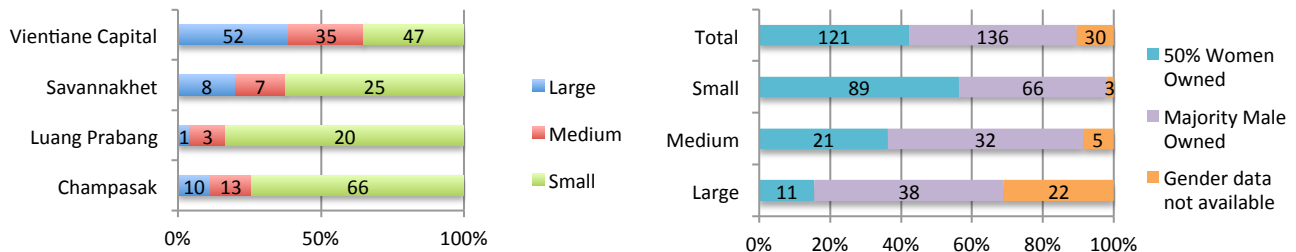


FACT SHEET

Business Perceptions Survey: *Trade Liberalization in Laos*

Two years ago Lao PDR joined the World Trade Organization (WTO). To gauge perceptions of the benefits of trade and how the private sector is adjusting to international trade, USAID sponsored a business perceptions survey (BPS) in collaboration with the Lao National Chamber of Commerce and Industry (LNCCI). The survey compiles the responses of 287 firms, the characteristics of which are summarized in the figures below.



The most important finding is that a large majority of respondents are benefiting from international trade. Eighty percent depend on imported inputs for their business, and nearly half are already engaging in export sales. Trade liberalization is also stimulating many firms to improve efficiency and competitiveness.

ENGAGEMENT IN TRADE: EXPORTS

Export sales are defined as goods or services produced in Laos and sold to customers who are residents of a foreign country. Forty-four percent of firms surveyed are involved in exporting¹ and 20 percent benefit from export-linkages, or the ability to export indirectly via sales of inputs to larger, export-oriented firms. Among exporting firms, 46 percent experienced growth in direct export sales over the past two years.

Key Export Destinations

- 57% to Thailand
- 38% to Europe
- 31% to China
- 26% to other ASEAN countries²
- 24% to Vietnam
- 17% to the United States

Growth of exports in the past two years

- 38% exporting to ASEAN countries
- 34% exporting outside of ASEAN and China
- Growth strongest for large businesses
- 40% of small exporting firms saw declines in exports sales

Thirty-two percent of firms in the sample envision prospects for export growth in international trade in the next two years. Among firms currently exporting, 58 percent expect sales to grow because of trade. Eleven percent of non-exporting Lao-owned firms are considering entering external markets.

Who seeks to expand export sales?

- 32% of Lao-owned firms
- 66% large firms, 34% medium, 16% small
- 50% of agro-forestry firms, 49% of manufacturing firms
- 32% of majority male-owned, 30% of women-owned firms

Prospects for export growth in the next two years

- 52% looking to Thailand
- 45% looking to the European Union
- 42% looking to China, 39% looking to Japan and 28% to Korea
- 26% looking to the United States
- 20% looking to other ASEAN countries

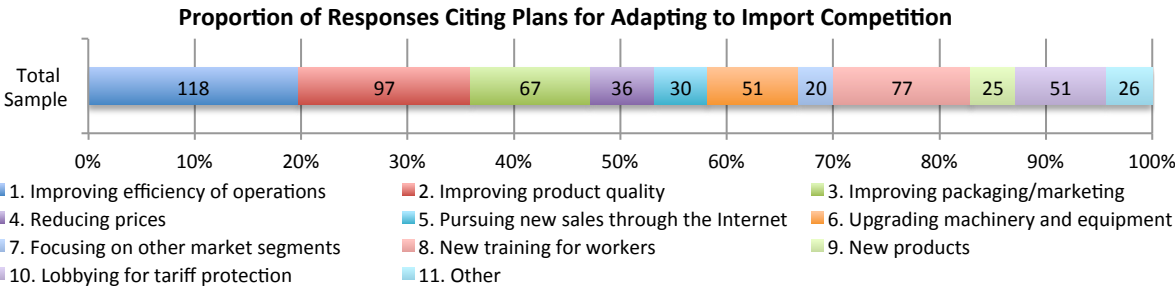
¹ Sample weighted to include higher proportions of medium and large firms, can't extrapolate for the entirety of the Lao economy.

