

## CHAPTER VII. CASE STUDY OF LAO PEOPLE'S DEMOCRATIC REPUBLIC

### A. Country profile

Lao People's Democratic Republic, with a surface area of 236,800 square kilometres, is the sole landlocked country in South-East Asia, sharing borders with Viet Nam to the east, Cambodia to the south, Thailand to the west, and Myanmar and China to the north. Rivers and mountains dominate much of the landscape and the Mekong River, which runs through the country from north to south, defining its border with Myanmar and partially with Thailand, is used for the transportation of goods and people and also for fishing. However, many falls and rapids impede the use of the river as a communications artery. Most of the country consists of plateau and mountains and only around 10 per cent of the land is arable, much of it in the Mekong river valley. The two main agricultural centres are around the two most populated cities, Vientiane and Savannakhet.

Lao People's Democratic Republic is also one of three least developed countries in South-East Asia. The country has limited infrastructure, with no railways, a rudimentary road system, poor external and internal telecommunications, and electricity available in only limited areas. Developing the transport infrastructure to provide improved access to markets and economic opportunities and integrate the rural population into the national economy is thought to be key to sustainable economic growth and poverty reduction in the future. The population of Lao People's Democratic Republic was estimated at 5.78 million in 2002 and its population density low. Nearly 80 per cent of the population are engaged in subsistence agriculture in rural areas, and around 45 per cent of the total population currently live below the national poverty line.

The country has, however, made good progress in poverty reduction. Although annual population growth has been around 2.3 per cent in recent years, GDP per capita has been growing at around 3.6 per cent per year. The rate of poverty reduction during the 1990s is estimated at around 4 per cent per annum, even though income inequality has risen somewhat during this period.<sup>33</sup>

Lao People's Democratic Republic is endowed with vast natural forest and mineral resources and potential for hydroelectric power. Agriculture contributes over 50 per cent of GDP but much of the recent impetus from growth has come from manufacturing and services. With the introduction of the New Economic Mechanism (NEM) in 1986, the Government has been transforming the economy from a centrally planned to a market-oriented system. This has permitted a small private sector to emerge in industries such as garment manufacturing and tourism.

Lao People's Democratic Republic has traditionally been a closed economy where trade has been largely informal in nature along its borders with Thailand, Viet Nam and China. As a landlocked and least developed country, it is very dependent on imports of industrial products and other commodities from its neighbours, as well as the rest of the world. At the same time, its exports suffer from high transaction and transport costs, offsetting the country's relative competitiveness in terms of low labour costs and natural resource endowments. Large trade deficits have become chronic and in 2002 reached US\$

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<sup>33</sup> ESCAP and United Nations Development Programme, *Promoting the Millennium Development Goals in Asia and the Pacific: Meeting the Challenges of Poverty Reduction* (United Nations publication, Sales No. E.03.II.F.29), pp. 40-46.

285 million. Although tourism receipts were increasing before the recent global uncertainties took a toll of the sector, the current account deficit has hovered in the region of 7-8 per cent of GDP annually.

Timber and electricity are the two leading exports of the country. Exports of timber and wood products, which used to dominate exports in the early-1990s, have had a share of about 25-30 per cent by value (in US dollars) of total exports recently. Exports of electricity have, on the other hand, seen phenomenal growth and now also account for approximately 30 per cent of total exports by value. Garment exports have also grown rapidly in the late 1990s as the European Union (EU) reinstated and further expanded preferential access to these exports from Lao People's Democratic Republic; garments now account for around 27 per cent of total exports. The Government would like to see greater export diversification, as the continued reliance on timber and wood products is environmentally unsustainable. The absence of normal trade relations with the United States of America has, however, limited the scope of this.<sup>34</sup> The other principal export commodity is coffee.

Data on imports into the Lao People's Democratic Republic are not always accurate owing to poor recording of the official and unofficial cross-border trade. However, it appears that imports have been gradually declining in recent years, in line with the decline in foreign direct investment in the hydropower sector that was mainly used to purchase imported capital goods. This is reflected in the large reductions in the imports of vehicles, machinery and construction equipment. The share of fuel in the total import bill has, however, been rising, in response to an increase in the cost of petroleum products and to the growing number of motor vehicles in the country. Cement, along with inputs for the garment industry and motorcycle parts are the other principal imports.

Lao People's Democratic Republic has reoriented its trade towards its Asian neighbours, following the collapse of the former Soviet Union. Thailand is the Lao People's Democratic Republic's largest trading partner, with a share averaging around 53 per cent of total imports and 14 per cent of total exports in terms of value (in US dollars) in recent years. Viet Nam is the second most important trading partner, and the destination of approximately 42 per cent of exports and the source of around 27 per cent of imports. In August 2002, following an agreement to facilitate trade, Viet Nam lowered tariffs by around 50 per cent on 27 items commonly imported from the Lao People's Democratic Republic, among which were agricultural and wood products, industrial goods and handicrafts. Imports from China have been increasing steadily, and the country now accounts for approximately 5 per cent of total imports into Lao People's Democratic Republic. Other Asian countries are also important sources for imports, but markets in the EU are the principal export destinations after Thailand and Viet Nam.

