

Conclusion and Recommendations

Lao PDR faces two serious challenges: (1) to ensure 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) to narrow the current development gaps between and within regions in the country. Appropriate development strategies and relevant policies to implement them have been in great demand for a long time. *Lao PDR at the Crossroads: Industrial Development Strategies 2016–2030* has attempted to provide inputs for Lao PDR's mid- and long-term comprehensive industrial development strategies, which are expected to contribute to successfully meeting these challenges.

The study includes concrete policy recommendations that, if adopted, are likely to contribute to the further development and growth of Lao PDR. Specifically, the policy measures proposed in this report are expected to ultimately turn Lao PDR's weakness of being a 'landlocked' country into its strength, by turning it into a 'land-linked' country. Most importantly, as the Lao PDR economy develops, the effective implementation of such policies is strongly required for it to stay on a sustainable growth path. The title of this study, 'Lao PDR at the Crossroads,' refers to the country having to make a significant decision regarding its future and its central location as a transport hub in the Mekong region.

Lao PDR's industrial development strategies should pay adequate attention to connectivity and geography, and how they affect industrialisation and economic development. These two concepts are the foundation for industrial policies based on regional and global production networks. Of particular importance is a recognition of the three tiers of the stages of industrial development:

- Tier 1: Forming an industrial cluster within an existing industrial agglomeration, which can be divided into innovative Tier 1a and industrial Tier 1b.

- Tier 2: Participating in production networks along with the second unbundling that enables a jump-starting of industrialisation, mainly with machinery industries.
- Tier 3: Linking up with global value chains on the first unbundling on the basis of resourced or labour-intensive industries.

At present, Tier 1 does not exist in Lao PDR, but Tier 2 does in cities such as Vientiane. Tiers of industrial development can vary according to time and place. It is important to accurately assess, therefore, in what tiers policy target cities and regions find themselves, to be able to make appropriate industrial development policy choices on that basis.

In this context, industrial estates (IEs) are important policy tools to achieve industrialisation and economic growth in Lao PDR, as they can efficiently gather manufacturing firms that are adequate for targeted development tiers in a particular region. Manufacturing industries tend to contribute to the balanced development of developing countries. In neighbouring countries such as Thailand, Viet Nam, and Cambodia, IEs have played a key role in establishing the industrial clusters that have proved to be essential for industrialisation and economic development. Although industrial clusters in Lao PDR have started to emerge, operational IEs have so far been quite limited among Lao PDR's 11 Special Economic Zones (SEZs). IEs in Lao PDR urgently need to be vitalised so they can grow into industrial clusters. To achieve this objective, the report makes the following policy recommendations:

- Population and existing economic activities:
 - ✓ Given Lao PDR's small population and supporting industries, IEs have to be located in relatively big cities of several hundred thousand people.
- Access to larger IEs beyond the borders:
 - ✓ The country has to be integrated with the Bangkok agglomeration, which will constitute Lao PDR's prime industrial core. Lao PDR is highly likely to receive the

largest benefit from developing IEs that are close to the bridges over the Mekong River.

- ✓ To establish a competitive edge against Koh Kong and Poipet SEZs in Cambodia, Lao PDR needs to improve its business environment, in particular shortening the travel time to Bangkok and reducing logistic costs by (1) extending the business hours of customs clearance, (2) simplifying customs procedures, and (3) launching mixed loading services.
- ✓ To benefit from the Hanoi agglomeration in the long term, Lao PDR needs to improve the road infrastructure between Thakhek and Hanoi.
- Start-up funding for infrastructure:
 - ✓ To establish essential hard and soft infrastructure, such as electricity, transportation, and management offices in the initial development of IEs, policymakers need to continue negotiating with donor countries.

This study also analyses individual industries, focusing on eight industrial sectors: (1) agriculture and food processing, (2) mining and energy, (3) garment and other labour-intensive industries, (4) electrical and electronic machinery, (5) transport equipment (automobiles and motorcycles), (6) tourism, (7) finance (small and medium-sized enterprises [SMEs]), and (8) transportation. It is important to note that these industries can be categorised into three layers. First, the mining and energy, finance (SMEs), and transportation industries are the foundation of economic activities. Second, the agriculture and food processing and tourism industries can be a tool for balanced development. Third, the garment and other labour-intensive industries, the electrical and electronic machinery industry, and the transport equipment industry can be drivers of accelerated export-led economic growth.

