

Final Review

The Implementation of the Vienna Programme of Action (2014 - 2024)

Lao People's Democratic Republic

Vientiane Capital

August 2023

Contents

I. Executive Summary	1
II. Introduction	1
III. Mainstreaming of the VPoA into the national development planning process and coherence with the 2030 Agenda and other global processes	2
IV. Assessment of key economic, social, and environmental development trends	4
V. Assessment of progress and challenges in the implementation of the VPoA (for each priority area)	7
5.1 Priority 1: Fundamental Transit Policy Issues	7
5.2 Priority 2: Infrastructure Development and Maintenance	8
5.2.1 Transport Infrastructure	9
5.2.2 Energy and Information and Communications Technology (ICT) Infrastructure	12
5.3 Priority 3: International trade and trade facilitation	14
5.3.1 International Trade	14
5.3.2 Trade Facilitation	15
5.4 Priority 4: Regional Integration and Cooperation	17
5.5 Priority 5: Structural Economic Transformation	18
5.6 Priority 6: Means of Implementation	22
5.6.1 Domestic resource mobilization	22
5.6.2 Official development assistance (ODA)	23
5.6.3 Foreign direct investment (FDI)	24
5.6.4 Private sector	24
5.6.5 South-South cooperation	24
VI. Monitoring of implementation and review	25
VII. Towards the Next LLDC Programme of Action: Conclusion and way-forward	26

I. Executive Summary

The Lao People's Democratic Republic (Lao PDR) is at an important stage of the national development planning process. 2021 marked the commencement of the five-year plan (9th NSEDP 2021-2025) and the Government of Lao PDR (GoL) is currently preparing the Mid-Term Review of the 9th NSEDP. The implementation of the National Development plan in 2022 and 2023 has been dominated by the challenges associated with impacts of the COVID-19, conflicts, rising geopolitical tension, climate change, natural disasters, economic and financial difficulties and the transition from Least Developed Country status, which Lao PDR hopes to achieve.

For Lao PDR, achievements and progress made in the implementation of the Vienna Programme of Action (VPoA) 2014-2024 as well as other internationally agreed agendas namely the 2030 Agenda for Sustainable Development within the frameworks of the 8th and 9th NSEDP have been severely impacted. For the past years, although the GoL has actively implemented SDGs and made progress in some areas, particularly on poverty reduction, achieving SDGs will be a challenging task with the impact of COVID-19 and other on-going challenges in the regions, the more recent food, fertilizer, fuel crisis and the country's economic and financial difficulties.

In addition, along the way, following a recommendation by the Committee for Development Policy of the United Nations (CDP) at its 2021 Triennial Review (E/2021/33), endorsed by the Economic and Social Council (ECOSOC) in Resolution E/RES/2021/11, Lao PDR is now set to graduate from LDC category in 2026, meeting all three graduation criteria (GNI, HAI, and the Economic and Environmental Vulnerability Index (EVI)) by a considerable margin.

Amidst this challenging time, it is critical to localize and prioritize SDGs while enhancing multi-stakeholder participation and engagement for moving the 2030 Agenda, VPoA and other development agendas forward. An important task for the country under the 9th NSEDP framework is to recover from the setback due to COVID-19 on top of already existing challenges, based on Lao context. The GoL is strongly committed to the implementation of the 2030 Agenda and the Doha Program of Action for LDCs (DPoA) which have covered various elements of the VPoA priorities areas. As reflected in the publication of the First Voluntary National Review (VNR) in 2018 which also provided key inputs for the mid-term review of the VPoA prepared in 2019, efforts from line Ministries and Provinces have been reinforced to ensure effective SDG localization including the acceleration of the VPoA implementation.

Some of key policy frameworks adopted which have direct implications for the VPoA implementation include, as afore mentioned, the periodic NSEDPs, the SDG VNRs, other national frameworks such as VDCAP mid-term review and sectoral level development plans and agendas.

II. Introduction

For the implementation of VPoA, its priority areas have been integrated into the sectoral strategies of relevant ministries. In particular, the Ministry of Public Works and Transport (MPWT)

has constantly been working on its transport and logistic development plan to reflect the socio-economic needs of the country. The Transport and Logistic Development Plan (2016 – 2020) was drafted with reference to VPoA, inter alia, to ensure its plan is linked to that of VPoA priorities and action areas. In addition, the GoL has put in place existing mechanisms to carry out this VPoA review taking into account the progress and achievements made from sectoral strategies. In particular, the line ministries have been working closely with their respective departments to ensure the completion of the review processes.

In this regard, this version of the VPoA review builds on key issues from the mid-term review of the VPoA done in 2019, the conclusion of the 8th NSEDP, and the key commendations from the Second SDG VNR. However, there remains significant challenges in consolidating all required information and data to make this review comprehensive reflecting the reality in the implementation of the VPoA.

In terms of institutional mechanism, the Department of International Organizations, Ministry of Foreign Affairs (MoFA) serves as the focal point for the implementation of VPoA at a macro level, facilitating and collaborating with relevant ministries in order to disseminate and gather information related to VPoA while trying to ensure policy coherence. At a technical level, the national focal point for LLDC is a representative from the Department of Import and Export, Ministry of Industry and Commerce (MoIC). With all existing mechanisms for implementing other frameworks, the review of the VPoA implementation has relied on and benefited from those mechanisms in terms of the progress reports on many associated priority areas as in the 2030 Agenda and Doha Programme of Action (DPoA).

III. Mainstreaming of the VPoA into the national development planning process and coherence with the 2030 Agenda and other global processes

The 9th Five-Year National Socio-Economic Development Plan (NSEDP) sets the overall framework for national development through the end of 2025, defining goals to be achieved across 6 outcomes and 25 outputs as well as an over-arching vision for green, sustainable, quality, and focused development.

For the first time, the 9th NSEDP has been accompanied with a Financing Strategy defining 54 specific actions to mobilize resources and strengthen the alignment between available resources and national development priorities. The 9th NSEDP Financing Strategy was endorsed by the GoL in June 2023.

The 10th NSEDP is expected, similarly, to set the overall framework for the following 5 years through 2030, coinciding with the deadline for the 2030 Agenda and Sustainable Development Goals (SDGs) as well as Lao PDR's Vision 2030, and encompassing the expected transition period for LDC graduation.

Given the unprecedented shocks that have occurred during the implementation of the 9th NSEDP, the Ministry of Planning and Investment (MPI) with the support of a multi-stakeholder taskforce, is leading the development of a Resilience Framework that will prioritize specific actions to respond to the socio-economic consequences of COVID-19 and the current Food, Energy, and Financing Crisis, and strengthen resilience to future shocks. The Resilience Framework has been finalized and prioritizes 73 actions to support the realization of 9th NSEDP priorities (identified actions are consistent with the Financing Strategy). The Resilience Framework will be mainstreamed into core 9th NSEDP management processes, including its Mid-Term Review in 2023.

Overarching national plans are complemented by sector- and ministry-specific plans. Development partner coordination takes place through 10 Sector Working Groups, and an annual Round Table Meeting (RTM) bringing together all relevant parties.

Following the review of the Almaty Programme of Action (APoA) and the adoption of VPoA in 2014, the GoL has localized the priority areas of VPoA and integrated them into the national development plan such as the 8th Five-Year NSEDP 2016 – 2020 (8th NSEDP) and the subsequent 9th Five-Year NSEDP 2021-2025, and some other relevant sectoral strategies.

The GoL's policy has always been to improve infrastructure, trade regulations within the country and trade facilities with transit neighbors while constantly working to transform the country from a landlocked into a land-linked one. This determination rests on the fact that the country can become an inland transit route, a landlink or a logistic hub for countries in the region to use, among others, as a trade and communications link among them. In this connection, the GoL has developed several programs and policies for infrastructure development as outlined in the following sections.

The 8th NSEDP is focusing on key areas to build a new foundation for Lao PDR to graduate from Least Developed Country status while achieving sustainable development in line with the 2030 Agenda. Specifying within the 8th NSEDP, the GoL has emphasized and highlighted the importance of the priority areas of the VPoA. For instance, under the Outcome 1: Economic Development, a number of priority activities are related to the development and expansion of efficient transit systems and transport development, enhancement of competitiveness, expansion of trade, structural transformation, regional cooperation and the promotion of inclusive economic growth and sustainable development to reduce poverty, build resilience, bridge economic and social gaps and ultimately help to transform landlocked Lao PDR to a land-linked nation.

