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## SUMMARY

1. Lao PDR is a landlocked least developed country (LDC) about to graduate from such status in 2024. Since its accession in 2013, GDP growth has been strong, averaging over 7% annually. Electricity generation, construction, wholesale and retail trade, information and communications and, to a lesser extent, financial services, have been the drivers of growth. Prudent macroeconomic management has resulted in moderate inflation and a stable exchange rate. On the other hand, the fiscal deficit has risen and so has external debt. According to the World Bank, a significant portion of the economy is informal, implying that GDP and GDP per capita may be significantly underestimated, thereby possibly undermining the effectiveness of government policy.

2. Lao PDR is faced with a number of structural constraints and vulnerabilities, which affect economic growth and render the economy and its financial system vulnerable to shocks. Measures undertaken to address some of these structural issues include the planned increase in excise tax rates (2019), strengthened revenue administration (including through a new Law on Tax Administration which is expected to come into force in January 2020), an improved taxpayer service and the launch of a modern revenue management information system, an expected new Law on Public Debt Management, and the Prime Minister's Order on the improvement of regulations and the coordination mechanism on Doing Business in Lao PDR.

3. The objective of both monetary policy and exchange rate policy is price stability. However, the specificities of the banking sector and the high level of dollarization in the economy reduce the effectiveness of monetary policy. On the other hand, a steady exchange rate against the U.S. dollar serves as an important nominal anchor to help keep inflation low. The *de jure* exchange rate arrangement is a managed float, which was reclassified to a crawl-like arrangement in September 2016. Maintaining a stable exchange rate against the U.S. dollar has resulted in an appreciation of the real effective exchange rate (REER). The REER was estimated to be overvalued by over 40% in 2016, which would imply sluggish exports and a rising trade deficit in the future.

4. The current account deficit peaked at nearly USD 2.3 billion in 2015 (15.8% of GDP); however, it has come down since then. It narrowed mainly due to a considerable decline in the merchandise trade balance. The deficit was mainly financed by FDI inflows and external borrowing, with the balance being covered by foreign exchange reserves. As a result, foreign exchange reserves stood at USD 873 million at the end of 2018, providing approximately one month of import coverage.

5. Since 2013, the fiscal deficit increased from 4.3% of GDP in 2013 to 5.5% in 2017. It widened due to increased public investment and arrears clearance. Persistently high fiscal deficits resulted in high public debt levels, a major challenge for the Government. The total public and publicly-guaranteed debt (PPG) is estimated to have increased from 56.3% of GDP in 2013 to about 61.0% in 2017, and is expected to rise above 65.0% in 2018.

6. Trade and investment are fundamental for Lao PDR to achieve its economic and social objectives. The ratio of trade in goods and services to GDP increased to around 75% in 2018 (compared with 60% in 2013). Exports are concentrated in the natural resource sectors, which accounted for around 53% of total exports in 2017. The largest single export category is electrical energy. The main merchandise export destination is Thailand, followed by China and Viet Nam. Lao PDR's imports originate mainly in Asia, whose share is over 95%.

7. During the review period, FDI inflows rose to over USD 800 million, helped by Lao PDR's relatively liberal and investor-friendly regime. FDI is concentrated in the power generation sector, infrastructure, mining, and electrical component manufacturing. Most of the FDI in Lao PDR originates from China, followed by Thailand and Viet Nam.

8. Since 2013, Lao PDR has undertaken a second constitutional amendment, the update of its trade-related and investment policies, and some institutional and regulatory reform initiatives in areas including law making, access to information, e-government, anti-corruption, investment promotion, and economic dispute resolution. Regulatory impact assessment-related initiatives were undertaken. Trade and trade-related policy objectives are shaped by certain relatively long- and wide-ranging strategies and plans, each with a different bearing on trade. In 2015, a National Steering Committee for Economic Integration, replacing the entity that oversaw WTO accession

negotiations, was entrusted with international trade policy making, at WTO, regional, sub-regional and bilateral levels.