Lao People's Democratic Republic has had a history of controlling imports and import licenses are needed to bring goods into the country. Quotas have also been placed on certain imported commodities. More recently, import controls have been partially liberalized and made more consistent with international practices to improve access to imported inputs for domestic producers. Only six product groups were subject to quantitative restrictions in 2002 and two of these were due to be removed from the list by the end of the year. Commitments made under the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA) are being honoured, and Lao People's Democratic Republic is on track to fulfil

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<sup>34</sup> The two countries initialled a bilateral trade agreement in 1997, which has yet to be ratified. Lao People's Democratic Republic is still considered to be a "non-market" economy by the United States.

these commitments by 2008. The agreement on closer economic cooperation between ASEAN and China, due to come into force in July 2003, is likely to increase trade between China and Lao People's Democratic Republic. Agricultural commodities included in the "early harvest" list will benefit from an early date. The process for the accession of Lao People's Democratic Republic to the World Trade Organization (WTO) has also begun. The Government hopes to leverage Lao People's Democratic Republic's strategic position in the centre of the Mekong region to make the country into a land bridge for its neighbours. To this end, it would like to promote transit trade, as well as re-exports, and to set up duty-free zones in anticipation of its greater integration into the subregional and regional economies.

These liberalization measures, together with reforms under the New Economic Mechanism, are likely to result in the implementation of normal trade relations with the United States of America in the near future. The overall outlook for exports, and trade in general, is likely to be positive, notwithstanding the scheduled phasing out of the Multifibre Arrangement in January 2005, which will affect garment exports.

## **B. Transit transport infrastructure and facilitation**

### **1. Transit transport infrastructure**

#### *(a) Land transport*

Road transportation is the dominant transport mode in Lao People's Democratic Republic, carrying an estimated 90 per cent of all traffic.<sup>35</sup> Nevertheless, around two fifths of the population still live more than six kilometres from the nearest road and more than 25 per cent of all district centres do not have year-round road access. Many roads have become run down and are often impassable during the rainy season. The Government and donors have given high priority to upgrading the road network during the last decade, in terms of length and spread as well as improved road quality. The total road network is now over 32,000 kilometres and some 53 per cent of national roads and 14 per cent of all roads are paved (table VII.1). However, maintenance of existing assets has not always received consistent attention.

**Table VII.1. Lao People's Democratic Republic road network, 2002**

<i>Surface type</i>	<i>Road class</i>			
	<i>National (km)</i>	<i>Provincial (km)</i>	<i>Rural (km)</i>	<i>Total (km)</i>
Paved	3 830	338	423	4 592
Gravel	2 118	3 947	3 595	9 660
Earth	1 212	4 666	12 493	18 371
Total	7 160	8 951	16 511	32 624

*Source: Road and Bridge Department, MCTPC, Government of Lao People's Democratic Republic.*

Initial investment has concentrated on rehabilitating and improving the arterial road network, establishing National Route 13 as the spine of the national road system running north-south from the border with China to the border with Cambodia, and also developing the critical east-west links with Thailand and Viet Nam. Developing the national road network further into provincial and rural areas is viewed as being the vital next step to ensure that the social and economic benefits of arterial road development are transmitted to these areas. It is

<sup>35</sup> Ministry of Communications, Transport, Posts and Construction, Government of the Lao People's Democratic Republic, "Country Report on Asian Highway Network Development", October 2001.

estimated that of the 220,500 vehicles (including motorcycles) operating in the country, 6 per cent are trucks and buses.<sup>36</sup>

There has been a major reorientation in the routes used for the transit cargo of Lao People's Democratic Republic, in line with the reorientation in its trade. Before the introduction of the New Economic Mechanism, international trade was generally conducted with former communist countries and the only access to the sea was through Viet Nam. Now, it has been estimated that around 95 per cent of Lao People's Democratic Republic's transit trade moves through the ports in Thailand designated to handle this traffic, while the remainder moves through ports in Viet Nam. Thailand is considered to be the most convenient transit corridor, notwithstanding high inland freight charges, with the majority of traffic passing over the Friendship Bridge between Thanaleng, Lao People's Democratic Republic, and Nong Khai, Thailand, across the Mekong river. Under the bilateral agreement between Lao PDR and Thailand, there are a total of five international border points between Lao PDR and Thailand (see Section 2.a. below).

Despite access to the ports of Viet Nam, the difficult terrain and inadequate infrastructure, as well as a number of other procedural and administrative barriers, hamper transit traffic. Transit traffic to and from Lao People's Democratic Republic can pass through any port in Viet Nam, but capacity constraints limit the potential of these ports to handle the traffic. Unlike ports in Thailand, which attract some direct calls, ports in Viet Nam will continue to operate as feeder ports for the foreseeable future. As sailings from these ports are less frequent, and the procedures for using them more difficult, importers of goods from Lao People's Democratic Republic continue to nominate vessels sailing from Thai gateways to carry their cargo.

The Government of Lao People's Democratic Republic has expressed its interest in extending rail links from Vientiane to Nong Khai, thereby connecting directly to the railway network in Thailand. Towards this end, Thailand has provided some assistance for the detailed design of a 3.5-kilometre rail link from the middle of the Friendship Bridge to Thanaleng, while the Republic of Korea has granted technical assistance for the preliminary design of a 12.5-kilometre rail link from the Friendship Bridge to Vientiane. However, the project is still on hold for lack of funds. Meanwhile, under the ASEAN-backed Singapore-Kunming Rail Link Project, a spur line has been proposed linking Vientiane with the northern Vietnam city of Ha Tinh. The government of Vietnam has conducted a feasibility study on this link, but again, the actual realization of such a link will depend on the willingness of donors and neighbouring countries to finance it. In addition, the demand for a railway in Lao People's Democratic Republic is still considered to be relatively low.

*(b) Inland water transport*

The Mekong River flows for 1,865 kilometres along the length of Lao People's Democratic Republic from north to south and is an important means of transport, particularly for mountainous areas inaccessible by road. Trade is generally conducted along three stretches of the river: Huoixai-Luang Prabang; Luang Prabang-Vientiane; and Vientiane-Savannakhet. The Quadripartite Agreement on Commercial Navigation among China, Lao

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<sup>36</sup> K. Bouaphanh and S. Kommasith, "Review of the Vientiane Plan of Action on Measures designed to Improve Transit Transport Systems of the Lao People's Democratic Republic", paper presented at the United Nations Conference on Trade and Development, Second Specific Consultative Meeting on the Transit Transport Systems of the Lao People's Democratic Republic, 15-16 January 2003, Vientiane (UNCTAD/LDC/Misc.88).