Being the result-based plan, the priority activities in the 8th NSEDP related to VPoA are measurable in accordance with the national monitoring and evaluation framework. Each of the priority activity accompanies with implementing policies to guide the GoL towards achieving its development objectives.

Building upon the lessons learnt from Trade Facilitation Strategic Plan (TFSP) for 2011-2015, the Trade Facilitation Road Map of Lao PDR for 2017-2022 adopted by Ministry of Industry and Commerce (MOIC) also reflects the priority areas of VPoA as seen in the efforts to remove the non-physical barriers and improve on the delays and inefficiencies associated with border crossings and ports, including customers procedures and documentation requirements. In the same vein, many ministries have their own strategies and action plans with many elements directly linked to the priority areas of VPoA.

To ensure the coherence and the linkages between VPoA and other regionally and international agreed development goals and commitments that bring about the most effective use of resources, the GoL, in the process of identification and localization of SDGs, harmonizes similar agendas through cross-referencing with regional and international frameworks such as the Istanbul Programme of Action (IPoA), Addis Ababa Action Agenda (AAAA), Partnership for Effective Development Cooperation framework, Sendai Framework for Disaster Risk reduction, Paris Agreement on climate change, while discerning distinct indicators to ensure that they are mainstreamed into the national and relevant sectoral strategies. This is also in endeavor of the GoL not to segment different agendas to pursue on a standalone approach but to find synergy and appropriate platforms to integrate them into the national and sectoral strategies.

IV. Assessment of key economic, social, and environmental development trends

Lao PDR has made considerable progress over the past 10 years in economic, social, and environmental development. The country has one of the fastest-growing economies in the region, and while poverty remains a challenge, there has been significant progress in reducing poverty levels.

In terms of economic development, the country has seen a steady increase in GDP growth, driven by industries such as hydropower, mining, and agriculture. The GoL has pursued policies to promote private sector development, attract foreign investment and increase regional integration. Meanwhile, concerns arise over rising public debt, the slow pace of reforms and the country's dependency on natural resources.

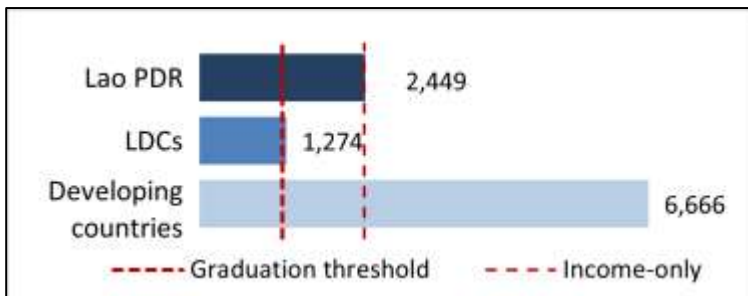
In social development, Lao PDR has achieved notable progress in health, education, and gender equality. The GoL has placed emphasis on improving access to healthcare and education, and gender equality has been integrated into national policies and programs. Challenges still remain regarding access to quality education, particularly in rural areas, and addressing regional disparities.

Environmental sustainability is also a critical dimension of development in Lao PDR, given its diverse and fragile ecosystems. The country has adopted policies to promote sustainable use of natural resources and protect ecosystems, including protected area networks and biodiversity

conservation. However, addressing environmental degradation, deforestation, and climate change remains significantly challenging.

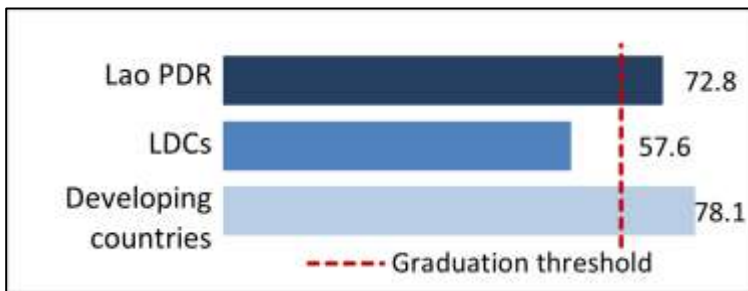
Irrespective of all the challenges, in 2021, Lao PDR was still able to meet the three graduation criteria from LDC status (see Figures 1, 2, and 3), resulting in which the General Assembly “[decided] to provide Bangladesh, the Lao People’s Democratic Republic and Nepal, on an exceptional basis, with a five-year preparatory period leading to Graduation” in its resolution A/RES/76/8, thereby endorsing a CDP recommendation to thoroughly prepare for graduation in the context of a rapidly deteriorating global environment, marked by the COVID-19 pandemic.

Figure 1 - Gross National Income (GNI) per capita



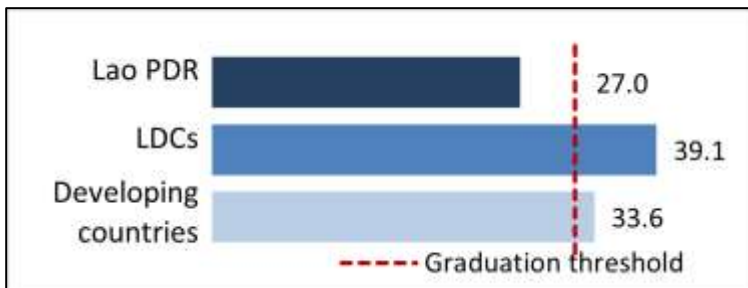
Source: CDP (2021 Triennial Review)

Figure 2 - Human Assets Index (HAI),



Source: CDP (2021 Triennial Review)

Figure 3 - Economic & Environmental Vulnerability Index (EVI)



Source: CDP (2021 Triennial Review)

Of all the three above-mentioned trends, the COVID-19 pandemic directly justified the General Assembly’s decision to provide the GoL with an extended preparatory period. On the macroeconomic and financial side, decreasing global and national production led to a substantial deceleration of growth, which decreased to 3.3% in 2020, or its lowest level in three decades. Lower revenues during a period of economic contraction aggravated an already limited fiscal

space for development investments and worsened Lao PDR's exposure to shocks, with plunging international reserves of foreign exchange. This macroeconomic and financial instability led Lao PDR to leverage natural resource extraction for revenue while the country has been putting more efforts on balancing act of maintaining the country's sustainability and climate objectives. Moreover, the private sector and the labor market suffered heavily. Disruptions of global and regional value chains, of international mobility, of tourism, and repeated lockdowns in the region and in Lao PDR had significant livelihood impacts, with important job losses. Health and education systems were greatly affected. School closures generated irreversible learning losses, while COVID-19 led to the suspension of other health services and a general deterioration of human capital outcomes. Throughout, the most vulnerable have been most impacted, with limited safety nets to halt the progression of poverty during the pandemic.

In addition to COVID-19, while disasters that have increased in the last decade due to climate change negatively affect people's lives and livelihoods along with the economy of Lao PDR, possible disasters in the future have the potential to affect the country's economy more negatively through 4F. For example, typhoon Ketsana in 2009 caused US\$94.2 million in damage. The disaster was noted to have the potential to severely retard economic development, especially in the most affected areas (Lao PDR Government, 2009). Two years later, the country was hit by Typhoon Haima in 2011, which affected nearly 90,000 people in 36 counties in four provinces and caused an estimated US\$66 million in total damage and loss. In 2018, the country was affected by three disasters in a row; Son-Tinh storm which caused flash flooding of Xe Pien-Xe Nam Noy hydroelectric saddle dam followed by Bebinca storm in August (Lao PDR Government, 2018). More than 600,000 people in 90 counties were affected, and damage and losses amounted to US\$371.1 million¹.

While borders have reopened since May 2022, and positive developments have been recorded - including high vaccination rates, decreasing unemployment, and increasing tourist arrivals - Lao PDR is not back on track to achieve the national development priorities contained in the 9th NSEDP and the SDGs. Recent geopolitical developments in Europe have affected global economic prospects and built on historical economic and financial vulnerabilities to further deteriorate livelihoods, in a multifaceted crisis of Fuel, Food, Fertilizer, and Finance. The Lao kip depreciated by 24.09% against the USD in 2022 comparing to the end of 2021, mainly due to the appreciation of USD from the rise of fed fund rate, leading to temporary fuel shortages, while prices increased by 37% in the first 10 months of 2022, largely driven by the rising costs of imports. Given Lao PDR's reliance on imports for key commodities, including all fuel and many important foods and medicines, this translated into a rapid increase in domestic inflation, reaching a record 39% at the end of 2022.

