Ex ante assessment of the impacts of the graduation of Lao PDR from the category of Least Developed Countries (LDCs)

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I. Introduction

This document contains an *ex ante* **assessment of the impacts of the graduation of Lao PDR from the least developed country (LDC) category** (from here on referred to as "impact assessment"). Impact assessments are prepared by the United Nations Department of Economic and Social Affairs (UNDESA) as an input for the decision of the Committee for Development Policy (CDP) on whether to recommend a country's graduation. They can also provide useful information for the graduating country and its trade and development partners as they prepare for the country's transition out of the LDC category.[1] A summary of this assessment will be included in the comprehensive "graduation assessment", which will include analysis of other aspects of graduation, based on contributions from other entities.

The assessment focuses on the consequences of the withdrawal (in some cases after a "smooth transition" period) of international support measures (ISMs) dedicated specifically to LDCs. These measures are mostly in the areas of (i) trade; (ii) development cooperation; and (iii) support for participation in international organizations and processes. Please see the clarifications about the purpose and scope of the impact assessment in Box 1.

Research for this assessment was conducted in 2019. Formal requests for information on prospects after graduation were sent to the main trade and development partners. A mission to Vientiane was undertaken in June 2019 during which representatives of government bodies, international organizations, development and trade partners, the private sector and others were consulted. Contributions and comments were received from numerous governments and organizations, including the United Nations Resident Coordinator's Office and members of the country team, the World Trade Organization (WTO) Secretariat, the Advisory Centre on WTO Law (ACWL) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).

Box 1 Scope of the ex ante assessments of the impacts of graduation

The following clarifications are necessary for an accurate reading of the impact assessment:

- The assessment focuses specifically on the **direct impacts** of the withdrawal, upon graduation and any applicable "smooth transition" periods, of **international support measures (ISMs) that are exclusive to LDCs**. These measures relate to trade, development cooperation, and support for participation in the United Nations system entities and processes. Knowing what the likely direct impacts of LDC graduation are is important for the CDP to make its decision on recommendation, and for the country to consider as it prepares for graduation within the broader context of its development process.
- **Graduating from the LDC category is not equivalent to becoming a middle-income country.** The LDC category is based on three sets of criteria, one of which is per capita income. A country can be an LDC while also being a middle-income country, and can be a low-income country without being an LDC. Lao PDR has already been classified as a lower middle-income country by the World Bank since fiscal year 2012, based on 2010 data, but continues to be an LDC.* Graduation from the LDC category is also not synonymous with graduation from the concessional windows of multilateral development banks or from eligibility to Official Development Assistance (see the section on "Development Cooperation"). The assessment **does not cover the impacts of achieving development milestones other than LDC graduation**.
- It is **not the aim of this assessment to provide an overarching quantitative assessment** of the economic impact of graduation. Economic modelling approaches such as computable general equilibrium (CGE) have numerous shortcomings in the context of graduation.
- The impacts identified in this assessment are all subject to a certain degree of **uncertainty derived, among others, from the fact that the rules governing LDC-specific support measures may change.**
- Graduated countries will forego the benefits of future support measures for LDCs unless provisions are negotiated that would enable them to be covered. This report focuses on **existing measures.**

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[1] The CDP is a subsidiary body of the Economic and Social Council, composed of 24 members nominated in their personal capacity by the Secretary-General. It meets once a year and subsequently submits its report to ECOSOC. It is mandated (ECOSOC resolutions 1998/46, General Assembly resolution 46/206) to undertake, every three years, a review of the list of least developed countries (the "triennial review").

- This assessment is **not intended as a cost-benefit analysis** to help a country decide on whether to graduate, but as one of the elements in the CDP's decision on whether to recommend a country for graduation and as information that may support the graduating country's preparation for graduation.
- All efforts have been made, including consulting expert institutions, to provide the most accurate information about the LDC-specific support measures and the terms of their withdrawal after graduation. The application of some measures after graduation could be subject to legal interpretations or negotiation. The contents of this assessment are **not to be interpreted as authoritative legal opinions or as anticipating outcomes of negotiations**.

* For LDC criteria, see the information on the CDP website, https://www.un.org/development/desa/dpad/least-developed-country-category.html. For information on the World Bank's income-based categories, see "World Bank Country and Lending Groups" at https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups and historical data on analytical classifications at http://databank.worldbank.org/data/download/site-content/OGHIST.xls. .

II. Impacts of the withdrawal of LDC-specific international support measures (ISMs)

International support measures (ISMs) for LDCs are mostly in the areas of trade, technical and financial assistance (development cooperation), and support for participation in international organizations and processes.[2] When a country graduates from the LDC category, in principle it cannot continue to benefit from these measures. The General Assembly has encouraged development and trading partners to put into place mechanisms that will allow graduating countries to ensure a "smooth transition" out of the LDC category.[3] Accordingly, some of the international support measures are not immediately revoked upon graduation and offer "smooth transition" solutions such as extended eligibility or phase-outs.

The impacts of no longer being able to use those measures upon graduation (and any smooth transition periods) depend on the extent to which they are used by the country whilst an LDC and on the measures that apply after graduation. This section reviews the situation of Lao PDR in regard to each of the categories of support measures.

A. Trade-related support measures [4]

LDC-specific international support measures in trade consist of: (i) preferential market access for goods; (ii) preferential market access for services; (iii) special treatment under certain regional agreements; (iv) special and differential treatment under the WTO agreements; and (v) capacity-building, training and technical assistance related to trade.

1. Preferential market access for trade in goods

Most developed countries and an increasing number of developing countries grant either full or nearly full duty-free, quota-free (DFQF) market access to LDCs (WTO, 2018a).[5] Some countries also apply less stringent rules of origin to LDCs. After graduation, in developed country markets, former LDCs generally have access to the standard Generalized System of Preference (GSP) schemes and, for products that are not covered by those schemes, export under the most-favoured-nation (MFN) tariff or any applicable regional or bilateral agreements. In developing country markets, former LDCs export under MFN tariffs or any applicable regional or bilateral agreements. The impacts of the withdrawal of LDC-specific schemes depend on the graduating country's export products, the destinations of those exports, the applicable market access schemes before and after graduation in each of those destinations and the extent to which exporters actually use the preferential schemes. For example, graduation has no impact on exports of products and services that are not covered by

[2] Information on support measures can be found in the Support Measures Portal for Least Developed countries (https://www.un.org/ldcportal/).

[3] See, among others, resolutions 59/209 (2004) and 67/221 (2012).

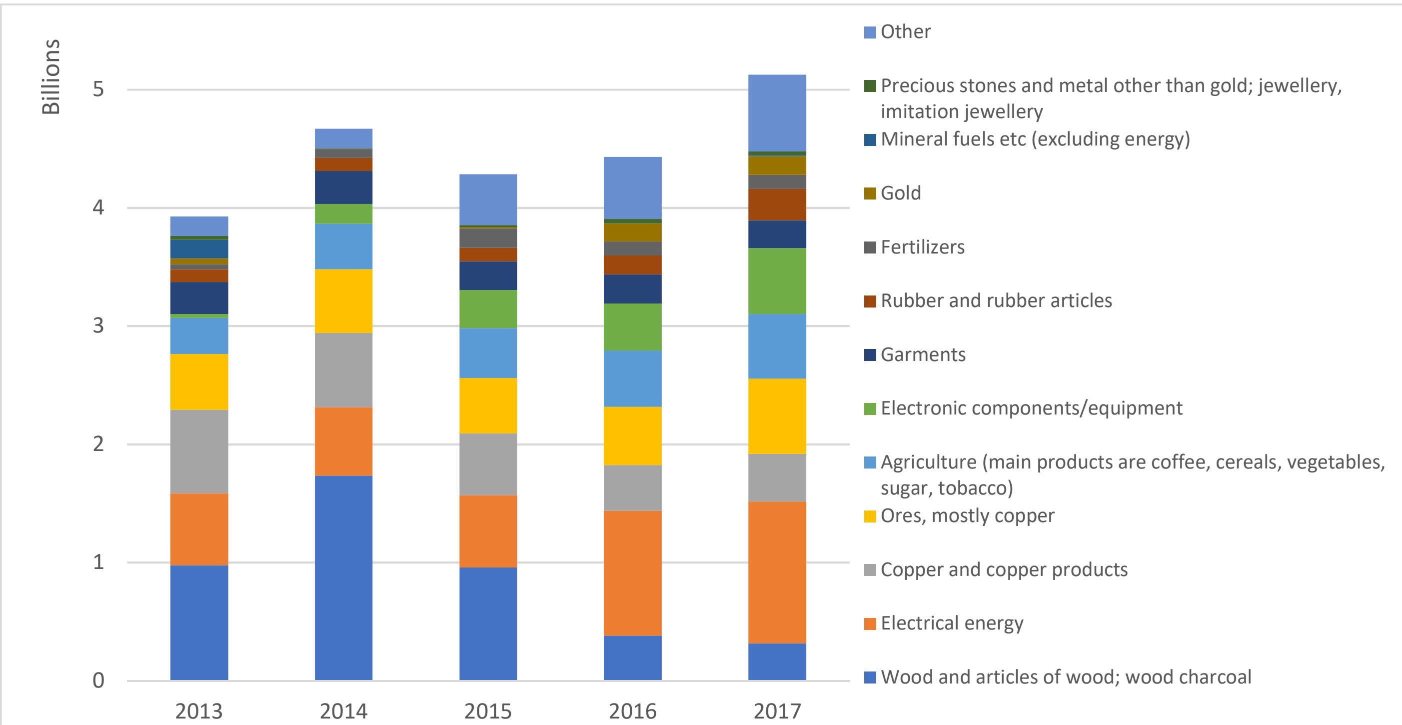
[4] Inputs for and comments on this section were provided by the World Trade Organization (WTO) Secretariat, the Advisory Centre on WTO Law (ACWL) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).

[5] In the case of developed countries, the legal basis for these preferences is the decision on "Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries" (known as the "Enabling Clause"), adopted in 1979 by the Members of the GATT, which allowed developed countries to depart from their MFN obligation with respect to all developing countries, including LDCs. The Enabling Clause is not time constrained. In developing country markets, trade preferences to LDCs are allowed under the waiver to the MFN obligation under the decision on "Preferential-Tariff Treatment for Least-Developed Countries", originally adopted in 1999 and extended in 2009 until 30 June 2019 (WT/L/759). Another important milestone was the Decision on Measures in Favour of Least Developed Countries adopted by WTO members at the 2005 Hong Kong Ministerial Conference.

the LDC-specific preferences, on exports to markets that do not grant LDC-specific preferences, on exports to markets where the country has equivalent or better market access terms due to bilateral or regional agreements, or on exports which for any reason (e.g. high costs of compliance with requirements) do not use the available preferences.

Overview: sectors and destinations. According to mirror data, Lao PDR averaged approximately USD 4.5 billion a year in exports of goods between 2013 and 2017 (UN Comtrade). The main export products have been electrical energy (which can be classified as goods exports under the Harmonized System[6]); wood and wood products; copper and copper ore; and agricultural products, as well as light manufacturing including electronic components/equipment and garments (Figure 1). Most of these exports went to China, Thailand and Vietnam (see Figure 2). Between 2013 and 2017, the share of exports that went to Thailand and China increased from 60 to 75 per cent.

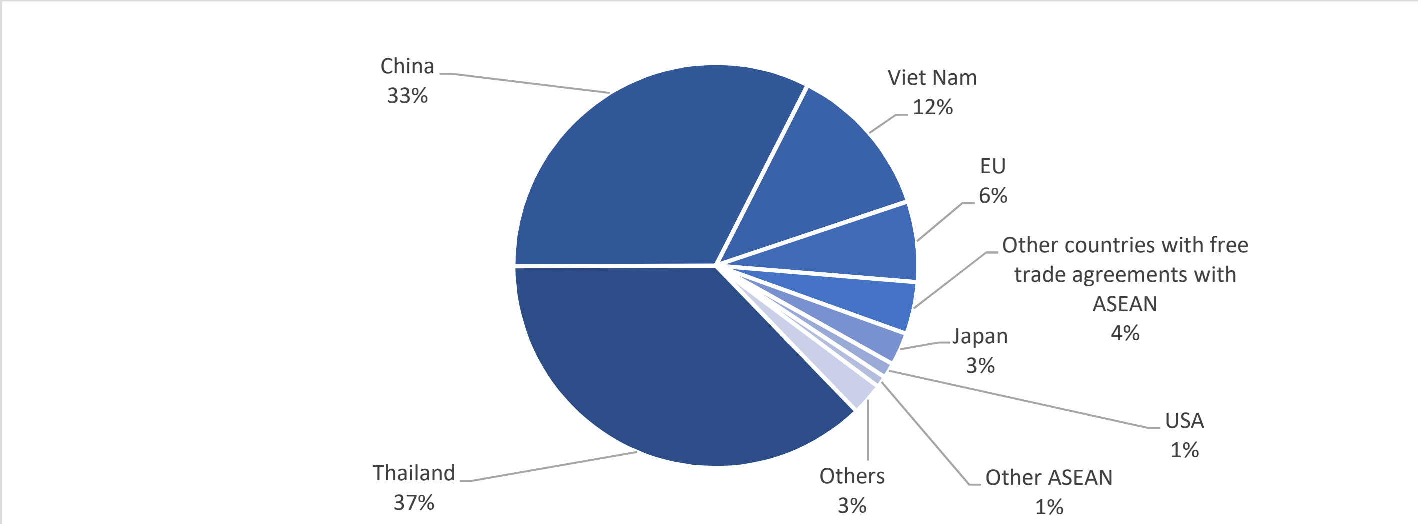
Figure 1 Lao PDR, main export products, 2013-2017, billions of US dollars



Source: UN Comtrade. Data extracted on December 12, 2019, based on mirror data

[6] The Harmonized System (HS) classifies electrical energy as a good, though it is an optional heading in the HS (Members of the World Customs Organization may regard it as a good or a service) (WTO, 1998). Export data available on Comtrade as reported by Lao PDR do not include electrical energy.

Figure 2 Lao PDR, main export destinations, 2013-2017, percentages



Source: UN Comtrade. Data extracted on December 12, 2019, based on mirror data.

Expected impacts of graduation. An analysis of Lao PDR's export structure, the applicable schemes before and after graduation (Table I.1 in the Annex), tariffs for the main export products before and after graduation (Table I.2 in the Annex) and the rates of utilisation of LDC preferences lead to the following conclusions. Please see the government's own assessment as reported during the 2019 Trade Policy Review (Lao PDR, 2019; see the excerpts in the Annex):

- *Lao PDR predominantly exports to other Asian countries which are either part of the Association of Southeast Asian Nations (ASEAN) or have free trade agreements with ASEAN. A large share of Lao PDR's exports will continue to be exported duty-free to these destinations either under these agreements or under most-favoured-nation (MFN) treatment, and will therefore not be affected by graduation.*

Ss part of ASEAN, Lao PDR has duty-free access to member countries' markets for most exports and benefits from the free trade agreements of ASEAN with Australia and New Zealand, India, Japan, China, the Republic of Korea.

Eighty-two per cent of Lao PDR's exports between 2013 and 2017 were to three countries – Thailand, China and Viet Nam (see Figure 1). Thailand and Viet Nam are, like Lao PDR, part of ASEAN, and China has a free trade agreement with ASEAN.[7] No significant changes are expected on tariffs on Lao PDR's products in those countries (see Table I.2 in the Annex for more details on products and tariffs):

- Most exports to Thailand (37% of Lao PDR's total exports in 2013-2017) are duty-free either under MFN rates or under ASEAN;
- Most exports to China (33% of Lao PDR's total exports) are duty-free either under MFN rates or under the China-ASEAN free trade agreement.
- Graduation has no impact on exports to Viet Nam (12% of Lao PDR's total exports in 2013-2017) as the latter does not have LDC-specific preferential schemes.