9. Lao PDR remains committed to the multilateral trading system. During the review period, it improved its WTO commitments by ratifying the Trade Facilitation Agreement (TFA) on 29 September 2015. At the same time, it continued to focus on strengthening regional economic integration ties through the implementation and/or participation in the negotiation of several ASEAN agreements, including the Regional Comprehensive Economic Partnership (RCEP). Lao PDR remains a beneficiary of the Generalized System of Preferences schemes of a number of countries, and is entitled to additional LDC-specific preferences under certain schemes. Furthermore, it continued to receive assistance for reaching economic development objectives under Enhanced Integrated Framework (EIF) projects to, *inter alia*, improve its national standards infrastructure, increase exports, and support investments in business development. During the review period, Lao PDR submitted notifications (e.g. tariffs, trade facilitation, customs valuation, rules of origin, import licensing procedures, SPS, subsidies, agriculture, and RTAs/services), although its regular notifications (i.e. domestic support to agriculture, import licensing procedures, and subsidies) were received only once during the review period, an issue being addressed by the authorities; it has had no involvement in trade disputes in the WTO.

10. Lao PDR remains largely open to, and makes efforts to encourage, FDI, despite the 37 activities reserved for Lao nationals and 19 activities subject to foreign-ownership limitations, capital requirements, and land acquisition limitations. As at 2019, two types of sensitive business activities were subject to specific approval requirements: 44 activities under 14 major sectoral categories classified as controlled business; and 21 activities under 6 major categories subject to specific concessions. In 2016, Lao PDR abolished the discriminatory minimum capital requirement for foreign investors in general businesses. A high-level inter-ministerial Investment Promotion and Supervision Committee was set up in 2018 to oversee investments in controlled activities, concessions and special economic zones. Lao PDR maintains a broad network of international investment agreements, virtually all dating prior to its WTO accession.

11. The tariff is the main trade policy instrument, and customs duties are an important source of government revenue. All tariffs are applied on an *ad valorem* basis. The simple average applied MFN tariff in 2018 was 8.6%, a decrease from 10.7% in 2014 and 11.0% in 2008. Average tariffs on agricultural products (11.2%) are higher than those on non-agricultural products (8.1%). The highest *ad valorem* rate, of 40%, applies to, *inter alia*: certain agricultural products (fruit and vegetables, and dairy products), mineral waters, coffee, tea and mate, organic surface-active agents, plastic tube pipes and packaging materials, wood products, certain engines, motorcycles, furniture, video games and consoles, and tobacco products. Nearly 9% of tariff lines are duty-free. Lao PDR has bound its entire tariff at the HS ten-digit level. The average bound tariff is 19.0%. The relatively small difference (10.4 %) between the simple average applied MFN tariff and the average bound rate, and the fact that the entire tariff is bound, renders the tariff regime predictable. In 2018, the applied MFN rate exceeded the bound rate for 26 lines. The products affected included, *inter alia*: live animals for breeding, fruit and vegetables, diesel fuels, toothpaste tubes, cellular telephones, vacuum cleaners, bamboo panels, and cellular wood panels.

12. Since its accession, Lao PDR has undertaken a number of trade facilitation measures. It made significant progress in improving its customs procedures and harmonizing them with international standards. These included the automation of customs offices all over the country, and the introduction of risk management in inspection to allow available resources to focus on high-risk cargo designated to the red channel. These measures, along with other initiatives, such as coordinated border management, post clearance audit, advance rulings, and provision of appeal, resulted in a considerable decline in customs clearance times. Furthermore, the Automated System for Customs Data (ASYCUDA) is now operational at 24 border posts. Lao PDR published a Trade Facilitation Road Map (TFRM) of Lao PDR for 2017-22, recommending, *inter alia*, active collaboration with the private sector in implementing trade facilitation measures and emphasizing cross-border cooperation and regional integration.

13. In addition to customs duties, VAT and excise taxes also apply to certain imports; certain fees and charges are also applied for services rendered during importation.

