

ประเมินผลกระทบทางการค้าต่อการออกจากสถานะประเทศด้อยพัฒนาของ สปป ลาว

EVALUATING THE EFFECTS OF TRADE ON LAO PDR'S LDC GRADUATION

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สปป ลาว บรรลุความก้าวหน้าที่น่าทึ่งในแง่ของการพัฒนาเศรษฐกิจแต่ก็ยังเผชิญกับความท้าทายมากมายในการบรรลุเป้าหมายของการออกจากสถานะประเทศด้อยพัฒนาภายในปี 2569 การออกจากสถานะประเทศด้อยพัฒนายังมาพร้อมกับความท้าทายบางประการ รวมถึงการยุติมาตรการสนับสนุนระหว่างประเทศที่เกี่ยวข้องกับสถานะประเทศด้อยพัฒนาซึ่งจะต้องได้รับการแก้ไข วัตถุประสงค์ของบทความนี้คือเพื่อระบุบทเรียนที่ได้รับจากการออกจากสถานะประเทศด้อยพัฒนาของประเทศอื่น ๆ วิเคราะห์การเข้าถึงตลาดทางการค้า และผลกระทบที่คาดหวังภายใต้จากสถานะประเทศด้อยพัฒนาและประเมินการรับรู้ของภาคเอกชนเกี่ยวกับการออกจากสถานะประเทศด้อยพัฒนาโดยใช้ตัวบ่งชี้ศักยภาพการส่งออกเพื่อประเมินผลิตภัณฑ์ที่มีศักยภาพหลังจากการออกจากสถานะประเทศด้อยพัฒนาเนื่องจากไม่มีการเปลี่ยนแปลงการกำหนดอัตราภาษี และศักยภาพในการส่งออกขนาดใหญ่ในตลาดไทย เวียดนาม และจีน ดังนั้นผลกระทบต่อการส่งออกหลังจากนั้นจึงคาดว่าจะมีเพียงเล็กน้อย อย่างไรก็ตามการออกจากสถานะประเทศด้อยพัฒนาคาดว่าจะส่งผลกระทบอย่างมีนัยสำคัญต่อการส่งออกไปยังตลาดสหภาพยุโรป

คำสำคัญ: สถานะประเทศด้อยพัฒนา การกำหนดอัตราภาษี ศักยภาพในการส่งออก การรับรู้

Abstract

Lao PDR has achieved remarkable progress in terms of economic development, but it still faces many challenges to achieve its goal of graduation from LDC status by 2026. LDC graduation also comes with some challenges, including the phasing out of international support measures that are associated with LDC status, which will need to be addressed. The objectives of this paper are to identify lessons learned from other countries' LDC graduation; analyze trade access to the market and expected impacts under LDC and evaluate the perceptions of private sectors on LDC graduation. The Export Potential Indicator was applied to evaluate potential products after graduation from LDC. As there are no changes in tariff

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preferences and huge export potential in Thailand, Vietnam, and China markets therefore the impact on exports after is expected to be minor. However, LDC graduation is projected to significantly impact exports to the European Union market.

Keywords: LDC Graduation, Tariff Preferences, Export Potential, Perceptions

Introduction

Graduating from the least developed country (LDC) status is a significant achievement in a country's development journey. To qualify for graduation, a country is assessed based on three criteria: the income criteria index, the human assets index, and the economic and environmental vulnerability index. A country that meets at least two out of three of these criteria during two consecutive triennial reviews by the United Nations Committee for Development Policy (UNCDP) is generally recommended for graduation. In February 2021, the UNCDP recommended that Lao PDR graduate from the LDC category, with a five-year preparatory period extending the graduation date to 2026 (Agarwal & Chonzi, 2020, 1-19).

Despite making significant strides in economic development, Lao PDR still faces numerous challenges on its path to graduating from LDC status by 2026. One of the most pressing challenges is the wide-ranging effects of COVID-19 on the economy since early 2020. Additionally, the upcoming graduation presents its own set of obstacles, including the termination of international aid measures associated with LDC status that must be addressed. The loss of trade preferences is a major concern for LDCs, as it could have a significant impact on their exports. In Lao PDR, 30% of exports rely on trade preferences under LDC status. This means that if Laos loses its LDC status, it could face higher tariffs on its exports, which could make it more difficult to compete in the global market.