[7] Members of ASEAN are Lao PDR, Thailand, Viet Nam, Brunei, Cambodia, Indonesia, Malaysia, Myanmar, the Philippines and Singapore. According to Lao PDR's report at its Trade Policy Review in 2019 (WTO document WT/TPR/G/394), "since the establishment of the ASEAN Economic Community (AEC) on 31 December 2015, Lao PDR has actively worked with other ASEAN Member States (AMS) to implement obligations under the AEC towards the realization of a single market encompassing a free flow of goods, services and investment in the region." The ASEAN Agreement on Trade in Goods (ATIGA) has led to the elimination of tariffs on 98.6% of tariff lines traded among ASEAN Member states. As a member of ASEAN, Lao PDR also benefits from preferential market access in countries that have free trade agreements with ASEAN (China, India, Australia, New Zealand, Japan and the Republic of Korea have free trade agreements with ASEAN).

Likewise, among other countries with free trade agreements with ASEAN, impacts are expected to be negligible, with the possible exception of Japan (see below):

- Lao PDR's main exports to India (3% of Lao PDR's total exports in 2013-2017) are duty-free under the ASEAN-India free trade agreement.
- In the Republic of Korea, Lao PDR's main exports will continue to be duty-free either under MFN or under the ASEAN-Republic of Korea free trade agreement (AKFTA).
- Lao PDR will be able to export to Australia and New Zealand either under the ASEAN-Australia-New Zealand Free Trade Area, respectively) or the standard GSP schemes. Most of Lao PDR's exports to these countries are duty-free under MFN or under those agreements.[8]

Lao PDR is also a member of the Asia Pacific Trade Agreement (APTA) (Bangladesh, China, India, the Republic of Korea, Sri Lanka and Mongolia, the latter in the process of accession). Most members of APTA (though not Lao PDR) have special tariff concessions and less stringent rules of origin for LDCs which would, unless otherwise negotiated, no longer apply to Lao PDR after graduation.[9] However, this is not expected to have significant impact: Lao PDR's most important trade partners in APTA (China, followed by India and the Republic of Korea) also have free trade agreements with ASEAN; exports by Lao PDR of the products to which Bangladesh and Sri Lanka have granted special concessions are very limited;[10] and concessions by the Republic of Korea for Lao PDR under APTA do not depend on LDC status.[11]

- ➢ *The most significant impacts of graduation are expected to be on exports to the European Union. LDC preferences in the EU are extended for three years after graduation. The greatest impact of the end of LDC-specific preferences would be on garments, that would face higher tariffs and need to comply with more stringent rules of origin. The expansion of the industry also faces substantial challenges that are unrelated to graduation.*

An overview of the utilisation of LDC-specific preferences based on WTO data suggests that it is in the EU that graduation could have the greatest impact.[12] The EU accounted for 6% of Lao PDR's exports between 2013 and 2017. Approximately 66% of the EU's imports from Lao PDR in 2017 utilized LDC-specific preferences.

The EU's Generalised System of Preferences (GSP) contains three arrangements: a general arrangement, the Special Arrangement for Sustainable Development and Good Governance (GSP+), and a special arrangement for the least-developed countries (Everything But Arms - EBA). Lao PDR currently exports under the latter, which grants duty-free, quota-free market access for everything but arms and ammunition. The EU's current GSP regulation will expire at the end of 2023 and will be replaced by new regulation the terms of which are not yet known. Under current rules, and assuming no alternative schemes are negotiated, once Lao PDR graduates from the LDC category, first, it would be entitled to a smooth transition period of three years, meaning that if it graduates in 2024, it would have access to the EBA until 2027. Lao PDR would then automatically, and until it crosses the upper middle-income threshold defined by the World Bank, export under the general arrangement (or standard GSP). Under the standard GSP, most of Lao PDR's exports to the EU would pay higher tariffs than as an LDC (see Table I.2 in the Annex).

Garments are currently the largest export product to the EU. Exports of products under chapters 61 and 62 of the Harmonized System (knitted and woven apparel, respectfully) were of 185 million dollars in 2017, equivalent to 60% of exports to the EU and 4% of Lao PDR's total exports in 2017. These products would face tariffs of 9.6% if the rules of origin for non-LDC beneficiaries the standard GSP are met, and 12% under the MFN rate.

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[8] Australia has tariffs for LDCs and "countries and places that are treated as" LDCs; and 3 categories of rates of duty for developing countries, determined by Customs Tariff Regulations 2004 (as registered on 22 January 2019), https://www.legislation.gov.au/Details/F2019C00082. In the lists registered in January 2019, the 4 countries that graduated from the LDC category since 2007 were subject to the "DC rate of duty" defined in Part 3 of Schedule 1 of the regulation.

[9] See the ESCAP website, "National Lists of Tariff Concessions: Fourth Round", https://www.unescap.org/apta/tariff-concessions/session-4

[10] A total of USD 10.000 were recorded of exports by Lao PDR to Bangladesh in Harmonized System chapters in which Bangladesh provides special concessions for LDCs under APTA (UN Comtrade data). A total of USD 6.380 were recorded of exports by Lao PDR to Sri Lanka in Harmonized System chapters in which Sri Lanka provides special concessions for LDCs under APTA (UN Comtrade data).

[11] For information on APTA, see UNESCAP (2018), "APTA – Asia Pacific Trade Agreement" (https://www.unescap.org/sites/default/files/Brochure-of-the-APTA_Nov-2018.pdf).

[12] WTO Preferential Trade Arrangements database, http://ptadb.wto.org. See also WTO 2017, 2018b, 2019.

In the EU, to meet the rules of origin for the GSP for LDCs, up to 70% of the value added of exports can be produced abroad for the country to still benefit from preferential market access under the EBA, as opposed to 50% for the (non-LDC) beneficiaries of the standard GSP. In the garments sector, products from LDCs are only required to undergo a "single transformation" (only one stage of conversion of the product) in order to benefit from the EBA, while products from non-LDCs are required to undergo "double transformation" (two stages of conversion) in order to benefit from the standard GSP. The EU GSP's regional cumulation provision allows, under certain conditions, rules of origin to be met through sourcing of inputs from another country within a regional group, provided the country is a beneficiary of the same scheme. For example, when Lao PDR becomes a beneficiary of the standard GSP, a garment producer in Lao PDR will be able to, under certain conditions, use fabrics originating in other ASEAN countries that are also beneficiaries of the standard GSP. Cumulation is also possible, upon request and under certain conditions, with those among Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka that are beneficiaries of the same GSP scheme. Moreover, "a beneficiary country may apply for a temporary derogation from the EU GSP rules of origin where internal or external factors temporarily deprive it of the ability to comply with rules of origin, or where it requires time to prepare itself to comply with rules of origin."

In response to a questionnaire submitted by ESCAP and the WTO secretariat in May 2019 (hereafter "ESCAP-WTO questionnaire), the government of Lao PDR indicated that no longer having access to LDC-specific rules of origin would mean that its garment manufacturers would be undersupplied and receive inputs at less competitive prices and lower quality from domestic suppliers. They also indicated that manufacturers would have difficulties in meeting the minimum value-added requirement. While potentially important in terms of employment and the development of manufacturing capacity, the garment's industry's expansion currently faces challenges largely to do with national competitiveness factors that are unrelated to market access.

Among the other main exports to the EU, coffee (90111) would continue to be duty-free. Some types of footwear would continue to be duty-free while others would face tariffs of up to 11.9%.

Graduating LDCs can apply to the GSP+, which grants duty-free access to 66 per cent of EU tariff lines. However, under current regulations, eligibility for the GSP+ requires (i) meeting vulnerability criteria; and (ii) ratifying and implementing 27 conventions on human and labour rights, environmental protection and good governance. Lao PDR meets the vulnerability criteria but had not, at the time of writing, ratified three of the required International Labour Organization (ILO) Conventions. For a country to be eligible, in addition to having ratified the conventions, the most recent conclusions of the monitoring bodies of those conventions must not have identified serious failure by the country to effectively implement them.

The EU noted, in response to a request by the UN Department of Economic and Social Affairs for information on the impact of graduation, that Lao PDR does not use the EBA to its full potential due to supply-side constraints and limited awareness and capacity. The Lao PDR segment of a new programme, Arise+, aims to support Lao PDR in addressing these issues. It is a six-year programme (2016-2022) supporting ASEAN regional economic integration under the Asian Regional Indicative programme (2014-2020).

According to mirror data in UN Comtrade, approximately 10 per cent of Lao PDR's exports to the EU in 2017 were destined for the United Kingdom, which is expected to adopt a preferential market access scheme equivalent to that of the EU.

- *Most exports to Japan would continue to be exported duty-free under the ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEPA). Some products would face higher tariffs.*

Japan accounted for 3% of Lao PDR's exports from 2013 to 2017. Most products exported to Japan would continue to be duty-free under the ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEPA). A small number of footwear products currently covered by the LDC preferential scheme will face higher tariffs. With very limited exceptions, the preference margin in relation to the MFN tariff would still be significant.[13] Despite AJCEPA, currently a large share of Lao PDR's exports to Japan are exported under the LDC-specific preferences. This could suggest that there are advantages to the latter, either administrative of possibly in the ease of compliance to rules of origin. If the government considers this

[13] Tariffs on some footwear products would be 2 to 2.9% under the ASEAN-Japan Comprehensive Economic Partnerships Agreement provided rules of origin are met, in contrast to the MFN tariff on those same products which varies from 21.6 to 162.56%. A limited number of products would face MFN tariffs of 21.6 to 24%. These products accounted for 0.4% of Lao PDR's footwear exports to Japan. See Table II.2 in the Annex for more details.

relevant, it may consider further research on this issue. Japan was not singled out by the government of Lao PDR in its report for the 2019 Trade Policy Review (Lao PDR 2019) as a market in which graduation presents a challenge.

- *A significant share of exports to Canada are duty-free under MFN rates. Exports of garments would face significant tariffs*.

In Canada, hydrogen and garments alternate as the largest export from Lao PDR. Hydrogen is duty free under MFN. Garments would face higher tariffs after graduation, even if some products are covered by the GSP for LDCs. Canada accounted for 0.4% of Lao PDR's exports between 2013 and 2017.

- *Lao PDR is currently not a beneficiary of the United States GSP and therefore does not benefit from the LDC-specific duty-free quota-free scheme.*

If this situation persists, graduation would have no impact. If, before graduation, Lao PDR becomes a beneficiary of the United States GSP, graduation would mean that it would shift from the GSP for LDCs to the standard GSP.[14] Even if Lao PDR did become a beneficiary of the United States GSP, the impact of graduation would be very limited since most of Lao PDR's exports to the United States are duty-free under MFN or not covered by the GSP for LDCs. The United States' GSP for LDCs does not cover garments.

- *Together, the other markets that grant LDC-specific preferences amount to 0.6% of Lao PDR's exports from 2013 to 2017.*

Not all exports from these countries are eligible for LDC preferences (for example only 69% of exports from Norway were eligible, while the rest was duty-free under MFN), and not all those preferences are utilized.

- *The greatest potential for expansion of Lao PDR's exports lies within Asia.*

An assessment of export potential in Lao PDR (ITC, 2019) identifies the ASEAN region and China as the markets where there is the greatest potential for the expansion of Lao PDR's exports. In its report to the 2019 WTO Trade Policy Review (Lao PDR, 2019), Lao PDR noted that it was working to diversify exports and produce more value-added manufactured goods. Its strategy to do so prioritized integration into regional and global value chains, and it expected graduation from the LDC category to have only marginal impacts on this strategy.

Conclusions on preferential market access for goods

Although Lao PDR will no longer be able to export under the duty-free, quota-free (DFQF) schemes for LDCs, this is not expected to affect most of its exports. Lao PDR predominantly exports to other Asian countries which are either part of the ASEAN Free Trade Area or have free trade agreements with ASEAN. A large share of Lao PDR's exports will continue to be exported duty-free to these destinations either under these agreements or under most-favoured-nation (MFN) treatment, and will therefore not be affected by graduation, though further research would be useful to determine Lao PDR's capacity to meet the rules of origin applicable to non-LDCs. The most significant impacts would be in the European Union (EU), which accounted for 6% of Lao PDR's exports over the period from 2013 to 2017. Most exports to the EU would be subject to higher tariffs starting three years after graduation. The garment sector, which accounted for 60% of exports to the EU in 2017, would also be subject to more stringent rules of origin. This industry's expansion has been limited due to supply-side challenges.

For further analysis and action: The Enhanced Integrated Framework (EIF) secretariat informed that it was in the process of analyzing market access preference erosion in relation to LDC graduation. The conclusion of this analysis could shed further light on the issues discussed in this section and inform further action; further analysis could be useful on Lao PDR's capacity to comply with rules of origin to benefit from non-LDC specific preferential market access.

[14] USTR (2016), US Generalized System of Preferences Guidebook. https://ustr.gov/sites/default/files/GSP-Guidebook-September-16-2016.pdf#page=16

2. Preferential treatment for services and services suppliers (the services waiver)

The main LDC-specific market access preferences in services are those granted under the decision adopted by WTO Members in 2011 known as the "services waiver".[15] The decision allows WTO Members to grant to LDC services or service suppliers preferential treatment that would otherwise be inconsistent with Article II (MFN) of the GATS. In 2013, the Bali Ministerial Decision established steps to promote the operationalization of the decision. In 2014, the LDC group submitted the "LDC collective request", identifying the sectors and modes of supply of particular interest to them (S/C/W/356). The waiver is currently valid until December 31, 2030 (WT/MIN(15)/48). The WTO has received notifications from 24 Members, including the EU, indicating sectors and modes of supply where they were providing or intended to provide preferential treatment to LDC services and service suppliers.[16] Upon graduation, Lao PDR would no longer have access to preferential treatment under the services waiver unless the General Council approved a waiver specific to Lao PDR. Any requests for transition periods in the application of the services waiver would need to be the object of a consultative process with the preference-granting WTO Members.

Lao PDR has not, to date, benefitted from the waiver. In its report for the 2019 Trade Policy Review (Lao PDR, 2019, paragraph 2.8), the government of Lao PDR stated, in regard to the services waiver, that the loss of those preferences after graduation would be of very limited importance because (i) the preferences granted are of small interest to Lao PDR; (ii) Lao PDR's exports of services are largely limited to tourism and transport, which do not benefit from preferences ore are covered by regional free trade agreements.

Generally speaking, and not only in regard to Lao PDR, there is uncertainty regarding the practical implications and effectiveness of the waiver (UNCTAD, 2018; Mendoza et al., 2016) and relatively few of the preferences, especially in modes 1 to 3, go beyond the applied MFN regime. Research on the constraints to service exports in LDCs suggests that supply-side constraints may be more significant than the lack of preferential market access in services (Sauvé and Ward, 2016). Officials from the Lao PDR government noted that domestic regulations rather than the terms of market access are the most significant barriers to trade in services.

In synthesis, taking the current situation of the services waiver as a reference, graduation is not expected to have significant impacts on services export by Lao PDR.

Conclusions on preferential market access for services
Graduation from the LDC category is not expected to significantly affect market access for the country's services exports as Lao PDR has not significantly benefitted from the services waiver and is not expected to do so in the near future.

[15] Preferential Treatment to Services and Service Suppliers of Least-Developed Countries, WT/L/847, 19 December 2011.

[16] Notifications had been received from Panama, Turkey, Thailand, Uruguay, Canada, South Africa, Liechtenstein, Brazil, Iceland, Chile, India, United States, Mexico, EU, Japan, Switzerland, New Zealand, Hong Kong (China), the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, Singapore, China, Republic of Korea, Norway, Australia and the EU.

3. Special treatment under regional agreements (other than market access)

As mentioned above, as part of ASEAN, Lao PDR has duty-free access to member countries' markets for most exports and benefits from the free trade agreements of ASEAN with Australia and New Zealand, India, Japan, China, the Republic of Korea. Lao PDR is also part of the Asia-Pacific Trade Agreement (APTA).[17] Negotiations for the Regional Comprehensive Economic Partnerships (RCEP) are ongoing (see ESCAP, 2019). Beyond market access, within ASEAN trade agreements, Lao PDR benefitted from special treatment as one of the newer ASEAN member states, which include also Cambodia and Myanmar – both LDCs – but also Viet Nam which is not an LDC.