14. Lao PDR prohibits or restricts the import of certain goods on the grounds of: protection of national security; protection of public order and standards of decency and morality; protection of

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human, animal or plant life or health; protection of national treasures of artistic, historic or archaeological value; conservation of natural resources; compliance with the provisions of any legislation of Lao PDR; and the fulfilment of obligations under the UN Charter. Lao PDR operates both automatic and non-automatic licensing for imports. Automatic licensing is in place for statistical and monitoring purposes only. Non-automatic import licensing procedures are required for reasons of national security; protection of human, animal or plant life or health; or protection of the environment. Goods requiring non-automatic licensing include: gold bars; explosives used in industry; and guns and bullets for training and sports.

15. The Law on Safeguards was promulgated on 7 December 2017. The Law on Anti-dumping and Countervailing Measures was approved by the National Assembly in June 2019 and is expected to be promulgated by the end of the year. The main legislation governing competition policy in Lao PDR is the Law on Competition of 2015, which came into force in January 2016. It is administered by the Lao Competition Commission, which was established in 2018. The Law addresses unfair competition, which encompasses misleading conduct; violation of business secrets; coercion in business operations; defamation of other business operators; imposing obstacles to business operations; false advertisement; unfair sales promotion; discrimination by business associations; and any other practices as stipulated in relevant laws and regulations. Prices of most goods in Lao PDR are determined by the market; however, based on the 2010 PM Decree on the Administration of Goods and Fees of Services, certain goods and services are subject to price controls or surveillance.

16. A number of products are subject to export duties, which are levied for revenue purposes. Lao PDR bans the exports of certain products on the basis of protecting national, artistic and cultural heritage, and for reasons of protecting the environment. It also operates automatic and non-automatic licensing for exports. Automatic export licensing is in place for statistical reasons, while non-automatic licensing is in place for public safety, national security, environmental protection, and exchange rate stability. Lao PDR does not provide any export subsidies. Support is given for initiating, organizing, and participating in domestic and overseas trade fairs, and providing assistance to local companies wishing to organize and/or participate in such fairs.

17. Incentives to both foreign and domestic investors are offered mainly under the Law on Investment Promotion of 2016 and the Decree on Special Economic Zones. Incentives include, *inter alia*: profit tax holidays and rebates, exemption from rental or concession fees of state land, exemption from import duties and taxes, zero-rated VAT on exports; incentives are also provided to investors who re-invest their net profit to increase or expand their business activities.

18. Lao PDR mainly uses the ISO/IEC Guide 21-1 and 21-2:2005 as the national guide for the adoption of international standards as national standards or technical regulations. Presently, there are 441 Lao PDR national standards, mainly on foods, electrical appliances, and test methods, of which none were adopted as technical regulations.

19. Major changes to the SPS regime since accession include the 2013 amendment to the Food Law, and the 2016 amendment to the Law on Plant Protection and Quarantine. In both cases, the authorities wanted to bring existing regulations up to international standards, and implement global best practices. With regards to food safety and animal and plant health, the basic principles of the SPS Agreement, such as necessity, non-discrimination, transparency, science-based regulations, risk assessment, harmonization, and equivalence, were incorporated into national laws and regulations. Codex standards apply to both imported and domestically-produced goods. However, the SPS regime faces a number of difficulties. The Government continues to receive technical assistance to improve these areas.

20. A new Law on Public Procurement was promulgated in 2017. Its objectives are to define "the principles, regulations and measures regarding the management monitoring and performance of public procurement to ensure such activity is carried out properly and in a unified manner countrywide in order to secure the effective, efficient, economic, transparent, accountability and fair use of government funds in contribution to national socio-economic development". The Law specifies the rules, methods, procedures and structure for managing and implementing all public procurement transactions in Lao PDR, regardless of the source of the funds.

21. State involvement in the economy persists. With World Bank assistance, Lao PDR embarked on a state-owned enterprise (SOE) restructuring programme for certain enterprises. Despite

efficiency improvements in some enterprises, there appears to be no specific plan or implementation guideline.

