

Speech of Mr. Oudet Souvannavong, President of the Lao National Chamber of Commerce and Industry, to be delivered at the 12th Lao Business Forum

Challenges and Opportunities for the Lao Private Sector in Rapidly Changing Economic Conditions

National Convention Center, Vientiane Capital

- H.E. Mr. Thongloun Sisoulith, Prime Minister of Lao PDR;
- Mrs. Khemmani Pholsena, Minister of Industry and Commerce;
- Ministers, Deputy Ministers, Directors General, Deputy Directors General;
- Their Excellencies, Ambassadors, Representatives of diplomatic delegations and international organizations;
- Representatives of the domestic and foreign business communities;
- Distinguished guests, ladies and gentlemen

On behalf of the Lao National Chamber of Commerce and Industry and the private sector in Lao PDR, it is my great honor to speak at the 12th Lao Business Forum today. First of all, I would like to thank H.E. Thongloun Sisoulith and the Lao Government Cabinet representatives for taking their valuable time to participate this year's Lao Business Forum. I would also like to extend my sincere thanks to all line ministries, particularly the Ministry of Industry and Commerce, for their support throughout the whole process leading up to today's annual Forum.

Next, I would like to share with you all, from the perspective of the private sector, the business environment conditions in Lao PDR, together with the challenges and opportunities involved in investing and doing business at a time of rapidly changing domestic and global economic conditions.

Estimates by several international organizations have forecast a slowdown in global economic growth in recent years, declining from 3% in 2018 to 2.3% in 2019. The growth of developing countries in the Asia Pacific region, including China, South Korea, and ASEAN countries, is also declining.

The slowdown in global output is a result of factors including: a decline in exports and consumption among developing countries; the rise of protectionism against globalization, including the trade tension between the world's two largest economies, US and China, and between Japan and South Korea; and the prospect of UK withdrawing from the EU. These uncertainties potentially reverse economic growth around the world, leading to a rapid change in production patterns and the movement of goods, and changes in production chains in the region. In particular, the relocation of production bases by major companies is likely taking place across the globe.

The economic conditions of Lao PDR are also influenced by global economic uncertainty. Lao PDR has sustained impressive economic growth, averaging 8% annually over the last two

decades. However, this high growth did not bring economic benefits to all people in society and is unsustainable. Further, Lao PDR is facing macroeconomic risks such as: a high level of public debt-to-GDP ratio; a low level of foreign exchange reserves and exchange rate risk; large-scale exploitation of natural resources; and increased pollution caused industrial development. Since 2013, according to the World Bank, the economic growth of Lao PDR has been declining, falling to 6.5% in 2019.

The ICT development in Lao PDR, the Industry 4.0 is slow and requires improvements to integrate into regional investment and trade linkage. Otherwise the Lao economy will not be able link with regional economies which will create barriers for investment and trade.

Although the manufacturing sector is growing, making the transition from a resource-based economy towards diversification into modernized industry, agribusiness, and the service sector will not be an easy task because support policy for these sectors is still limited.

The economic development and business environment in Lao PDR remain fragile, facing several challenges which prevent more investment and trade. These include:

1. Poor infrastructure to support rural development linkage and the domestic industrial sector.
2. The lack of a skilled workforce and geographical economic disparity force more workers to migrate to seek better opportunities elsewhere, from rural to urban areas and from Lao PDR to foreign countries. This in turn creates barriers for agribusiness and industrial development and, in particular, the tourism sector, due to a shortage of skilled workers.
3. The ease of doing business in Lao PDR has not improved, which is shown by its unchanged ranking in the World Bank Ease of Doing Business Report 2019 – at 154 out of 191 economies.
4. The private sector in Lao PDR has weak capacity and is less competitive in the global arena; 98% of registered firms are Small and Medium-sized Enterprise. A large proportion of firms still operate in the informal sector, accounting for an estimated 60% of all registered firms, according ILO. This is because the costs of formal business registration and licensing are still burdensome, keeping the informal sector outside of the formal system.
5. The Government's institutional and governance capacity is still limited, making policy reform to improve the business environment in the market-based economy ineffective, which in turn directly limits domestic and foreign investment by the private sector. Most importantly, support policy for domestic production and distribution channels is not given much attention, and there is a lack of collaboration between concerned stakeholders and private sector engagement.
6. Lao PDR does not have direct access to a seaport, so investment and trade rely on neighboring countries. Some 60% of exports are concentrated in the Greater Mekong Subregion, and most exports take the form of cross-border trade, which involves cash-based transactions outside formal channels. Most of the goods exported from Lao PDR are agricultural products with low value-added.