In the past, special and differential treatment in ASEAN+1 agreements was granted to Cambodia, Lao PDR, Myanmar and Viet Nam ("CLMV"). The first three ("CLM") were granted longer phasing out periods than Viet Nam and the other ASEAN members.[18] These periods have now elapsed. In ASEAN's free trade agreements with third parties, the only element identified that is linked to LDC status is article 18 of the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), which provides that "At all stages of the determination of the causes of a dispute and of dispute settlement procedures involving newer ASEAN Member States, particular sympathetic consideration shall be given to the special situation of newer ASEAN Member States. In this regard, Parties shall exercise due restraint in raising matters under these procedures involving a least-developed country Party. If nullification or impairment is found to result from a measure taken by a least-developed country Party, a Complaining Party shall exercise due restraint regarding matters covered under Article 17 (Compensation and Suspension of Concessions or other Obligations) or other obligations pursuant to these procedures." [19] The commitment to exercise due restraint in these cases would not, in principle, apply after graduation. This was not singled out as a relevant issue in Lao PDR's report in the Trade Policy Review.

Under APTA, LDC-specific provisions refer to market access and are described in section A.1. No significant impacts are expected, given that most trade under APTA is to countries that also have free trade agreements with ASEAN, where coverage is larger than the coverage of LDC-specific tariffs under APTA.

Conclusions on special and differential treatment in regional agreements (other than market access)

No significant impacts are expected in terms of Lao PDR's commitments under ASEAN or under existing agreements between ASEAN and third parties (see also section A.1). The terms applicable to Lao PDR in future agreements between ASEAN and third parties would be the object of negotiations. No significant impacts are expected under APTA. Negotiations for the Regional Comprehensive Economic Partnerships (RCEP) are ongoing.

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[17] See the Asia-Pacific Trade and Investment Agreement Database (APTIAD) (www.unescap.org/content/aptiad/) and Asia Regional Integration Center's Free Trade Agreement Database. At the time of writing, negotiations were ongoing for the Regional Comprehensive Economic Partnership, and the following had been proposed or were under consultation and study: ASEAN-Canada FTA, ASEAN-EU Free Trade Agreement, ASEAN-Eurasian Economic Union Free Trade Agreement, ASEAN-Pakistan Free Trade Agreement, Comprehensive Economic Partnership for East Asia (CEPEA/ASEAN+6) and East Asia Free Trade Area (ASEAN+3). Regarding the ASEAN-EU Free Trade Agreement, according to the EC website (http://ec.europa.eu/trade/policy/countries-and-regions/regions/asean/), "*Negotiations for a region-to-region trade and investment agreement between the EU and ASEAN were launched in 2007 and paused by mutual agreement in 2009 to give way to a bilateral format of negotiations. These bilateral trade and investment agreements were conceived as building blocks towards a future region-to-region agreement. Negotiations with Singapore and Malaysia were launched in 2010, with Vietnam in June 2012, with Thailand in March 2013, with the Philippines in December 2015 and with Indonesia in July 2016. So far, the EU has completed negotiations for bilateral agreements with two of them (Singapore in 2014 and Vietnam in 2015) while negotiations with Thailand, Malaysia and the Philippines are currently on hold. Negotiations with Indonesia are still ongoing and are used to further deepen EU-Indonesia trade and investment relations. Bilateral Free Trade Agreements (FTAs) between the EU and ASEAN countries will serve as building blocks towards a future EU-ASEAN agreement, which remains the EU's ultimate objective. Negotiations of an investment protection agreement are also under way with Myanmar (Burma). At the regional level, the European Commission and the ASEAN Member States are undertaking a stocktaking exercise to explore the prospects towards the resumption of region-to-region negotiations. A joint EU ASEAN Working Group for the development of a Framework setting out the parameters of a future ASEAN-EU FTA gathers at a regular basis."* (Consulted on December 19, 2019).

[18] In most of the agreements, ASEAN 6 were granted 5 years, Viet Nam 7 to 8 years and Cambodia, Lao PDR and Myanmar 10 years.

[19] See aanzfta.asean.org/special-and-differential-treatment.

4. Special and differential treatment under WTO rules (other than market access)

LDCs are entitled to exclusive special and differential treatment (SDT) provisions under the WTO agreements, in addition to those related to preferential market access (see sections A.1 and A.2). In principle, these provisions are no longer applicable after graduation. However, graduation implies no change in the concessions and commitments undertaken by the country at the WTO; it does not affect eligibility for SDT provisions that are not LDC-specific; and it does not impact time-bound provisions which will have expired before the expected graduation date. Graduation also does not affect provisions which are not used or which were, in practice, waived under the terms of the WTO accession package.

Table 1 below contains information on the expected impacts of graduation of Lao PDR on special and differential treatment under WTO agreements, based on Lao PDR's current situation (for impacts related to market access see sections A.1 and A.2 above). In summary, while Lao PDR will no longer benefit from LDC-specific flexibilities under the WTO agreements, this is expected to be of limited consequence. Most special and differential treatment provisions for LDCs under the WTO agreements are time-bound and will have expired before Lao PDR graduates; are not used by Lao PDR; or are relatively limited in scope.

One potential area of impact is under the Agreement on Trade-Related Intellectual Property Rights (TRIPS). While a first analysis suggests that the practical implications of graduation related to the TRIPS Agreement will be limited, this issue would benefit from further research, including on potential costs for the healthcare sector, and taking into account the changes related to the Dispute Settlement Understanding (as a non-LDC Lao PDR would no longer be considered under Article 24.1 of the Dispute Settlement Understanding, which requires that Members exercise "due restraint" when launching disputes against LDCs, asking for compensation from or suspending concessions to LDCs).

Graduating LDCs may request waivers at the WTO that would provide (or extend) transition periods to phase out flexibilities or phase in obligations. As the WTO is a member-driven organisation, such waivers would need to be negotiated and agreed to by Members.

Table 1: Impacts of graduation on special and differential treatment under WTO agreements

LDC-specific provisions	Expected impacts of graduation for Lao PDR
Agreement on Trade-Related Intellectual Property Rights (TRIPS) (and subsequent agreements/decisions/measures) [i]	
General transition period: LDCs benefited from a longer general transition period than other WTO Members to implement the provisions of the TRIPS Agreement, with the exception of core provisions. LDCs were not required to comply with all provisions of the TRIPS Agreement until 1 January 2006. This transition period was extended until 1 July 2013 (IP/C/40) and then until 1 July 2021. If this deadline is not extended further, then all LDCs (including an as yet ungraduated Lao PDR) would have to comply with all provisions of the TRIPS Agreement.[ii] Pharmaceuticals exemption: LDC WTO Members are not obliged to protect pharmaceutical patents until 1 January 2033 (TRIPS Council decision, 6 November 2015, IP/C/73). Non-LDC developing countries are obliged to provide the minimum standard of protection for pharmaceutical patents (20 years). Furthermore, countries that did not provide patent protection for pharmaceuticals at the entry into force of the WTO in 1995 had to establish a means by which applications for patents for these products could be filed and to put into place systems for granting exclusive marketing rights for these products. To complement the longer transition period for pharmaceutical products, LDC Members (until they graduate) were exempted from the obligation to provide for the possibility of filing mailbox applications and to provide exclusive marketing rights until January 2033 (General Council Decision WT/L/971).[iv]	Upon accession to the WTO, Lao PDR committed to fully applying the TRIPS Agreement by 31 December 2016 (with a small number of exceptions to be applied at other pre-established dates), but confirmed that the country "would avail itself of special and differential treatment for Least-Developed Countries under the TRIPS Agreement and various Ministerial Conference Declarations including the Hong Kong Ministerial Declaration (paragraph 47), TRIPS Council Decision (IP/C/40), and the Eighth Ministerial Conference Decisions." If the deadline for the general transition is extended after 2024 a graduated Lao PDR would no longer benefit from this exemption. Lao PDR has enacted TRIPs-compliant legislation (a new intellectual property law entered into force in 2018) and is in the process of implementing it. It is working on the revision of related regulations and procedures, though it still expects to face challenges in implementation.[iii] The pharmaceutical sector is relatively small, with only a handful of companies producing mostly generics. While a first approach suggests that the practical implications of graduation in this area will be limited, this issue would benefit from further research, including on potential costs for healthcare sector.

	In its report for the 2019 Trade Policy Review, Lao PDR stated that although it did not currently benefit from the waiver, the government intended to keep open the possibility to participate in the relevant markets, and intended to request, as part of the transition measures, to continue to benefit from the waiver until its expiration in 2033.
Simplified rules for LDC importers of products under compulsory licensing: The TRIPS Agreement also contains simplified rules for LDC importers of products under compulsory licensing under Article 31bis. LDCs importers do not need to notify the WTO to use this provision and are assumed to have insufficient or no manufacturing capacities in the pharmaceutical sector (for the product being imported), a condition to be able to import under compulsory licensing.[v]	After graduation, Lao PDR would need to notify the WTO if it intends to import under the system of compulsory licensing permitted under Article 31bis. **Impact is limited to the administrative cost of notification.**
Article 66.2 of the TRIPS Agreement determines that developed country Members are to provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to LDC country Members to enable them to create a sound and viable technological base.[vi]	Government officials noted that Lao PDR does not benefit substantially from this measure. **Graduation has no substantial practical impact.**
Agreement on Subsidies and Countervailing Measures (and subsequent agreements/decisions/measures)	
The Agreement on Subsidies and Countervailing Measures (SCM) generally prohibits export subsidies. Under Article 27.2(a) and Annex VII(a), LDCs are exempt from that prohibition	After graduation, Lao PDR will no longer be able to avail itself of that flexibility. In practice however, the country has not used any such subsidies, so **graduation has no practical impact.** In its report for the 2019 Trade Policy Review, Lao PDR noted that while at this time the loss of this flexibility is of minor concern, in future Lao PDR would be "restricted in the support it can provide to its nascent industry". It recognized that it needed to develop instruments for an industrialization policy that are compatible with the WTO requirement, and requested technical assistance from WTO members.
Agreement on Agriculture (and subsequent agreements, decisions, measures)	
LDCs and net food importing developing countries (NFIDCs) may provide, until 2030, certain export subsidies that would otherwise not be allowed under the Agreement on Agriculture (Article 9.4, most recent extension in the Ministerial Decision on Export Competition of 19 December 2015, paragraph 8). A country graduating from the LDC category that is not designated as an NFIDC would normally no longer be eligible for this measure after graduation.	Upon accession to the WTO in 2013, Lao PDR welcomed "the underlying development rationale of the flexibilities granted to LDCs" but noted that it did not envisage the implementation of agricultural export subsidies at that time.[viii] In its report to the 2019 Trade Policy Review, Lao PDR noted that although it does not provide subsides and "does not intend to provide subsidies", it had not foregone its right to do so in the future. The country expects to become a net exporter of food and was therefore preparing to the loss of this flexibility in the medium term. **Graduation has no practical impact considering current policies and conditions.**
LDCs are required to report to the WTO on their use of domestic support every two years rather than annually (WTO document G/AG/2 "Notification Requirements and Formats" adopted by the Committee on Agriculture on 8 June 1995).	Upon graduation, Lao PDR would report annually. **Impact is limited to the administrative cost of reporting.**
The Nairobi Ministerial Decision on Export Competition stipulates the terms under which export financing support for certain agricultural products can be provided. LDCs, NFIDCs and nine additional members are entitled to provide longer repayment terms for the acquisition of basic foodstuffs (36 to 54 months, instead of 18 applicable to non-LDC developing countries). If a Member in these categories faces "exceptional circumstances which still preclude financing normal levels of commercial imports of basic foodstuffs and/or in accessing loans granted by multilateral and/or regional financial institutions within these timeframes, it shall have an extension of such a time-frame" (2015 Nairobi Ministerial Decision on Export Competition of 19 December 2015, WT/MIN(15)/45-WT/L/980).	Upon graduation and unless it were identified as an NFIDC, Lao PDR would need to comply with the 18-month rule. Developing countries that are net importer of basic foodstuffs may request the Committee on Agriculture to include them on the list of NFIDCs. The request needs to be substantiated by relevant statistical data showing that the Member is a net importer of basic foodstuffs (see WTO document G/AG/3 for the procedures to be included in the list of NFIDC). This measure applies to limited circumstances and the treatment extended to LDCs has been extended to a number of non-LDC developing countries. **Impact is of limited scope.**
Dispute Settlement Understanding (and subsequent agreements/decisions)	

Article 24.1 of the Dispute Settlement Understanding requires that Members exercise "due restraint" when launching disputes against LDCs. Article 24.1 further states that complaining Members must exercise "due restraint" in asking for compensation or suspending concessions or other obligations when the responding party is an LDC.	Lao PDR would no longer be covered by these requirements after graduation. **A first analysis suggests limited practical implications given the "soft" nature of the measure, but this issue would benefit from further research, in conjunction with the assessment of other agreements potentially affected by graduation, such as TRIPs.**
LDCs can request the Director-General of the WTO or the Chairman of the Dispute Settlement Body to provide their good offices, conciliation and mediation for settling disputes (article 24.2).	After graduation, Lao PDR would no longer be able to do this. However, it would still be able to request the good offices, conciliation and mediation under Article 5. **Practical impact is expected to be limited.**
Agreement on Trade-Related Investment Measures (TRIMs)	
Annex F of the Declaration of the Sixth WTO Ministerial Conference allowed LDCs to maintain, on a temporary basis, existing measures that deviated from their obligations under the TRIMs Agreement. The provision applied to measures that were notified within a two-year period, which were then allowed to continue for another seven years. LDCs were also allowed to introduce new measures that deviated from their obligations under the TRIMs Agreement under certain conditions. All measures are to be phased out by year 2020. The transition period to eliminate measures existing at the time of the Sixth Ministerial Conference incompatible with TRIMs has expired for all LDCs. All measures incompatible with the TRIMs agreement are to be phased out by 2020.	Graduation has no impact related to these measures for LDCs graduating after 2020. Moreover, in acceding to the WTO, Lao PDR committed to not maintaining "any measures inconsistent with the TRIMs Agreement and would apply the TRIMs Agreement from the date of accession without recourse to any transitional period" (Report of the Working Party). **No impact expected.**
Trade Facilitation Agreement	
LDCs were given longer notification timeframes, longer deadlines under the early warning mechanism in cases of implementation difficulties, longer time frames for implementation of certain measures and a longer grace period from dispute settlement.	Extended deadlines for LDCs with respect to the implementation of commitments under the TFA would expire before Lao PDR's expected date of graduation (Article 16.2). Loss of flexibilities under the provisions of Article 18 (the Trade Facilitation Committee would, in the case of LDCs, "take action to facilitate the acquisition of sustainable implementation capacity" of certain measures), Article 19 (procedures for notification of capacity building needs) and Article 20 (grace period for dispute settlement for certain categories of measures) are of limited scope. In its report for the 2019 Trade Policy Review, Lao PDR stated that its right to have access to the category C measures of the TFA is not affected by graduation. **Practical impact is expected to be limited.**
Trade Policy Review Mechanism (Annex 3, as amended on 26 July 2017)	
Under this mechanism, the largest four WTO Members in terms of the share of global trade (including the EU) are reviewed every three years, the next 16 largest are reviewed every five years, and the rest of Members every seven years. LDCs may be granted a longer interval between Trade Policy Reviews.	After graduation, Lao PDR's trade policies would be subject to review every seven years. The first Trade Policy Review is being undertaken in 2019. **Impact is limited to requiring Trade Policy Reviews at seven-year intervals.**
Understanding on the Balance-of-Payments Provisions	
Under Articles XII and XVIII of the GATT as well as the Understanding on the Balance of Payments Provisions of the General Agreement on Tariffs and Trade 1994 (the "Balance-of-Payments Understanding"), Members may introduce import restrictions to safeguard their external financial position and balance of payments. Only LDCs may request more than two consecutive consultations under the so-called "simplified procedures". Even for LDCs, approval of simplified procedures is not assured, as WTO Members can require full consultation procedures in the case of both LDCs and other developing countries.	If Lao PDR were to use this provision, it would not be able to do so more than twice consecutively under simplified procedures. **Practical impact is limited.**

i. The TRIPS Agreement was amended through the Protocol of 6 December 2005 that entered into force on 23 January 2017. The amendment inserted a new Article 31bis into the Agreement as well as an Annex and Appendix. These provide the legal basis for WTO Members to grant special compulsory licenses exclusively for the production and export of affordable generic medicines to other members that cannot domestically produce the needed medicines in sufficient quantities for their patients.