22. The main legislation governing IPR was amended in 2018, to align it further with international standards. The Law on IP constitutes the principal legal framework for IPRs in Lao PDR, and covers the major areas of IPRs: industrial property, new plant varieties, and copyright and related rights. The Law allows for parallel imports under all conditions. Lao PDR is a member of the World Intellectual Property Organization (WIPO) since 1995. In addition, it is a contracting party to several treaties administered by WIPO, including the Paris Convention (1998), the Patent Cooperation Treaty (2006), and the Berne Convention (2012). After accession to the WTO, Lao PDR signed the Madrid Protocol, which entered into force in March 2016. During the period under review, there was a marked improvement in IPR border enforcement, through the implementation of a digital payment system for importers, the expansion of the ASYCUDA system to 24 offices throughout the country, and the introduction of a risk management-based approach to the inspection process. Additionally, under the Trade Facilitation Roadmap and Action Plan for 2017- 22, the Government committed to requiring officers at the border checkpoints and customs to inspect imported goods that infringe IPRs. However, IP enforcement still faces big challenges, with counterfeit goods being readily available in the Lao PDR marketplace.

23. Despite a decline due, *inter alia*, to weather condition developments and the growth in electricity and construction activities, agriculture continues to play an important role in the economy (accounting for 17.9% of GDP in 2018), maintaining food security, developing the rural economy, and addressing poverty. The sector faces challenges in meeting domestic and external demand, due to issues of farm productivity, lack of domestic value-added, produce quality, and fragmentation of value chains, but efforts are being undertaken to address them. During the review period, the share of agriculture in total merchandise exports rose significantly due to the orientation of sectoral policies aimed at ensuring the gradual transition from subsistence into commercial smallholder production, and private investment in commercial crops; however, most agricultural goods are produced for domestic consumption. Despite being self-sufficient in rice, Lao PDR remains a net food importer, and food security remains an important policy objective.

24. Tariff protection for agriculture dropped considerably but remains higher than the overall applied MFN average and the average for manufacturing. Rice (unmilled rice, low standard rice, premium rice, semi-milled or fully milled rice whether filtered or not) is the only agricultural item that remains subject to import and export licensing requirements; export duties at 10% and 40% seem to apply to a few other agricultural items. State involvement in agriculture is seemingly limited. Most Green Box domestic support expenditure is channelled into infrastructural services, and extension and advisory services. Tax and non-tax incentives, in the form of exemption from import duties and corporate profit tax, land concessions, input and irrigation support, low electricity rates, concessional loans, and minimum market prices (rice only), are used. Rice remains a top policy priority, and its trade seems highly regulated; a rice reserve policy, consisting of the National Rice Reserve, seed reserves, and emergency rice distribution programmes, is in place. Forestry and logging registered negative growth, reflecting developments in output and trade, with timber royalties revenue and exports dropping. Forest management appears to be relatively inefficient. Despite a 1999 log export ban (except for plantation timbers) and domestic processing requirements, illegal logging outside the designated concession areas and timber trade seemingly persist, but the Government intends to address these issues.

25. The share of mining and quarrying in GDP dropped steadily (6.8% in 2018), *inter alia*, due to the global economic crisis, low prices of minerals, and production- and trade-restraining measures, including the promotion of domestic processing of minerals and a 2014 coal export ban to ensure supplies to a state-owned lignite-fired power plant. The main legal framework on minerals was revised in 2017, and new regulations were issued. The energy structure remains simple but has been substantially developed and improved; Lao PDR is an electricity exporter (26.2% of total exports in 2017) but is fully dependent on rising hydrocarbon imports. Despite the country's potential of alternative renewable energy sources and the existence of relevant policies, their utilization is rather low, except for the widely-used large hydro projects. Downstream wholesale and retail activities in hydrocarbons are open to competition for both domestic and foreign operators and include a state-owned firm. Maximum retail prices continue to apply to fuel and gas. The main regulatory framework governing electricity was updated in 2017. The state-owned utility Electricité du Laos (EDL) manages the country's largely hydropower-based electricity generation (via EDL- Gen Company), transmission, distribution, and trade in electricity; independent power

producers (IPPs) ensure most power generation. Electricity tariffs are based on consumer category (i.e. residential or non-residential), thus involving a cross-subsidization element mainly borne by entertainment, commercial and industrial activities.