² Excludes Thailand and Vietnam

The top three ways firms intend to improve their export sales are to make operations more efficient, improve products, and improve worker training. Exporting firms say the top three constraints on export sales are lack of skilled labor, transportation costs, and availability of trade finance.

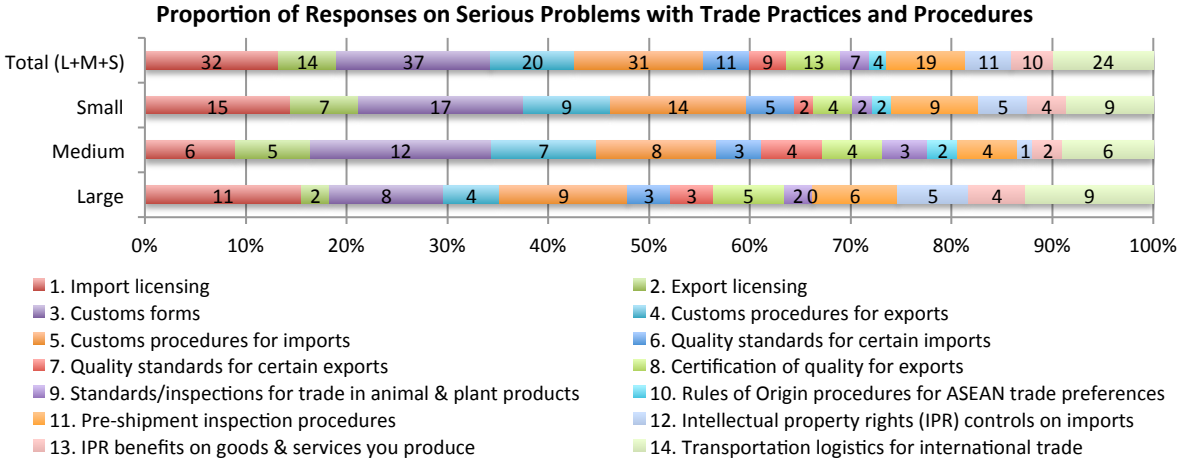
ENGAGEMENT IN TRADE: IMPORTS

Eighty percent of firms surveyed said they depend to a significant extent on imported inputs. The most common types of imported inputs are equipment, spare parts, and raw materials. Fifty percent said that they are facing import competition in the domestic market and 14 percent see this as a critical problem. Policymakers should take this problem seriously and seek to ease adjustment to new trade patterns with constructive measures such as reducing regulatory costs for businesses and providing retraining assistance for displaced workers, among others. Many firms plan to adapt to import competition by making their operations more efficient, improving their products, and training workers.



TRADE POLICIES AND PRACTICES

A large majority of respondents have had no serious problems with the procedures and regulations listed in the figure below. But more than a few are facing problems with some of the listed trade practices. Hence, there is considerable scope for action to reduce nontariff impediments to trade. From the evidence here, the top priorities are improvements in paperwork and procedures for customs clearances. The survey also found that knowledge of trade policies and trade agreements is very low. Nonetheless, the predominant view among respondents is that these policies are decisively more helpful than harmful to local businesses. These findings suggest that awareness and understanding of trade policy should be improved.



The business perceptions survey focused on international trade, but its findings highlight that maximizing the potential gains from trade requires fostering a competitive business environment through appropriate macroeconomic policy, financial sector modernization, and legal and regulatory reform that encourages efficient investment, growth in competitive industries, and creation of productive jobs for the people of Lao PDR.