The aim of this paper is to achieve several objectives, including identifying lessons learned from the graduation of other countries from LDC status, analyzing trade access and the anticipated impacts of LDC graduation, and evaluating the private sector's perceptions of LDC graduation. To accomplish these objectives, the study examines the experiences from countries that have graduated from LDC status to draw lessons that can assist Lao PDR in its graduation journey. Additionally, the study employs descriptive statistics to analyze market access, export potential, and potential impacts following LDC graduation. The paper also explores the perceptions of both the public and private sectors on LDC graduation before concluding and presenting policy implications to ensure that Lao PDR is well-prepared for LDC graduation and can effectively mitigate any potential negative consequences.

Experiences from other LDCs

LDC graduation, which involves countries exiting the category of Least Developed Countries, has been a topic of interest in the literature on international trade, development, and economics. Various studies have examined the potential impact of LDC graduation on

trade, both in terms of opportunities and challenges. The impact of LDC graduation depends on the country's export products and target markets. UNCTAD (2016) found that LDCs that graduated between 1991 and 2011 experienced an average increase in their exports of around 4.5% per year in the five years following graduation, compared to their pre-graduation levels. However, the study also noted that graduation did not necessarily lead to sustained economic growth, as many countries faced challenges in maintaining their export competitiveness.

DiCaprio and Massa (2018) examined the impact of LDC graduation on Bangladesh's trade. The authors found that LDC graduation did not have a significant impact on Bangladesh's overall trade performance, but it did affect the composition of the country's exports. Specifically, after graduation, Bangladesh experienced a shift away from lower value-added products towards higher value-added products, such as pharmaceuticals and ICT goods.

Nepal and Bhutan are both landlocked countries surrounded by China and India, which pose significant challenges due to their heavy reliance on neighboring countries for trade with high transportation costs. In contrast, Vanuatu is the most recent country to graduate from the LDC status. Nepal and Bhutan heavily rely on India, which represents 90% of Bhutanese exports and 72% of Nepalese exports. Additionally, if the export products are not subject to special LDC treatment, graduation will have a minimal effect. However, graduation can be perceived as a missed opportunity and can present challenges to vital sectors. For example, the garment industry in Lao PDR will be adversely affected by trade losses due to the loss of special tariff allowances. As a result, the external competitiveness of these countries may be affected, especially in economically unstable countries (Brien, 2019; Razzaque, 2020a; Razzaque, 2020b).

Vanuatu graduated from LDC status in December 2020 but has not often utilized its LDC status to obtain duty-free treatment. Over half of its main exports are currently traded duty-free under bilateral or multilateral agreements. The loss of LDC duty-free and quota-free provisions will have minimal impact on Vanuatu exports. Vanuatu's challenges following graduation are related to technical assistance, development aid, and funds, but its focus is on improving macroeconomic and sectoral performance and enhancing the efficiency and effectiveness of institutions (Brien, 2019).

To minimize the impact of graduation and strengthen the country's ability to sustain economic development following the transition period, some policies have been suggested. For Nepal, it is recommended to postpone graduation and the transition period, given its per capita income (USD 810) is still lower than the threshold level of USD 1,230. For Lao PDR, which only did not meet the economic vulnerability criterion in 2018, it is recommended to postpone graduation until 2026, with an extended preparatory period, due to the outbreak of the COVID-19 pandemic.

Being landlocked presents another challenge for countries such as Nepal, Bhutan, and Lao PDR, as they must rely on neighboring countries as transit points to export, which

increases costs. Without LDC status, Nepal will face additional export competitiveness challenges. Nepal could improve connectivity and increase exports to China and India, while Lao PDR could engage in regional and international cooperation and integration, focusing on infrastructure development and better utilization of national potentials and geographical advantages.