People's Democratic Republic, Myanmar and Thailand was signed in April 2000, and six common technical rules and regulations were signed by the four countries in March 2001. Commercial navigation on the Lancang-Mekong River was officially inaugurated in Jinghong, China, in June 2001.

With this agreement, and the zero tariff agreement signed between China and Thailand on fruit and vegetable imports (June 2003), it is expected that freight carried by IWT between these countries will increase significantly over the next few years. In particular, the route through the Golden Triangle area, where Lao PDR, Myanmar, Thailand and China share borders, should stimulate economic activity and transit transport volumes. To capture this opportunity, Lao PDR has set up a new economic development zone near this area, which consists of the construction of the Ban Mom Port, new urban area development and bank protection.

(c) *Air transport*

There are three international airports in Lao People's Democratic Republic, in Vientiane, Luang Prabang and Pakse, with Watty International Airport in Vientiane being the main entry point for international tourists. In addition, there are nine domestic airfields across the country. While air transport development has contributed significantly to the development of tourism in the country, it has yet to play a significant role in the movement of freight owing to high transport costs and low value of exports. Exporters use air transport in emergencies, when production delays could cause goods to miss shipping schedules. Higher value food products, mainly meat, are also moved by air.

(d) *Storage facilities*

Warehouses exist for cargo in transit for Lao People's Democratic Republic at both Bangkok and Danang ports, and at Thanaleng. However, there are no warehouse facilities at the border with Viet Nam. A feasibility study for the establishment of dry ports in Vientiane and Savannakhet was completed in 1995, but these have yet to be developed.

## **2. Legal framework**

(a) *Bilateral agreements between Lao People's Democratic Republic and Thailand*

The movement of goods in transit between Thailand and Lao People's Democratic Republic is based on an Agreement on Transit Trade, signed in June 1978. The purpose of the Agreement was to facilitate the movement of exports and imports of either country in transit to and from a third country, in accordance with the Convention and Statute of Freedom of Transit, Barcelona, 20 April 1921.<sup>37</sup> Carriage of goods across the border can be done only through designated and licensed road hauliers, and the Agreement on Transit Trade provided the framework for both countries to select transport companies eligible to carry transit trade, with each country holding five licences. Of the five operators currently licensed for transit cargo, four are Thai companies and one is a Thai-Lao joint venture.<sup>38</sup> The Agreement also allows cargo in transit to be transferred to a dedicated warehouse following its arrival at

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<sup>37</sup> Thailand is not a signatory to the Barcelona Convention, therefore not bound by its requirements.

<sup>38</sup> The volume of traffic does not justify the presence of more operators at present. However, current license holders can sub-contract or lease their licenses on an ad hoc basis.

Bangkok Port and the clearance of import procedures. This dedicated warehouse is in the vicinity of the port, opposite the Customs Department offices.

The Subsidiary Agreement on Road Transportation designates 10 official border-crossing points for the import and export of goods in transit.<sup>39</sup> However, cigarette and liquor products must transit through Bangkok Port and Nong Khai Customs House. There are five international checkpoints on the border between Thailand and Lao People's Democratic Republic, with Nong Khai-Thanaleng being the dominant border crossing point for Lao transit cargo.<sup>40</sup>

A new transit agreement was negotiated in 1999 and the Subsidiary Agreement was signed in 2001. However, there are still some pending issues which need to be resolved before the agreement is implemented in full. The new transit agreement should benefit Lao exporters by eliminating the need for transshipment at Nong Khai or Mukdahan, reducing transit time by the one or two hours required for the physical transfer and the paperwork. It should also reduce the damage and theft of cargo that occurs during the transshipment, as the new agreement removes the need for customs checks for properly sealed cargo, as well as the unofficial payments made to Lao and Thai customs officials. The transit agreement will have less impact on Lao importers, who will still face delays and informal payments associated with clearing customs through Thanaleng.

The new agreement will also allow certified trucks from each country to deliver to or pick up cargo from the other. Thai trucks will be able to go into any province in Lao People's Democratic Republic, but a ceiling on the total number of operators will remain in force.

*(b) Bilateral agreement between Lao People's Democratic Republic and Viet Nam*

Transit trade between Lao People's Democratic Republic and Viet Nam can cross the border at eight designated points under a 1991 Agreement between the two countries.<sup>41</sup> Under this bilateral protocol, all transit traffic through Viet Nam must go through these official border crossings. There are no restrictions on the choice of ports in Viet Nam for landing transit cargo bound for Lao People's Democratic Republic and, at present, this cargo passes through Danang, Haiphong, Ho Chi Minh and Vinh. An Agreement on the use of the Port of Vung Ang, near Vinh, to handle Lao transit cargo was signed by the Government of Lao People's Democratic Republic and the Government of Vietnam on 20 July 2001.

The bilateral protocol relates to the issue of transit permits or authorization for each shipment, but does not cover the issue of the movement of vehicles. A transit permit used to be necessary for all goods in transit through Viet Nam, as transit quotas governed the transport of such goods. Beginning in 1994, these quotas have been gradually removed and, at present, transit permits are needed only for certain restricted items such as dangerous

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<sup>39</sup> These are Bangkok Port; Bangkok International Airport Customs Bureau; Laem Chabang Customs House (CH); Mab Ta Pud CH; Nong Khai CH; Nakorn Phanom CH; Mukdaharn CH; Phiboonmungsaharn CH; Chiangsan CH; Chiang Kong CH; Bueng Karn CH; Thalee CH; Thongchang CH. Ministry of Transport, Government of Thailand, "Thailand Country Paper", presented at the ESCAP Subregional Seminar on International Transit Transport under TIR System, Kunming, 23-25 September 2002.