ii. "Extension of the Transition Period Under Article 66.1 for Least Developed Country Members", Decision of the Council for Trade-Related Aspects of Intellectual Property Rights ("Council for TRIPS"). IP/C/64.

iii. ESCAP-WTO Questionnaire.

iv. Mailbox applications refers to the requirement of the TRIPS Agreement whereby WTO Members which do not yet provide product patent protection for pharmaceuticals and agricultural chemicals must establish a means by which applications of patents for these products can be filed. See WTO Glossary (https://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm).
v. Annex to the TRIPS Agreement, paragraph 2, and Appendix.
vi. Through the Decision of the General Council on the Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health and the Protocol Amending the TRIPS Agreement (2003) (paragraph 7) Members also undertook to cooperate in paying special attention to the transfer of technology and capacity building in the pharmaceutical sector pursuant to Article 66.2.
vii. Article 27.3 of the SCM Agreement afforded LDCs an exception from the prohibition of the so-called "local content" subsidies – i.e. subsidies granted contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods (Article 3.1(b)). This exception was available for a period of eight years, from the date of entry into force of the WTO Agreement. This period has expired and is no longer available to LDCs. It is therefore of no relevance to Lao PDR's graduation.
viii. Paragraphs 168 and 169 of the Report of the Working Party on the Accession of Lao PDR to the World Trade Organization (WT/ACC/LAO/45)

Conclusions on special treatment on obligations and flexibilities under WTO rules

Lao PDR will no longer benefit from LDC-specific flexibilities under the WTO agreements. In practice, however, this is expected to be of limited consequence. Most special and differential treatment provisions for LDCs under the WTO agreements are time-bound and will have expired before Lao PDR graduates; are not used by Lao PDR; or are limited in scope. An area that would benefit from further research is the extent to which not having access to the pharmaceuticals waiver under TRIPS could hinder development of the industry in Lao PDR and affect healthcare costs in future. Lao PDR has stated that it intends to request to continue to benefit from the waiver until its expiration in 2033. Graduating LDCs may request waivers at the WTO that would provide (or extend) transition periods to phase out flexibilities or phase in obligations. As the WTO is a member-driven organisation, such waivers would need to be negotiated and agreed to by Members. Lao PDR would need to engage actively with Members, bilaterally and in WTO Committees, to obtain support for addressing graduation challenges.

For further analysis and action: The Enhanced Integrated Framework (EIF) secretariat informed that it was in the process of undertaking a review of WTO agreements in relation to graduation. The Advisory Centre on WTO Law is uniquely positioned to advise on these issues at the request of the country.

5. Trade-related capacity-building, training and technical assistance

LDCs benefit from special mechanisms or priority in trade-related capacity-building, training and technical assistance. These aim to support LDCs in the fulfilment of their commitments under the WTO and to further their participation in world trade:

Enhanced Integrated Framework (EIF): The EIF is the only instrument for delivery of Aid for Trade specifically geared at LDCs.[20] The EIF supports LDCs through analytical work, institutional support, and productive capacity building projects.[21] The programme is supported by a multi-donor Trust Fund with contributions from 24 country donors, and its mandate currently extends to 2022. One of the key features of EIF support is the "Diagnostic Trade Integration Study" (DTIS), which encompasses constraints to trade and opportunities for pro-poor sustainable trade development and aims to provide LDCs with analytical tools for trade mainstreaming and providing a common basis for prioritization and mobilization of resources. In Lao PDR, the DTIS was undertaken in 2006 and updated in 2012. According to the EIF secretariat[22] "With EIF support, Lao PDR developed a Trade and Private Sector Development Roadmap, which has served as the main instrument for their Aid for Trade harmonization, resource mobilization and coordination efforts. Within the EIF implementation framework, the country has successfully leveraged trade-related priorities, including a total of 16 projects totaling 68 million dollars." The resources of the EIF are small compared to total Aid for Trade flows. However, the EIF plays an important enabling and catalyzing role. As mentioned above, the EIF informed that it is currently reviewing WTO agreements and market access preference erosion in relation to LDC graduation.

[20] Aid for Trade is a component of Official Development Assistance (ODA) directed specifically at helping developing countries overcome trade-related constraints. It is delivered through multiple bilateral, regional and multilateral channels.
[21] Additional information is available at http://www.enhancedif.org/en, http://www.enhancedif.org/en/funding and www.un.org/ldcportal.
[22] https://www.enhancedif.org/en/country-profile/lao-pdr

Lao PDR is one of the beneficiaries of an EIF project, in collaboration with the World Association of Investment Promotion Agencies (WAIPA), to develop capacity to attract and retain foreign and domestic investments.

After graduation, Lao PDR would continue to access most funding from the EIF for five years. The only modality that this will not apply to is "Sustainability Support" which, according to the current arrangement, is expected to be completed for Lao PDR by early 2022, therefore before the earliest possible date of graduation. Since the mandate of the EIF is currently limited to 2022, no information can be anticipated on the terms of the EIF's assistance to graduated countries after that date.

Automatic and free access to the Advisory Centre on WTO Law (ACWL)[23]:The Advisory Centre on WTO Law (ACWL) is an intergovernmental organization based in Geneva, created in 2001 to provide LDCs and developing countries legal advice on issues related to WTO law, WTO dispute settlement support and capacity-building on related matters. The ACWL has provided more than 200 legal opinions every year, assisted countries in over 50 disputes and conducted 17 annual courses and 13 secondment programmes. The advantage for LDCs is that those that are Members of the WTO or in the process of acceding are entitled to the ACWL's services without having to become ACWL Members and therefore without having to pay the one-off contribution to the ACWL. While LDCs are required to pay an hourly fee (the equivalent of USD 40) for support in dispute settlement cases, these fees are below the rates that are paid by developing countries and well below market rates. The ACWL is funded by voluntary contributions from its 11 developed country members as well as from contributions of one associate member, Germany.

Upon graduation, Lao PDR would need to become a member of the ACWL to continue to use its services. To do so, it would have to make a one-time contribution of CHF 81,000. In the past, countries not otherwise entitled to the ACWL's services have become members via a one-off donor-financed contribution.

Members of the Lao PDR Ministry of Industry and Commerce indicated that the ACWL has been helpful particularly in ensuring that new legislation is compatible with WTO rules.

Standards and Trade Development Facility (STDF): Under the Agreement on Sanitary and Phytosanitary (SPS) Measures (and subsequent agreements/decisions/measures), LDCs have priority and preferential co-financing terms under the STDF[24]. After graduation, Lao PDR would no longer be considered a priority country in project financing under the STDF. The STDF has a target of dedicating at least 40% of total project financing to LDCs or other low-income countries. After graduation, Lao PDR would have to compete with other developing countries for the portion of resources not under that target. Furthermore, LDCs and other low-income countries have lower co-financing requirements. After graduation, Lao PDR would need to contribute at least 20% of the requested STDF contribution to a project, up from the current 10%.

Technical assistance and training within the WTO: Lao PDR would benefit from fewer country-specific activities per year after graduation. It would in principle no longer be eligible for support under the "Least-Developed Countries (LDCs) and Accessions Programme" (the "China Programme") which supports LDC participation in WTO decision-making (see information on travel support below).

Conclusions on trade-related capacity-building, training and technical assistance

After graduation and applicable smooth transition periods, access to certain trade-related capacity-building, training and technical assistance mechanisms will be restricted. Lao PDR will continue to be supported by the EIF for a period of 5 years after graduation in all modalities of funding except the "Sustainability Grant". The country will have to become a member of the Advisory Centre on WTO Law, by making a one-off contribution, in order to continue to use its services. It will also have higher co-financing requirements and lower priority under the Standards and Trade Development Facility (STDF). Lao PDR will benefit from fewer country-specific technical capacity and training activities by the WTO and will no longer benefit from country-specific activities under the "China Programme" at the WTO.

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[23] www.acwl.ch. This text also draws from "The Advisory Centre on WTO Law (ACWL) – Presentation at the 84th Session of the Sub-Committee on Least Developed Countries", delivered by Cherise Valles, Deputy Director, and Christian Vidal-Leon, Counsel, Geneva, 30 October 2018.

[24] The Standards and Trade Development Facility (STDF) was created in 2003 (originating in a joint communique of FAO, OIE, WB, WHO, WTO at Doha Ministerial in 2001) to "increase capacity of developing countries to implement international SPS standards, guidelines and recommendations and hence ability to gain and maintain market access."

B. Development cooperation

In addressing the expected impacts of graduation from the LDC category on development cooperation, it is important to distinguish graduation from the LDC category from other milestones such as achieving middle-income status or graduating from the concessional windows of multilateral development banks. This assessment focuses on graduation from the LDC category.

In general, development cooperation programmes – including financial and technical assistance – are neither exclusively nor primarily determined by LDC status. They are determined based on a combination of factors related to recipients´ income level and creditworthiness, needs, vulnerabilities and plans; partners´ policies and capacities; competing demands and the broader international context. Graduation from the LDC category itself is not expected to lead to a significant withdrawal of ODA or influence other official flows by OECD-DAC partners, regional partners or development banks. Graduation could trigger relatively small changes in some forms of assistance delivered by some partners. Any such changes will be assessed within the broader context of the country's needs and vulnerabilities.

Factors other than graduation could be, or are already, more significant triggers of changes in development cooperation. For example, the fact that Lao PDR's income has increased leading to changes in the type and terms of assistance it receives from the World Bank and the ADB; trends in global and regional financing (including China's Belt and Road Initiative and the strategies of some donors to centralize ODA going to ASEAN into regional projects); and the state of the country's debt sustainability.

According to the Lao PDR Development Finance Assessment (United Nations, 2017), Official Development Assistance (ODA) was the major source of international public finance until, since 2013, the government increased borrowing, primarily from Thailand and China, to support infrastructure development. Lao PDR currently has a debt to GDP ratio of approximately 65%, mostly due to the high volume of loans contracted for large scale infrastructure projects such as hydropower and railways. A new financing strategy includes the use of sovereign bonds for government funding and project-related bonds. The ADB noted that "continued high fiscal deficits and high public debt threaten macroeconomic and financial stability" (ADB, 2019a). Lao PDR has limited capacity for domestic resource mobilization given limitations in productive capacity and in the revenue-generating capacity of the private sector. The country is working with partners to improve revenue collection through information and communication technologies and is implementing a new Public Debt Management Law (2018), as well as implementing a medium-term borrowing strategy. In this context, ODA continues to play an important role in state budgets for specific sectors, including agriculture, education, health and infrastructure. In 2016-2017, ODA still represented 19.7 per cent of the total health spending and foreign funding of capital spending as a percentage of total capital spending in the health state budget stands at approximately 80 per cent (UNDP, 2017).

Both the government and Lao PDR's development partners recognize that despite increasing income levels, severe challenges remain in areas such as health and education, with wide and persistent geographical disparities between urban and rural areas but also based on ethnicity, language, gender, age, educational attainment, disability and socio-economic status.

Section B.1 provides a closer look at the expected impacts of graduation on the assistance provided by Lao PDR's major partners. Section B.2 refers to LDC-specific technical assistance mechanisms, other than those related to trade which are in Section A.5 above on trade-related capacity-building, training and technical assistance.

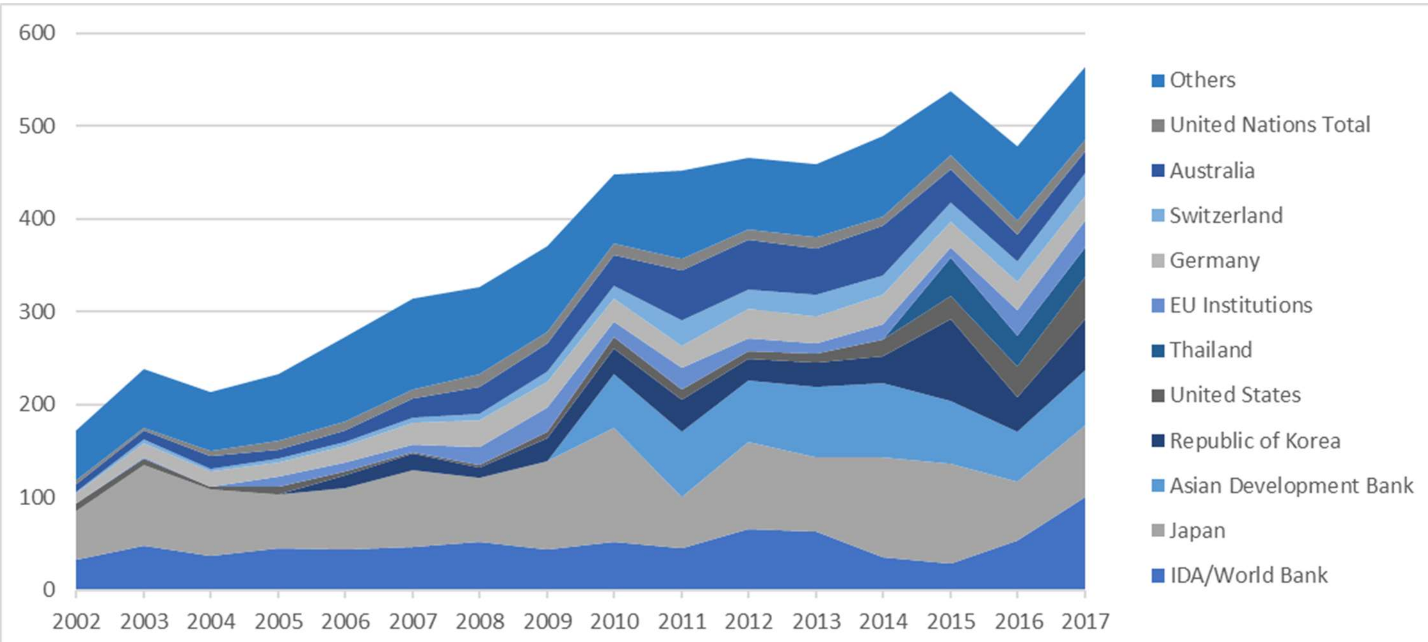
1. Cooperation programmes of major partners

Given the expected timeframe for Lao PDR's LDC graduation (not before 2024), most programmes on development cooperation with the country after graduation are yet to be elaborated and agreed upon. The following is based on information and prospects available at the time of writing collected from official documents, studies, responses to formal request for information by the United Nations Department of Economic and Social Affairs, and interviews with representatives of development partners conducted in Vientiane in June 2019.

Who are the major partners? OECD data show the International Development Association (World Bank), the Asian Development Bank and Japan as the largest providers of ODA (see Figure 3) and unofficial data suggest China's ODA equivalent to be of the order of magnitude of Japan's in recent years (Mustapha and Greenhill, 2016; Development Finance and Aid Assessment, 2016).[25] Other large providers of ODA include the Republic of Korea, the United States and Thailand, followed by other members of the OECD's Development Assistance Committee (DAC) including EU institutions. While not necessarily reflected in ODA data published by the OECD, other regional partners such as Viet Nam and India have also been important partners (Mustapha and Greenhill, 2016; Development Finance and Aid Assessment, 2016).

Several United Nations system entities operate in Lao PDR providing technical cooperation and capacity-building, which by nature are not reflected in large ODA flows.