26. Manufacturing (8.3% of GDP in 2018), a relatively low priority activity in terms of its contribution to the economy and employment, covers food and beverage processing, construction materials, garments, and cigarettes. State involvement in manufacturing of pharmaceuticals, chemical products, construction materials, technical equipment, handicraft products, and clothing and other cotton-made products seemingly persists. During the review period, government policy was, *inter alia*, aimed at transforming the industrial structure to become a high-growth activity, and diversifying commercial and modern goods production to meet domestic and export needs. Tariff protection for manufacturing dropped slightly, and remains lower than the overall applied MFN average. Tax and non-tax incentives, in form of duty and tax concessions, and special economic or industrial zones, promoted manufacturing activities. Maximum prices continue to be applied on construction steel and cement.

27. During the review period, the services sector continued to play a significant role in supporting economic growth (47% of GDP in 2018). Lao PDR's commitments under the GATS, including certain foreign participation limitations (e.g. banking and finance, airport services, and tourism), remain unchanged since accession; its seven RTAs involve GATS plus commitments on trade in services.

28. Banking and insurance activities, particularly microfinance, expanded. Banking penetration remains relatively small, with three state-owned banks holding large parts of total assets, and credit concentrated in services. During the review period, the main regulatory framework governing banking was reviewed, to better align it with current developments and international best practices. Certain pre-emptive steps were taken to enhance the resilience of the financial system. The non-performing-loans ratio stood at around 3% during the review period. Interest rate spreads dropped; a cap on interest rates for kip-denominated loans was introduced in 2015. Nine majority state-owned companies were listed on the partly government-owned stock exchange. The legal framework of the relatively small insurance sector underwent some changes, aimed at strengthening it; no reinsurance is available locally.

29. Telecoms penetration remains relatively low, except for mobile telephony; five main telecommunications providers, with a varying degree of state participation, operate in Lao PDR's relatively small market. In addition to the establishment of the Lao Telecommunication Regulatory Authority in 2017, the legislation was updated in certain areas, including telecommunications competition and licensing. No number portability or universal service obligation (USO) schemes are in place yet. Domestic and international long-distance call rates fell rapidly; however, tight regulations constrained the development of new services and kept mobile Internet prices relatively high. Minimum telecoms tariffs are set.

30. Lao PDR's landlocked situation makes it heavily dependent on road transport, and impacts its foreign trade-related transport costs; good connectivity to international gateways is ensured mainly via Thailand, whose truck companies influence Lao PDR's international transport costs. Action is being taken to upgrade the road network and build the railway network. Air transport, with state involvement in all its segments, continued to expand, *inter alia*, via the upgrading of infrastructure and rising levels of tourism; the main regulatory framework was updated in 2018, and insertion of the aviation sector into international markets was pursued through participation in certain bilateral and regional air services agreements. No cabotage is allowed for road or air transport.

31. Distribution services remain the major services activity; since 2015, foreigners have been allowed to invest in the wholesale and retail business under certain conditions. Despite being poorly developed and of limited use, meaningful initial steps to ensure that Lao PDR meets some of its commitments under the e-ASEAN framework were taken in the regulation of e-commerce. Tourism, considered as a fundamental pillar of the economy, expanded but remains dependent on regional arrivals (mainly Thailand) with relatively low local spending, despite a policy vision of market diversification; several tourism-related policies remain in place.

32. Economic growth is estimated to remain robust in the short term, at over 6%. Heightened global and regional geopolitical uncertainty, continued tightening of global financing conditions, and a possibly sharper-than-expected slow-down in China may reduce exports, decelerate FDI inflows,

and adversely impact global demand and commodity prices. In addition to the reforms, which address diversification and competitiveness, the improvement of the business climate, and fiscal and debt reform, the authorities recognize the need to undertake further reforms. These include improvements in human capital, in particular through workforce training, public education, and health services, especially for women and children. These should help reduce inequality and regional and gender disparities, and improve the environment for private investment focused on the non-resource private sector (especially SMEs). These reforms would help Lao PDR attain its economic and welfare policy objectives, and further integrate into the regional and world trading system.