<sup>40</sup> The checkpoints are Nong Khai-Thanaleng; Chiang Klang-Houeyxay; Nakhon Phanom-Takhek; Mukhdahan-Savannakhet; and Chongmek-Vangtao/Pakse.

<sup>41</sup> The designated points are Sob Houn-Dae Chang on Route 42; Sob Bo-Pa Hang on Route 43; Ban Leung-Na Mao on Route 27; Keo Neua-Kao Cheo on Route 8; Nam Kan-Nam Kan on Route 7; Rung Khane-Cha Lo on Route 12; Lao Bao-Dansavanh on Route 9; and Yang Yeun-Bai on Route 18.

goods or ammunition. Vietnamese vehicles are permitted to enter the territory of Lao People's Democratic Republic provided that an international transport permit is granted to that vehicle by a Vietnamese authority, and vice versa. In 2001 and 2002, the number of trucks which were issued such permits by the Vietnamese authorities were 3211 and 2326 respectively.<sup>42</sup>

(c) *Bilateral agreement between Lao People's Democratic Republic and Cambodia*

There is a transit agreement with Cambodia that has been signed but has yet to be implemented. The Government of Cambodia is hoping to construct roads connecting the port at Sihanoukville to Lao People's Democratic Republic within the next five years. These roads will offer more options to traders from Lao People's Democratic Republic in terms of transit transport routes and will also facilitate trade between the two countries.

(d) *ASEAN Agreements*

ASEAN Economic Ministers signed three agreements in December 1998 in Hanoi, Viet Nam, to hasten economic integration of ASEAN member countries, in line with the Hanoi Plan of Action. Two of these agreements, the Framework Agreement on Mutual Recognition Arrangements and the Framework Agreement on the Facilitation of Goods in Transit should simplify and speed-up trade among ASEAN members, thus supporting an expansion in this trade.

The key objectives of the agreement facilitating transit trade are:

- To facilitate transportation of goods in transit, to support the implementation of AFTA, and to further integrate the region's economies;
- To simplify and harmonize transport, trade and customs regulations and requirements for the purpose of facilitating goods in transit; and
- To establish an effective, efficient, integrated and harmonized transit transport system in ASEAN.

A number of other ASEAN agreements relating to international transport have also been signed, and two are currently under negotiation: the ASEAN Framework Agreement on the Facilitation of Inter-State Transport and the ASEAN Framework Agreement on Multimodal Transport. The latter Agreement will lay down broad principles on minimum standards for registration and liability limits of ASEAN multimodal transport operators.

(e) *Greater Mekong Subregion agreement*

Trade within the Greater Mekong Subregion (GMS) has benefited from improvements in infrastructure, particularly transport, as well as cooperation in trade facilitation. The GMS countries have chosen to focus on trade facilitation to establish an attractive trade environment quickly in the subregion so as to ensure that their investment in physical infrastructure has clear economic payoffs. The Agreement for the Facilitation of the Cross-

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<sup>42</sup> Hoc, Dang Thi, Deputy Director General, International Relations Department, Ministry of Transport, Government of Vietnam, "Report on Transit Transport Issues in Vietnam", 2003.

border Transport of Goods and People is to be implemented throughout the subregion by 2005. Lao People's Democratic Republic, Thailand and Viet Nam signed a trilateral agreement in 1999 to which Cambodia and China acceded in 2001 and 2002 respectively and Myanmar will accede in due course. The Asian Development Bank is providing on-going technical and financial assistance to this project, which is part of the overall programme of economic development and integration within the GMS.

The GMS agreement has been designed to harmonize individual bilateral agreements among the member countries. Priority is being given to customs cooperation as a means to ease trade barriers and single-stop customs inspection procedures are being pilot-tested at various checkpoints along economic corridors currently being developed in the subregion, including at Donsavanh-Lao Bao and Mukdahan-Savannakhet.

*(f) National legislation*

National legislation relating to transit transport includes road standards. Regulation 571/MCTPC passed in 1997 regulates the maximum permissible gross weight as 30 tonnes and maximum permissible axle load of vehicles at 8.2 tonnes. This regulation has been replaced by the Regulation 849/MCTPC passed on 5 March 2002 to increase the maximum axle load to 9.1 tonnes, in line with neighbouring countries.

Domestic legislation on the establishment of a freight forwarders association is relatively recent, and the Lao International Freight Forwarders Association, which comprises 12 members, was officially recognized in January 2003. The country is not as yet a member of the International Federation of Freight Forwarders Associations. Transport companies serving third country trade are mostly trucking companies that also provide some warehousing and consolidation. These companies arrange for the movement of cargo to and from Nong Khai and Mukdahan, where it is transhipped to and from Thai trucking companies.

### **3. Transit transport procedures**

Lao People's Democratic Republic, like many other countries, has a number of parallel procedures relating to the trade, customs, and transport processes for transit cargo, although the Government is seeking to simplify some of these administrative procedures. According to customs officials, the procedure for customs clearance in Lao People's Democratic Republic consists of four steps:

- Document check for errors;
- Approval of documents and designation of staff for cargo inspection;
- Input of data into the statistics database; and
- Physical inspection of the goods.

If all the documents are in order, cargo can be cleared within half a day. The main source of delay stems from the long time needed for the granting of import and export licenses, estimated to be about two weeks for imports and 4-7 days for exports. The Ministry of Commerce has established single-window customs services at seven border checkpoints in order to facilitate trade and, depending on the commodity being exported, a



licence is generally no longer required for exports. However, little use is made of information and communications technology in customs work so far due to a lack of funding.

