

LAO PEOPLE'S DEMOCRATIC REPUBLIC*

Introduction

The experiences of many developed and developing countries have shown that trade can be an engine of growth that leads to poverty reduction, which is a target of the development process many countries. In this regard, many developing countries have expressed their intention to pursue trade liberalization by increasing their integration into the world economy. This includes the Lao People's Democratic Republic.

Since 1986, the Lao People's Democratic Republic has opened its doors to participation in the global system by introducing the New Economic Mechanism (NEM), thus switching from a command model of economic management to one that is market oriented. By taking into account the limited resources of the country, the Government of the Lao People's Democratic Republic has decided to gradually integrate its economy into the world economy.

A further step in the country's economic reform after the adoption of NEM was to integrate and liberalize trade with the region. As a result, the Lao People's Democratic Republic became a member of the Association of the South East Asian Nations (ASEAN) on 23 July 1997. The experience in acceding to ASEAN as well as the ASEAN Free Trade Area (AFTA) has led the Lao People's Democratic Republic to recognize that significant benefits are to be gained from membership of the World Trade Organization (WTO). The Government has therefore decided to take the process of economic integration a step further by applying for WTO membership.

A. Overview of the current accession process: lessons learnt and good practices that could be of benefit to other developing countries of the region

1. Process of accession to the World Trade Organization

The Lao People's Democratic Republic lodged its application to accede in late July 1997. In February 1998, official observer status was granted. At the same time, the Working Party on Accession by the Lao People's Democratic Republic was established, chaired by the former Australian ambassador to WTO. With assistance from the United Nations Development Programme (UNDP), the Lao People's Democratic Republic formulated its plan for accession. Under that plan, the Lao People's Democratic Republic lodged its Memorandum on the Foreign Trade Regime in March 2001 and received a consolidated set of 263 questions from Australia, the European Union and the United States in early 2002.

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The Lao People's Democratic Republic has to respond to three main categories of questions related to economic policies, legal framework and trading rights. The questions appeared in the three pillars of the WTO Agreements such as trade in goods, trade in services and intellectual property protection. Some questions have been raised for the purpose of seeking more clarification while others are difficult to answer because they imply future commitments that Lao People's Democratic Republic will have to undertake. Therefore, careful consideration is needed when answering the latter type of questions.

With that in mind, the Ministry of Commerce of the Lao People's Democratic Republic, as the coordinating agency for WTO accession, distributed the questions to the line agencies concerned. The process of answering these questions is almost complete. The first draft of the replies was revised after informal consultations with a foreign expert and an UNCTAD independent consultant. However, many difficult tasks demanded by the WTO members have yet to be completed, including the completion of WT/ACC/4 (agriculture), WT/ACC/5 (services), WT/ACC/8 (TBT and SPS) and WT/ACC/9 (TRIPs). Feedback was circulated between the Ministry of Commerce and the line agencies to ensure that they are satisfied. The final draft has been finalized by the Ministry of Commerce and is about to be submitted to the Government for approval before transmission to the WTO Secretariat.

One observation from this exercise is that the process took longer than expected. This was because some line agencies were unable to provide the right replies to the questions while others appeared to lack an understanding of WTO principles. An alternative would have assigned a team of three persons to prepare all the responses to the questions and then forward them to the line agencies for feedback.

2. Lessons learnt and good practices

The accession process differs from one acceding country to another depending on each country's capacity to set the pace for accession. In the case of the Lao People's Democratic Republic, the process is still in the early stage of fact-finding. However, some lessons and good practices have been learnt that could be of benefit to other acceding countries in the region.

3. Lessons learnt

(a) Strong political commitment

Accession is not the task of any one ministry or organization; it involves the whole country because it affects every economic sector linked with trade liberalization. In this regard, the commitment should be made from the highest to the lowest level. It has to be maintained throughout every stage of the process in order to secure the ownership of each stage and make sure that it is in line with the national development objectives of the country. Without that commitment, the accession process will not be transparent and will lack the support of all concerned.