¹ Disaster Risk Reduction in Lao PDR, Status Report 19, adpc and UNDRR

The GoL has taken steps to mitigate and recover from the COVID-19 and the 4F crisis, through a Multi-Stakeholder Taskforce on the recalibration of the 9th NSEDP to COVID-19 in 2020. This initial exercise, in the context of the long-term impacts of COVID-19 and additional shocks, led to the formulation of the Lao PDR Resilience Framework (2023-2025), finalized at the end of 2022, and expected to inform the 9th NSEDP Mid-Term Review and Annual Implementations Plans.

Lao PDR's financial difficulties, marked by limited revenue generation and others, have been aggravated by the exogenous shocks above-mentioned to now represent a substantial obstacle to continued development progress. In particular, the recent depreciation of the kip is exacerbating an already elevated debt burden that is largely denominated in USD. This builds on years of economic growth that have primarily relied on FDI, themselves promoted by an investment regime based on fiscal exemptions. Lao PDR is currently generating insufficient revenues to meet its development needs, with debt services averaging USD 1.2 billion a year over 2022 and 2023, or more than expenditures on health and education combined.

The GoL has taken steps to resolve these challenges, with firstly, the adoption of a National Agenda on Economic and Financial Difficulties (2021-2023), and secondly, the recent adoption of the 9th NSEDP Financing Strategy. The latter, whose development was led by the Ministry of Planning and Investment (MPI) in close collaboration with the Ministry of Finance (MoF), the Bank of Lao PDR (BOL), and line ministries, and with wide support from development partners, contains 54 actions to increase the volume of development finance to achieve the country's national development priorities. The 9th NSEDP Financing Strategy, for which implementation will begin in 2023, considers all financial flows – domestic/international and public/private. It prioritizes significant reforms to fiscal policy – including the review and abolishment of tax exemptions, the sustainability of revenue generation, the realignment of the budget with national development priorities, evidence-based debt management, including through the exploration of debt relief – but also the evidence-based planning and management of ODA, the improvement of the business environment for private investments in priority sectors, and the safeguard of investments in health and education and environment and climate action, for sustainable development progress.

V. Assessment of progress and challenges in the implementation of the VPoA (for each priority area)

5.1 Priority 1: Fundamental Transit Policy Issues

In relation to the implementation of this priority area, Lao PDR have made significant progress in particular through the ratification of some relevant international, regional, and subregional conventions as well as other bilateral frameworks, the formulation of national transit polices and establishment of appropriate national mechanisms, among others, to streamline domestic

transit policy frameworks with key international conventions and supporting trade and transport facilitation.

Among a number of international conventions and agreements that address fundamental transit policy issues, namely the WTO Trade Facilitation Agreement (2013), Revised Kyoto Convention (1999), Customs Convention on the International Transport of Goods under Cover of TIR Carnets (1975), International Convention on the Harmonization of Frontier Controls of Goods (1982), and Convention on Road Signs and Signals, Lao PDR have over the past years ratified 3 of the above-mentioned. These include the International Convention on the Harmonization of Frontier Control of Goods in 2008, the WTO Agreement on Trade Facilitation in 2015, the Revised Kyoto Convention in 2016 and The Intergovernmental Agreement on Dry Ports in 201.

Lao PDR has also signed the Greater Mekong Sub-regional Cross-Border Transport Agreement (GMS-CBTA) which aligns itself with all key international conventions on cross border transport such as Conventions on Road Traffic, Road Signs and Signals, the TIR, and Harmonization of Frontier Control of Goods as earlier mentioned.

Furthermore, in order to control and regulate both the domestic and international road transport operations and road traffic, the GoL enacted the Transport Law, Road Law and Traffic Law, Post and Telecom Law, and Civil Aviation Law and Railway Law effectively and efficiently. A number of decrees, rules, and regulations have also been issued for the sector's efficient management and control. To date, the Lao PDR has concluded, except with Myanmar, bilateral transport agreements with all of its neighbors:

- Agreement on Road Transport with China, signed in 1993.
- Agreement on Road Transport with Cambodia, signed in 1999.
- Agreement on Road Transport with Thailand, signed in 1999.
- Agreement on Road Transport with Vietnam, signed in 2009.
- Agreement on Joint Traffic Working Over Railway with Thailand, signed in 2008.
- Intergovernmental agreement for cross-border railway transport between Lao PDR and the People's Republic of China, signed in 2021

5.2 Priority 2: Infrastructure Development and Maintenance

In alignment with the priorities of the VPoA, Lao PDR has been focusing on infrastructure development and maintenance with a view of reducing some of the structural limitations. The country also sees the importance of promoting and sustaining economic growth and reducing poverty through the improvement of the productive capacity, and increased participation in international trade and foreign direct investment.

5.2.1 Transport Infrastructure

As targeted in the VPoA, it is vital for the country to significantly increase the quality of roads including the share of paved roads, expand and upgrade the railway infrastructure, and complete missing links in the regional road and railway transit transport networks. This aligns with the view of Lao PDR that transport infrastructure is a sector that will turn the country's challenges from being a landlocked country into an opportunity for regional and international integration and connectivity, through the opportunities provided by land and air transport links.

The GoL is determined to transform its land-locked to land-linked by promoting the perception that the country is a land bridge, proving the most direct overland transport routes between its seaboard neighbors. Recent progress in regional transport links engineered under the Greater Mekong Subregion (GMS) initiatives underpins Lao PDR's transition to being a land-linked country and economy. The USD 5.8 billion high-speed railway from Vientiane to the border with the People's Republic of China and (for freight) on to Kunming officially opened in December 2021, representing a meaningful step toward transforming Southeast Asia's only landlocked country into a land-link across the region. Roads connecting Vietnam, China, and Thailand have been opened and improved. Road transport remains at the core of the country's policy. The MPWT has been actively engaged in the improvement of road asset management through the assistance from various donors including the WB, JICA, and ADB, which support MPWT to strengthen its capacity at both central and local levels to manage national and local road improvement and maintenance.

The Department of Road (under the MPWT) has developed and drafted the 5-year plan 2021 – 2025 and established Vision 2035 to develop road networks to be highly effective, climate change resistant, connected, safe and sustainable. It intends to lead the sector in implementing activities to build climate resilience in order to ensure that roads are connected, safe and sustainable and has set goals as follows: i.) development of regional and international transportation links; ii.) development of transportation routes to connect within the country; iii.) development of climate resilient road infrastructure; iv.) rehabilitation and maintenance of existing road infrastructure sustainable use; v.) mechanism of monitoring, managing and restricting overloaded vehicles; vi.) development of road safety; and vii.) capacity development to strengthen road sector.

- **Roads:** Lao PDR's major national roads as recently updated on 20 March 2022 are Routes No. 1A, 1B, 1C, 13N, 13S, 2W, 2E, 3, 4, 6, 6A, 6B, 7, 8, 9, 10, 11, 12, 15, and 16. Route No.13 with the length of about 1,500 km, in particular, is regarded as a national backbone. It serves as the spine of the national road system linking every province in the north of the country (China-Lao border) to every south (Cambodia-Lao border) connecting main hub cities together such as: Oudomxay, Luangpabang, Vientiane Capital, Thakek, Savannaket and Pakse. Moreover, it acts as beginning points for many major roads such as: 7, 8, 9, 12 and 18. As of 2022, Lao PDR progressively increased an upgrading transport

infrastructure including paved, concrete, asphalt concrete and double Bituminous surface treatment roads to 5,721.13 kms in comparison with 5,146.91 km in 2014.

