gradually becoming a net exporter of food of the neighboring countries especially in terms of clean and safe food. Lao PDR envisages to start preparation to the loss of this flexibility in the medium term.
- (iii) the Subsidies and Countervailing Measures (SCM): Lao PDR will lose flexibilities in granting export subsidies and imposing tariffs under Article 27.2 of the Agreement. While this is at the present time of minor concern to Lao PDR, it might become an issue in its diversification policy: Lao PDR will be restricted in the support it can provide to its nascent industry. However,

this does not mean that Lao PDR cannot implement an industrialization policy, rather it has, to adapt the instrument it uses to do so are the WTO requirement. The Government therefore intends to establish an *ad hoc* working group to elaborate an industrial development policy including the support it requires from WTO Members to implement it in tie for the discussion on its graduation in 2024. It hereby requests technical assistance from WTO Members in elaboration of such a policy.

- (iv) the Trade-Related Aspects of Intellectual Property Rights (TRIPS): While the general transition period of the TRIPS Agreement is not affected by the change in Lao PDR's status at the WTO, Lao PDR will lose the benefits of the pharmaceutical and agro-chemical waiver upon graduation. Although Lao PDR does not benefit at present of this waiver, the Government intends to keep the possibility to participate in this market, which is of potential interest to its economy. Lao PDR will therefore request, as part of the transition measures- that it can continue to benefit of this waiver until its expiration in 2033.
- (v) Dispute settlement: LDCs benefit from some self-restraint, flexibility in consultation as well as support from the WTO Secretariat, as well as free support from the Advisory Centre on WTO Law (ACWL). Lao PDR intends to maintain these flexibilities as much as possible. Given that the modification of the WTO dispute settlement mechanism is currently under negotiations, Lao PDR will (i) follow the negotiations and defend its interests there and (ii) start negotiations to adhere to ACWL and on its contribution.

2.3 Potential loss of the ODA and tightening of its conditions

2.10. This might well be potentially the biggest impact of Lao PDR's graduation. However, independently of the graduation, Lao PDR has to prepare itself for a lower contribution of ODA in its external financing, which is actually already occurring. This is of particular importance to Lao PDR given its external imbalances and dependence on foreign funding to continue financing of its infrastructure, building up of its human asset basis and diversification efforts. In the longer term, the solution to this problem will depend on the capacity of Lao PDR to attract foreign direct investments and to increase its internal savings rate. This shift from concessional to commercial financing will, however, take time and mitigating measures are, thus, essential.

2.11. There are four major sources of the Official Development Assistance (ODA) for Lao PDR:

- (i) The International Financial Institutions (IFIS) are the biggest source of external concessional financing. IFIS (and the UN) have no specific LDC focus and therefore graduation should not affect the resources available to Lao PDR. However, Lao PDR has to prepare itself for a certain tightening of lending conditions i.e. higher interest rates and shorter repayment periods. This, however, will depend on its overall development and external balance and not the LDC status;
- (ii) Bilateral ODA: There is limited LDC-specific support by bilateral donors. However, some of the major donors in Lao PDR, such as the DIFID and the GIZ, do have commitments to concentrate their assistance on LDCs and therefore might be less inclined to support Lao PDR;
- (iii) LDC specific support: EIF, ACWL as well as some UN funds such as the UN Capital Development Fund (UNCDF), the Technology Bank for LDCs, the United Nations Framework Convention on Climate Change (UNFCCC) LDC Fund (LDCF) among others, are LDC specific. For Lao PDR the following programmes are of relevance: EIF and ACWL. The EIF grants an extension period for graduating LDCs and ACWL is available to non-LDCs albeit at a cost. Lao PDR intends to negotiate generous extension periods for these two programmes in its transition strategy. The LDCF: The loss of support from this Fund may well be of great importance to Lao PDR given its big exposure to climate change issues. To be able to implement its climate change mitigation measures, Lao PDR will elaborate a clear programme of measures to be submitted to the donors. It is believed that the elaboration of a coordinated programme with detailed projects will allow to mobilize support for these important activities. Lao PDR requests technical assistance from donors to elaborate such a programme to be included in its transition strategy.
- (iv) Support for participation of the capital officials in the United Nations and International Organizations including caps on budget contributions and support for travel: While the

amounts of money involved are not that important, this support is essential for Lao PDR to be able to fully participate in international organizations as appropriations within the national budget are often difficult to obtain and require lengthy procedures. Lao PDR therefore intends to include the support for these activities into its transition strategy while it is intending to create, in the medium term, a special budgetary allocation for these activities.