Methodology

Overall, the study provides a comprehensive analysis of the potential opportunities and challenges that Lao PDR may face after graduating from the LDC status. By reviewing lessons learned from other countries, conducting interviews with relevant stakeholders, and analyzing market opportunities, the study offers valuable insights into the future prospects for Lao PDR. The analysis of the market opportunities for Lao PDR through the export potential index was applied. Decreux and Spies (2016) has established a methodology to calculate the untapped potential a country for a given product and market. The method calculates potential trade values based on a country's projected share in a given market and the market's projected demand

$$EPI_{ijk} = \frac{x_{ik}}{x_k} \frac{x_{ij}}{\sum_k \left(\frac{x_{ik}}{x_k} m_{jk} \right)} m_{jk} \quad (1)$$

where EPI_{ijk} is export potential indicator of country i to country j on product k . x_{ik} is export of country i on product k . x_k is the world export of product k . x_{ij} is total export from country i to country j . m_{jk} is import of country j on product k . A theoretical model of EPI consists of three components. Supply, $\frac{x_{ik}}{x_k}$, which is exporter i 's world market share in product k . Demand, m_{jk} , is market j 's imports of product k . Ease of trade, $\frac{x_{ij}}{\sum_k \left(\frac{x_{ik}}{x_k} m_{jk} \right)}$, bilateral trade divided by hypothetical trade.

The difference between the Export Potential Index (EPI) and the actual trade shows the unexplored export potential that can be realized by promoting targeted trade. This can be achieved by helping firms to overcome non-tariff measures, meet the rules of origin or adapt to consumer preferences in the target market. By comparing the unexplored potential with potential trade losses, Lao PDR can prioritize either on negotiating better tariff regimes or trade promotion strategies.

Results

Export sectors and destinations

Laos' exports showed steady growth between 2016 and 2020, with an average value of USD 5 billion per year, according to Trade Map (2021). The main export items were mineral fuels (HS code 27), ores (HS code 26), copper (HS code 74), electrical machinery (HS code 85), and apparel and clothing accessories (HS code 62), as shown in Figure 1.