At present, very few containers are transported to and from Lao People's Democratic Republic owing to the high cost of repositioning empty boxes and the reluctance of the shipping lines to allow boxes to travel to Vientiane. Instead, cargo is stuffed and unstuffed in Bangkok or occasionally in Nong Khai. While the amount of cargo shipped in containers is expected to increase, the rate of growth will depend on the development of inland clearance depots or dry ports at the border crossing points of Nong Khai-Vientiane and Mukhdahan-Savannakhet. Container unstuffing services are also currently being offered in Vientiane after customs clearance at Thanaleng.

On the Thai side, the documents required for customs clearance are:

- Letter of authorization from the agent of the foreign consignee;
- Through bill of lading;
- Invoice; and
- Other documents stating that the port of embarkation and port of disembarkation are located overseas.

Customs clearance can be completed in half a day but, in the case of exports to third countries, the shipping line must receive goods at least 24 hours before the scheduled departure time of the vessel. In the case of a full container of goods in transit to a third country, customs officials will inspect the markings and numbers on the container, as well as the number of packages inside it. If everything is in accordance with the documents presented, a customs officer will seal the container doors before releasing it to its destination. Upon completion of the inspection, the documents will be returned to the transit transport operator or his agent, who will then submit them to customs officials at the port of disembarkation. Customs officials are expected to inform their counterparts at the port of disembarkation of the shipment in advance of its arrival.<sup>43</sup>

In February 1999, customs officials on either side of the Friendship Bridge at Nong Khai and at Thanaleng agreed to harmonize working hours, and the border crossing is currently open every day from 0600 to 2200 hours. However, trucks can cross the border only until 1600 hours. A toll, of around US\$ 5 for a ten-wheel truck and US\$ 8 per trailer, is imposed on both sides of the bridge. A Lao customs official will escort trucks from the bridge to the customs warehouse at Thanaleng. The inspection of imported goods is at the discretion of the customs officers, with the decision being based on their previous knowledge of the importer as well as the nature of the goods being imported. Under legislation in the Lao People's Democratic Republic, the importer has ten days in which to clear the cargo without having to pay storage charges.

The majority of exports from Lao People's Democratic Republic destined for third countries are sold f.o.b. Bangkok, with the buyer nominating the vessel. In some cases, sales are ex-factory and the buyer nominates the freight forwarder. The goods are either

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<sup>43</sup> Ministry of Transport, Government of Thailand, "Thailand Country Report", presented at the ESCAP Subregional Seminar on International Transit Transport under TIR System, Kunming, 23-25 September 2002.

transported directly from the Lao factory using Thai trucks or transshipped at Nong Khai or Mukdahan from Lao to Thai trucks. Imports from third countries destined for Lao People's Democratic Republic are generally purchased c.i.f. Bangkok and are initially stored in transit warehouses before being transported on Thai trucks to Nong Khai and then to the customs warehouse at Thanaleng. From there, the imports continue on Thai or Lao trucks to their destination but Thai trucks need a special permit to enter the Vientiane area.

#### **4. Coordination of trade and transport facilitation**

At the national level, the Government of Lao People's Democratic Republic established a National Transport Facilitation Committee in 1997. This Committee was renamed the National Transport Committee in January 2001 to conform with the Road Transport Law. All stakeholders are represented in this committee, which is charged with formulating transport and transit policies for the country. The Ministry of Commerce takes the lead role in the area of trade facilitation, along with the Customs Department, Ministry of Finance, and the Ministry of Communications, Transport, Post and Construction.

With regard to bilateral discussions, meetings are held between the transport officials of the Government of Lao People's Democratic Republic and the Governments of Thailand and Viet Nam at least twice a year to review the implementation of their respective agreements. Furthermore, under Article 29 of the GMS Agreement on the Facilitation of the Cross-Border Movement of Goods and People, contracting parties are to establish National Transport Facilitation Committees, which will serve as the national focal points for the Joint Committee that will administer the implementation of the Agreement. This mechanism is likely to contribute to closer cooperation on transit transport issues.

#### **C. Analysis of selected corridors**

Two corridors were selected for the application of the ESCAP time/cost methodology to exports, Vientiane to Bangkok Port and Vientiane to Danang Port. The findings are presented below.