- (v) Lao PDR's participation in international negotiations. The Government is aware that it will have to change its strategy in international negotiations in particular at the WTO and UNCTAD. From a policy of requesting exemptions and preferences for LDCs, Lao PDR will have to shift towards a pro-active policy to ensure that international framework and rules are conducive to its development rather than to ask for exemptions of rules not adapted to its development status. The Government has already started this transition: (i) it participates in all plurilateral negotiations that are currently under way; (ii) it intends to join the ITA I and II Agreements still this year; (iii) it is implementing aggressively its commitment under the TFA and (iv) it has developed a pro-active and consensus-oriented negotiations strategy for WTO. However, Lao PDR does not have the negotiation capacity to implement a pro-active negotiation strategy in the various fields currently under negotiation. It needs a strengthening both of its presence in Geneva as well as of its negotiation capacity. Lao PDR requests from WTO Members urgent support to be able to play its role in WTO and UNCTAD. It intends to elaborate with interested parties a mid-term support programme to strengthen its negotiation capacity to fully participate in international negotiations.

3 LONGER TERM MEASURES TO ENSURE LAO PDR'S SUSTAINED DEVELOPMENT

3.1. Short-term measures to ensure a smooth transition are necessary, but insufficient. Lao PDR has to address its structural issues to ensure sustainable and inclusive development. The issues which threaten the sustainable development of Lao PDR are well established: (i) structural change in the economy to reduce its dependence on capital intensive resource based development towards a broader development pattern of inclusive and value added economy and (ii) the reduction of external vulnerability due to the heavy concentration of the export pallet as well as of the destination of its exports coupled with fiscal and current account deficits, a limited foreign exchange reserve. The two constraints are interrelated and need longer term policies linked to a more favorable environment for the private sector and FDI, the acquisition of technology to improve its competitiveness, the development of human resources to provide the necessary skills for an expanded production basis and a strong integration into regional and global value chains, given the relatively small internal market.

3.2. This said, Lao PDR has clear positive developments which should enable it to progress to its goal of a middle income country by 2030: (i) the Government has clearly identified measures to ensure the transition: it has an ambitious strategy to fulfill the SDG 2030 indicators; (ii) it is already implementing the measures to address the impediments issues; (iii) given its low manufacturing basis, the opportunities to produce manufactured goods are improving, and (iv) Lao PDR is surrounded by fast growing markets and its current infrastructure investment is slowly transforming its landlocked status into a regional hub in the midst of an integrated vibrant market. Lao PDR's sustainable development strategy will at the same time address the longer-term issues related to its graduation. The success of this strategy is, therefore, vital.

3.3. The Government of Lao PDR therefore intends to integrate its graduation strategy into its sustainable development strategy by emphasizing the measures which will need to be implemented in priority. The Government intends then to integrate the two strategies into its 9th NEDP which will cover the graduation period from 2021 to 2025. For this purpose, the Government has identified the issues which will be crucial in the medium term to ensure the graduation and which can be implemented in the planning period.

3.1 Reducing Economic Vulnerability Index

- (i) Public finance issues: Lao PDR experiences persistently high fiscal deficits and relatively high public debt/GDP ratio. More than 80% of the public debt are in the foreign currency, mostly from bilateral aid sources. Given the expected reduction in foreign aid, graduation, in the longer term, will aggravate this situation. The Government is aware of the risks and fixed a goal of limiting the deficit to 2.5% of GDP and the debt to 55% of GDP by 2022. Measures

already implemented have reduced the fiscal deficit to 4.3% and 4.1% (expected) in 2018 and 2019 respectively, reversing a growing trend since 2015.

The issues concerning the public debt includes: (i) moderate revenue growth while debt service payments has increased which amounted to about 11% of domestic revenue, increased a pressure on other spending programmes; (ii) shortfall in revenue collection, a high dependence on indirect taxes and on commodity prices. The Government intends to decrease its current expenditures while maintaining the required investments in health and education; increase its revenue basis and decrease its dependence on foreign financing. A specific plan to implement these policies will be a part of the transition strategy including a request for technical assistance from WTO Members.