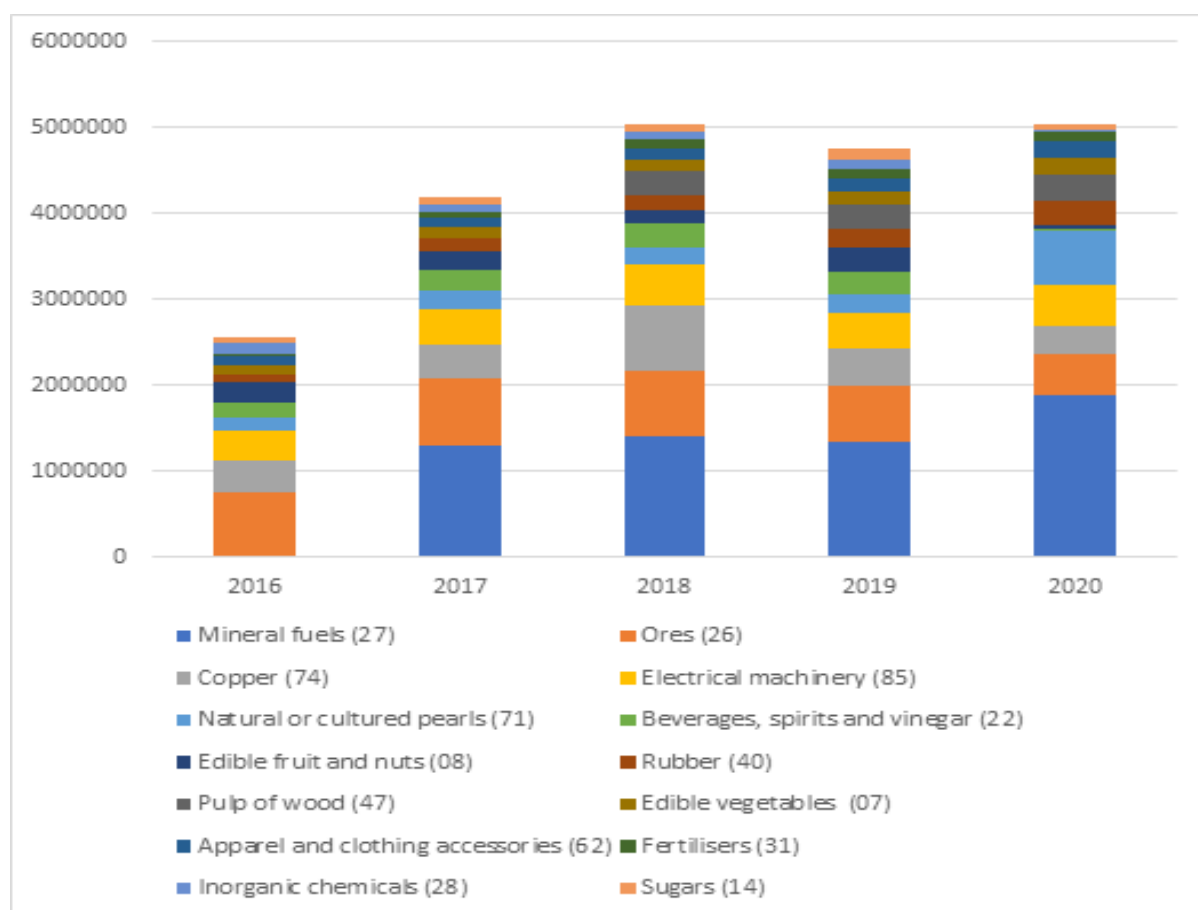


Figure 1. Major export product of Lao PDR, 2016-2020, billion USD

Source : Trade Map, 2021

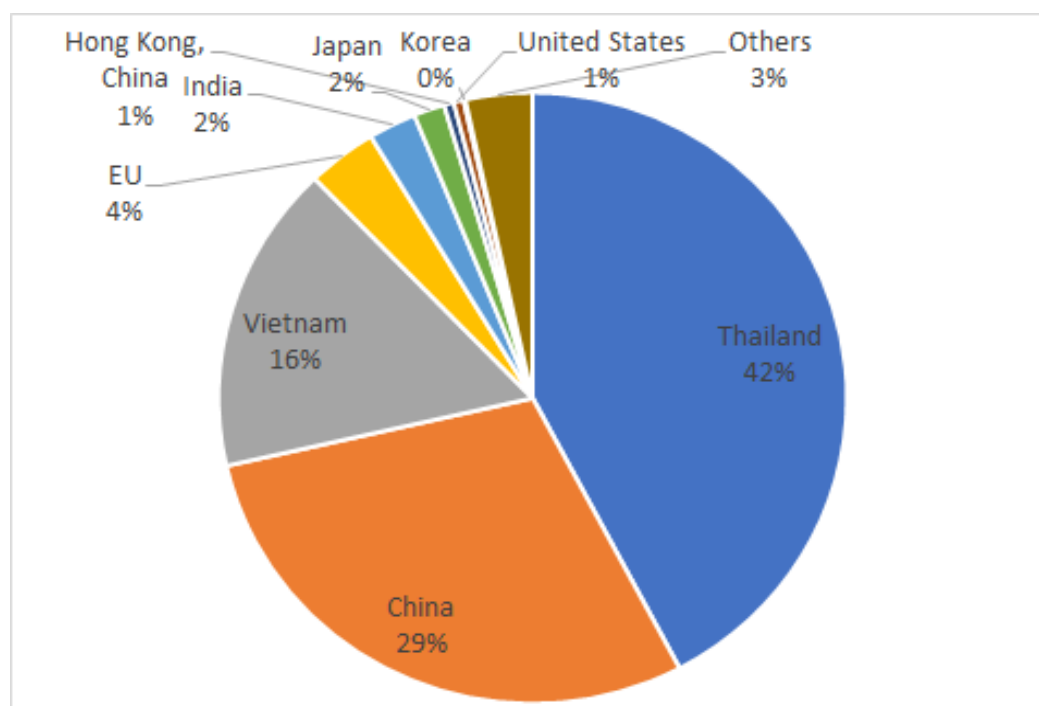


Figure 2. Main export destination, 2016-2019

Source : Trade Map, 2021

Laos is a landlocked country, so its exports are primarily focused on its neighboring countries. In 2022, 41% of Laos' total exports went to Thailand, 29% to China, and 16% to Vietnam. The remaining exports went to countries like the EU, Japan, and India (See Figure 2).