- **Expressways:** Remarkable progress indicates in the Laos-China railway and the Vientiane Capital-Vang Vieng expressway which advance the country in term of transporting domestically produced goods and transit goods to neighboring countries, enabling integration into the value chains through modern transportation logistics and production systems, with policy adjustments to ensure versatility, agility, quality, cost-efficiency, economy of scale, and environmental sustainability. The Vientiane to Vang Vieng expressway, inaugurated in December 2020, is the first section of the China-Laos expressway project, which is a major transportation infrastructure development in Lao PDR, connecting the capital city of Vientiane with Vang Vieng, stretching over 109 kilometers. The GoL also approved the route selection for the Vientiane-Pakse expressway, which is another important expressway project in the country. Other important both ongoing and new projects include expressway construction from Pak Hok International Checkpoint Laos-Vietnam (Tai Chang) - Oudomxay Province (Road No. 2E) connecting Luang Prabang - Boten expressway (New project), from Lan Touy International Checkpoint (LaosChina) – Bountai District, Phongsaly Province – Namor District, Oudomxay Province (or to Natoei area, Luang Namtha Province) (New project), from Vang Vieng to Luang Prabang (New project), from Luang Prabang-Oudomxay (New project), from Oudomxay to Boten (New project), from Boten, Luang Namtha-Houayxai, Bokeo (New project).
- **Railways:** The development of railway in Lao PDR's currently completed construction and operation includes the Lao-China railway with a length of 422.44 km, the railway route connecting the central and the northern parts of Lao PDR and Kunming, China. Operated in December 2021, and the railway line from Lao-Thai Friendship Bridge 1 (Lao-Thai border) connects to Thanaleng station (3.5 km) and extended to Vientiane Khamsavath station (7.5 km) for a total of 11 km. Operated for passenger transport services since 2009 and rail freight transport since 2019 to Thanaleng station, which is currently a dry Dry Port. As for the passenger transportation service between Thanaleng Station and Vientiane Khamsavath Station, it will open for service in 2023. Rail transport is important in linking the transport system in the countries and the regions because rail transport able to transport large amount, safety, agility, cost efficiency, economically and environmental sustainability. The government also has plans to develop important railway routes, including Vientiane-Thakek-Naphao (Mugia) Lao-Vietnam border (in the process of reviewing the FS and detail design), Na khon Kai Son city-Lao Bao (Lao-Vietnam border) currently in the FS, Thakek (Kham Muan Province)-Savanakhet-Saravan-Pakse-Vangtao (Lao-Thai border) in the process of finding sources of funding, and Pakse railway-Vurn kham (Lao-Cambodia border) is in the process of finding sources of funding.

- **Dry ports:** Lao PDR has been investing in the development of dry ports as a key component of its transportation infrastructure. In particular, the Savannakhet, VangTao and Thanaleng dry port with a new international standard and part of an integrated logistics facility, aimed at further enhancing the country's logistics capabilities. The country sees the development of logistic dry ports as an important part to become a regional logistics hub and attract more investment. Other development projects for dry ports include Thakhek dry port (Kahmmouane), Natoei dry port (Luang Namtha), Laksao dry port (Bolikhamxay), Houyxaï dry port (Bokeo), Luang Prabang dry port (Luang Prabang) and Meuangxay dry port (Oudomxay).

- **Special economic zones (SEZs):** following the economic improvement approaches which has been prioritized by the GoL since 2003, SEZs are expected to be one of the leading driving forces of economic development and modernization in the country. Not only it provides enabling business environment to host FDI and local private investment but will also spur cross-border cooperation with neighboring countries through offering complementary services and stimulating the creation of regional value chains. Up to date, 12 SEZs have been developed throughout the country, including:²
 - Savan-Seno Special Economic Zone;
 - Boten Beautiful Land Specific Economic Zone;
 - Golden Triangle Special Economic Zone;
 - Luang Prabang Special Economic Zone;
 - Vientiane Industrial and Trade Area;
 - Saysetha Development Zone;
 - Phoukhyo Specific Economic Zone;
 - Thatluang Lake Specific Economic Zone;
 - Longthanh- Vientiane Specific Economic Zone;
 - Dongphosy Specific Economic Zone;
 - Thakhek Specific Economic Zone;
 - Pakse – Japan SME Special Economic Zone.

Lao PDR has continued to support the development of 12 Special Economic Zones to be more effective, including improving the transportation logistics system and reviewing tax policies to ensure effective revenue collection by re-evaluating existing agreements and development plans in each zone to be in line with current conditions and global market trends to increase regional and international competitiveness; improve the one-stop investment service mechanism by increasing coordination within the public sector, improving policies, mechanisms, and regulations related to investment approval to be more uniform and streamlined in order to facilitate investors; develop the necessary infrastructure such as roads, electricity and water supply to attract more investment; increase investment attraction in the new areas along the Laos-China railway and other

² <https://investlaos.gov.la/where-to-invest/special-economic-zone-sez/>

economic corridors; and collaborate with public and private stakeholders to develop labor skills in line with the development needs in each area; and improve and disseminate legislation and regulations related to employers and employees to raise awareness of the rights and interests of investors and workers.

5.2.2 Energy and Information and Communications Technology (ICT) Infrastructure

In order to expand and upgrade transmission and supply of modern and renewable energy services in rural and urban areas, make broadband policy universal, promote open and affordable access to internet for all, and address digital divide in reference to the VPoA, Lao PDR has achieved significant progress in the development of energy and ICT infrastructure.

- **Energy infrastructure:** efforts have been made to increase the production and consumption of clean energy and study the potential of production and consumption of energy along with energy export, as Lao PDR has a high level of potential for electricity generation. Lao PDR achieved 100 percent access in 2020 of the nation-wide districts and 95 percent of household in 2023. According to the assessment of the 8th NSEDP, over the past five years, Lao PDR has been able to export electricity to five countries (Thailand: 123,384 million kwh worth USD 6,877 million, Viet Nam: 4,926 million kwh worth USD 266 million, Cambodia: 1,160 million kwh worth USD 51 million, Myanmar: 4 million kwh worth USD 380,000, and Malaysia: 130 million kwh worth USD 8 million). Overall, during the 8th Five-Year Plan period, the estimated export of electricity (five-year cumulative figure) totaled 129,605 million kwh, valued at USD 7,203 million, an increase of 164% compared to the export figure of the 7th Five-Year Plan.

On behalf of the GoL, the Ministry of Energy and Mining (MEM) signed the MOUs to export electricity to (1) Thailand 10,500 MW (presently being able to export 5,929 MW), (2) Vietnam 5,000 MW (presently being able to export 572 MW), (3) Cambodia 6,000 MW (presently being able to export 445 MW), (4) Singapore 100 MW via transmission line system of Thailand-Malaysia-Lao PDR and Thailand-Malaysia-Singapore Power Integration Project (LTMS PIP), (5) Myanmar 600 MW (presently being able to export 30 MW), and (6) China to exchange energy with each other to balance the internal energy. In the area of legislation, policies and legal frameworks have been developed to improve energy related sector, including the National Power Development Plan towards 2030, the 10-year National Strategy on Mining Development (2021-2030) and 2035 Vision, National Strategy on Water Utility and Water Resources Management towards 2030.

- **ICT Infrastructure:** the technology and communication sector in Lao PDR has achieved significant progress in recent years. The LAOSAT-1 satellite was successfully launched and stationed at 128.5° East, equipped with a Satellite Ground Control System and Satellite Broadcasting and Telecommunication 19 System for Lao PDR. The fiber optic transmission network has also been expanded, covering a distance of 97.153 kilometers,

facilitating communication connections from central to provincial and district centers. The coverage of 2G, 3G, and 4G networks has also been extended to 97%, 85%, and 76% of all villages nationwide respectively.

There are currently 1.237.964 fixed phone subscriptions, including wired and wireless fixed telephone, and 4.950.894 mobile subscriptions, bringing the total number of fixed and mobile telephone subscribers to 6.319.594, equivalent to 90 numbers per 100 people. The number of internet users has reached 4.452.651, including fixed wired broadband and active mobile internet or 3G SIM, representing a penetration rate of 63% of the total population of 7 million.

The National Internet Center has completed several integration and security projects, including the renewal of its ISO27001 information security standard certificate twice and being audited five times by the Internal Auditor. The domestic gateway for internet traffic has been expanded, and the international telephone and internet hubs have been upgraded to accommodate all domestic and international connection volumes. The storage area of the cloud system has been expanded by 45 TB, resulting in an 11% increase (30% of the plan). The website hosting service has also been expanded, enabling support for 200 more websites.