This study also shows that fundamental industrial strategies should be based on both drivers: productivity improvement and job creation in other sectors through industrial promotion policies utilising a shift in labour away from the agriculture industry. This

policy direction is expected to greatly benefit the Lao PDR economy because the current productivity gap between the agriculture sector and manufacturing industries means there is a huge potential to improve overall productivity.

What follows summarises promising scenarios and future challenges in individual industries that development strategies should focus on (see Appendix for details).

Moreover, cross-cutting policies, such as those on infrastructure, human capital, and trade and investment policies are significant foundations for industrial development strategies. Because such policies affect other industrial policy fields and their implementation and results can be effective only if addressed integrally, it is important that they are purposely designed from an overall perspective to make industrial development strategies much more powerful and effective.

Finally, although it is beyond the scope of this study, the formulation of concrete action plans for implementing industrial development strategies is also an important task. As it would be difficult to implement all policy recommendations made by the report simultaneously, we need to select, prioritise, and concentrate on some of the more urgent policy issues. Moreover, an effort to secure sufficient funding to implement such policies, for example, through dialogue with donor countries and institutions, would still be required. After all, the Lao PDR government itself should be actively involved in implementing industrial development strategies to achieve its development goals.

Sector	Promising Scenarios	Future Challenges
(1) Agriculture and food processing	<ul style="list-style-type: none"> ● High value addition through ‘sixth industrialisation’ ● Efficient rice production through a ‘best practice’ package ● High-quality commercial crop production at local cooperatives ● Establishment of a new value chain (e.g. dairy products) 	<ul style="list-style-type: none"> ● Capacity building in farming technology ● Procuring packaging materials ● Improving cold chains
(2) Mining and energy	<ul style="list-style-type: none"> ● Expansion of regional power interchange ● Promotion of bioethanol production 	<ul style="list-style-type: none"> ● Establishing a leading position at the ASEAN Power Grid ● Partnering with neighbouring countries ● Establishing a subsidy system to guarantee the profitability of bioethanol
(3) Garment and other labour-intensive industries	<p>Garment industry</p> <ul style="list-style-type: none"> ● Production of high value-added products with low seasonality ● Participation in the fast fashion supply chain for ASEAN nations <p>Other labour-intensive industries</p> <ul style="list-style-type: none"> ● Production using a large amount of low-cost labour and electricity, such as copper wire, casting, and moulding ● Production of high value-added light products, such as medical devices 	<ul style="list-style-type: none"> ● Ensuring smooth transport to Bangkok ● Ensuring one-stop service at VITA Park
(4) Electrical and electronic machinery	<ul style="list-style-type: none"> ● Production of electronic components with a relatively short commodity cycle and with a flexibly adjusted production volume, such as connectors (LANs, USBs, etc.) and their cables 	<ul style="list-style-type: none"> ● Improving distribution
(5) Transport equipment (automobiles and motorcycles)	<ul style="list-style-type: none"> ● Production and exportation to Thailand of labour-intensive components, such as cable harness and automobile seat covers 	<ul style="list-style-type: none"> ● Stabilising power supply ● Improving road conditions
(6) Tourism	<ul style="list-style-type: none"> ● Promotion of ‘key visuals’ for core markets (Thailand, Viet Nam, and China) ● Attraction of visitors from Japan, Korea, and China during the summer vacation season (July–August) 	<ul style="list-style-type: none"> ● Investigating the needs of travellers from different countries ● Improving sanitation, etc. ● Relaxing the procedure for applying for a guided tour
(7) Finance	<ul style="list-style-type: none"> ● Utilisation of funds from international organisations ● Capacity building of commercial banks in credit assessment ● Establishment of a domestic and region-wide credit guarantee system ● Capacity building of SMEs 	<ul style="list-style-type: none"> ● Managing SME finance risks in the banking sector ● Providing incentives for book-keeping in SMEs
(8) Transportation	<ul style="list-style-type: none"> ● Launch of consolidation services (Savannakhet Logistics Hub) ● Utilisation of railways to reduce transportation costs (Vientiane Logistics Hub) 	<ul style="list-style-type: none"> ● Arranging joint operation of the Savannakhet Logistics Hub by several private logistics companies ● Arranging joint operation of the Savannakhet Logistics Hub between the government and the people ● Improving customs