In 2020, Lao PDR's overall exports amounted to USD 6.16 billion, while exports under trade preferences accounted for USD 1.36 billion or 22.03% of total exports. Table 1 shows that in the same year, Lao PDR exported approximately USD 396 million to Thailand under the trade preference agreement (AFTA), which increased by 9.58% compared to the previous year. However, exports to Vietnam under trade preferences remained unchanged. On the other hand, exports to Japan under various trade preferences increased significantly by about 252% compared to the previous year, driven by the demand for garment products, especially footwear. Meanwhile, total exports to the EU market under GSP slightly decreased from USD 268.88 million in 2019 to USD 255.73 million in 2020, mainly due to the impact of Covid-19. In addition, Lao PDR also explored new export destinations, such as Russia, Slovakia, and Latvia, according to MOIC (2020).

Table 1 Export destinations under trade preferences

No	Country	2020	2019	% Change
1	Thailand	396,397,753.55	361,747,510.52	9.58
2	Vietnam	310,187,564.14	312,781,407.36	-0.83
3	China	248,666,479.61	322,772,702.82	-22.96
4	Japan	103,912,219.02	29,440,335.90	252.96
5	Germany	74,620,787.92	96,646,947.23	-22.79
6	Sweden	29,729,120.31	21,757,904.28	36.64
7	England	24,686,284.39	25,506,866.89	-3.22
8	Belgium	24,641,603.19	14,195,609.17	73.59
9	Netherland	19,361,031.87	13,630,385.56	42.04
10	Denmark	16,611,708.21	12,825,575.35	29.52
11	Others	110,059,830.23	117,205,616.01	-6.10
Total		1,358,874,382.44	1,328,510,861.09	2.2

Source: MOIC, 2020

During 2020, Lao PDR had access to trade preferences for around eleven different groups of export products, which encompassed agriculture products, handicrafts, manufacturing, non-timber forest products, diamonds, fine jewelry, minerals, electricity, and wood and wood processing. The leading product categories were manufacturing, agriculture, and electricity.

Export Potential

In this section, an examination is conducted on Lao PDR's export potential and untapped export potential by products and countries. According to the analysis, the Thailand market presents the highest export potential for Lao PDR, with a value of USD 2,900 million.

The primary products with export potential are electrical energy, manioc roots and tubers, and copper cathodes. In contrast, China has the largest discrepancy between potential and actual exports, which suggests there is potential to generate additional exports worth USD 1,100 million. The untapped export potential with China presents the highest value, with a potential of USD 1,100 million, and the primary untapped export potential products include natural rubber, copper cathodes, and roots & tubers. Lao PDR has export potential on the Vietnam market of approximately USD 604 million with an untapped export potential of USD 400 million.

Table 2 Top ten of Lao PDR's EPI

Country	Export Potential	Actual export	Untapped export potential	Main export potential products
Thailand	2,900	2,400	1,000	Electrical energy, Roots & tuber of manioc, copper cathodes
China	1,700	890	1,100	Copper cathodes, Natural rubber, Roots & tubers
Vietnam	604	416	400	Electrical energy, Natural rubber in primary form, copper cathodes
Japan	146	111	99	Worked cereals pellets & flour, Bananas fresh or dried, Men's trousers & shorts
Country	Export Potential	Actual export	Untapped export potential	Main export potential products
Germany	138	98	105	Coffee, not roasted, Copper cathodes, Telephone sets & other voice/image transmission apparatus
USA	102	78	66	Telephone sets & other voice/image transmission apparatus, Copper cathodes, Coffee, not roasted
Cambodia	90	10	82	Electrical energy, Potassium chlorides use as fertilizer, Portland cement
Indonesia	74	22	67	Electrical energy, Copper cathodes, Raw cane sugar
Canada	41	23	33	Telephone sets & other voice/image transmission apparatus, Coffee, not roasted, Natural rubber in primary form
Sweden	39	21	34	Coffee, not roasted, Telephone sets & other voice/image transmission apparatus, Banana, fresh or dried

Source: ICT Export Potential Map, 2022

Lao PDR has several products that are likely to be successful in international trade, including electrical energy, copper cathodes, and manioc roots and tubers. Electrical energy is the most promising product, with an export potential of USD 2,800 million, while there is also untapped potential for exports worth USD 1,300 million. In addition, there is significant untapped potential for the export of manioc roots and tubers, as well as primary forms/flat shapes of natural rubber, which are currently under-exported. Lastly, there is strong demand potential in the world for telephone sets and other voice/image transmission apparatus.