Figure 3 Top providers of ODA, gross disbursements of ODA for Lao PDR, 2002-2017, millions of United States dollars as reported by the OECD (does not include data for China, India or Viet Nam)



Source: OECD Creditor Reporting System (CRS). Extracted July 23, 2019.

The expected impacts of graduation on the assistance programmes of major partners are as follows:

a) Multilateral development banks:

International Development Association (IDA), World Bank Group. Eligibility for the IDA is independent of LDC status. It depends on per capita income, risk of debt distress and creditworthiness for International Bank for Reconstruction and Development (IBRD) borrowing. When a country's income exceeds an operational cutoff level of income (USD 1,165 in fiscal year 2018; USD 1,145 in fiscal year 2019) for more than two consecutive years, IDA countries progress to IDA 'gap' status. Lao PDR became classified as a 'gap' country in 2015. Countries subsequently progress to blend status after a positive creditworthiness assessment by IBRD, that has to be requested by borrower countries. Graduation to IBRD-only status would be the next step, with access to IDA resources ceasing. This is based on creditworthiness but also an assessment of a country's macroeconomic prospects, risk of debt distress, vulnerability to shocks, external debt and liquidity, political stability, levels of poverty and social indicators. It is not affected by LDC graduation. Lao PDR received the last IDA grant in 2015 and is still expected to benefit from the IDA financing for a number of years.

Asian Development Bank (ADB). The ADB adopts a similar system as the IDA, based on income and creditworthiness, to determine eligibility for concessional finance, including for its Special Funds. It includes LDC membership as a factor among others in its matrix of classification for concessional financing. As summarized in Table 2, countries such as Lao PDR that are above a certain income per capita threshold and are considered to lack creditworthiness could go, upon graduation, from receiving concessional assistance only (Group A) to a blend of concessional and regular market-based ordinary capital

[25] For the period between 2000 and 2014, Chinese financing to Lao PDR was estimated at USD 663 million, in addition to USD 11 billion in non-concessional loans. Source: AidData's China Research. https://www.aiddata.org/china-official-finance.

resources (OCR) loans (Group B) (ADB, 2019b).[26] Within each group, many factors, including debt sustainability, influence the exact forms of assistance delivered and the shares of concessional and non-concessional financing. It is important to qualify that reclassification across these groups is not a mechanical process.

Table 2: Asian Development Bank's Decision Matrix of Classification for Concessional Financing

Creditworthiness	Per Capita GNI Cutoff		
	Below the per capita GNI cutoff	Above the per capita GNI cutoff	
		LDC	Other
Lack of	Concessional assistance only (Group A)	Concessional assistance only (Group A)	OCR blend (Group B)
Limited	OCR blend Group B)	OCR blend (Group B)	OCR blend (Group B)
Adequate	OCR blend (Group B)	OCR blend (Group B)	Regular OCR-only (Group C)

Source: adapted from ADB (2019b)

Currently Lao PDR is classified as a Group A country for the purposes of eligibility for concessional resources, receiving concessional assistance only. As an IDA gap country (see above) it is generally ineligible for grants and receives only concessional loans. Given that Lao PDR is above the per capita GNI cutoff threshold, when it graduates from the LDC category it could become a Group B country, receiving a blend of concessional and regular OCR loans.

However, an exception applies to the matrix in Table 2: if a developing country member of the ADB is assessed by the World Bank and the IMF to be at moderate or high risk of debt distress or to be in debt distress under the debt sustainability framework for low-income countries[27], it remains classified as a Group A country even when it is no longer an LDC. As at September 2019, Lao PDR was considered at high risk of debt distress.[28] This will weigh in the creditworthiness assessment and recommendation whether or not to reclassify Lao PDR.

If Lao PDR did move to Group B, the potential changes in terms of lending, summarized in Table 3, are considered relatively small. Moving to Group B affects maturity and interest rate but not the allocation of concessional loans. It also opens the possibility of applying for additional, semi-concessional, regular OCR loans as long as indebtedness is not considered too high (which is determined in the context of the country partnership and programming consultation). For Group A, this is usually only possible for private sector operations and projects that generate sufficient foreign exchange. It is worth noting that moving to an assessment of "limited" as opposed to "lacking" creditworthiness would have the same effect as LDC graduation.

In summary, if Lao PDR remains within the range of moderate to high risk of debt distress or goes into debt distress under the debt sustainability framework for low-income countries, it could remain a Group A country despite LDC graduation. If not, graduation could lead Lao PDR to be classified as a Group B country, resulting in small changes in the terms of concessional lending for Lao PDR and opening the possibility of raising additional financing from regular OCR, if certain criteria are met. It is important to stress that many factors influence the exact forms of assistance delivered by the ADB and the shares of concessional and non-concessional financing. Reclassification across the groups is not a mechanical process. Variations in country circumstances require consideration on a case-by-case basis and any reclassification has to be approved by Board.

[26] It does not matter for countries (Bangladesh, for example) that exceed the GNI per capita threshold but are found to have "limited" creditworthiness, and would be in Group B regardless of graduation.

[27] Despite its title, the framework is applied also to countries that are not necessarily low-income countries but are not in the category of market access countries (MAC), that typically have significant access to international capital markets.

[28] https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf

Table 3: ADB lending windows and terms

Group A – Concessional lending	Group B – Concessional lending	Regular Ordinary Capital Resources (OCR) (Groups B and C)
- Maturity of 32 years, including 8-year grace period. - Interest rate of 1% during grace period and 1.5% during amortization.	- Maturity of 25 years, including 5-year grace period - Interest rate of 2% throughout the loan period	- Greater flexibility to borrow - Floating base rate[a] + spread of 50bp + maturity premium of 0-20bp + funding cost margin[b] - Commitment charge of 0.15% on undisbursed balance - Flexible options for maturity, interest rate and currency

[a] Base rate refers to 6-month London Interbank Offered Rate (LIBOR) for USD and Yen and 6-month EURIBOR for euro-denominated loans, or a recognized floating rate benchmark for other currencies.
[b] Funding cost margin refers to rebate (or surcharge) applied following the principle of automatic cost passthrough pricing. A surcharge could arise if ADB's funding cost is above 6-month LIBOR, but as ADB generally funds loans at lower than 6-month LIBOR, there is generally a rebate, currently at 1bp for USD and 58bp for Yen. Rebates and surcharges on funding cost margin are calculated twice a year, unlike the spread and the maturity premium which are fixed for the life of the loan.
Source: Asian Development Bank https://www.adb.org/site/public-sector-financing/financial-products and https://www.adb.org/documents/overview-libor-based-loans-sovereign-and-sovereign-guaranteed-borrowers

b) *Bilateral partners*[29]

- Japan.[30] Japan has been Lao PDR's largest bilateral donor among OECD DAC countries in recent years. Graduation from the LDC category does not directly affect grant aid and technical cooperation by Japan to Lao PDR. Grants and technical cooperation have been consistent at approximately USD 80 to 100 million annually. As for loans, Japan has especially favourable terms for LDCs. After graduation, new ODA loans to Lao PDR would be under the terms applicable to non-LDC lower middle-income countries. Terms and conditions are revised annually, but as a reference, the Terms and Conditions of Japanese ODA Loans effective from April 1, 2019 (JICA, 2019) indicate rates 25 to 60 basis points higher for non-LDC lower middle-income countries than for LDCs. Currently, however, the high level of debt of Lao PDR remains a substantial hurdle to extend new loans to the country.
- China. There is no indication that LDC status has any influence on cooperation between Lao PDR and China. Loans from China to Lao PDR in recent years have been very significant.
- Republic of Korea.[31] The Republic of Korea provides both loans and grants to Lao PDR. Over the past 10 years, ODA has been approximately 70% grants and 30% (OECD data). Korea has recently increased its assistance to Lao PDR and is considering further grants in the years to come. The largest recipient of Korean ODA is Viet Nam, which is not an LDC. Graduation is therefore not expected to have significant impacts in terms of grants provided to Lao PDR. Graduation could imply small changes in the terms of loans. LDCs have the most favourable conditions, including lower interest rates and longer repayment periods, in the loans provided by the Economic Development Cooperation Fund of Korea, administered by the Export-Import Bank of Korea and the Ministry of Strategy and Finance. These terms would no longer apply after graduation.

[29] It is important to note that according to the OECD's policies, all low- and middle-income (lower middle-income, upper middle-income) countries, based the World Bank classification, are eligible for ODA, with the exception of G8 members, EU members and countries with a firm date for entry into the EU. Graduation from ODA eligibility occurs when a country is found to have exceeded the high-income threshold for three consecutive years. The high-income threshold is currently USD 12,376. The OECD Development Assistance Committee (DAC) has a number of recommendations and requirements relating to LDCs, including a higher minimum grant element for a bilateral loan to be considered ODA when it is extended to an LDC, a slightly higher discount rate used to determine the present value of future payments for purposes of definition of the grant element, and a recommended average grant element. There is also a longstanding commitment by developed countries to provide the equivalent of 0.15 to 0.20 per cent of their gross national income (GNI) in the form of ODA to LDCs. In 2018, only 4 of the 29 DAC countries fulfilled this commitment. While some countries have special policies for LDCs, decisions on ODA allocation are based on numerous factors including development cooperation policies and priorities, historical, cultural and economic ties, and the needs of recipient countries as described below.
[30] Response sent on May 21, 2019, by the Permanent Mission of Japan to the letter from the Under-Secretary-General for Economic and Social Affairs. A meeting was also held with the Japanese Embassy in Lao PDR in June 2019.
[31] Meeting with representative of the Embassy of the Republic of Korea and Koica in Lao PDR in June 2019.

- United States.[32] Development cooperation of the United States with Lao PDR has increased in the past few years, with programs in nutrition, education, health, business environment and private sector development and UXO clearance, among others. There are plans for further expansion. Graduation from the LDC category will not affect the development cooperation programme.
- Thailand.[33] Cooperation between Thailand and Lao PDR is based on mutual interest and set in the context of regional dynamics and commitments under ASEAN. The graduation of Lao PDR from the LDC category is not expected to have any effect on this cooperation. Lao PDR has been the largest recipient of Thai aid, delivered through the Thai International Cooperation Agency (TICA) and the Neighbouring Countries Economic Development Cooperation Agency (NEDA).[34]
- Australia.[35] Graduation from the LDC category itself would not trigger significant changes in the assistance provided to Lao PDR by Australia. The level of and priorities for Australia's bilateral development assistance to Lao PDR are not determined by LDC status. Australia would consider LDC graduation among a range of factors in developing future Aid Investment Plans and associated funding allocations for each country. Regional development programs would be unaffected by LDC graduation. The nature of assistance may vary over time not because of graduation but in response to changes in Laos' needs. Australia recognizes that Lao PDR will continue to require sustained development assistance and investment beyond 2021 to help address high poverty levels and substantial economic and governance challenges.
- Germany.[36] Germany informed UN DESA that so far its financial cooperation to Lao PDR has solely been in the form of grants. Based on Germany's global policies, a shift from grants to soft loans could be anticipated in bilateral financial cooperation provided through the Federal Ministry for Economic Cooperation and Development, depending, however, on previous financial and impact assessments. After graduation, financial cooperation would in principle be possible in forms of loans with conditions based on the World Bank classification (IDA and/or IBRD), though exceptions may apply. Support in certain areas (e.g. social infrastructure, nature conservation, gender) would likely continue to be in the form of grants. If Lao PDR is deemed creditworthy, it may also be eligible to additional loans with market based or near-to-market based conditions.
- New Zealand.[37] New Zealand has increased ODA to Lao PDR in recent years. New Zealand's assistance to Lao PDR aligns with the country's "shared strategic priorities in Southeast Asia of agriculture, renewable energy, resilience (disaster risk management), governance, knowledge and skills". New Zealand recognises that Lao PDR is one of South East Asia's least developed countries and supports ASEAN's Initiative for ASEAN Integration to close development gaps between the ASEAN countries. Given Lao PDR's development challenges, the New Zealand government has informed UN DESA that it "will continue to provide Official Development Assistance to Lao PDR beyond LDC graduation."
- Norway.[38] The government of Norway informed UN DESA that "(c)urrent Norwegian development assistance strategies and plans have been established regardless of (…) Laos' status as LDCs. Norway's development assistance does not depend on countries' LDC status. Norway provides bilateral assistance in the form of grants, not loans. Norway channels an increasing proportion of the development assistance through multilateral organizations and funds, partly as unearmarked core funding and partly as project and programme funding. The project and programme funding is

[32] Meeting with representative of the United States in Lao PDR in June 2019; "Integrated Country Strategy – Lao People's Democratic Republic", August 2018, https://www.state.gov/wp-content/uploads/2019/01/Laos.pdf .

[33] Meeting with representatives of the Embassy of Thailand in Lao PDR in June 2019.

[34] Data from the Thai International Cooperation Agency (TICA), http://tica.thaigov.net/main/en/other/8876.

[35] E-mail exchanges with representative of the Australian Embassy in Lao PDR, June 2019; response to the letter from the Under-Secretary-General for Economic and Social Affairs, July 26, 2019.

[36] E-mail in response to the letter from the Under-Secretary-General for Economic and Social Affairs, May 14, 2019. See also the website of the Federal Ministry for Economic Cooperation and Development "Since 1978, funds have been accorded to the least developed countries (LDCs) in the form of non-repayable grants (financial contributions). Developing countries granted specially favourable lending terms by the World Bank as a result of their low per capita income are accorded German Financial Cooperation loans on the same terms." Currently, loans are made available at an interest rate of 0.75 per cent over a 38-year period, including a 6-year grace period. All other partner countries are granted loans over a 30-year period, at a rate of interest of 2 per cent, and are not required to begin repayment for the first 10 years.

[37] Response sent on June 4, 2019, by the New Zealand Ministry of Foreign Affairs and Trade to the letter from the Under-Secretary-General for Economic and Social Affairs.

[38] Response sent on 15 May, 2019, by the Permanent Mission of Norway to the United Nations to the letter from the Under-Secretary-General for Economic and Social Affairs.

generally not affected by countries' graduation from the LDC category. Other factors are likely to have greater impact, such as governance and human rights. In a longer term perspective, graduation to higher levels may lead to less assistance since LDCs, in general, are given higher priority than more affluent countries."

- European Union Institutions.[39] Graduation from the LDC category is not expected to be a significant determinant of the assistance programme by the EU to Lao PDR for the period after 2024. There has been a gradual reduction in ODA and a change in the assistance portfolio, but they are unrelated to Lao PDR's LDC status and graduation prospects. The EU's assistance strategy is developed based on agreed guidelines and frameworks and taking into consideration the country's needs and regional dynamics. In the context of its broader development cooperation strategy for Asia, the EU supports several countries, not all of which are LDCs.
- Viet Nam: Viet Nam's partnerships with Lao PDR are grounded on a long history (Mustapha and Greenhill, 2016; Development Finance and Aid Assessment, 2016) and currently framed within the context of ASEAN and other common interests. There is no indication that LDC status has any influence on these partnerships.
- India.[40] Cooperation between India and Lao PDR is not based on LDC status and no changes are expected with graduation.

c) United Nations system organizations.

In general, graduation from the LDC category is not expected to have major consequences for UN assistance to Lao PDR. United Nations system organizations provide assistance in the country under a wide range of modalities in their respective issue areas, responding to the country's specific needs and vulnerabilities. The United Nations country team in Lao PDR has supported the country's political commitment to achieve graduation in the earliest possible timeframe.

The following entities anticipate no impacts of the graduation of Lao PDR:

- UNICEF: While UNICEF has a board-recommended threshold of the share of core resources that should be dedicated to LDCs, these core resources are allocated based on a system that provides higher weight to countries with the lowest GNI per capita, highest under-five mortality rate and largest child population. This results in LDCs being naturally the greatest beneficiaries, but also means that graduation itself does not affect the amount of resources allocated to a country.

- World Food Programme (WFP): WFP does not expect any changes in the nature of assistance of in the volume of resources to be dedicated to Lao PDR due to graduation.