7. Production costs in Lao PDR remain relatively high compared to its neighbors due to the following factors:
 - a. High cost of compliance with laws and regulations
 - b. High transport costs for both domestic and international destinations
 - c. High labor costs, and low labor productivity
 - d. The customs and tax administration system is unclear and complicated

The private sector in Lao PDR is taking an active role in following the Resolution of the 10th General Meeting of the Party and the 8th National Social Economic Development Plan 2015-2020, considering the importance of the private sector in contributing to the economic development of the country by supporting the full transition from planned production economy to a market economy.

To support economic growth, the Government has adopted eight measures, including several pieces of legislation to improve the business environment. Most notable is Prime Minister's Order 02 on the Improvement of Regulations and Coordination Mechanism for Ease of Doing Business in Lao PDR. This Order instructs ministries and ministry-equivalent organizations to reduce procedures, and eliminates barriers to doing businesses in Lao PDR in accordance with the World Bank Ease of Doing Business Indicators.

Lao PDR has economic potential, particularly in electricity generation, the manufacturing industry, and services. Transportation infrastructure such as the Laos-China railway project, and the improvement of roads along the East-West Economic Corridor and North-South Corridor will enable Lao PDR to become a transportation hub. Investment opportunities in real estate development including Special and Specific Economic Zones, agribusiness, air transport for tourism promotion, financial services, wholesale and retail, ICT development in the era of Industry 4.0, and other Open-Door policy initiatives that are crucial for attracting investment and expanding businesses.

In order to achieve this potential and take advantage of opportunities that arise, it is very important to strengthen public-private partnership in investment, trade and services. Most importantly, the public sector should be willing to accept the private sector as a key partner in the planning and management of the national production system. Currently, the promotion of domestic production and product distribution is not centralized, arbitrary, and ineffective. This results in high cost, low-quality production that is insufficient to meet demand, and reduced attractiveness for investment.

Ladies and gentlemen,

Improving the business environment is crucial to attracting more investment – both local and overseas. This will mean more goods being produced for both the domestic market and export, creating foreign exchange revenue streams into the country and increasing government tax collection. This will in turn help transform the informal sector into formal businesses and gradually stabilize the macroeconomy.

LNCCI, in partnership with MOIC, is taking the lead role as the LBF Secretariat of the private sector. We are always trying to improve the dialogue process to ensure the issues raised by the private sector are resolved in a more effective, responsive fashion. Since the success of LBF 10, the private sector has raised over 100 issues which have been prioritized based on the level of importance and magnitude of impact for each sector. We have selected 23 prioritized issues to be further discussed with the Government: 15 were raised before LBF 11 and 8 were raised after. More details will be discussed in the next session.

LNCCI recognizes the importance of the full implantation of Prime Minister's Order 02 to improve the Ease of Doing Business ranking in accordance with World Bank criteria. The private sector truly believes that there is no better good time than now for all concerned government agencies to take Order 02 more seriously in order to improve the ranking of Lao PDR's 10 indicators (starting businesses; getting construction permits; getting electricity; registering property; getting credit; paying taxes; trading across borders; enforcing contracts; protecting minority investors; and resolving insolvency).

Resolving business issues needs cooperation from all parties concerned. LNCCI therefore calls on the Prime Minister to leverage the LBF process in addressing the issues outlined in Order 02.

The aim of proposed recommendations above is to call for immediate actions and encourage more contribution from all stakeholders concerned to improve the business environment—the Ease of Doing Business Ranking overall scores. In the long term, the public and private sector must work closely together to increase the efficiency of production system and product distribution channels. At the same time, it is crucial to provide support policy for capacity building of SMEs. However, all these will require strengthening collaboration between public and private sector in the implementation of the laws and regulations to transform Lao PDR into the country with rule of laws.

Lessons learned from the successes of other countries show that close cooperation between the public and private sectors is key to unlocking the barriers to improving the business environment. Therefore, to make the dialogue process under the LBF mechanism more effective, LNCCI proposes that the structure of LBF process should be formalized with supporting legislation, and a task force comprising key actors from the public and private sectors to oversee the progress of all 10 indicators should be formally established.

Lastly, I would like to wish the 12th Lao Business Forum great success and a fruitful outcome.

Thank you