Table 3 Export potential of Lao PDR by-products

Code	Products	Export Potential	Actual export	Untapped export potential
271600	Electrical energy	2,800	1,500	1,300
740311	Copper cathodes	656	453	361
071410	Root tuber manioc	459	128	330
400129	Natural Rubber in primary form/flat shapes (non-smoked)	372	144	228
85XXXc	Parts of telephone sets& other transmission apparatus	172	144	163
400122	Technically specified natural rubber	134	100	95
090111	Coffee, not roasted, not defeminated	130	97	66
85XXXb	Telephone sets & other voice/image transmission apparatus	120	213	41
310420	Potassium chloride for use as fertilizer	105	131	22
4407Xc	Wood, sawn/chipped lengthwise, sliced/peeled, thickness>6mm	101	78	47

Source: ICT Export Potential Map, 2022

Expected impacts on LDC graduation

This section examines the influence of LDC graduation on the main export markets of Lao PDR. Lao PDR primarily exports to neighboring countries, including Thailand, China, and Vietnam, with major exports such as Cassava (0714), Bananas (0803), Fruit (0810), Starches (1108), Rubber (3402), and Cement (2523) going to Thailand and Vietnam. These two countries represent 42% and 16% of Lao PDR's exports, respectively, and being members of the Association of Southeast Asian Nations (ASEAN), these exports are exempt from duty under the Most Favored Nation (MFN) or ASEAN Free Trade Agreement (AFTA). Following graduation, there is no change in tariff rates for LDCs under AFTA, so there is limited impact on exports to Thailand, Vietnam, and other ASEAN nations. Furthermore, there is a significant untapped export potential worth USD 1,400 million from two combined products, providing a significant opportunity for export.

Around 29% of Lao PDR's total exports go to China, with major commodities including bananas (0803), starches (1108), sugar (1702), iron ore (2601), and rubber (4001). Lao PDR mostly exports to China under either the Most Favored Nation (MFN), the ASEAN plus China scheme, or the Asia Pacific Trade Agreement (APTA). However, as there is no tariff preference for LDCs under AFTA and APTA, there will be no change in tariffs for exports to China after graduation. Thus, graduation will have no impact on Lao PDR's exports to China.

Lao PDR has significant untapped export potential, particularly in products such as copper cathodes, natural rubber, and roots and tubers that are extensively produced in the country. Moreover, China has granted Lao PDR Special Preference Treatment, with 97% of exported products receiving zero tariffs. Therefore, it is expected that Lao PDR's exports to China will increase in the future.

The EU market is expected to be significantly affected by graduation, as most of Lao PDR's exports to the EU are conducted under the Generalized System of Preferences (GSP) scheme. Lao PDR's major export commodities to the EU include garments (6203, 6403), coffee (0901), rice (1006), and sugar (1701), and under trade preferences, these exports account for 20.48% or USD 255.73 million of Lao PDR's total exports. The EU's GSP granted to Lao PDR is a Special Arrangement for Least Developed Countries, providing duty-free and quota-free access to 49 LDCs under the Everything but Arms initiative. All products except arms and ammunition exported from Lao PDR to the 27 EU member states and the United Kingdom are eligible for zero rates of duty when the rules of origin are met.

The current EU GSP granted to Lao PDR will expire in 2023, but LDC preference in the EU will be extended for three years as a transitioning period after graduation. However, after 2026, it is expected that graduates will have a significant impact on Lao PDR's exports to the EU market.