- World Health Organization (WHO): WHO's assistance is based on the disease burden. WHO does not foresee major changes in the support it provides to Lao PDR.

- UN Office on Drugs and Crime (UNODC): LDC status does not affect assistance provided by the UNODC.

- United Nations Office for Disaster Risk Reduction (UNDRR): No change is anticipated in the level of technical assistance of volume of resources that UNDRR's Regional Office for Asia and the Pacific will provide to Lao PDR after graduation. UNDRR considers Lao PDR to be at a high level of disaster risk, vulnerable and exposed to disasters and the impacts of climate change, and with limited institutional capacity to manage and reduce disaster risk, and will therefore continue to provide technical assistance based on the country's needs. Lao PDR remains a priority for UNDRR and will continue receiving funding for training, capacity-building and others.

- United Nations Industrial Development Organization (UNIDO): UNIDO will continue to provide technical assistance and support to Lao PDR in promoting industrial development for poverty reduction, inclusive globalization and environmental sustainability, regardless of the country's LDC status.

- United Nations Population Fund (UNFPA): based on the current strategic plan, UNFPA does not anticipate any impact of graduation on its future support of Lao PDR. UNFPA bases its assistance on a number of indicators closely related to its mandate and on ability to finance (adjusted by inequality).

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[39] Meeting with representative of the European Delegation in Lao PDR, June 2019; and response sent by the EU to the letter from the Under-Secretary-General for Economic and Social Affairs.

[40] Meeting with representatives of the Embassy of India in Lao PDR in June 2019.

Possible changes in UN assistance are expected to be relatively small and include the following:

- UNDP is required by its Executive Board to dedicate a share of its regular budget (core) programmatic resources to LDCs. Graduation could potentially affect a portion of the core resources dedicated to the country in the subsequent UNDP integrated budget cycle. The impact is expected to be relatively small and depends on variables other than simply graduation. Graduation would not affect non-core resources, which accounted for most of UNDP's resources in Lao PDR in 2017. Total core resources in 2017 were USD 2.2 million and non-core were USD 14.1 million.
- United Nations Capital Development Fund (UNCDF): UNCDF, which works mostly on inclusive finance and local development finance, is mandated to support the LDCs "first and foremost", but not exclusively (UNCDF, 2018). As per its 2018-2020 global Strategic Framework, UNCDF support for smooth transition will be based on demand; will assure that relevant existing programmes can proceed through to completion; and will be time-bound, to follow a '3+2' approach. This would see programmes funded as they were prior to graduation for an initial three years. Assuming continued development progress, funding for the remaining two years of support would be sought from government or third-party cost-sharing on a 50/50 basis. Even if LDCs are a priority for UNCDF, the organization is also engaged in other countries, including middle-income countries, where there is potential for South-South exchanges and learning and for demonstration purposes. Current programmes for Lao PDR end in 2021 and further programming is still under development. UNCDF will seek to respond to the country's needs as it develops within a changing regional and international financing environment.
- Universal Postal Union (UPU): UPU indicated that after graduation Lao PDR would no longer have access to a 4-year plan of CHF 60,000 for technical assistance activities (consultancy and training of postal agents) and procurement of equipment. It would also no longer benefit from certain types of country-specific technical assistance, but would continue to be included in all regional activities and capacity-building initiatives. UPU provides guidance for resource mobilization and donor relations to all developing countries.
- International Atomic Energy Agency (IAEA): No changes are expected in the volume of resources dedicated to Lao PDR by the IAEA, which will continue to support the country through its technical cooperation programme. However, after graduation, Lao PDR will need to finance 5% of biannual project budgets under its Technical Cooperation Fund (TCF).
- United Nations Volunteers (UNV): Whether or not a country is in the LDC category is not a major determinant of assistance provided by UNV. UNV operations are demand driven, and the organization operates in LDCs and non-LDCs. UNV's government cost-sharing general management support fee (GMS) is set at 3% minimum for LDCs and 8% minimum for others for third-party cost-sharing, but a number of factors influence the actual rate, which is negotiated with the country.

d) Other funds/entities

- Global Environment Facility (GEF): With the exception of the LDCF (see below), funding from the GEF is available for all developing countries. It cannot be excluded that graduation could affect funding by the GEF (other than the LDCF) because its System for Transparent Allocation of Resources (STAR) includes higher minimum allocation floors for LDCs than non-LDCs. Table 4 shows the minimum and actual allocation floors for the seventh replenishment of the GEF Trust Fund (GEF-7) (2019-2022). However, actual allocation depends on multiple factors and graduation is not expected to lead to an automatic reduction of funding. No deliberations have been made for the functioning of the fund after 2022.

Table 4: Minimum allocation floors for GEF-7 (million United States dollars)

	Non-LDCs	LDCs	Lao PDR
Biodiversity	2	3	5.07
Climate change (mitigation)	1	1.5	1.5
Land degradation	1	1.5	1.5
Aggregate	4	6	8.07

Source: GEF Secretariat. Initial GEF-7 Star Country Allocations. GEF/C.55/Inf.03, July 1, 2018
http://www.thegef.org/sites/default/files/publications/GEF-C.55-Inf.03-GEF-7-STAR.pdf

- Green Climate Fund (GCF): The GCF was set up in 2010 and, with the Paris Agreements in 2015, became the key financial instrument to meet the goals of keeping climate change below 2 degrees Celsius. It has gathered pledges of over $10 billion. The GCF prioritizes "vulnerable countries, including least developed countries (LDCs), small island developing states (SIDS) and African States" in the allocation of adaptation funds and readiness support. It is possible that Lao PDR would no longer be automatically considered as part of that group (see below for information on the LDC Fund) (GCF, 2019). In practice, several factors determine allocation, including the capacity to elaborate projects meeting fund requirements.

- GAVI, the Vaccine Alliance: Countries are eligible to apply for GAVI support when their Gross National Income (GNI) per capita has below or equal to USD 1,580 on average over the past three years (according to World Bank data published every year on 1 July) and must meet certain conditions, assessed by an independent group of experts. When criteria are met, countries enter a transition phase. Lao PDR has already started this process. Cessation of GAVI support is expected for 2022, and is independent of LDC graduation.[41]
- Global Fund: Graduation from the LDC category does not affect eligibility for the Global Fund, which mobilizes and invests funds aiming at ending AIDS, tuberculosis and malaria as epidemics. Eligibility is based on GNI and an official disease burden index. The Global Fund also requires that country coordinating mechanisms have certain governance standards and procedures in place and that the country have eligible programs. LDC graduation is not a factor. Lao PDR is on the Eligibility list 2019 which will determine which country components are eligible for an allocation for the 2020-2022 allocation period.[42]

2. LDC-specific instruments

Certain instruments have been formulated specifically for LDCs. After graduation (and in some cases smooth transition periods), Lao PDR would no longer have access to these instruments. In addition to the trade-related capacity-building and technical assistance mechanisms described above:

a) LDC Fund for climate change

After graduating from the LDC category, Lao PDR would no longer have access to the support mechanisms that have been put in place specifically for LDCs to address climate change-related challenges.[43] In particular, Lao PDR would no longer be able to access new funding from the Least Developed Countries Fund (LDCF), managed by the GEF.

Disbursements under the LDCF follow a principle of "equitable access" for LDC Parties. There are caps on the amount of funds a single country can receive during a replenishment period ("access cap" of 10 million dollars for the current GEF replenishment period, GEF-7) and cumulatively (cumulative ceiling of 50 million dollars). By October 2019, Lao PDR had received or been granted approval for 33.90 million dollars under the LDCF and had accessed 4 million dollars from the LDCF in GEF-7, so had a 6 million dollar balance under the access cap, and a 16.10 million dollar balance under the cumulative ceiling.[44]

Practice regarding graduating countries to date has been as follows: (a) If a country is classified as an LDC at the time of the approval of the Project Identification Form (PIF) by the LDCF/SCCF Council following technical clearance by the GEF Secretariat, the project is eligible to receive LDCF support; (b) Projects already approved by the LDCF/SCCF Council prior to a country's graduation continue to be supported with agreed LDCF resources until completion.[45]

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[41] Gavi, The Vaccine Alliance and partners, "Joint Appraisal report 2018", 19 February, 2019. https://www.gavi.org/country/lao-pdr/documents/jas/joint-appraisal-lao-pdr-2018/

[42] See information on eligibility at https://www.theglobalfund.org/en/funding-model/before-applying/eligibility/, https://www.theglobalfund.org/en/country-coordinating-mechanism/eligibility/, and 2019 Eligibility List, https://www.theglobalfund.org/media/8340/core_eligiblecountries2019_list_en.pdf

[43] UNFCCC Least Developed Countries Portal (https://unfccc.int/topics/resilience/workstreams/national-adaptation-programmes-of-action/ldc-portal) and UNFCCC, Subsidiary Body for Implementation, Forty-eighth session, Bonn, 30 April to 10 May 2018, Item 12 of the provisional agenda, "Matters relating to the least developed countries", FCCC/SBI/2018/8. See also the Decision on the Least developed countries work programme adopted at COP 24 (December 2018).

[44] See the Progress Report for the LDCF and SCCF: http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.LDCF_.SCCF_.26_03_Progress_Report.pdf and (ii) Joint Work Program for the LDCF and SCCF: http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF_LDCF.SCCF_26_05_Rev.01_Work%20Program%20.pdf

[45] GEF, 2019, "Updated information note on Least Developed Countries Fund support for graduating least developed countries", GEF/LDCF.SCCF.27/Inf.05, November 27.

Lao PDR would continue to have access to the Special Climate Change Fund (SCCF), the Adaptation Fund and, more significantly, the Green Climate Fund (GCF) (see above).

In Lao PDR, a joint GEF and GCF mission is in place to ensure coherence and complementarity in climate action. At the time of writing, the government was working on project proposals, some of which intended to scale up successful experiences from LDCF projects with the GCF.[46] Capacity-building for the mobilization of climate change financing could be useful for Lao PDR.

b) Technology Bank for the LDCs (TBLDC)

The Programme of Action for the Least Developed Countries for the Decade 2011-2020 (Istanbul Programme of Action or IPOA) called for the establishment of a "Technology Bank and Science, Technology and Information supporting mechanism, dedicated to least developed countries which would help improve least developed countries' scientific research and innovation base, promote networking among researchers and research institutions, help least developed countries access and utilize critical technologies, and draw together bilateral initiatives and support by multilateral institutions and the private sector, building on the existing international initiatives." The full operationalization of the Technology Bank for the LDCs was part of target 17.8 of the Sustainable Development Goals.

The Technology Bank for the LDCs was established by the General Assembly in December 2015.[47] Its premises were officially inaugurated in June 2018 in Gebze, Turkey. The Technology Bank will implement projects and activities in the LDCs and serve as a knowledge hub connecting LDCs' Science, Technology and Innovation (STI) needs, available resources, and actors who can respond to these needs. At the time of writing, plans were being finalized to launch activities on digital access to research in Lao PDR as well as a regional capacity-building programme for Academies of Science in South Asia (TBLDC, 2018).[48]

After graduation from the LDC category, Lao PDR would continue to have access to the LDC Technology Bank for a period of five years.

c) Investment Support Programme for LDCs (ISP/LDCs)

The Investment Support Programme for LDCs, established in 2018, provides on-demand legal and professional assistance to LDC governments and eligible state-owned or private sector entities for investment-related negotiations and dispute settlement.[49] The programme works with legal experts who provide *pro bono* or reduced fee services to LDCs in the negotiation of investment contracts and agreements and investment-related dispute resolution, and provides training and capacity-building support. The programme was developed by the United Nations Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) in cooperation with the International Development Law Organization (IDLO). Lao PDR would have access to the programme for up to five years after the date of graduation.

Conclusions on development cooperation

Graduation from the LDC category is expected to have only limited impacts on development cooperation in Lao PDR. LDC graduation is not expected to affect assistance by the World Bank, most United Nations system entities, GAVI - the Vaccine Alliance, the Global Fund, most ODA received from OECD-DAC Members (including the United States, the European Union, Australia and New Zealand, and grants from the Republic of Korea and Japan) or South-South cooperation.

Graduation could trigger relatively small changes in some forms of assistance delivered by a limited number of countries and organizations. They include slightly less favourable terms on concessional loans by Japan and the Republic of Korea, a gradual shift from grants to soft loans by Germany, loss of access to the LDC Fund (climate change), the Technology

[46] Press release, 13 February 2019. https://www.greenclimate.fund/news/gcf-and-gef-join-forces-with-lao-pdr-to-advance-climate-action
[47] General Assembly Resolution 71/251.
[48] Information provided by the Managing Director of the Technology Bank on May 23, 2019.
[49] Information at https://www.idlo.int/Investment-Support-Programme-LDCs.

Bank and the Investment Support Programme for LDCs, and a reduction in the resources available for country-specific activities or a requirement of a higher cost-sharing contribution by a very small number of United Nations system entities.

Both the government and Lao PDR's development partners recognize that despite increasing income levels, severe challenges remain for the country. ODA continues to play an important role in state budgets for specific sectors, including agriculture, education, health and infrastructure.

Some changes are already being observed in development cooperation, such as the end of grant-based assistance by the World Bank. This can be attributed to factors other than graduation, including the fact that Lao PDR has already crossed the relevant income thresholds. The World Bank does not use the LDC category.

For further analysis/action: It is important, in the context of the preparation of a transition strategy, for Lao PDR to engage with partners in order to make use of the remaining periods of LDC-specific support measures strategically and to develop alternative measures adequate for the post-graduation stage.

C. Support to the participation of Lao PDR in international forums

LDCs benefit from support to participate in international organizations and forums through caps and discounts on contributions to budgets, support for travel to international meetings and others.

1. Caps and discounts on the contribution of LDCs to the United Nations system budgets

LDCs benefit from caps and discounts on their contributions to the budgets of United Nations System entities. There are two main methods for determining each Member States' contributions to these budgets and the special terms for LDCs:[50]

- Most of the United Nations system budgets are based on the "scale of assessments" (i.e. the percentages of the budget that each country is responsible for) used for the United Nations regular budget. The scale is determined based on capacity to pay, translated into indicators of gross national income, debt-burden, and per capita income, among others. There is a maximum rate of contribution applicable to all countries (currently 22 per cent), but LDCs benefit from a much lower maximum rate (currently 0.01 per cent). The peace-keeping budget is based on the same scale, but with discounts applying to countries at different levels of income. LDCs are entitled to the greatest discount.
- A small number of agencies (ITU, WIPO, UPU) use a system based on classes of contributions. Each class of contribution corresponds to a certain share (or multiple) of a pre-determined unit of contribution. Countries decide which class they will belong to (and therefore how much they will contribute) but only LDCs (can opt to contribute at the lowest levels).

In the case of Lao PDR, the formula applied for contributions to the regular budget and entities that adopt the same scale currently yields an assessment rate that is significantly below the ceiling applied to LDCs (0.005 per cent).[51] This means that <u>based on current rates of assessment</u>, graduating from the LDC category would have no impact on Lao PDR's contributions to the United Nations <u>regular budget</u> or the regular budgets of the organizations that adopt the same scale. Graduation would affect Lao PDR's contributions to the peacekeeping budget and the budgets of the three organizations that use a class-based system of contributions. If Lao PDR were no longer an LDC in 2020, an estimate based on current rates and budgets indicates that its mandatory contributions to the United Nations system budgets would be approximately 120,000 dollars higher. At today's rates, the largest difference would be in the ITU where contributions would be higher by approximately 60,000 dollars. In the past, graduating countries have successfully requested an extension of the conditions applied to LDCs at the ITU. Contributions to the regular budget and the United Nations entities that adopt the same scale of assessments will increase gradually over time to the extent that Lao PDR performs well on indicators of capacity-to-pay relative to other UN Member States.