##### *(a) Exports via Bangkok Port*

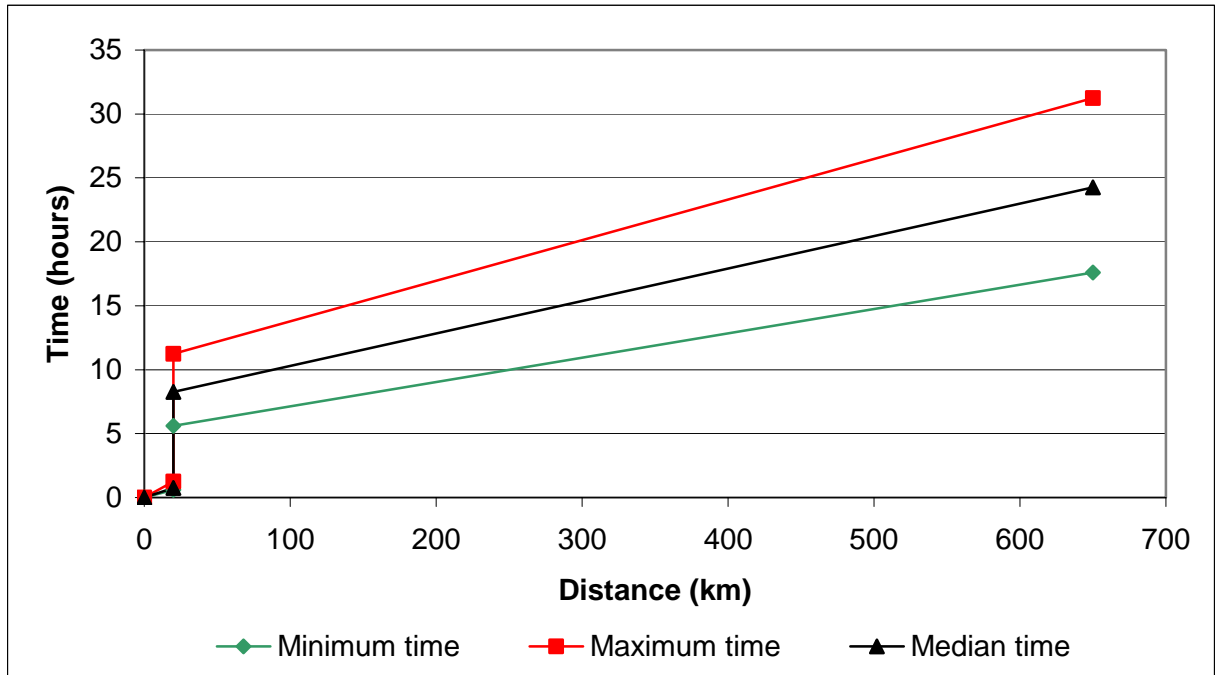
Table VII.2 and Figures VII.1. and 2. present the findings on transit times and costs associated with the export of garments from the Lao People's Democratic Republic, based on industry sources. This route carries the vast majority of all transit trade to and from Lao People's Democratic Republic. The garments are transported in cartons from the factory on either Lao or Thai trucks. They are inspected at Nong Khai, where they may be transshipped to Thai trucks for transportation to Bangkok Port where they are stuffed into containers to await shipping. The journey time can range from just under 18 hours to just over 31 hours. In terms of time, the border crossing between Thanaleng and Nong Khai, as well as the Nong Khai-Bangkok Port leg appear to be critical areas where delays may occur. In terms of cost, transportation between Vientiane and Thanaleng (where the Laotian transit warehouse is located) is the most expensive inland leg.

**Table VII.2: Estimated time and costs required for the export of garments by road from Vientiane to Bangkok Port**

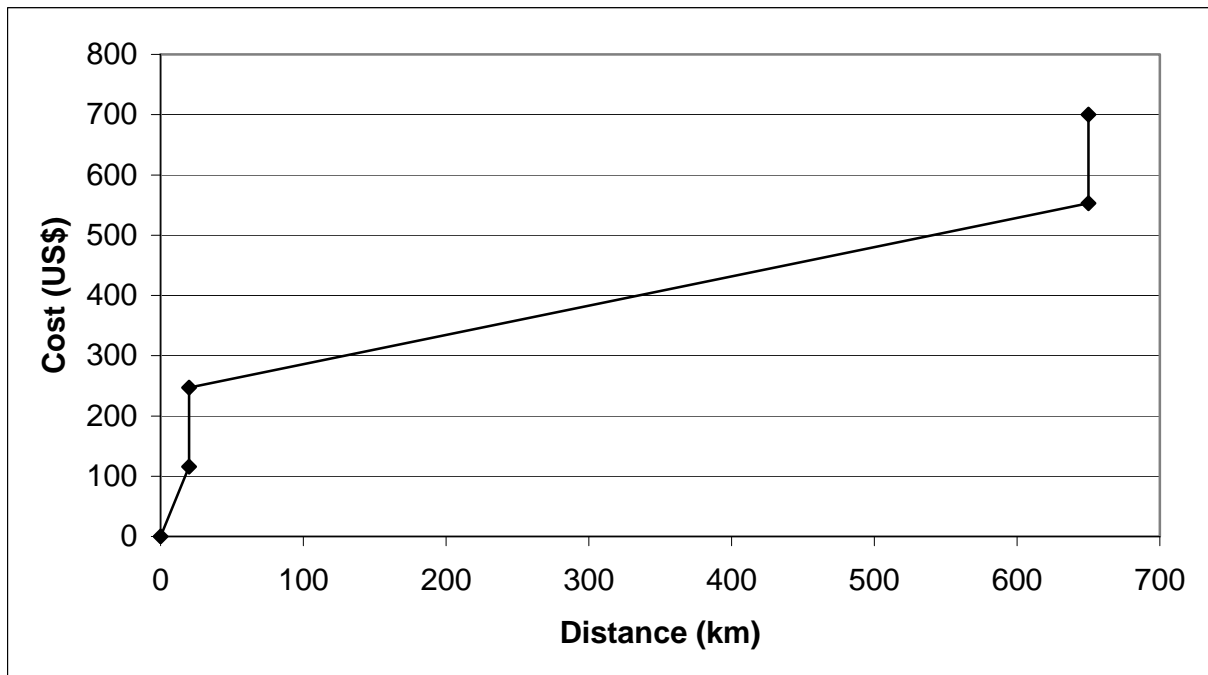
Leg	Distance (km)	Cum. Dis. (km)	Transit time (hrs)				Cost per TEU (US\$)	Cum. Cost per TEU (US\$)
			Mini- mum	Cum. Min.	Maxi- mum	Cum. Max.		
Vientiane-Thanaleng	15	15	0.5	0.5	1.0	1.0	116	116
Thanaleng-Nong Khai	5	20	0.17	5.67	0.25	11.25		
Border formalities			2.0		4.0			
Transshipment in Nong Khai			3.0		6.0			
Transit charge							20	221
Customs								
Lao People's Democratic Republic							13	234
Thailand							13	247
Nong Khai-Bangkok Port	650	670	12.0	17.67	20.0	31.25	306	553
Bangkok Port								
Container stevedorage							21	574
Container wharfage							22	596
Lift on/off charges							17	613
Terminal handling charges							68	681
Bill of lading charges							13	694
Customs							6	700
Total		670	17.67		31.25		700	