(b) *Coordinating work among the line agencies is essential*

Experience shows that it is indeed a very difficult task for an acceding LDC that lacks skilled human resources, particularly in the areas that are involved in the accession work. However, despite such difficulties, coordinating work for accession is necessary as ways must be found to make it proceed smoothly and efficiently. Otherwise, the accession process will be stalled when it comes to the process of bilateral negotiations. The Government, having realized this important fact, has established mechanisms to facilitate the coordinating work among line agencies. This issue is elaborated more in section B below.

(c) *Most critical issue: human resource development*

The human factor is considered to be the most important factor and a key to the success of every activity, including the process of developing market-based economies and establishing supporting international trade agreements. Utilizing integration into the global trading system in this way requires officials in the economic agencies to have knowledge of the economies that being liberalized.

In those government agencies with economic responsibilities there is a shortage of skilled staff who are knowledgeable about the economic aspects of the market system. This is a fundamental constraint on their capacity to prepare policies that will enable the Lao People's Democratic Republic to secure the full benefits from integration into the global trading system.

If the Lao People's Democratic Republic is to reap the maximum benefits of trade and investment expansion, more needs to be done than just satisfying the formal requirements of accession to AFTA or WTO. In addition to being able to manage public policy efficiently, a more extensive understanding is needed of international trade issues and domestic policies that support expansion of trade and investment. Therefore, the capacity of government officials and those concerned in the private sector to fulfil these objectives needs to be enhanced. Generally speaking, it will be necessary to develop human resources particularly with regard to officials handling WTO-related matters. This should be done systematically both through short-term and long-term training.

4. Good practices

(a) *Enhancing networking among acceding countries*

The establishment of networking among acceding countries would be a very helpful mechanism. Since the accession process of each country is different, an opportunity to share experiences will enable countries to learn good lessons and attempt to avoid weaknesses that other acceding countries have experienced. The enhancement of networking could be in the form of regional workshops such as the one initiated by ESCAP in February 2002. Additionally, networking could be enhanced by conducting study tours to partner countries with similar political and trade regimes. By doing so, the respective countries would have an opportunity to interact and share their practical

experiences in depth as well as explain how they handled any difficulties experienced in negotiating their accession. In this regard, the Lao People's Democratic Republic has already conducted two very useful study tours, one to Vietnam and the other to China.

(b) Study tour to the World Trade Organization Secretariat

A study tour of the WTO headquarters proved to be a very useful way of gaining practical experience, particularly for those least developed, acceding countries that were unable to establish their own missions in Geneva. Although such tours can be very useful, they are also very costly. However, by requesting assistance from international organizations, this type of study tour can be organized. The Lao People's Democratic Republic has undertaken such study tours with the assistance of UNCTAD. Study tours not only provide practical experience on how the first working party is conducted, they can also provide an opportunity to meet and establish networking with WTO members for exchanging views and observing their position with regard to the accession of the Lao People's Democratic Republic.

(c) Maintaining membership ownership

To ensure that the expected benefits can be realized, an acceding country should be able to maintain ownership of its membership. This means that the acceding countries have to conduct any activities required by the accession procedures mainly by themselves. This does not mean that there is no need for external assistance. Due to the complexity of WTO and the fact that LDCs have very limited resources, they need both technical and financial assistance. However, in the context of maintaining membership ownership, they should not totally depend on external assistance provided by international experts. It would be good practice to write a memorandum on the foreign trade regime and try to answer the questions raised by their own officials. By doing so, officials can learn about the trade regime of their own countries and whether that regime is in compliance with the WTO principles as well as consider policy adaptation as it becomes an obligation and commitment. Of course, due to the constraints mentioned above, this issue will not be an easy task for an acceding LDC such as the Lao People's Democratic Republic. However, for the benefit of the whole country and in order to secure its interests that are derived from accession, it should maintain membership ownership, even if it means the process will take longer than anticipated.

B. Overview of the government institutional structure and mechanisms for policy coordination required for prospective World Trade Organization membership

As mentioned in the introduction, the Lao People's Democratic Republic has decided to gradually integrate its economy into the world trading system, starting with regional economic integration as was the case with its accession to AFTA, which required some important trade policy reforms, particularly in the area of tariffs. However, the range of obligations that would be created by WTO membership could be much more extensive than was the case with AFTA.