The treatment afforded to Lao PDR is more advantageous than that given to developing countries, as it is granted exemption from tariff rates and unlimited quotas for most products from Japan, the USA, Korea, and Australia. Additionally, Lao PDR benefits from trade preferences under ASEAN plus Japan, ASEAN plus Australia and New Zealand, and ASEAN plus Korea, in addition to the GSP Scheme. Tariff rates under GSP and ASEAN+ are similar, and exports to Japan, Korea, and Australia represent only a small fraction of total exports, with shares of 1.6%, 0.1%, and 0.1%, respectively. Consequently, the impact of LDC graduation on total exports is expected to be minimal. Similarly, LDC graduation has a limited impact on total exports to the USA and India, where Lao PDR's exports are small, whether under GSP or ASEAN plus India.

Perception of the Private Sector on LDC graduation

This section of the report investigates the possible consequences of Least Developed Country (LDC) graduation in private sectors in Lao PDR. The report selected ten products from thirteen companies based on the highest utilization of Generalized System of

Preferences (GSP) benefits, which will be affected after LDC graduation. The report specifically focuses on the impact of LDC graduation on the garment, sugar, coffee, rice, and vegetable industries.

The garment industry in Lao PDR heavily relies on exports to the European Union (EU) due to GSP benefits. One company interviewed targets the EU market but has not yet prepared for new markets, while the other company lacks knowledge of LDC graduation and fears losing its customers to other suppliers in LDCs with duty-free and quota-free preferential treatment.

Sugar is a significant export product for Lao PDR, and one sugar company exporting to neighboring countries under ASEAN along with some exports to the EU under GSP already knows about LDC graduation and aims to enhance its competitiveness in ASEAN markets. Coffee is mainly exported to the ASEAN market, and the demand for high-quality coffee in the EU market puts pressure on exporters in Lao PDR to seek alternative markets. Rice exports to the EU market may be severely affected if Lao PDR graduates from LDC status due to relatively higher transportation costs than competitors. Similarly, the vegetable industry primarily exports to neighboring countries and benefits from AFTA, but their export to the Japanese market is limited under GSP.

Overall, the report suggests that the private sectors in Lao PDR should prepare for the possible changes in trade preferences and explore new markets. The Lao government should disseminate information about LDC graduation and coordinate with the private sector to find alternative markets. Furthermore, the government should negotiate with the EU and the USA for increased market access and to postpone the deadline for Lao PDR to receive benefits under the GSP after graduation.

Conclusion and Policy Implication

LDC Graduation is a crucial milestone in a country's development journey, marked by significant progress toward sustainable and stable growth in social and economic terms, despite the many challenges that may arise. This study's findings indicate that the AFTA will not affect exports to major trading partners such as Thailand, Vietnam, and China, but it will have a significant impact on exports to the EU market, particularly in industries like garments and certain agriculture products due to the termination of GSP after LDC graduation. However, exports to Japan, Korea, and Australia will be minimally affected, given alternative trade preferences such as ASEAN plus Japan, ASEAN plus Korea, and ASEAN plus Australia and New Zealand. The government and relevant stakeholders must provide support to affected sectors to minimize the challenges during the transition period. The private sector is relatively uninformed about LDC graduation, necessitating MOIC's development of a strategy outlining a work plan for the short, medium, and long term, including activities to support the private sector.

Additionally, being a landlocked country, Lao PDR faces significant logistical and transportation costs, hampering its export competitiveness. As such, negotiating additional bilateral or multilateral trade agreements with neighboring countries and improving connectivity, especially by investing in infrastructure such as roads, highways, and railways presents an excellent opportunity for the country to boost exports to its neighbors. Lao PDR must prioritize strengthening the private sector and enhancing national competitiveness to improve its export potential in the long term. Currently, the country's export relies on low-value, labor-intensive products. Therefore, Lao PDR must focus on developing its technology and skills to export higher-quality, high-value, organic, and niche products to less saturated markets, particularly developed countries. The public sector can collaborate with international organizations to provide technical training to the private sector to achieve these goals.

This study has focused on the impact of LDC graduation, one component of the economic and environmental vulnerability criteria. However, it is important to further analyze other criteria to evaluate the possible impact to the economy, which will help the Lao government prepare for such impacts.

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