*Source: Data collected by ESCAP staff. (Cum. = cumulative).*

**Figure VII.1. Estimated cumulative time required for the export of garments by road from Vientiane to Bangkok Port**



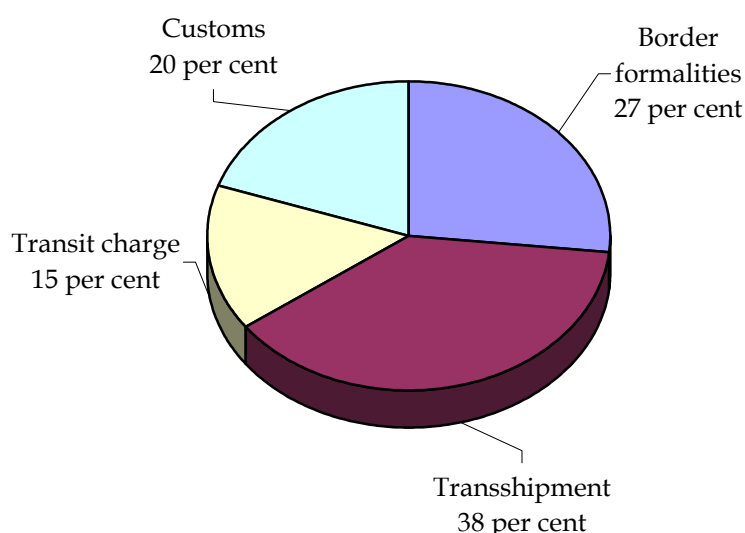
**Figure VII.2. Estimated cumulative costs required for the export of garments by road from Vientiane to Bangkok Port\* (*Per TEU*)**



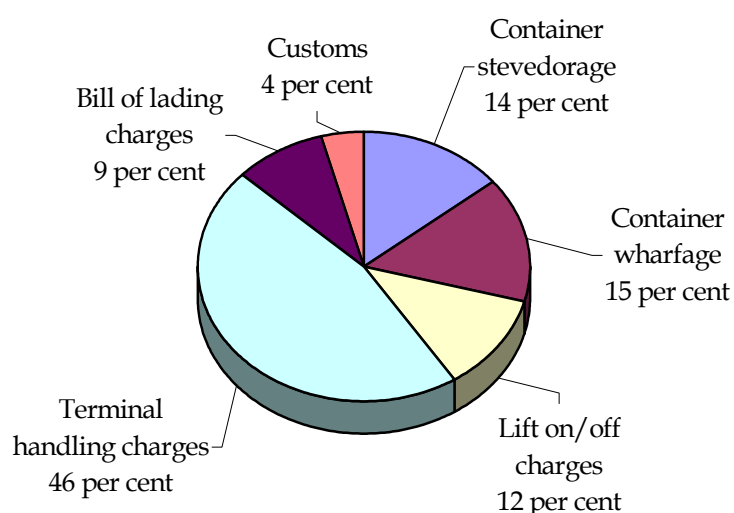
\* Note: In this graph, Vientiane – Nong Khai is shown as one leg, i.e. Vientiane – Thanaleng and Thanaleng – Nong Khai.

The offering of financial incentives for speedier and accurate customs processing is said to increase reliability of this route. “Tea money” must also be paid at Bangkok port for port and Thai customs-related services. The breakdown of non-transport related costs involved in the movement of transit cargo between Vientiane and Bangkok Port, given in table VII.2, is illustrated in figures VII.3 and VII.4.

**Figure VII.3. Breakdown of non-transport related costs at the Thanaleng-Nong Khai border crossing**



**Figure VII.4. Breakdown of non-transport related costs at Bangkok Port**



It is interesting to note that 38 per cent of the non-transport related costs incurred at the Thanaleng-Nong Khai border crossing relate to the transshipment of the cargo in Nong Khai. The lack of dedicated container-handling facilities renders this cost relatively high. Bridge crossing fees are marginal compared with other border crossing charges. Non-transport related costs levied at Bangkok Port are quite substantial, with terminal handling charges amounting to approximately 46 per cent of the total.

*(b) Imports through Bangkok Port*

Transit and transport costs associated with goods imported through Bangkok Port and in transit to Lao People's Democratic Republic are likely to be higher than those for exports, as these imports are subject to considerable delays, both at the port and at the border crossing point. After the goods are released from Bangkok Port they are moved to the dedicated warehouse for transit cargo where the goods will have to stay at least two or three days awaiting transit documents. During this period, additional storage costs are incurred. At the border crossing, goods can be stuck in Thanaleng for more than a month owing to problems associated with customs clearance.

It was estimated that shippers have to pay about US\$162 per TEU for imports, which is more expensive than for exports. A major problem with going through Bangkok Port is that Thai customs officials systematically open all containers in transit to check if the goods are in conformity with the packing list. This frequently leads to pilferage. In terms of the cost structure of transit transport for imports, trucking rates are higher than for exports, as trucks going to Thanaleng generally return to Thailand empty. These trucks can wait in Nong Khai for cargo but with the low export volumes of Lao People's Democratic Republic, the majority of trucks go back immediately. The cost per TEU from Bangkok Port to Thanaleng is estimated as being around US\$ 1,200-1,500 for transport alone, almost double the cost of transit transport for exports.

*(c) Exports via Danang Port*

While concrete steps are being taken to improve the route from Vientiane to Danang Port in Viet Nam, the route is still underutilized owing to a number of problems. One of these is the poor condition of the main east-west road, Route 9, in Lao People's Democratic Republic.<sup>44</sup> Another major problem is the perception that the reliability of this transit corridor is low, because of the existence of many unpredictable factors and continuing discrepancies between ministerial agencies' strategies relating to transit cargo. The findings relating to transit time and costs are shown in table VII.3 and plotted in figures VII.5 and VII.6.

