

**Multi-stakeholder Taskforce to Support a Determination of the 9th NSEDP and SDG
Localization due to the Impact of COVID-19**

Trade and Private Sector, Value Chains, and Tourism

Summary of key Recommendations

This statement is issued following a High-Level Thematic Dialogue on the Trade and Private Sector, Value Chains, and Tourism under the Multi-Stakeholder Taskforce. It draws on the Background Paper prepared for the discussion by a core group consisting of the Ministry of Industry and Commerce and ITC, with contributions from the World Bank, UNCTAD, and UNIDO.

The statement is on behalf of the Multi-Stakeholder Taskforce, to be taken as advice to the Ministry of Planning and Investment and relevant partners in the finalization of the 9th NSEDP, and should not be interpreted as representing the positions of individual Taskforce members *per se*.

Context and Outlook

1. Lao PDR has long made a transition from being a landlocked to a land-linked country through greater integration into the regional economy a strategic development objective. This has guided significant investments to improve connectivity, including roads, railways, and energy infrastructure, which in turn has been associated with fast economic growth.
2. However, this rapid growth has been accompanied by limited structural transformation. A complex and impervious business environment and excessive barriers to regional trade and integration limit the attractiveness of Lao PDR as an investment destination. The economy has remained inward-facing, with only around 3 per cent of firms exporting directly. In practice, due to its small market size, large-scale investment in Lao PDR is contingent on regulatory and legal certainty, and they can produce at scale and link into the large and dynamic ASEAN market.
3. FDI has been concentrated in natural resources, including metals, and electricity generation and construction, sectors that create relatively few jobs. Spill overs to the broader economy have remained limited. Concession agreements mean limited tax revenues are often generated from projects.
4. Against this backdrop, COVID-19 has delivered a major economic shock. In 2020, global merchandise trade is set to plummet between 13 per cent and 32 per cent. Lao PDR's main export destinations are Thailand, China, and Vietnam, followed by Japan, India and Germany. All of these are severely affected by the pandemic. While economic growth in China is recovering more quickly, its growth path over the course of the 9th NSEDP will depend on the recovery in industrial countries that are key export markets for China, which remain highly uncertain. Globally, foreign investment flows are projected to fall between 30 and 40 per cent- for developing countries in Asia, projections indicate that FDI flows will decline by up to 45 per cent.
5. Tourism was one of the fastest growing sectors in Lao PDR before COVID-19. During the second and third quarter of 2020, international arrivals ground to a complete halt. So long as pandemic conditions are unstable in destination and transit countries, and regulations regarding the re-entry

at home remain unpredictable, overall demand for long-haul tourism is expected to remain limited. Aviation bodies do not expect a return to pre-pandemic levels of travel until 2024.

6. Agriculture accounts for 16 per cent of the economy and occupies 70 per cent of the labour force. With COVID-19, falling incomes in the cities led to declines of 30 and 40 percent in demand for meat and vegetables respectively. Following poor rains during 2018-19 which had already depleted food stocks, the simultaneous evaporation of alternative livelihoods threatens widespread food insecurity.

Strategic Policy Recommendations

The impact of COVID-19 warrants a revisiting of a number of key assumptions and targets outlined in the draft 9th NSEDP with regards to attracting investment and integrating into value chains over the coming years. Yet despite the unexpected and unprecedented impact of COVID-19, many of the private sector priorities set out in the 8th NSEDP remain fully relevant. However, COVID-19 creates an imperative to take bold steps to accelerate progress, including addressing bottlenecks for faster implementation of existing priorities. There are also growing areas of economic opportunity in the post-COVID context, which can offer crucial openings for progress given the slowdown in other areas.

Seven priority areas were identified (more detail on each is included in the attached Background Paper).

a. Business Environment and Investment.

In the short term, efforts to simplify the business environment by making it more predictable and transparent, reviewing and streamlining regulatory requirements should be intensified. Removing barriers to entry in the logistics sector would support greater competition, in turn making more opportunities to engage in value chains viable. Analysis and investments in education to meet future labour market requirements should be prioritized.

In the medium to long-term, address laws and regulations around the investment climate, which are generally seen as ambiguous and untransparent. Increasingly moving towards the electronic delivery of government services to support the development of a digital economy would support greater efficiency and cost-effectiveness in service provision.

b. Tourism

Given the international travel restrictions, domestic tourism offers some opportunities in the early phase of recovery, but it is unlikely that domestic tourism could fully substitute for international tourists in either volume or spending.

To support longer-term recovery of the sector, a key priority is to rebuild visitors' confidence. This could be done through the bilateral negotiation of well-defined and stable 'travel bubbles' with key markets, as well as through targeted marketing.

c. Digital Transformation

COVID-19 has accelerated uptake of digital technologies and e-commerce has created trade opportunities. However, in Lao PDR e-commerce is not widely exploited, due in large part to underdeveloped hard and soft infrastructure. Growth is constrained by the lack of a full set of e-commerce laws and regulations.

To better seize employment and productivity opportunities, in the short term, the NSEDP should reflect the need for a strong political leadership to foster digital transformation, including through effective intersectoral policy coordination mechanisms. The establishment of a working group in charge of leading an e-commerce development agenda across ministries and sectors would support necessary coherence.

d. Women and COVID-19

Women have been disproportionately impacted by the economic consequences of the pandemic, more likely to have been made unemployed and to suspend business operations. Response priorities should therefore include specific consideration of support systems to women, and empower women to take advantage of new business opportunities (e.g. in digital transformation).

e. Regional Integration

With the Lao-Sino railway starting to operate in 2021, with the right reforms, the railway connection to the vast network of the Belt and Road Initiative could potentially increase aggregate income in Lao PDR by up to 21 per cent over the long term. However, to achieve this, bold policy reforms to facilitate trade, improve connectivity, and simplify doing business are needed.

In the short term, greater regional integration can be facilitated through support to compliance with the ASEAN Leaders' Vision Statement and the Hanoi Plan of Action. Over the medium- to long-term, efforts should focus on improving infrastructure connectivity, including interchange between the railway and domestic transport systems, as well as improving the regulatory framework to allow for efficient transport services and trade facilitation, and passenger transit.

f. LDC Graduation

To mitigate the potential trade loss that could occur following LDC graduation and the phasing out of transition measures, three long term strategies for Lao exporters to mitigate trade losses have been proposed and may be reflected respectively in the 9th NSEDP, relating to trading agreements with the EU, trade promotion, and export diversification.

g. Agriculture

In the short term, declaring food production and marketing as essential services, supporting food supply chains, ensuring contracts with foreign buyers for agricultural commodities and livestock, would support the sector and help to counter food insecurity. Over the longer term, policy should focus on transforming the food system to be more resilient through strategic adjustment of policies in the agricultural sector.