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Transport & Logistics in Lao PDR

I. Background and Context

Lao PDR's persistently high transportation and logistics costs pose a significant threat to the country's impressive run of economic growth by reducing the competitiveness of the country's exports and increasing the cost of imported goods. The value of Lao PDR's imports and exports has increased at an annual average rate of 24%.¹

Despite these growth rates, the fact that Lao PDR is landlocked increases its international trade costs by up to 50%.² The country's transportation and logistics costs are among the highest in the region. This situation is exacerbated by Lao PDR's limited domestic transport and logistics infrastructure and capacity.



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This brief is published by the Secretariat of the Lao Business Forum, based at the Lao National Chamber of Commerce & Industry (LNCCI)

The LBF Brief provides a summary and analysis of a specific business issue that was highlighted as a priority during the annual LBF process and which significantly impacts the Lao PDR business environment. The views expressed in the LBF Brief reflect the opinions and perspectives held by relevant stakeholders.

For example, it costs twice as much to ship a 40-foot container from Vientiane to Yokohama, Japan compared to Phnom Penh, Cambodia and two and a half times more than a similar shipment from Hanoi, Vietnam.³ A 2016 survey by the Japanese External Trade Organization (JETRO) revealed that the per kilometer cost to transport goods domestically in Lao PDR is twice as high as Thailand. In the World Bank’s 2018 Doing Business Report, Lao PDR ranked 124th among 190 countries in the Trading Across Borders indicator.

This indicator measures the time and costs related to exporting or importing a shipment of goods. Lao PDR is located in the heart of what is arguably the world’s most economically dynamic region. The country is therefore well-positioned to leverage its proximity to large markets such as China, Vietnam and Thailand. A focused and sustained effort to streamline transport and logistics-related regulations and procedures, reduce costs and increase transparency has the potential to generate significant economic benefits to Lao PDR.

II. Transport and Logistics and the LBF – Issue Analysis

Transport and logistics issues were a priority agenda item during LBF 10 in 2016-2017. Most of the issues were not resolved and they were revisited by the LBF Transport Sector Working Group during LBF 11 in 2017-2018. The following section highlights the key issues identified and recommendations made during the LBF dialogue process.

Issue	Status
Cumbersome and time-consuming procedures for the importation of tax-exempt goods and raw materials for production	Existing
High domestic and international transportation costs	Existing
Lack of procedural clarity related to the import and export of commercial through borders	Existing
Restricted opening hours for customs clearance at major international border checkpoints	Existing
Restrictions on the list of goods in transit	New

1. Cumbersome and time-consuming procedures for the importation of tax-exempt goods and raw materials for production

Issue Overview	<p>The import procedure for tax-exempt goods has generally improved. There are, however, several lingering issues. Lengthy import procedures are still a concern and this issue has not been properly addressed even though it was raised with relevant government agencies at the previous LBF.</p> <p>Lao logistics firms note that importing tax-exempt goods involves two main steps: 1) obtaining a tax-exemption permit; and, 2) obtaining an import permit. Both permits require official approval from the Ministry of Finance. The International Finance Department and the Customs Department are responsible for reviewing all required documents.</p>
Proposals by LBF Transport Sector Working Group	<ul style="list-style-type: none"> • The Ministry of Finance should eliminate unnecessary requirements for the importation of tax-exempt goods, and provide clear instructions including specific, precise timeframes. • The relevant government agency should also start implementing electronic clearance system for goods imported under Master Lists (the system has been created but not yet implemented). • It is proposed that the Department of International Finance collaborate more closely with the Customs Department on the issuance of all related documents without the involvement of logistics operators once all required documents have been submitted. • Once the Department of International Finance issues a certificate of importation of the tax-exempt goods, it should be forwarded directly to the Customs Department.

2. High domestic and international transportation costs

<p>Issue Overview</p>	<p>Key contributing factors to high logistics costs in Lao PDR relative to its neighbors include:</p> <ul style="list-style-type: none"> • Costs related to document clearance, including informal payments. A survey conducted by JETRO in 2016 revealed that cross border fees at the Vientiane-Nongkhai friendship bridge accounted for nearly 40% of the total transport costs between Vientiane and Thai seaports. • Informal payments also constitute a major proportion of high cross border fees. Based on information provided by the Lao International Freight Forwarders Association, informal payments account for approximately 60% to 70% of total cross border fees. In addition to these fees, there are unofficial checkpoints along the major roads, and transport operators typically need to make informal payments ranging from LAK 100,000 to LAK 200,000. • The development of services in the logistics sector in Lao PDR has been constrained by limited volume of trade; there is an overreliance on logistics services provided by neighboring countries, particularly Thailand.
<p>Proposals by LBF Transport Sector Working Group</p>	<ul style="list-style-type: none"> • To reduce time and cost, the relevant border checkpoints authority should reduce unnecessary steps associated with the document clearance process and cross-border fees for import-export procedures. This will also help reduce and eliminate informal fees. • The development of railway transport systems will also greatly reduce logistics costs. Therefore, it is highly recommended that the Government should launch initiatives to expand railway freight transport as soon as possible. • The Government should keep the private sector regularly updated on the progress of dry port projects across the country, especially the dry port in Vientiane capital, which is Lao PDR's main route for the import and export of goods.