Transit costs associated with the route through Danang Port are higher (US\$ 1,653.2 per TEU) as compared with the transit costs through Bangkok Port (US\$ 700) and the transit time is much longer (a maximum transit time of 75 hours compared with 31.25 hours). This is quite representative of trading routes where transit freight flows are marginal. Currently there are only four-scheduled feeder ships, with a capacity of 300-350 TEUs, calling at Danang Port per week from Singapore.

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<sup>44</sup> The Lao Bao-Danang route has been selected by the Asian Development Bank as an economic corridor for northeast Thailand, southern Lao People's Democratic Republic and central Viet Nam, with infrastructure investment and the upgrading of the port facilities at Danang.

**Table VII.3. Estimated time and costs required for the export of garments by road from Vientiane to Danang Port**

<i>Leg</i>	<i>Distance (km)</i>	<i>Cum. Distance (km)</i>	<i>Time (hours)</i>	<i>Cum. time (hours)</i>	<i>Cost per TEU (US\$)</i>	<i>Cum. Cost per TEU (US\$)</i>
Vientiane-Savannakhet	469	469	24	24	670.00	670.00
Savannakhet-Dansavanh	263	732	24	48	370.00	1040.00
Dansavanh-Lao Bao	1	733	1-3	51		
Document charges	-				100.00	1140.00
Lao Bao-Danang Port	327	1060	24	75	460.00	1600.00
Danang Port charges						
Handling	-				50.00	1653.20
Storage	-				3.20	
Total	1 060		73-75		1 653.20	

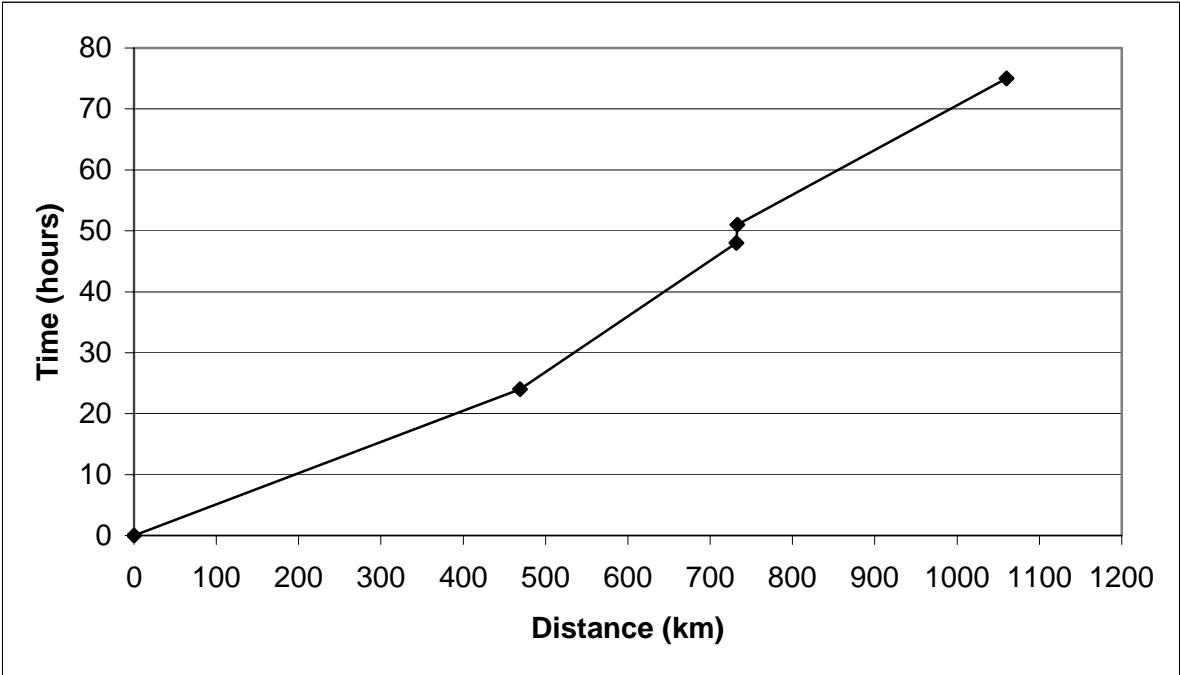
*Source: Data collected by ESCAP staff. (Cum. = cumulative).*

An appraisal of the inland leg from Vientiane to Danang Port shows that border crossing costs represent around 6 per cent of the total inland transport cost. The trucking rate for this route is estimated at US\$ 1.4 per TEU per kilometre. A breakdown of non-transport related costs associated with this route shows that some 65% of the non-transport charges is due to document charges at the border, while handling and storage charges account for about 33% and 2% of the total non-transport charges respectively.

*(d) Imports through Danang Port*

Cost and time estimates for transit transport through Viet Nam to Lao People's Democratic Republic appear to be the same for both imports and exports. However, the transit time for imports between Danang Port and Vientiane is subject to unpredictable delays, which can occasionally be as long as a month. Delays tend to occur at the port itself and are related to the time needed for the arrival of all transit documents and permits. The border crossing at Lao Bao-Dansavanh is not seen to be a problem, as most of the formalities will have been completed at Danang Port for transit cargo. The reliability of this corridor is, however, considered to be quite low, with the main problems being the poor infrastructure, bureaucracy and pilferage. In general, this route is not used by private importers and is used primarily for Government cargo.

**Figure VII.5. Estimated cumulative time required for the export of garments by road from Vientiane to Danang Port**



**Figure VII.6. Estimated cumulative costs required for the export of garments by road from Vientiane to Danang Port (*Per TEU*)**