Lao PDR has made significant strides in its transmission networks, with 18 points connecting to neighboring countries for telecommunication and internet communication. Thailand has six points, Vietnam has five, Cambodia has two, Myanmar has two, and China has three. The installation of ICT facilities and other technology equipment has also progressed in various sectors. The establishment of the Lao Computer Emergency Response Team (LaoCERT) has been completed to manage and prevent cybercrimes; and became a member of the Asia-Pacific Computer Emergency Response Team (APCERT). Laws and policies have been developed to improve innovation, including the Law on Intellectual Property and the Law on Science and Technology. Amendment laws have been drafted, including the Law on Telecommunications, the Law on High Technology, and the Law on Electronic Transactions.

Recently, the Lao government approved a vision and strategy for the National Digital Economy that focuses on 2040. Eight strategic key tasks have been identified, including legislation amendment, infrastructure and app development, human resource development, digital product and services development, cyber security, promotion of digital services, and partnership building. The ultimate goal is to create a smart production and management base, build smart cities, and boost the digital economy to 10% of GDP. Developing digital expertise among the workforce is a priority, with a target of 4% of workers acquiring digital skills.

5.3 Priority 3: International trade and trade facilitation

Lao PDR has emphasized on enhancing its capacity for the role to play in international trade with a view to foster the growth and expansion of domestic productions as well as the access to critical technology, industrial raw materials, and other essential goods, which can further be utilized to improve competitiveness in global markets.

The country has also aimed at increasing the volume of exports along with diversifying markets and strengthening economic and financial ties with other trading partners. A number of policies and strategies to have been established and undertaken to support participation in international trade which include trade-related and better business environment plans.

5.3.1 International Trade

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-Favored-Nation (MFN) treatment and will therefore not be affected by LDC graduation. The most significant impacts of LDC graduation are expected to be on exports to the European Union³. 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. Most exports to Japan⁴ would continue to be exported duty-free under the ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEPA). Some products would face higher tariffs. A significant share of exports to Canada are duty-free under MFN rates. Exports of garments would face significant tariffs. 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. 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.

A more recent study conducted by the International Trade Centre⁵ on trade impacts from graduation, unveiled ahead of the 5th United Nations Conference on the Least Developed Countries (LDC5) Conference in Doha calls for more caution. Looking at graduation impacts on trade from 2027 onwards (unlike other studies that envisioned graduation by 2024) and considering new data, it finds that Lao export values could be reduced by 7.3% or USD 734 million (when previous studies had a range of 1.2% to 4.9%). The difference is largely explained

³ 6% of Lao PDR's exports, 66% of which use LDC-specific preferences.

⁴ 3% of Lao PDR's exports

⁵ "Lao People's Democratic Republic after LDC Graduation: New avenues for exports", International Trade Centre, 2023

by new projected losses from the Chinese market, within three core industries: latex and rubber, paper, cereals. China has indeed granted specific duty-free and quota-free market access to LDCs, which are much more favourable than under the ASEAN free-trade agreement with China or the Asia-Pacific Trade Agreement⁶.

The study also confirms that trade with the EU may be impacted moving from the Everything but Arms regime to the General System of Preferences, with an anticipated reduction of exports of USD 121.7 million. Minor impacts are expected on trade with the United Kingdom (USD 11.4 million), Japan (USD 10.3 million) and Canada (USD 5.1 million).

While these new findings reveal a much larger than anticipated trade impact from graduation, Lao PDR has sufficient time to implement effective mitigation measures, to negotiate the continuation of these trade preferences for a few years and to strategically diversify its export portfolio, reshape trade policy and promotion to access new markets. The study indeed finds an estimated USD 1.4 billion of “unrealised export potential” attributable to non-tariffs barriers. Diversification of Lao PDR’s exports, in line with the country’s planned structural economic transformation, and negotiations with key partners on trade preferences (e.g., GSP+) would help to limit losses.

5.3.2 Trade Facilitation

In recent years, the Lao PDR has been actively working to improve its trade facilitation processes, simplifying and streamlining international trade procedures through the development of appropriate policies, procedures, and infrastructure to attract more foreign investment and improve its global competitiveness. Several measures have been undertaken, in particular to modernize the border crossings and upgrade customs procedures. The country has implemented an Electronic Single Window system that allows traders to submit all required declarations and supporting documents digitally which helps reduce processing times and facilitate the exchange of information among government agencies. However, there are still rooms for improvement, particularly regarding cross-border infrastructure and reducing non-tariff barriers to trade along with the challenges including a lack of skilled personnel, weak logistics infrastructure, and limited capacity for conducting inspections and tests.

Setting the target to realize trade environment and facilitation, the country focused on coordinating on regulations and procedures for issuing licenses and permits, and certificates for the import and export of goods to be more simplified and agile, aiming to reduce the time required for export and import formalities by at least 50% and reduce the cost and documentation requirements for exports and imports by at least 30% in 2022 in accordance with the Trade

⁶ One key assumption of this study (and all impact assessments to date in fact) is that trade preferences are 100% used by Lao exporters, which is unclear at this stage, especially as the Chinese preferences for LDCs are recent mechanisms. This warrants more research on current usage of trade advantages in core industries.

Facilitation Roadmap of Lao PDR 2017-2022. When it is found that the regulations, procedures, processing time, cost, and documentation requirements for issuing licenses, permits and certificates are deemed unreasonable and duplicating, they shall be amended or eliminated. The effort also pertains to continuing to effective implementation of the Trade Facilitation Secretariat's Action Plan, including the implementation of commitments and obligations under the WTO, ASEAN, Greater Mekong Sub-region (GMS), and bilateral trade agreements.

In order to improve trade facilitation mechanisms and reduce business costs, Lao PDR also attaches the importance on promoting the use of ICT information systems in the administration, communication and technical services such as: Lao National Single Window (LNSW), Electronic Certificate of Origin (e-CO) and e-Trade to create a more standardized and convenient information system that will enable the business sector to reduce the cost of doing business in various fields; improving the necessary legislation related to production, trade, fair competition and services in line with international standards, in particular the various regional and international trade cooperation frameworks and conventions that Lao PDR has ratified or acceded to; and developing the skills and discipline of personnel, improve service facilities to be convenient and centralized in all activities, and establish units to receive feedback and suggestions, and set up consulting kiosks to provide advice to the business sector in addressing bottlenecks and to facilitate starting a business and trade.

Lao PDR's ranking in the Ease of Doing Business Index has deteriorated from the 134th place in the beginning of 2016 to 154th in 2020. Improvements in some of the 10 indicators have been delayed, such as applying for investment licenses, which still takes a long time and exceeds the time required by law, averaging more than three months in the controlled business activities (8 business days according to the law) and more than six months in the concession activities (30 business days according to the law). The ranking of the "Starting a Business" indicator, in relation to procedures and costs, has not improved (181st position out of 190 countries), which is an obstacle to promoting the development and expansion of private investment to be able to compete and integrate effectively regionally and internationally. The "Trading Across Borders" indicator which measures the implementation of trade facilitation was significantly improved from the ranking of 124th in 2018 to 78th in 2020. The average time of documentary compliance for import and export reduced by 72%, the average time of border compliance for export reduced by 25%, and the average time of border compliance for import reduced by 21%. Delays have also been recorded in the consideration of issuing business operating licenses, granting customs duty and tax exemption policies for enterprise import plans, accessing electricity, receiving construction permits and others. Indicators requiring urgent attention include enforcing contracts and judgement (particularly reducing the amount of time spent on case mediation and improving the quality of the justice system), protecting investors (especially corporate transparency), and the ease of procedures to pay taxes.