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3. Lack of procedural clarity related to the import and export of commercial goods through borders

Issue Overview	<p>If companies import goods via official international border checkpoints, they will be subject to partial customs clearance fees that will be recalculated at the end of the year.</p> <ul style="list-style-type: none"> • Customs clearance procedures are unclear for companies that import commercial goods through traditional or customs borders. <ul style="list-style-type: none"> ○ The Ministry of Finance notice No. 1587/MoF, on supervision of the import and export of goods via traditional and customs borders, states that the importation of goods via traditional borders and customs borders is permitted only for essential household and consumer goods (not for commercial trade). However, importation of commercial goods via traditional and customs borders has still taken place. ○ These issues impact companies and businesses that have registered for import licenses to import goods via international borders, due to the cost of import tax expenses, fees and other obligations. This results in their products costing more than those that have been illegally imported, thereby decreasing their ability to price their goods competitively.
Proposals by LBF Transport Sector Working Group	<ul style="list-style-type: none"> • Strictly enforce the rules and regulations for import-export of commercial goods via customs and traditional borders.

4. Restricted opening hours for customs clearance at major international border checkpoints

Issue Overview	<p>Currently, there are limited operating hours for goods inspection and document clearance at border checkpoints.</p> <ul style="list-style-type: none"> • Limited operating hours create several problems for transport and logistics operators because in the event of a delay, they are required to pay penalties to the shipping lines that own the containers, as well as fines of approximately 1,500 baht per day for trucks. • The main issue is that trucks transporting goods are only allowed in city areas between 9 am and 11 am and 1 pm and 3 pm, and they often cannot reach the border on time.
Proposals by LBF Transport Sector Working Group	<ul style="list-style-type: none"> • The relevant government authority should consider extending the operating hours for customs clearance at major international borders to 8 pm for general goods in order to conform with the current policy for goods transported from factories. • The procedure for the inspection of empty containers should be streamlined, particularly the unnecessary requirement for completing Form 7, which usually takes a few hours.

5. Restrictions on the list of goods in transit

Issue Overview	<p>Currently, the Customs Department of the Ministry of Finance has imposed an "informal" regulation that requires logistics firms to apply in advance for a transport permit on the list of goods in transit every six months.</p> <ul style="list-style-type: none"> • This issue is problematic for logistics and transport operators as it creates an unnecessary and time-consuming burden. More importantly, it is difficult to secure a list of goods to be transported in advance because clients' demands vary. • This regulation also reduces the competitiveness of Lao PDR in the transport of goods in transit by road.
Proposals by LBF Transport Sector Working Group	<ul style="list-style-type: none"> • It is proposed that relevant government agencies eliminate the restriction on the lists of goods in transit and at international border checkpoints (except for goods under government control lists).

III. Transport & Logistics - International Perspectives

According to the 2018 World Bank Logistics Performance Index (LPI), a tool that measures countries in several aspects of logistics including border clearance efficiency and trade and transport infrastructure, Lao PDR was ranked 82nd, a significant improvement from its rank of 153rd in the previous survey in 2016. The table below from the LPI illustrates Laos' performance on the index relative to its five neighbors: China, Thailand, Cambodia, Myanmar and Vietnam.

**Comparison of Laos and Neighboring States
World Bank Logistics Performance Index (LPI) – 2018**

Country	Year	LPI Rank	LPI Score	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
China	2018	26	3.61	31	20	18	27	27	27
Thailand	2007	31	3.31	32	31	32	29	28	28
Vietnam	2018	39	3.27	41	47	49	33	34	40
Lao PDR	2018	82	2.70	74	91	85	83	69	117
Cambodia	2018	98	2.58	109	130	71	111	111	84
Myanmar	2018	137	2.30	131	143	144	128	143	108

IV. Gender Dimension of Transport & Logistics

A recent World Bank Enterprise Survey for Lao PDR suggested that transportation issues were not a particularly significant issue for women-owned businesses involved in cross-border trade. Indeed, only 17% of survey respondents highlighted transportation issues as a serious impediment to doing business.⁴ However, a deeper analysis of women-owned companies that conduct cross-border trade would be warranted. Toward that end, an exercise to apply a “gender lens” to trade and transport facilitation in Lao PDR would be a useful future initiative to be undertaken by the LBF.