- (ii) Current account deficit: With a view to sustain macroeconomic stability and reduce external risks, the Government will implement measures to narrowing current account deficit through (i) the development of a larger productive basis and hence of its exports and (ii) improving indicators for ease of doing business to promote SME participation and inward FDI, which will in turn raise productivity and increase country's capacity for exports. (iii) Given the partial dollarization of the Lao PDR economy, careful exchange rate management will be conducted in order to maintain price stability. The ongoing BOL's efforts to improve the functioning of the interbank market should help improve the foreign exchange management. To move forward in reducing dollarization, the BOL will strictly enforce Foreign Exchange Management Law, which requires all domestic transactions to be made in Lao kip, foreign exchange flows across borders related to international trade and investment to be settled through banking system with an effort to enhance retail electronic payments and integration of its Real-time Gross Settlement (RTGS) with regional and global payment system.
- (iii) Safeguarding financial stability: The financial sector is largely occupied by banking system, which remains shallow in terms of service types. The recent improvements in legal regulatory framework, for instance, the amended Law on Commercial Banks are important steps to support the implementation of risk-based supervision, a prerequisite for transition towards Basel II standards. To continue strengthening financial sector resilience and deepening, sustained efforts will be needed in (i) updating prudential measures including the implementation and enforcement of existing regulations; (ii) improving management and profitability of few state-owned commercial banks; (iii) enhancing the soundness of non-bank financial institutions through modernization of regulatory and supervisory tools.

3.2 Structural change of the economy

3.4. Lao PDR's sustainable development including the achievement of the 2030 Agenda, largely depends on its capability to transform capital-intensive, resource-based system into a more diversified economy based on value added production in the manufacturing and services sectors, thereby providing remunerative jobs for the young population. This will largely depend on the strengthening of the private sector, its participation in regional and global value chains and its attractiveness for FDIs. Given its labour structure, including relative scarcity of qualified labour, Lao PDR could not follow a low labour cost development path as its neighbors have a comparative advantage in this field. Its industrial policy has therefore to be based on higher value-added products and the integration of its productive structure into the large regional market. A broad-based development strategy will have to put emphasis on creating value added in the agricultural sector, given that the large part of the population is still involved in therein. Accordingly, the Government has defined as its priorities in the manufacturing sector agri-businesses and transformation of its natural resources into value added processed products by encouraging the forward and backward linkages of its economy. The Government intends to develop a WTO-consistent industrial policy to strengthen its manufacturing sector as part of its graduation strategy to be implemented during the 9th NSEDP. Lao PDR has already started to work in this direction: the Prime Minister Order No. 05/PM, dated 21 May 2019 and Guidance No. 1610/MPI, dated 26 July 2019 were issued. TA is required for the preparation of the industrial plan and its implementation.

3.2.1 Measures to Improve Ease of Doing Business

3.5. To implement its industrial strategy Lao PDR will have to rely on domestic and foreign investment. The improvement of the regulatory framework for investments is of highest priority.

The promulgation of its new investment law was a first step and has led to a sharp increase of FDI. However, most of the investments attracted so far have been capital intensive investment in natural resources and infrastructure. While Lao PDR overall legal framework is conducive to investments, its procedures and its implementation of laws is still an impediment to investments as shown by its ranking in the World Bank's index of ease of doing business (154 out of 180 countries in 2019). The World Bank index is particularly relevant for Lao PDR as it does not measure the legal framework, but is based on the effective experience of investors putting heavy emphasis on procedures.

3.6. The Government is aware of the issue and has commenced addressing it. The prime minister order regarding improving the effectiveness of business registration and approval process in Lao PDR, promulgated in early 2019, mandated all concerned agencies (including all Ministries, Agencies and provincial authorities) to review and simplify their procedures with the aim to improve the ranking of the Lao PDR in the World Bank index below 100.

3.7. For this purpose, the Government intends to concentrate on those indicators that can be improved in the short term and which have the greatest impact on its ranking, concentrating its reforms on the following 7 categories: (i) Starting a business (concentrating on a streamlining of procedures, reducing the time required as well as the costs); (ii) Enforcing contracts (by reducing time of consideration and improving the quality of the judicial system, in particular – through enhancing availability of alternative dispute settlement options (mediation and arbitration); adjusting the court structure and streamlining procedures as well as introducing court automatization); (iii) Issuance of construction permits (by reducing the number of procedural steps, the costs and the consideration time); (iv) Facilitating getting electricity (by reducing the number of procedures, the time required and the reliability of the services largely through automatization); (v) Resolving insolvency (strengthening the insolvency mechanism); (vi) Protecting minority interests (by increasing director's liability, shareholder governance and rights as well as corporate transparency); (vii) Streamlining procedures for paying taxes (by reducing the number of payments (35) and the time required (365 hours) largely through automerization of the process and use of IT).

3.8. The Government intends to elaborate a concrete action plan to achieve its goal of ranking below 100 in 2024 as part of its transition strategy of graduation and will identify concrete requests for technical assistance.