5.4 Priority 4: Regional Integration and Cooperation

- **Multilateral Trade Cooperation Framework:** Achievements include the improvement and drafting of more than 100 pieces of legislation, reducing tariffs for 1,032 items (out of a total of 10,600 items negotiated); establishment of a Trade in Services Enquiry Point, which is available on the Lao Services Portal website containing information related to trade and investment in services 18 in Lao PDR; promulgation of the law on protection from the impact of imports under the WTO provisions, completion of the ratification process of the Trade Facilitation Agreement (TFA) and the Protocol amending the Trade Related Aspects of Intellectual Property Rights (TRIPS), and Notification Submission to the WTO Secretariat on acceptance of the Code of Good Practice under the Technical Barriers to Trade (TBT) Agreement; completion of the drafting of Decision on trading rights of foreign traders in the import and export of goods; and completion of the notification of categories A, B and C designations of the WTO Trade Facilitation Agreement provisions.
- **ASEAN Cooperation Framework:** Achievements include the completion of the signing of Free Trade Agreements with six Dialogue Partners: China, the Republic of Korea, Japan, Australia, New Zealand and India aiming to enhance trade integration between ASEAN and its Dialogue Partners in the global economy on the basis of ASEAN centrality; completion of the ratification of the ASEAN-India Investment Agreement; signing of the First Protocol to amend the ASEAN Trade in Goods Agreement (ATIGA) so as to implement the ASEAN-Wide Self Certification (AWSC) scheme related to goods origin, the Protocol to Implement the 10th Package of Commitments under the ASEAN Framework Agreement on Services (AFAS 10), and the ASEAN Agreement on Electronic Commerce, ASEAN Outlook on the Indo-Pacific, ASEAN Economic Community Blueprint 2025, , completion of the Regional Comprehensive Economic Partnership (RCEP) negotiations; and signing of the ASEAN Trade in Services Agreement (ATISA) and the Fourth Protocol to Amend the ASEAN Comprehensive Investment Agreement (ACIA).
- **Sub-regional Cooperation Framework:** Good progress has been made in sub-regional cooperation, in particular: the Asia Pacific Trade Agreement (APTA) has completed the fourth round of tariff concession negotiations and continued negotiations on trade in services, investment and trade facilitation; the Cambodia-Laos-Vietnam Development Triangle Area (CLV-DTA) negotiated the Agreement on Trade Promotion and Facilitation in the CLV-DTA and prepared the Action Plan for the implementation of this Agreement; and progress has been achieved in the implementation of the Mekong-Lancang Cooperation framework and other sub-regional cooperation frameworks.

Trade integration and cooperation

- (1) Project to promote bilateral trade negotiations;
- (2) Trade dialogue promotion in ASEAN (AEC) and World Health Organization (WHO);

- (3) Sub-regional cooperation promotion project;
- (4) Project to promote the integration of standards and quality of industrial products and production networks into regional and international systems;
- (5) Export promotion negotiations project;
- (6) Project to promote and develop cross-border trade and trade services related to logistics in the era of integration and connectivity;
- (7) Promoting the use of modern technology for quality infrastructure investment planning and monitoring (ADB) (Ongoing project);
- (8) CLV Cooperation Framework (Ongoing project);
- (9) REDD + Project (JICA) (Ongoing Project)

5.5 Priority 5: Structural Economic Transformation

The long-term sustainability of Lao PDR's growth would depend on economic structural transformation related to diversification of production and trade, driven by the proactive and effective implementation of the National Socio-Economic Development Plans. Nevertheless, the economic structure has not yet shifted towards industrialization and modernization, which can be noted in the share of the agricultural sector in the economic structure which has increased from 15.8% in 2016 to 16.6% in 2020; while the share of the industrial sector decreased from 33.7% in 2016 to 33% in 2020 and the share of the service sector decreased from 40.3% in 2016 to 39.5% in 2020.

Lao PDR sees that creating a conducive environment in a systematic manner, including the formulation of coherent policies and mechanisms, and establishing a clear and comprehensive database and effective economic structure is important in attracting both domestic and foreign investment. Thus, it needs enhancing the implementation of the strategy for developing a modern industry in the direction of Industry 4.0. The quality of the national economy must be developed by transforming the economic structure towards industrialization and modernization, increasing economic diversification in the production and service sectors with high efficiency and added value in line with the potential of the country. Focus has been given to promoting industrial processing sectors linked to regional and international value chains and other potential sectors that can be further explored such as agriculture and tourism to generate revenue and foreign exchange earnings, create jobs for a large number of people, and substitute imports. In addition, Law on MSMEs Promotion has been adopted to promote and strengthen the MSMEs sector, supporting their economic recovery from economic and financial difficulties in the country and the impact from the Covid-19 pandemic in the past years. As tourism is the one of the main potentials of the country, the GoL also promotes tourist sector and create necessary facilities to prepare the up-coming Lao Tourism Year in 2024.

Lao PDR has also been putting the efforts to diversify its economy by reducing its reliance on natural resources to make growth sustainable, while minimizing external impacts and increasing productivity, as well as shifting towards sectors that promote and drive economic growth which aim to be realized with the use of modern technology, in order to create more jobs, build connections with other sectors of the economy and integrate into regional and international value chains and transportation logistics processes. Nonetheless, in the coming years, the country will still need to use natural resources for economic and social development but will use them responsibly in line with sustainable and green growth directions. In this regard, the GoL has initiated several actions to promote a green economy, sound management of natural resources, and to transform the current development model to ensure greater environmental sustainability. New sectoral development strategies were recently developed and launched including the Green and Sustainable Agriculture Framework and Electric car use policy for Lao PDR to 2030. As of 2022, there were 18 companies conducting businesses on electric vehicle charging stations and there are 20 charging stations, 6 stations are under construction and 6 stations are under survey and studies, the total number of electric vehicles are 3.201. Electric vehicles are expected to account for 1% of all automobiles in Lao PDR by 2025, and over 30% by 2030.

Agricultural sector: agriculture has seen considerable progress, but due to natural disasters affecting production, the yield of some crops declined- the 5-year average rice production was 3.7 million tons per year (2016: 4.14 million tons; 2017: 4.05 million tons; 2018: 3.27 million tons; 2019: 3.53 million tons; and 2020: 3.5 million tons (target: 4.35 million tons/year)). Nevertheless, rice production has been able to meet domestic consumption needs, with reserves, and surpluses for sale. Livestock production saw strong growth, especially cattle rearing, which increased from 1.92 million cattle in 2016 to 2.18 million cattle in 2020, and fish farming increased from 164,000 tons in 2016 to 207,000 tons in 2020. Considering the fact that Lao PDR is rich in arable land and has a relatively large land area for production due to low population density, it makes the country favorable for agricultural production, especially for clean, modern, and sustainable agriculture, which is increasingly in demand in the domestic and international markets. Lao PDR has benefited from various preferential tariff schemes particularly the quota-free and duty-free market access for agricultural products to China and exports to the European Union. Over the past years, due to limited productivity, budget and technological capacities, and the impact of natural disasters, agricultural production has been unstable and unable to meet export demand and quality. However, the agricultural sector still is a potential sector that can be further leveraged to maximize the benefits of the trade privileges that Lao PDR enjoys, as well as to generate more income and jobs for the people.

Focuses have been given to the following areas: (1) agricultural production must be closely linked to the production chains of the processing industry to serve domestic and international demands; (2) Produce crops and livestock that already have a market and support the needs of new markets; (3) Shift from single-crop farming to diversified or multi-crop farming (mixed crop system) especially high-yield crops; (4) Promote Good Agricultural Practices (GAP) and organic farming for domestic consumption and tourism attraction; (5) Improve the efficiency of agricultural production with the use of modern tools, new techniques and science innovations, and new varieties of crops, and transform traditional and fragmented farming practices into production groups or the new cooperative production model, using modern technology (Smart Farming); (6) Create access to credit and markets; (7) Develop strong agricultural infrastructure resilient to natural disasters; (8) Identify areas and types of farming and animal husbandry that are suitable to the potential of each locality and the actual needs of the market; and (9) Establish higher food safety standards.

Industrial sector: the industrial sector continued to grow. The processing industry is mainly manufacturing to meet the needs of the domestic market, such as food processing, beverage, and construction materials (cement, rebar, structural 11 steel, PVC pipes, paints, and plastics). The manufacturing industry for export under trade privileges includes clothing and footwear, and electrical and telecommunication parts and equipment, which are manufactured in Special Economic Zones and industrial estates. The agro-forestry industry includes the production of cassava starch, coffee, sugar, rubber, and paper from trees. Electricity generation (5-year cumulative figure) is estimated to have reached 161,923 million kWh, an average increase of 19% per year due to the completion of 52 power projects, with a total installed capacity of 4,718 MW, generating 22,536.99 GWh. Outstanding power projects include Xayaboury dam, Hongsa coal-fired power plant, Don Sahong dam and Nam Ou 5 dam. Mineral production reached USD 7.53 billion, and the export value of minerals was estimated at USD 6.66 billion, but production declined due to diminishing production in some projects. The GoL has temporarily suspended mining concessions in order to improve policies and regulations to ensure national interests and to manage environmental impacts. Lower mineral prices have also disincentivized production. The value of exports reached USD 26,429 million, an average increase of 10.4% per year, lower than the Plan (target: 15% per year), of which exports of processed industrial goods accounted for 43% of total export value. The value of exports of the Special Economic Zones is estimated at USD 1.81 billion (most notably the Savan-Seno Special Economic Zone and the Vientiane Saysettha Development Zone), and the trade openness ratio (excluding services) reached 61.5% (target: 70%). The transition from reliance on the natural resource sectors to light industry sectors set to be realized to diversify and restructure the economy, promote job-generating industries, and reduce imports, along with the continuation of industrial sectors that are important in driving economic growth and generating national revenue.