The World Bank’s International Trade Department has outlined a practical and straightforward approach to obtaining deeper insights into the challenges faced by women-owned companies involved in trade and logistics. Indicative tasks would include the following:⁵

Conduct Desk Research: Conduct a detailed review of existing research and analysis on issues faced by women-owned business involved in cross-border trade and logistics

Conduct Stakeholder interviews: Review the gender composition of staff in government entities involved in cross-border trade and conduct detailed interviews and focus group meetings with women-owned freight forwarding, custom broker and transport companies

Prepare Preliminary Report: Prepare an initial report of findings, which details gender-specific issues in the transport and logistics sector in Lao PDR along with a set of remedial measures to address these issues. The findings can be presented in a workshop/roundtable

V. Post-LBF Update and Next Steps

During the July 5, 2018 LBF 11 plenary meeting, private sector stakeholders in the trade and logistics sector – represented by a member of the Lao Garment Association and a member of the Lao Freight Forwarders Association – provided a summary of the key proposals outlined earlier in section 2 of this brief to government authorities. Responses from various ministerial representatives are detailed below.

Response from the Deputy Minister, Ministry of Planning and Investment (MPI)

- Following the issuance of a notification by the MPI to the MoF to cancel Instruction No. 3578/MoF on customs and tax policy dated 19 December 2012, the quota restricting imports to levels at or below a company's initial registered capital has been removed

Response from the Deputy Minister, Ministry of Planning and Investment (MPI)

- The MoF has transferred responsibility for oversight of goods under customs and tax exemption regimes to the MPI, effective early 2018
- The MoF issued Notification no. 420/MoF, dated 14 February 2018, which detailed the internal MoF departmental approach to accelerating processes and eliminating burdensome and duplicative steps
- The Tax Department has completed the installation of the ASYCUDA system and has begun to implement it across all international border posts in Lao PDR
- The Customs Department issued Notification no. 03516/TD, dated 31 May 2017, to streamline the departmental documentation process related to the approval of Master Lists as well as the issuance of official letters to international organizations, foreign

embassies and development organizations for the import of equipment, machinery and materials. The Tax Department will be required to process request within 5 business days if documentation is complete

- MoF will collaborate with local authorities to assess the effectiveness of Announcement No. 4115 of 12 December 2016, which restricts cross-border trade to non-commercial goods such as personal and household goods
- With regard to goods transiting through Lao PDR, the country will need to ratify the ASEAN Framework Agreement on the Facilitation of Goods in Transit. By the end of 2018, the Customs Department will pilot the ASEAN Customs Transit System (ACTS) and Lao PDR will implement the GMS Cross-Border Transport Agreement

Response from the Minister, Ministry of Public Works and Transportation (MPWT)

- Following the construction of Lao PDR's first dry port in Savannakhet, the MPWT is preparing a feasibility study to develop additional dry ports in Vientiane Capital, Khammuan, Champasack and Luang Namtha
- The MPWT is expanding the Thanalaeng-Vientiane railway. In addition, the construction of the Boten-Vientiane railway is underway and it will be an important transport link to China and ASEAN member countries
- Four international airports and a boat canal in northern Laos have been upgraded. In addition, a feasibility study is being prepared for the construction of three additional ports in Luang Namtha, Luang Prabang and Bokeo provinces
- Lao PDR has entered into numerous bilateral, trilateral and multilateral transport agreements, including the Greater Mekong Subregion (GMS), ASEAN and the UN Transport Agreement

- Future ministerial plans include: 1) finalization of a decree on international border operations to ensure a consistency across the country; 2) implementation of a one-stop-shop for service fee collection; 3) an assessment of the need for multiple agencies at international border posts; 4) negotiations with Thailand's national railway to facilitate transport of cargo to the Thanalaeng warehouse

Response from the Vice Minister, Ministry of Public Security (MPS)

- MPS has reiterated its compliance with the presidential decree on official fees, which are required to be consistent across Lao PDR
- MPS acknowledges the issue of traffic police setting up unauthorized checkpoints and conduction random inspections of vehicles on major roads throughout the country. Accordingly, the Traffic Police Department has publicly disseminated Instruction No. 06/MPS which officially eliminates all checkpoints throughout Lao PDR
- The MPS will work with local authorities to identify unauthorized checkpoints and remove them

Response from the Vice Minister, Ministry of Industry and Commerce (MoIC)