3.2.2 The human capital index

3.9. The World Bank index of human capital for Lao PDR is 0.45 which means that a child born in Lao PDR will be only 45% productive compared to his/her potential. The lack of trained workforce is a major impediment to the industrial policy which puts emphasis on higher value-added production as well as for the sustained development overall. Health and education thus of major importance in the Lao PDR's 2030 Agenda. The graduation strategy should, thus, be integrated and supportive of this Agenda by concentrating on those aspects which are essential for the sustained economic development during and after graduation. The Government therefore has decided to put its emphasis in terms of health and education on the two elements which are the most constraining for the implementation of its graduation strategy based on a structural reform of its economy.

- (i) In education, Lao PDR has made great progress in the enrollment in primary and lower secondary education. The major issue in education is its quality. The Government therefore will concentrate its efforts on quality teaching, curriculum reform in the primary school as well as on attendance. The adoption of a new curriculum is under way with training of the teachers and support materials provided for grade 1. Grade 2 to 5 will follow.
- (ii) In health, Lao PDR has made substantial progress in basic indicators such as maternal health; under 5 mortality rate, adult survival rate etc. although it still has indicators which are below the averages in the region and further measures are foreseen in the 2030 Agenda. For its graduation policy and the goal of diversifying its economy base, the most pressing issue is the rate of stunted children under the age of 5 this will severely impede the work force in the future. A programme addressing this will be an integral part of the graduation strategy.

4 THE INSTITUTIONAL FRAMEWORK FOR THE GRADUATION STRATEGY

4.1 Introduction

4.1. To warrant that the measures needed to ensure a smooth transition and its sustainable development, in 2017, Lao PDR established the National Steering Committee for SDGs implementation under the Presidential Decree, chaired by the Prime Minister, deputy-chaired by Minister of Foreign Affairs and included members from all concerned ministries and agencies. There is also a mechanism allowing to engage the civil society to implement the 2030 Agenda, which covers many of the issue which have to also be addressed within the graduation process. To ensure consistency among various policies and to streamline policy formulation as well as monitoring and evaluation, the Government intends to use this structure to determine and implement its graduation strategy. In addition, the Prime Minister issued the Decision on the establishment of the National Steering Committee for the Implementation of the United Nations' program for the LDCs in 2018. This Committee consists of the representatives from relevant agencies and would be responsible for the implementation of the short-term and long-term measures of the graduation strategy and their embedment in the SDGs 2030 Agenda. The working group would require urgent technical assistance for the elaboration of the graduation strategy as well as to strengthen the negotiation capacity of the International Department. UNESCAP is expected to continue its technical assistance to the Agenda 2030.

4.2 The way forward

4.2.1 Mobilization of resources

4.2. Lao PDR expects to receive during the TPRB meeting in November 2019 indications from the WTO Members on the type of assistance they are willing and able to provide Lao PDR with definition and implementation of the graduation strategy. It will then – in the first half of the 2020 – elaborate, together with the interested donors, specific project requests to be submitted to the consultation meeting to be held with the WTO Secretariat to report on the results of the review in Vientiane before the summer of 2020. It is expected that donors would make firm commitments at this consultation meeting.

4.2.2 The elaboration of the graduation strategy

4.3. The Government intends to work out the basic elements of the graduation strategy in 2020, so that its main elements can be included into its 9th NSEDP (2021 to 2025). For this purpose the Government would encourage the Secretariat of the Committee for Development Policy (CDP) of the Economic and Social Council (ECOSOC), together with the UNCTAD, the WTO and the World Bank to submit the early and consolidated graduation assessment proposal for Lao PDR by mid-2020 and to detach an expert in spring 2020 to assist Lao PDR in the elaboration of the Graduation Strategy in time for Lao PDR to submit such Strategy for approval to the CDP for its meeting in 2021. The Government considers that implementation of the Graduation Strategy should start in the 2021 to 2024 period, so that the Strategy can be adapted at the meeting of the CDP in 2024, when Lao PDR is expected to officially graduate.

4.2.3 Institutional and consultation mechanisms

4.4. Starting with the WTO Secretariat's mission to discuss with stakeholders the results of the trade policy review, the Government will commence, with the assistance of the experts, a large-scale campaign of awareness raising among all stakeholders both at the central and provincial levels, including the private sector and the civil society. The Government considers this activity to be essential to ensure full buy-in and implementation of the various measures required to ensure a smooth transition. The institutional framework and particular responsibilities of the various actors will be determined in time to be included into the 9th NSEDP.