The key priorities are to continuously develop and expand the processing industries that are connected to the regional and international value chain networks, including the current potential industries such as food and beverage, textile and garment, construction materials, and agro-forestry processing. Promote the goods and services production with high growth opportunities that help reduce imports;; to promote the production of One District, One Product traditional and unique handicraft products to promote local knowledge and link them to tourism, such as: silk fabric, wood 53 carving, accessories and souvenirs, weaving tools, pottery, traditional food, and traditional weaving; to encourage investment in Special Economic Zones, and industrial zones and industrial estates to establish a production base for export, especially the production chain sectors related to MSMEs and international production networks and direct buyers, while ensuring that any tax exemptions are based on the direction of expanding the tax revenue base and protecting workers' rights; to enhance efforts towards building Smart Cities, study and develop dry ports and warehouses, and loading-unloading facilities along the Laos-China railway; to promote the energy and mining sector, particularly ensuring development of solar energy and waste-to-energy technologies, and increase the efficiency of pre-export mineral processing by ensuring markets for exports and supporting the establishment of processing plants or smelters to generate products for domestic consumption and export; and to focus on building infrastructure to strengthen domestic connectivity, as well as regional and international connectivity, and building infrastructure needed for rural development and poverty alleviation.

Service sector: the service sector has grown continuously and accounts for the largest share in the economic structure and job creation. The average number of tourists visiting Lao PDR is 2.64 million per year (NA approved target: 6 million tourists per year), with 4.23 million tourist arrivals in 2016, 3.86 million in 2017, 4.18 million in 2018, 4.79 million in 2019, and 0.88 million in 2020, which is a decrease of 81.49% compared to year 2019, generating an average of USD 673 million in tourism revenue (NA approved target: USD 953 million). The reason for the shrinking number of tourists in 2020 was the COVID-19 pandemic, which caused airlines around the world to suspend travel and services. Lao PDR faced during 2020-2021 unemployment in the tourism sector, with about 22% of the urban workforce. In addition, revenue from the tourism sector significantly reduced, with many tourism businesses, including hotels, guesthouses, and restaurants unable to do business and so terminating their services.

Therefore, it is necessary to take advantage of the emerging opportunities, especially from the Laos-China railway (Boten-Vientiane Capital section) and the Vientiane Capital-Vang Vieng expressway in an effective manner in order to maximize the growth potential for tourism, and goods and passenger transportation. The Laos-China railway operational since December 2021 – has helped increase both internal and foreign tourists, and it is expected that this railway may

now help deliver anticipated trade benefits and boost up the tourism sector. Focus have been given to developing and improving infrastructure, tourism facilities, as well as upgrading the services of hotels, restaurants, and travel agencies to a high-quality and modern standard; improve and develop tourist attractions, in particular focusing on eco-tourism, and cultural, historical, and agricultural tourism related to participatory conservation tourism, as well as to create a variety of tourism products, and increase the use of local products, raw materials, and organic vegetables to reduce imports. It is also important to facilitate the use of technology to attract target tourist groups and link with regional and international tourism programmes, and implement the Lao PDR Tourism Recovery Roadmap for 2021-2025, in particular, the promotion of domestic tourism campaign “Lao Thiao Lao” to help stimulate the domestic economy with policies to promote and support more local tourism, such as: creating conditions for booking services with multiple options, tours with discounts according to marketing strategies, discounted fares, and studying the possibility of a working policy to enable a 4 to 4.5-day work week or long weekend to encourage domestic tourists to travel locally for several days and also to boost and distribute revenue for the tourism and hospitality businesses (as has already been implemented in other countries to create conditions for tourists to travel and spend more). This should run in parallel with other studies to prepare for welcoming international tourist groups, and tourism cooperation with neighboring countries and countries that present a low risk of transmission of COVID-19 as designated travel bubbles. In the aftermath of COVID-19, Lao PDR sees that the tourism sector must promote and increase domestic production and consumption, along with increasing safety and confidence for consumers and travelers, which is important as the pandemic has changed lifestyles, such as concerns about traveling, strict travel hygiene requirements, working from home and online learning. Therefore, planning for tourism development and promotion must consider the “new normal” to ensure that travelers have confidence in the standards and safety of accommodation, transportation, food services, green tourism, as well as agricultural 54 production by promoting the use of local raw materials, and credible, standardized insurance services, among other things. In the future, tourists are expected to be more inclined to change their behaviors and become more interested in rural and natural tourism activities.

5.6 Priority 6: Means of Implementation

5.6.1 Domestic resource mobilization

One of the main challenges for domestic resource mobilization for Lao PDR has been the disconnect between FDI attraction policies, which have included tax holidays, and fiscal policies to finance national development priorities. The relatively low level of formalization in the economy, particularly in the informal sector, has also been a driving factor of limited fiscal space. Ad-hoc deals related to investments and informality both lead to a lack of financial transparency and make it more challenging for the government to collect taxes and other revenues.

To address these challenges, the GoL has taken various measures to improve its capacity for mobilizing domestic resources, including the initiatives focusing on improving revenue administration and increasing tax compliance across all sectors, initiating new schemes to generate additional sources of finance namely via collaborative domestic resource mobilization. The GoL will need to review tax incentives that have encouraged investment by foreign companies and other entities in various sectors of the economy in light of their fiscal costs.

Policies to increase fiscal space for investments in the priorities set out in the 9th NSEDP are in the 9th NSEDP Financing Strategy. They include:

- The assessment of fiscal costs and review, harmonization, and update of the laws, regulations, and processes, to broaden the tax base and abolish and renegotiate CIT and other fiscal exemptions.
- The harmonization of tax rates to optimize revenue generation while fostering private sector development and investments in priority sectors and green growth, including the assessment of expected revenues generated, business registrations, administrative feasibility, and impacts on livelihoods of a potential restoration of the VAT rate to 10%.
- The reassessment and possible termination of all public and public-private investment projects that are not in line with the 9th NSEDP priorities or are experiencing increasing costs and delays weighing on the State budget.
- The continuation of debt consolidation through renegotiations to (1) cancel or reduce debt repayments and/or lengthen the maturity of loans to the second half of the 2020s without losing access to future loans and (2) explore debt swaps with major creditors.

5.6.2 Official development assistance (ODA)

Policies to increase alignment between ODA-funded projects and the 9th NSEDP priorities are included in the 9th NSEDP Financing Strategy:

- The multi-stakeholder formulation of a medium-term ODA strategic mobilization plan (2024-2025), aligned with the 9th NSEDP mid-term review, 2030 ODA strategy and medium-term expenditure framework, highlighting priority sectors for ODA, and encouraging joint approaches.
- The multi-stakeholder review of the RTP and Sector Working Groups, for inclusive partnerships mechanisms facilitating the joint evidence-based strategic planning and delivery of ODA programmes contributing to the 9th NSEDP outcomes, anticipating transition for ODA-reliant sectors.
- The multi-stakeholder review of ODA processes and procedures towards harmonization and simplification

5.6.3 Foreign direct investment (FDI)

FDI have been a driver of economic performance, including infrastructure development that has helped to mitigate the impacts of landlockness, but alignment with all national development priorities has been overall weak, notably due to concerns over the environmental sustainability of infrastructure investment and the associated tax incentives that have weighed on the budget.

Policies included in the 9th NSEDP Financing Strategy to increase the volume and alignment of FDI include:

- The multi-stakeholder formulation of a comprehensive FDI attraction and promotion strategy, which would contain (1) a FDI policy statement that clarifies Lao PDR's strategic vision for FDI promotion and attraction, (2) the review of the Investment Promotion Law and SEZ regulations (3) the cost-benefit analysis and proposed reforms of the current incentive regime's laws and regulations, prioritizing targeted fiscal incentives for priority sectors (social sectors and green growth) and non-fiscal incentives and (4) reforms of the business environment, notably for facilitated entry and increased investor protection, all guided by international standards
- The development of foreign investment risk assessment tools and associated capacity development, to strengthen the institutional review of investments against national development priorities.