- Information on import-export regulations and procedures has been circulated through the Lao Trade Portal
- The MoIC has been working with various line agencies to streamline import and export procedures at the central and provincial levels
- The MoIC has developed an online system for issuing certificates of origin
- The MoIC is preparing legislation to eliminate import license requirements for steel and cement, as well as both import and export licensing requirements for rice

- Future plans of the MoIC include: 1) continued collaboration with various government departments to assess the impact of import licenses for 8 products; 2) setting a target of 50% for the reduction of procedures related to the import and export of minerals and vehicle spare parts; 3) tracking progress of legislation related to e-signatures as part of the effort to implement the Lao National Single Window System by 2019; 4) working with the Customs Department to improve management and sharing of import and export data across government agencies; 5) ongoing collaboration with the Investment Promotion Department and other government entities on reforming regulations associated with approval of Master Lists.

Post-LBF Assessment from Private Sector Participants

Post-LBF interviews were conducted with two logistics companies – one Lao and the other international – and a member of the Lao Garment Association in order to assess their overall view of the forum as well as the government's responses to the key recommendations presented.

The local logistics company representative highlighted the following issues:

- The central issue in terms of transport and logistics costs is the discrepancy in procedures and costs between Vientiane Capital and the provinces
- On balance, Lao PD government agencies are taking steps to streamline processes and procedures; they should be given good marks
 - o ASYCUDA has had a positive impact to date
 - o Customs Authority has made considerable progress in the area of manifest clearance

- The Prime Minister and his team are clearly committed to reform and public-private dialogue
- The local logistics company owner also highlighted the results of the most recent World Bank Logistics Performance Index 2018 (released in August 2018) in which the country improved its 2016 ranking from 153rd to 82nd

The foreign logistics company representative made the following points with regard to LBF and the responses from the ministerial representatives:

- In terms of the recommendations related to high cost of international and domestic transport, he believes that the presidential decree (Decree No. 003/President) which stipulates the precise service fees related to cross-border and customs activities is good in principle. In practice, fees are inconsistent and much higher
- He has a positive view of the LBF as a platform for dialogue and believes that the government is committed to reform; however, he believes that the private sector needs to be more forceful in making its case to the government.
- Since the LBF ended on July 5, 2018, there have been no significant developments
- He believes that sustained follow up with the government on transport and logistics priorities is essential

The representative from the Lao Garment Association had the following observations:

- The Ministry of Finance’s response to the transport & logistics LBF presentations was out of step with the private sector’s recommendations
- Some government officials have not been pleased with the pressure placed on them by the private sector
- The Prime Minister’s message during LBF was clear – the public and private sectors must work together. The government must play a facilitative role for the private sector
- The LBF response of the representative from the Ministry of Public Works and Transportation (MPWT) was not aligned with the topics under discussion
- The response of the Ministry of Public Security was not clear. They need to generate revenue; hence, they still need to collect fees
- The MoIC has been the most supportive to the business community among all government agencies



Source: J Spence Photography

The LBF Secretariat will review and synthesize the minutes of the July 5, 2018 LBF meeting and liaise with the MoIC to conduct follow up consultations with relevant government agencies on progress in reform implementation.

Notes

¹ *Lao PDR Trade and Transport Facilitation Assessment*, Poverty Reduction and Economic Management Sector Department East Asia and Pacific Region, World Bank, April 2014

² Vilavong, Buavanh, "Can Laos restore growth while global economic uncertainty reigns?" East Asia Forum, 24 December 2016

³ *Logistics Cost in Lao PDR*, Policy – Oriented Research Project Report, Institute of Developing Economies Japan External Trade Organization (IDE-JETRO), April 2017

⁴ *Lao Businesswomen Survey*, Lao Businesswomen Association and Mekong Business Initiative, March 2017

⁵ Higgins, Kate. *Gender Dimensions of Trade, Facilitation and Logistics: A Guidance Note*. World Bank International Trade Department, April 2012



LBF Secretary General: Mr. Phouxay Thepphavong

Kaysone Phomvihane Avenue
Saysettha District, Vientiane Capital, Lao PDR, P.O. Box 4596
Tel: (856-21) 453 312
Web: www.Incci.la/lbf



The Lao Business Forum is a public-private dialogue platform that was launched in March 2005. The objectives of the LBF are to: 1) facilitate public and private sector dialogue, including participation by the broadest range of private sector companies, from domestic SMEs to foreign investors; 2) ensure consistent enforcement and transparent interpretation of laws and regulations; 3) remove the bureaucratic impediments that businesses encounter in entry and exit processes and provide feedback on business-related policies, laws and regulations that impact the private sector; and, 4) provide feedback on draft government laws and regulations that could potentially impact the business community and assist the Lao government in private sector-related policy development.