In the future, when, due to relative improvements in the variables that define the country's capacity to pay (for example, per capita income) Lao PDR's "floor rate" of assessment (that is, the rate before the imposition of the LDC ceiling) surpasses

[50] Contributions to funds and programmes, such as UNICEF and UNDP, are voluntary. Contributions to the WTO are determined based on members' share of international trade with no concessions specifically for LDCs.
[51] United Nations Secretariat, "Assessment of Member States' advances to the Working Capital Fund for 2020 and contributions to the United Nations regular budget for 2020". ST/ADM/SER.B/1008

0.01 per cent, not being an LDC will mean that contributions to the United Nations regular budget and the budgets of organizations that adopt the same scale of assessments will increase gradually rather than be capped that level.

Table 5 Expected changes in contributions to UN system budgets after graduation*

Entity/ operation	Rules	After graduation
Regular budget	A scale of assessments is determined every three years in a resolution of the General Assembly, based on indicators of gross national income, debt-burden, and per capita income, among others that reflect capacity to pay. Each Member State is assigned a percentage (the assessment rate), corresponding to the share of the regular budget its contribution will amount to. The minimum assessment rate is 0.001%. The maximum is 22% but for LDCs it is 0.01%.	The 0.01% cap no longer applies. In Lao PDR, if graduation had hypothetically occurred in 2019, the "floor rate" which would have applied had the country not been an LDC would have been 0.005%, which is under the LDC cap. Therefore, if Lao PDR were currently not an LDC, its mandatory contributions would be no different. In the future, when, due to improvements in the variables that define the country's capacity to pay (for example, per capita income) Lao PDR's "floor rate" of assessment surpasses 0.01 per cent, not being an LDC will mean that contributions will increase gradually.
Peacekeeping operations	Based on the scale of assessments for the regular budget, adjusted by a premium for permanent members of the Security Council and discounts in the case of all countries with per capita gross national product below the Member State average. Member States are grouped into levels based on per capita GNI, with larger discounts applying for the levels of countries with lower incomes. LDCs are entitled to the greatest discount, of 90%.	The applicable discount rate for Lao PDR would be reduced to 80%. Applied to the 2019-2020 fiscal year budget, this would mean an increase in contributions of the order of USD 33,000 per year.
CTBTO, FAO, IAEA[52], ICC, ILO, IOM, UNESCO, UNIDO, WMO, WHO, ISA, ITLOS, OPCW, UNFCCC	Based on the scale of assessments used for the United Nations regular budget, in some cases adjusted for more restricted membership by the application of a coefficient. LDC rules are the same as for the regular budget. UNIDO, one of the entities that adjusts the scale by a coefficient due to more restricted membership, does not apply this coefficient to LDCs whose rate may exceed 0.01%.	See the explanation for the regular budget, above. The fact that UNIDO does not apply the adjustment coefficient to LDCs whose rate may exceed 0.01% is currently irrelevant for Lao PDR, whose rate is currently 0.005%.
International Telecommunications Union (ITU)	Voluntary selection of a class of contribution based on shares or multiples of an annual unit of contribution of CHF 318,000. Only LDCs can contribute 1/8 or 1/16 of a unit of contribution.	The minimum contribution would in principle be ¼ of a unit of contribution. The ITU Council can authorize a graduated country to continue to contribute at the lowest classes, and all LDCs that have graduated since 2007 continue to do so. Without that authorization, contributions would go up by approximately USD 60,000 per year.
World Intellectual Property Organization (WIPO)	Voluntary selection of classes of contribution, each corresponding to a share of a unit of contribution determined for every biennium. Only LDCs can contribute at the lowest level ("Ster"), with 1/32 of a unit of contribution.	Lao PDR would contribute a minimum of 1/8. Contributions would go up approximately USD 4300 per year.
Universal Postal Union (UPU)	Voluntary selection of class of contribution, each corresponding to a share (from one to 50 units) of a pre-determined unit of contribution (currently CHF 43,526). Only LDCs can contribute at ½ of a unit of contribution.	Graduated countries contribute at least 1 full unit of contribution. Lao PDR's annual contributions would go up approximately USD 22,000.

Source: Calculated by the CDP Secretariat based on United Nations Secretariat, "Assessment of Member States' advances to the Working Capital Fund for 2020 and contributions to the United Nations regular budget for 2020". ST/ADM/SER.B/1008; the Report of the Committee on Contributions on its seventy-ninth session (A/74/11). (https://undocs.org/en/A/73/11); information from each organization's website and official documents consolidated in the LDC Portal (www.un.org/ldcportal) or communications with the respective organizations.

[52] The IAEA's scale of assessments is adjusted to compensate for differences in membership between the IAEA and the United Nations and for a "shielding mechanism" for financing the safeguards portion of the regular budget. The "de-shielding" mechanism determines at which pace the Member State should, by gradual annual increases, bring their contributions to the safeguards portion of the regular budget to the base rate. LDCs are among the countries granted a longer time finalize their "de-shielding" (equaling their contributions with their base rates compared to all other Member States). Lao PDR will remain in this category of countries until 2032.

2. Support for travel

Representatives of LDC governments receive travel support to participate in certain official meetings, which will no longer be available after graduation.[53] For example:

- Travel to the annual sessions of the General Assembly: after graduation, Lao PDR would no longer benefit from this type of support. If requested, this benefit can be extended for a smooth transition period of up to three years.[54] As a reference, between 2012 and 2018, Lao PDR sent 5 delegates to General Assembly meetings with resources reserved for LDCs, for a total of USD 313,619 (approximately USD 45,000 a year).
- Travel of one representative to the World Health Assembly and Executive Board, provided by WHO;
- Travel of one representative to the Crime Congress (every 5 years) and the Convention Against Corruption, provided by UNODC;
- Travel of two delegates to the sessions of the subsidiary bodies of the UNFCCC and travel of three representatives for participation in sessions of the COP;
- Travel of the Minister of Industry and Commerce or equivalent to UNIDO's biennial Ministerial Conference on LDCs, and certain other forms of travel support by UNIDO;
- Travel to participate in meetings official meetings of the UPU if Lao PDR became a member of any of the governing bodies (Lao PDR is currently not a member of any of the governing bodies so no travel subsidies for its participation has been provided in recent years);
- Travel to attend Ministerial Conferences of the WTO.

Funding would in principle no longer be available under the China Programme at the WTO for the participation of LDC coordinators in meetings related to Aid for Trade and to the participation of LDC delegations in selected WTO meetings. Any decisions on funding under this pillar of the China Programme will be determined by the Development Division of the WTO Secretariat, in consultation with the LDC Consultative Group and China.[55]

No changes are expected, as a consequence of graduation, in travel support to meetings under several other organizations, including the IAEA; UNDP; UNICEF; UNODC funding for participation in the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice; UNDRR; and WFP.

Lao PDR would continue to receive similar support for the broader group of developing countries or for other country or regional groups to which it belongs.

3. Others

Under the UNFCCC, reporting provisions and the timetable for the submission of national reports for the LDCs and SIDS are different from those for the other Parties not included in Annex I to the Convention (non-Annex I Parties). LDCs and SIDS were permitted to submit their first biennial update reports at their discretion and not required to do so by the 2014 deadline like other non-Annex I parties. While other parties must submit reports on their implementation of certain articles of the Paris Agreement, LDCs and SIDS do so at their discretion.

LDCs benefit from financial support for the operational costs of their diplomatic representations in Geneva, Switzerland, up to a limit of CHF 3000 each per month. This is in principle discontinued after graduation.

Conclusions on support for participation in international forums

After graduation, Lao PDR would no longer benefit from ceilings and discounts applied to LDCs in the determination of countries' mandatory contributions to budgets of the UN system. The exact impact depends on both future approved budgets and the country's relative performance on indicators used by the United Nations to assess capacity-to-pay, relative to other United Nations Member States. If Lao PDR were no longer an LDC in 2020, an estimate based on current rates and budgets indicates that its mandatory contributions to the United Nations system budgets would be

[53] In accordance with General Assembly resolution 1798 (XVII), as amended by resolutions 2128 (XX), 2245 (XXI), 2489 (XXIII), 2491 (XXIII), 41/176, 41/213, 42/214, section VI of 42/225, section IX of 43/217 and section XIII of 45/248.
[54] General Assembly resolution 65/286.
[55] See "Increasing participation of least-developed countries (LDCs)", https://www.wto.org/english/thewto_e/acc_e/pillar3_e.htm

approximately 120,000 dollars higher. There would be no difference in contributions to the United Nations regular budget or to the regular budgets of most United Nations agencies, given that the country's current rate of contribution, calculated based on a scale of assessments for all UN Member States, is beneath the ceiling established for LDCs. At today's rates, the largest difference would be in the ITU. In the past, graduating countries have successfully requested an extension of the conditions applied to LDCs at the ITU. A gradual increase in contributions, including the regular budget, can be expected to the extent that Lao PDR performs well on indicators of capacity-to-pay relative to other UN Member States. When its rate of contribution exceeds the LDC ceiling of 0.01 per cent, it will not be capped at that level as would be the case for an LDC.

Lao PDR would no longer have access to LDC-specific support for travel to attend international meetings. Support for LDCs to attend the meetings of the General Assembly are available for a smooth transition period of 3 years, if requested. The country would still benefit from travel support extended to non-LDC developing countries.

Lao PDR would no longer benefit from more flexible reporting requirements under the UNFCCC. It would also no longer benefit from subsidies provided by the Canton of Geneva, Switzerland, for the operational costs of its diplomatic offices.

III. Preparing for the transition

Graduation should be recognized as a significant milestone in a country's development. The main benefits of graduation are the intrinsic and instrumental benefits of having achieved better performance in the criteria that define the LDC category. Countries that have made clear commitments to graduate and have acted accordingly will have benefitted from accelerated progress towards sustainable development. Graduation demonstrates this progress at the international, regional and national level. It also provides an opportunity to put in place a strategy to take Lao PDR towards its next development milestones.

A graduation transition strategy can address both (i) the impacts of graduation and (ii) the country's broader development challenges and aspirations. Regarding the former, it is important to prepare for the transition even when the impacts of graduation are expected to be limited. This includes making use of the remaining periods of LDC-specific support measures strategically; delaying any impacts when possible; conceiving, assessing and negotiating alternatives in critical areas; and preparing government, private sector and other stakeholders for the expected impacts. In its report for the 2019 WTO Trade Policy Review (Lao PDR, 2019), the country provided information on both short-term measures to ensure a smooth transition from the LDC category, providing time for the economy and public and private actors to adapt to the new conditions; and longer term measures to ensure that the bottlenecks for sustainable and inclusive development are addressed.

The table below, based on the analysis contained in this document, summarizes the expected impacts of graduation and information to take into consideration when discussing elements of a transition strategy related to the impacts. It also contains measures identified in the Trade Policy Review document that relate to these impacts.

One element of a transition strategy that applies to all impacts is awareness-raising. In the period leading up to graduation, it is important to ensure that the private sector, including potential investors, has access to accurate information about the expected changes in the terms of market access for their products of interest. This can both help producers prepare for any increase in applicable tariffs and dispel unfounded concerns on the part of potential investors.

Table 6 Elements to consider in the formulation of a transition strategy (measures related to the expected impacts of graduation)

Impacts	Information to consider
Trade	
Preferential market access for goods: - Loss of DFQF treatment in the EU market and special rules of origin. Lao PDR currently benefits from DFQF treatment for everything except arms and ammunition under the "Everything But Arms" scheme. - Loss of market access in Canada and Japan.	The Enhanced Integrated Framework (EIF) secretariat was in the process of analyzing market access preference erosion in relation to LDC graduation. The conclusion of this analysis could shed further light on the issues discussed in this section and inform further action. The EU, WTO Secretariat, EIF, UNCTAD, ITC and ESCAP may be able to provide additional assistance. In the Trade Policy Review report, the government stated its intention to negotiate with preference-granting countries a smooth transition away from the LDC preferences. It intended to seek adhesion to the EU's GSP+, recognizing the challenge of meeting its conditions and indicating that it would request an extension of the ARISE+ programme. Lao PDR would continue efforts to join the United States preferential scheme, and had started to look into the feasibility of negotiations with Canada and other markets regarding market access. It would also seek further integration of its economy into the regional market and labour distribution process through the strengthening of ASEAN, ASEAN's free trade agreements with third parties (ASEAN+6) and RCEP and would seek to be excluded from the exemptions to the free trade agreements for products of interest to its export sector, in particular agricultural and agro-processed products.
Preferential market access for services: Lao PDR currently does not benefit from the services waiver (no impact).	Despite the fact that no impact is expected on services exports, Lao PDR indicated in its report for the Trade Policy Review that, looking ahead to the development of potential services exports, it intended to start negotiations with potential markets on a product-targeted basis in order to address both access and development of capacity to provide services.
Special and differential treatment in regional agreements (other than market access)	Lao PDR may consider addressing the issue of LDC graduation in the context of RCEP negotiations. ESCAP may be able to provide additional support on this issue.
Special treatment on obligations and flexibilities under WTO rules (general)	The Enhanced Integrated Framework (EIF) secretariat was in the process of undertaking a review of WTO agreements in relation to graduation. Graduating LDCs may request waivers at the WTO that would provide (or extend) transition periods to phase out flexibilities or phase in obligations. As the WTO is a member-driven organisation, such waivers would need to be negotiated and agreed to by Members. Lao PDR would need to engage actively with Members, bilaterally and in WTO Committees, to obtain support for addressing graduation challenges. EIF, ACWL, and WTO Secretariat may be able to provide additional guidance. Lao PDR may consider engaging with other LDCs.
Trade-related capacity-building, training and technical assistance: Lao PDR will no longer be eligible for the EIF's "Sustainability Grant" and, after 5 years to the EIF's other services. Lao PDR will have to become a member of the Advisory Centre on WTO Law, by making a one-off contribution, in order to continue to use its services. Lao PDR will have higher co-financing requirements and lower priority under the Standards and Trade Development Facility (STDF).	Lao PDR stated in the report to the Trade Policy Review that it would start negotiations to adhere to ACWL. Regarding ACWL, take into consideration that the one-off contribution required for membership of non-LDC developing countries has, in some cases, been financed by donors. Lao PDR may want to consider using the remaining periods of eligibility of the EIF to address the issues related to the transition.

Lao PDR will benefit from fewer country-specific technical capacity and training activities by the WTO and will no longer benefit from country-specific activities under the "China Programme" at the WTO.	
Development cooperation	
Graduation could trigger relatively small changes in assistance. The impacts in practice would depend on additional factors: • Germany (gradually shifting from grants to soft loans, other factors taken into account) • Japan and Republic of Korea (less concessional terms on loans, grants unaffected) • UNDP (may lead to small reduction in core resources allocated to Lao PDR, other factors taken into account) • UNCDF (smooth transition based on demand; 3+2 approach, with opportunities for engagement after graduation) • UPU: Lao PDR would no longer have access to a 4-year plan of CHF 60,000 for technical assistance and procurement and to certain types of country-specific technical assistance. • IAEA: Lao PDR will need to finance 5% of biannual project budgets under its Technical Cooperation Fund (TCF). • UNV: government cost-sharing general management support fee (GMS) will be set at 8% minimum, but a number of factors influence the actual rate, which is negotiated with the country. • LDC Fund (would finance projects approved up until graduation until they are completed) • Technology Bank for LDCs and Investment Support Programme for LDCs (access for five years after graduation).	Any extension of LDC-specific measures would need to be negotiated with partners. UNDP has worked with Lao PDR in developing capacity to access different sources of climate finance including the Green Climate Fund (GCF). This will become important to compensate for no longer being eligible for the LDC Fund. UPU provides guidance for resource mobilization and donor relations to all developing countries.
Support for participation in international forums	
Increase in contributions to the peacekeeping budget and to the budgets of the three agencies that adopt class-based systems of contribution (International Telecommunications Union - ITU, World Intellectual Property Organization – WIPO and Universal Postal Union – UPU). The largest impact would be in the ITU.	At ITU, in the past graduating countries have successfully requested an extension of the conditions applied to LDCs regarding budget contributions.
Lao PDR would no longer have access to LDC-specific support for travel to attend international meetings.	Support for LDCs to attend the meetings of the General Assembly are available for a smooth transition period of 3 years, if requested. The extension of other forms of travel support would need to be negotiated with the respective entities
Lao PDR would no longer benefit from more flexible reporting requirements under the UNFCCC.	Lao PDR may consider requesting support from UN entities on capacity-building for reporting, if deemed necessary.
Lao PDR would no longer benefit from subsidies provided by the Canton of Geneva, Switzerland, for the operational costs of its diplomatic offices.	Lao PDR may consider requesting the support of Switzerland to pledge a transition period regarding subsidies provided by the Canton of Geneva.