5.6.4 Private sector

Domestic private resources represent a significant portion of all available financing flows in Lao PDR. However, the private sector is largely informal and there are few companies of a sufficient size to realize the investments necessary to manage landlockness.

Policies to encourage private sector development in the 9th NSEDP Financing Strategy include:

- The quality implementation of the PM's Orders No. 02 and 03 to simplify the business environment, especially accelerating current efforts to disseminate recent regulatory changes and steps to obtain a business license through user-friendly digital platforms and reduce informal charges.
- A public-private dialogue to increase research and policies on an enabling environment and incentives for MSME (1) development in priority sectors, (2) integration with regional and international value chains, and (3) responsible business practices.

5.6.5 South-South cooperation

South-South Cooperation has played a significant role in promoting economic growth and development in Lao PDR as the country has engaged in several initiatives and projects aimed at promoting cooperation and collaboration with other developing countries, currently pertaining to:

- Cooperation with Bangladesh and Nepal on LDC graduation to exchange on best practices and jointly articulate required support from the international community.
- Infrastructure development support by neighboring countries.

VI. Monitoring of implementation and review

The GoL takes an active role in the commitment of the VPoA and other international agreed agendas and frameworks. The final review of VPoA is an opportune time for the Lao PDR to take stock of its progress and critical challenges that need to address and greater attention. In terms of it's monitoring of implementation, although there has yet been the specific LLDC-led mechanism in place at the national level, VPoA actions and policies have been well implemented by the GoL and relevant sector. Specifically, those policies and activities of VPoA have already been linked and aligned to the National Socio-Economic Development Plan, the National SDGs implementation plan and other sectoral development plans of various ministries. The GoL has therefore leveraged the exiting well-established mechanisms and taskforce to review and monitor the implementation of VPoA in each phase together with other international agreed agenda and national framework, including drawing from annual and sectoral reports.

One of the main monitoring mechanisms is the SDG implementation. The GoL established the National Steering Committee (NSC) for SDG implementation with members of the committee drawn from all concerned ministries, ministry-equivalent agencies, and mass organizations. The Committee then appointed the National SDG Secretariat in the Ministry of Foreign Affairs (MoFA) and Ministry of Planning and Investment (MPI), and SDG focal points in relevant line ministries to lead and take ownership of each SDG, and track the progress of SDG implementation.

The GoL, through Lao Statistic Bureau (LSB), is the leading organization in data collection and information, has built vital statistics production using the available data sources including census, survey, annual administrative data collection and other tools, and has provided evidence and data that being used to report the progress of the VPoA and other frameworks.

By drawing from lesson-learned in reporting the implementation of VPoA, it improves the statistical information system to serve the formulation, monitoring, evaluation and summary of reports on the implementation of VPoA, as well as improving the framework for monitoring and evaluating national indicator, leading to the new plan, is crucial and essential to effectively implementing the actions and policies, including develop stronger and establish coordinating mechanism for LLDC specific implementation will increase the accountability of concerned sectors in managing related data and indicators. Importantly, it ensures that there is budget to support systematic monitoring is the key to ensure regular and timely report and evaluation.

VII. Towards the Next LLDC Programme of Action: Conclusion and way-forward

Conclusion

Since adopting the VPoA in 2014, Lao PDR has made progress in many of the priority areas, especially on the economic, human and social development. Despite the progress, challenges still remain in the area of productive capacity and the ability to diversify its economy. The economic growth has been largely natural resource-driven and capital-intensive, but not broad-based and inclusive generating sufficient proactive employment. It has furthermore become vulnerable to global fluctuations, environmental concerns and looming climate change challenges. The Lao PDR also has limited capacity to provide efficient transit services to neighboring countries and promote multimodal transport operation and mitigate the negative impacts caused by the geographical location of the country.

In addition, the economic growth has met slowdown and the failure to meet targets were the decline in the agricultural sector and natural disasters' impact. Concurrently, the service sector's growth has decreased, particularly in tourism-related accommodation services and restaurants. Furthermore, Lao economic growth has slowed down due to the overall regional and international economic decline and significant trading partners. The shift has been towards non-natural resource goods production and export, promoting agro-processing industries, electronic components, electronics, and tourism-related services. The economy has begun to move away from relying heavily on the natural resource sector, which is unsustainable, to higher-quality processing and service sectors. The shift aims to create a more sustainable direction for job creation and income generation.

The transportation industry presents an opportunity for the country to overcome the challenge of being landlocked by promoting regional and international integration and connectivity. This can be achieved by leveraging land and air transport links to transport domestically produced goods and transit goods to neighboring countries. By using modern transportation logistics and production systems, the country can integrate into value chains. Policy adjustments can help ensure versatility, agility, quality, cost-efficiency, economy of scale, and environmental sustainability.

For connectivity, the development and improvement of transport infrastructure, transit and transportation services, transmission lines, and telecommunication and postal services must be prioritized to ensure connectivity both internally and with neighboring countries and beyond. This includes the systematic monitoring of logistics services that would help in this effort to transform the Lao PDR into a major transit point for transporting goods, while also expanding the country's geographic potential and maximizing benefits associated with promoting the tourism industry and production for neighboring countries.

Above all, the GoL remains committed to implementing the next Programme of Actions for LLDCs so as to achieve other international development agendas. Therefore, in order to realize our

ambitions, support and assistance from the international financial institutions and donor countries continue to be pivotal and will make significant contribution.

Way Forward

As identified by the progress made in the implementation of the VPoA, the Lao PDR will further focus on:

- Infrastructure development as a critical factor for the country to overcome certain geographical disadvantage and to connect with global markets. Therefore, continued investment in infrastructure development, such as building or upgrading roads, railways, airports, and telecommunication systems will remain one of the priorities in the coming years. By improving infrastructure, it will enable the country to reduce the cost of doing business, attract foreign investment, and promote trade;
- Regional connectivity through building a network of national roads, railways, waterways and airways with many different routes and quality to promote connectivity with productive regional markets and larger markets, supporting the extension and upgrading of the transit transport network and its feeder roads, as well as enhancing regional and international cooperation, connectivity and integration, particularly trade and export cooperation to promote production and exports, with innovative ideas to bring the market to remote producers;
- Trade and Transport facilitation and regional integration in reference to the development of the National Trade and Transport Strategy (NTTS) 2023-2027 which will include the process of simplifying international trade procedures, and reducing trade and transport costs to promote trade and transport competitiveness. The NTTS will focus on improving trade and transport facilitation measures by streamlining customs procedures, simplifying import and export regulations, and reducing non-tariff barriers to trade, such as technical regulations and standards, transforming to paperless trade by using electronic system for issuing permit and license and payment, improving infrastructure, strengthening the domestic transport, and promoting regional economic integration. Additionally, the Lao PDR will work towards building stronger regional economic cooperation to increase trade and investment flows in the region, including by reviewing and modernizing regional trade agreements and trade facilitation measures;
- Human and social development which aims at improving the living conditions and well-being of individuals through investing in education, healthcare, and social protection. This will help the Lao PDR to build a skilled and healthy workforce, reduce poverty and inequality, and enhance the overall well-being of the population, particularly in rural and remote areas;
- Digital connectivity in order to develop and utilize science, technology, and innovation as a driver for national development, while also applying technical and scientific research to created knowledge-based economy and society, combined with efficient and environmentally friendly production and service processes which can be strengthened

through the use of new technologies. These efforts aim at national socio-economic development in the direction of a digital economy;

- Energy transition so as for promoting sustainable energy sector infrastructure and optimizing the potential of the energy sector to be able to meet the needs of domestic consumption. The National Power Development Plan shows that the energy production must have the combination of many sources of production such as hydropower, coal, renewable energy (solar and wind) according to the potential and production capacity in Lao PDR through the acceleration to achieve proportion of total production that includes hydropower for 75%, coal for 14% and renewable energy (solar and wind) for 11%. At the same time, it is necessary to study and explore other energy-intensive industries to avoid oversupply of energy, such as the use of electric vehicles in the future to reduce fossil fuel consumption and promote electricity consumption.