The process of accession to WTO is also much more complex. There are two basic requirements: (a) satisfying other WTO members by adapting or adjusting domestic rules to meet the basic obligations of the WTO Agreements; and (b) negotiating with other WTO members on market access, i.e., the further opening of the Lao People's Democratic Republic's market in goods and services. It is understood that the demands on LDCs to meet such requirements are usually more lenient than they are for other countries. Nevertheless, that is only in principle; in reality, new members are expected to demonstrate more than a political commitment.

Applicants first need to provide, in considerable detail, information about their laws and regulations that affect trade in goods, services and intellectual property. They need to indicate how they will alter such laws and regulations if they are not in conformity with WTO rules. They are also required to enter a process of negotiation with WTO members on what changes they are willing to make on barriers to trade and services. Accession will not be approved until these processes have been completed.

A large number of the country's government agencies will be affected by accession to WTO. Preparation for accession therefore requires extensive internal coordination and a thorough review of policies in many departments. The Government needs to anticipate requests to open up markets as well as be prepared to amend national policies or adopt new ones. A range of government commitments is necessary if the process is to succeed. In this regard, the Lao People's Democratic Republic had a similar experience with its AFTA accession.

Even though the Lao People's Democratic Republic gained some experience from its AFTA accession, negotiations on WTO accession are creating heavy demands that exceed the institutional management capacity of the Government. To handle the work involved, the Government has established a strategic management system in order to ensure that the necessary institutional set-up and mechanisms for facilitating policy coordination among the government agencies concerned in order to support the WTO accession process.

Institutional structure and mechanisms

Given the number of government agencies involved, the overall programme has to be fully endorsed by the Government and needs to be the responsibility of a very senior minister. At the highest level, the Government has set up a National Steering Committee (NSC) chaired by the Deputy Prime Minister; who is also the Minister of Foreign Affairs, with the Minister of Commerce as deputy chairman. The NSC mandate is to directly lead the preparatory work for accession to WTO. The 19 members of the committee, who are mainly ministers, comprise the government agencies affected by accession. As the ministers have extensive duties, a five-member Standing Committee to help and support the NSC has also been established, headed by the Deputy Minister of Commerce. The other members are also deputy Ministers from the key Ministries concerned. A secretariat, comprising officials at the director-general level from 19 government agencies and chaired by the Vice-Minister of Commerce, has been established for day-to-day administrative work.

The secretariat works under the direction of the NSC. The Vice-Minister of Commerce was also appointed as the lead negotiator for the accession process. He has the operational responsibility for the programme and is responsible for the negotiations over WTO accession. The Director-General of the Foreign Trade Department was appointed as deputy to the Vice-Minister with responsibility for policy development and coordination among agencies through an interagency accession committee. A small unit has been established within the department to deal with foreign trade policy matters including WTO work. The head of the unit reports directly to the Vice-Minister of Commerce. Since the unit comprises a limited number of professional officers, dealing with the work related to WTO accession has imposed significant demands on the unit staff.

C. Overview of mechanisms for creating national ownership of World Trade Organization reforms among all parties concerned

Accession to WTO is not a simple matter; it is like joining a wealthy club, with the applicant having to pay an admission fee in exchange for the benefits that come with membership. The fee, in terms of resources, has to be shared by a large number of agencies concerned with work related to accession. They include:

- The Ministry of Commerce
- The Ministry of Finance (Customs administration)
- The Ministry of Foreign Affairs
- The Ministry of Industry and Handicrafts
- The Ministry Agriculture and Forestry
- The Science Technology and Environment Organization (intellectual property)
- The Ministry of Construction, Post, Transport and Communication
- Committee for Planning and Cooperation
- The Bank of the Lao People's Democratic Republic
- The Ministry of Justice.

Most of the country's government agencies have very limited knowledge of WTO. Therefore, there is a need for effective mechanisms for creating national ownership of WTO reforms, which are outlined below.

First, the officials of the concerned agencies need to be trained to ensure that they have adequate technical knowledge of WTO and its requirements. Through such training, they will be able to understand the impacts that WTO reforms will have on their own agencies. In addition, various workshops and seminars should be held to discuss those impacts and find ways to minimize any adverse effects. In that way, the

capacity of the officials will be enhanced and a sense of national ownership will emerge.