A broader transition strategy will also have to consider a wider set of issues related to trade, ODA and sustainable development policy more generally, as well as governance, transparency, rule of law, and aid effectiveness. A transition strategy should be the result of an inclusive, country-led process, supported by the United Nations system and development partners. Such a strategy should take into account the many elements that define the context of Lao PDR's graduation, including the formulation of the 9th National Socio-Economic development plan (2021-2025), strategies for the implementation of the 2030 Agenda and the country's financing frameworks. A number of international organizations including the UN Department of Economic and Social Affairs, ESCAP and UNCTAD have assigned or are in the process of assigning resources to address graduation in Lao PDR. In approving project proposals and requesting assistance, the LDC focal point in the government has a key role in ensuring that projects target specific challenges and build on one another. UN system entities undertaking analysis, research, capacity-building or other efforts in regard to Lao PDR's graduation should inform the Resident Coordinator's Office and the members of the inter-agency task force on graduation under the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small island Developing States (OHRLLS) in order to ensure maximum effectiveness and avoid duplication.

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Annex – Trade

Table I.1 LDC-specific preferential market access schemes and schemes applicable after graduation in Lao PDR's main export markets

Market	Scheme for LDCs	Schemes applicable after graduation
Thailand	DFQF scheme for LDCs covers 74.7% of tariff lines.	ASEAN Free Trade Area.
China	China's DFQF for LDCs covers 96.6% of tariff lines. Products completely manufactured in the beneficiary country with materials originating elsewhere and regulated by the 2017 Decree are considered as originating in the beneficiary country. Currently, data on utilisation do not allow for a clear view of the extent to which LDC-specific preferences are used. Lao PDR's products also benefit from duty-free treatment or preferential tariffs under agreement with ASEAN and preferential tariffs under APTA.	Duty-free treatment or preferential tariffs under the agreement with ASEAN; preferential tariffs under APTA; or MFN.
Viet Nam	None	No change (Lao PDR continues to trade under ASEAN Free Trade Area or MFN).
European Union	Everything But Arms (EBA) initiative under the Generalised System of Preferences covers 99.8% of tariff lines (excludes arms and ammunition). Rules of origin: Up to 70% of the value added of exports from LDCS can be produced abroad for the country to still benefit from preferential market access. For garments, EU rules allow for single transformation for LDC exports (e.g. from fabric to clothing. Regional cumulation is allowed.	After a 3-year smooth transition period, standard GSP or MFN. To be eligible for the Sustainable Development and Good Governance (GSP+), among other conditions, Lao PDR would need to ratify the three conventions among the 27 conventions required by the EU GSP regulation which it has not yet ratified.* Rules of origin: Up to 50% of the value added of exports can be produced in other countries for the exporter to still benefit from the standard GSP. For garments, double transformation is required. Regional cumulation is allowed. The EU regulation will be revised and replaced by a new one after December 31, 2023.
India	Duty-Free Tariff Preference Scheme (DFTP) covers 94.1% of tariff lines.	Preferential tariffs under the ASEAN-India Free Trade Agreement & Economic Integration Agreement; preferential tariffs under APTA; or MFN.
Japan	LDC sub-scheme within the GSP – Enhanced duty- and quota-free market access, since 2007. Currently extended to 2021. Covers 97.9% of tariff lines.	Preferential tariffs under the ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEPA); standard GSP; or MFN.
United States	The United States has a special GSP scheme for LDCs but Lao PDR is not currently a beneficiary of the United States GSP.	No change (MFN applies).**
Australia	DFQF for LDCs since 2003, 100% coverage. LDC rules allow materials from all developing countries, Forum Island countries and Australia to count as local content. At least 25 % of the total factory or works cost of the goods must be from one or more least developed countries, with at least 25 per cent from other countries in the qualifying area.	Preferential tariffs under the ASEAN-Australia and New Zealand Free Trade Agreement; standard GSP; or MFN. Goods are considered to originate in a preference country if they are wholly obtained in that country or if the last process in the manufacture of the goods is performed in the country claiming preference and at least 50% of the total factory or works costs of the goods consists of the value of labour and/or materials of one or more developing countries within the least developed country, developing country or developing country status scheme, or Australia.
Switzerland	GSP – Revised Preferential Tariffs Ordinance, since 2007. 100% coverage.	Standard GSP or MFN.
Republic of Korea	DFQF scheme for LDCs covers 73% of tariff lines (another 17% are duty free under MFN)	Agreement with ASEAN; APTA tariffs; special tariffs for Lao PDR; or MFN rate.

Sources: WTO (Preferential Trade Arrangements database), secretariats of regional agreements, the Asian Development Bank's Asia Regional Integration Center Free Trade Agreement Database; UNCTAD GSP Series, and governments of preference-granting countries.

* More information at trade.ec.europa.eu/tradehelp/gsp.

** If Lao PDR were a beneficiary of the United States GSP, it would export under the standard GSP for products covered and for others under MFN rates.

Table I.2 Tariffs before and after graduation for Lao PDR's main export products in 2017, based on mirror data

Market	HS Code	Commodity	Trade Value (US$)	Share of total exports in 2017	Cumulative share	Tariff as an LDC	Tariff after graduation and smooth transition
Thailand	2716	Electrical energy	1,151,917,942	22%	22%	MFN duty-free	No change.
China	26	Ores, slag and ash	527437739	10%	33%	Main products (2603) are MFN duty-free. All products with preferential tariff for LDCs are also duty-free for ASEAN.	No change.
Thailand	85	Electrical machinery and equipment (...)	406,277,296	8%	41%	Duty-free under MFN or ASEAN.	No change.
Thailand	74	Copper and articles thereof	527,437,739	6%	47%	Duty-free under MFN or ASEAN.	No change.
China	44	Wood and articles of wood; wood charcoal	406,277,296	4%	51%	All products with preferential tariff for LDCs are also duty-free for ASEAN.	No change.
China	40	Rubber and articles thereof	315,465,507	4%	55%	The only tariff line covered by the China Preferential Tariff for LDCs is also duty-free for ASEAN.	No change.
EU	61+62	Garments (woven, non-woven)	216,710,674	3%	58%	Duty-free under the GSP for LDCs (Everything But Arms).	**Standard GSP tariff is 9.6%. MFN tariff is 12%.**
India	7108	Gold	196,553,444	3%	61%	Duty-free under Preferential Tariff for Least Developed Countries and the ASEAN-India free trade agreement.	No change.
Thailand	7	Vegetables and certain roots and tubers (mostly manioc and cabbage)	167,217,524	2%	63%	Duty-free under MFN or ASEAN.	No change.
China	74	Copper and articles thereof	155,349,365	2%	65%	All products with preferential tariff for LDCs are also duty-free for ASEAN.	No change.
China	10	Cereals	104,802,598	2%	66%	All products with preferential tariff for LDCs are also duty-free for ASEAN.	No change.
Viet Nam	40	Rubber and articles thereof	84,909,914	1%	68%	No LDC preferences.	No change.
Viet Nam	9	Coffee, tea, mate and spices (mostly coffee)	77,934,110	1%	69%	No LDC preferences.	No change.
USA	85	Electrical machinery and equipment (...)	67,747,304	1%	70%	No LDC preferences.	No change.
Thailand	25	Salt; sulphur; earths, stone; plastering materials, lime and cement (mostly cement)	58,930,581	1%	71%	All products with preferential tariff for LDCs are also duty-free for ASEAN.	No change.
Viet Nam	27	Mineral fuels, mineral oils etc. and electrical energy	56,224,062	1%	72%	No LDC preferences.	No change.
Viet Nam	31	Fertilizers	52,841,040	1%	73%	No LDC preferences.	No change.
Viet Nam	44	Wood and articles of wood; wood charcoal	48,136,267	1%	74%	No LDC preferences.	No change.
Japan	61+62	Garments (woven, non-woven)	46,684,613	1%	74%	All products with preferential tariff for LDCs are also duty-free for ASEAN.	No change.

Market	HS Code	Commodity	Trade Value (US$)	Share of total exports in 2017	Cumulative share	Tariff as an LDC	Tariff after graduation and smooth transition
China	31	Fertilizers	41,995,170	0%	75%	All products with preferential tariff for LDCs are also duty-free for ASEAN.	No change.

Sources: UN Comtrade and World Integrated Trade Solution (WITS).

Excerpts from Lao PDR's 2019 WTO Trade Policy Review on the impacts of graduation on trade

Lao PDR held its first WTO Trade Policy Review in November 2019. The full documents can be found here: https://www.wto.org/english/tratop_e/tpr_e/tp494_e.htm. The government report's references to trade-related impacts of LDC graduation are as follows:

On preferential market access:

"2.3 As an LDC, Lao PDR has been granted by most developed and many emerging markets "duty free/quota free" (DFQF) access. Nevertheless, the loss of these preferences will be minimized for Lao PDR for the following reasons: (i) the preferences in industrial good are rather minimal and often are not used due to high logistical costs and fierce competition from the other Members, including LDCs. In agriculture the preferences can be more important, however Lao PDR uses preferences of only three countries (Canada, EU and Japan) in a meaningful way; (ii) Lao PDR is the LDCs that has a large share of trade (90% of exports) covered by the Free Trade Agreement. The change in the LDC status will only affect very marginally the access of Lao PDR to those markets. Lastly, (iii) the large part of Lao PDR's exports (natural resources) is not affected by tariffs and therefore will not face additional impediments in its markets. However, Lao PDR takes step towards diversifying its exports and producing more value-added manufactured goods. For this purpose, Lao PDR's strategy is first and foremost the integration into regional and global value chains. This strategy will be affected by the preferences for LDCs only marginally.

2.4. The strategy of Lao PDR in terms of mitigating factors in its transition is based on the following measures (i) further integration of its economy into the regional market and labour distribution process through strengthening its regional Free Trade Agreements (especially ASEAN, ASEAN +6 and RCEP) and (ii) negotiating with preference granting WTO Members a smooth transition from references granted to LDCs to preferences granted to developing countries. In terms of its present ad potential markets the following countries will have priority:

• China, Japan and Republic of Korea: Lao PDR within its free trade agreements with those countries (ASEAN 16 and RCEP) would strive to ensure that it is excluded from exemptions to the free trade agreements for products of interest to its export sector, in particular in agricultural and agro-processed products.

• European Union (EU), Canada and the United States of America (U.S.): The EU is probably the most interesting market for Lao PDR's exports outside of the region, especially if Lao PDR diversifies its manufacturing capacity. Lao PDR will lose its access to the EU market under Everything but Arms (EBA) programme which is limited to LDCs. While the EU grants graduating LDCs a 3-year extension of the EBA access to its market, to continue to profit from substantial preferences Lao PDR has two options: (i) benefiting from the region to region FTA being discussed and (ii) apply to EU's preferences + scheme. Given the potential of the EU market for Lao PDR's diversification strategy, Lao PDR envisages to seek adhesion to the EU preferences + scheme. This needs careful preparation as granting of these preferences is conditional upon ratification and implementation of the 23 international conventions. Therefore, the immediate discussion about its participation in the EU preferences scheme is crucial and the EU's addition supports to provide Lao PDR in this field through an extension of the ARISE + programme are needed.

2.5. Lao PDR is, at present, not eligible for the US preferences scheme as it does not fulfill the political conditions attached to it. The US is potentially an important market for Lao PDR's policy of diversification of its exports given the size of the US market, the on-going changes in the USA import regime and the continuing dislocation of labour-intensive industries out of China into South East Asia. Given a certain similarity between the US and the EU requirements attached to preferences, Lao PDR seeks negotiations with the United States to combine its efforts to have access to the two preferences schemes as well as the support to be able to join them.

2.6. Lao PDR has also started to look into the feasibility of negotiations with Canada and some other markets for its product to ensure both (i) an extension of the application of their preferences for LDCs as well as (ii) the future arrangements of preferences based on is export structure and capabilities.

2.7. Lao PDR will also use these negotiations to discuss the specific support they may agree to provide Lao PDR in its graduation process in particular the development of its production capacity in line with export potential in those markets.

On trade in services:

“2.8. Lao PDR will also lose the preferences granted by some 23 WTO Members under the services waiver. The loss of those preferences is, however, of very limited importance to Lao PDR for the following reasons: (i) the preferences granted are of small interest to Lao PDR; (ii) Lao PDR's exports of services is largely limited to tourism and transport, which are not benefiting of preferences and/or which are covered by regional free trade agreements. Lao PDR's strategy therefore is to start negotiations with potential services market on a product-targeted basis to define programs of enhancing trade in services which encompass access and the promotion of its delivery capacity considering potential services exports rather than actual exports, which are minimal. For the purpose of the above actions, the Ministry of Industry and Commerce is already creating a negotiation team in charge of those negotiations with focal points in the relevant Ministries and in cooperation with the private sector.”

On flexibilities under the WTO agreements:

“2.9. Lao PDR, as a recently acceded WTO Member has taken many commitments which LDC Members were not required to undertake. Therefore, the loss of LDC flexibilities will be limited:

(i) the Trade Facilitation Agreement (TFA): Lao PDR's right to have access to the category C measures of the Trade Facilitation Agreement is not affected by its change in status;

(ii) the Agreement of Agriculture: Article 9.4 provides Net Food Importing Developing Countries (NFIDCs) with flexibilities in granting export subsidies. Lao PDR does not provide export subsidies for agricultural products and does not intend to provide such subsidies. It has, however, not forgone its right to do so in the future. As Lao PDR continues to be a NFIDC, it will continue to benefit from this right. However, given Lao PDR's impressive increase in agricultural production and the fact that it has currently become self-sufficient in most food items and it is now gradually becoming a net exporter of food ot the neighboring countries especially in terms of clean and safe food. Lao PDR envisages to start preparation to the loss of this flexibility in the medium term.

(iii) the Subsidies and Countervailing Measures (SCM): Lao PDR will lose flexibilities in granting export subsidies and imposing tariffs under Article 27.2 of the Agreement. While this is at the present time of minor concern to Lao PDR, it might become an issue in its diversification policy: Lao PDR will be restricted in the support it can provide to its nascent industry. However, this does not mean that Lao PDR cannot implement an industrialization policy, rather it has, to adapt the instrument it uses to do so are the WTO requirement. The Government therefore intends to establish an ad hoc working group to elaborate an industrial development policy including the support it requires from WTO Members to implement it in tie for the discussion on its graduation in 2024. It hereby requests technical assistance from WTO Members in elaboration of such a policy.

(iv) the Trade-Related Aspects of Intellectual Property Rights (TRIPS): While the general transition period of the TRIPS Agreement is not affected by the change in Lao PDR's status at the WTO, Lao PDR will lose the benefits of the pharmaceutical and agro-chemical waiver upon graduation. Although Lao PDR does not benefit at present of this waiver, the Government intends to keep the possibility to participate in this market, which is of potential interest to its economy. Lao PDR will therefore request, as part of the transition measures- that it can continue to benefit of this waiver until its expiration in 2033.

(v) Dispute settlement: LDCs benefit from some self-restraint, flexibility in consultation as well as support from the WTO Secretariat, as well as free support from the Advisory Centre on WTO Law (ACWL). Lao PDR intends to maintain these flexibilities as much as possible. Given that the modification of the WTO dispute settlement mechanism is currently under negotiations, Lao PDR will (i) follow the negotiations and defend its interests there and (ii) start negotiations to adhere to ACWL and on its contribution."