An able negotiating team will need to be created, comprising skilled negotiators drawn from the agencies concerned. Preference may need to be given to those who have had previous experience through the AFTA accession negotiations as well as coordination with the existing administrative framework that was created such as the National AFTA Unit and other focal points that are currently handling AFTA issues. The same framework could be easily adapted to handling WTO accession. Much of the knowledge acquired from trade issues in AFTA could be relevant to WTO.

As mentioned in section B, the secretariat for accession to the WTO holds regular meetings during which work is allocated to the agencies concerned and minutes are maintained. The secretariat members are expected to present a progress report at each subsequent meeting on the work assigned at the previous meeting.

Establishing networking with educational institutions such as universities and economic institutes is another mechanism that could also help to create national ownership of WTO reforms. By including WTO basic principles and agreements in the curriculum of the universities, students and professors would be able to study, discuss, share views, undertake research and produce publications on WTO issues. Through these means, it would be possible to disseminate information and create national ownership of WTO reforms throughout the country. The formation of a partnership with universities and economic institutes would also help those officials handling WTO-related work to attain a clear perception and understanding of the results of analyses and studies carried out by their academic partners. It would also help to sharpen their negotiating skills in defending the country's interests.

In the Lao People's Democratic Republic, various studies have been conducted in areas that will be affected by WTO-related reforms (i.e., Customs, agricultural policy, technical regulations, and sanitary and phytosanitary regulations). In addition, all relevant laws and regulations have been reviewed to identify areas of non-compliance with WTO Agreements, and recommendations made on what changes are needed and how they should be made. Carrying out additional impact studies on affected sectors would be useful.

The impacts of WTO reforms are discussed in the following section.

D. Expected impact of World Trade Organization membership on overall domestic economic performance, with emphasis on foreign direct investment and benefits and costs to the Lao business community

The long-term strategic goal of the Lao People's Democratic Republic is to graduate from the group of LDCs by 2020. To this end, the country must strive to reduce poverty through sustainable development with equity. Due regard is being given to the efficient and sustainable use of the natural resources and the protection of

the environment. Export-led growth, the linkage between trade and development, trade and investment, pro-poor trade strategy, industrialization and modernization are foremost in the minds of the country's strategists and policy makers.

Current overall economic performance is still below the target GDP growth rate of 7 per cent per annum. Although the economy is continuing to expand, it is characterized by some weaknesses such as excessive budget deficits, current account deficits, inflation, low productivity, underemployment and rural poverty. WTO membership will have both positive and negative impacts on the country's overall economic performance. WTO membership advantage should mean guaranteed MFN access to other members' markets. If exports can grow through this channel, domestic economic activities can be put into full swing. Income generation and higher employment opportunities as a result of prosperous investment and business opportunities will alleviate poverty. Fiscal revenues will improve. The increased purchasing power of the population and increased government spending will contribute to national economic growth. To justify this expectation, the situation and the performance prior to WTO accession is discussed below.

Lao People's Democratic Republic was established in late 1975. In 1986, the Government decided to switch from the then command type of economy to a market-oriented economy. In 1988, legislation underlying such reform was introduced, following which the national economy grew at a steady annual average of 6.4 per cent for almost a decade.

During the period under consideration, the reforms resulted in a huge and unprecedented inflow of capital, technology transfer and expertise into the country in the form of FDI. Total approved FDI in 1992 amounted to US\$ 335.1 million with a corresponding real FDI inflow through the banking system of US\$ 7.8 million. The peak was reached in 1994 with an approved amount of US\$ 2,598.3 million, following which it declined annually to reach US\$ 1,292.65 million prior to the 1997 regional economic crisis. Unfortunately, the pre-crisis level of FDI has not been achieved. The economic crisis has, to a certain extent, changed the national and regional situation in terms of growth. This also proves that economic interdependence between countries also creates a negative impact.

The Lao People's Democratic Republic's economy depends to a large extent on foreign trade, even though it has always recorded a negative trade balance. Together with official development assistance, FDI income from the tourism and other services subsectors forms an important source of foreign exchange that complements export earnings. Although market reform in the Lao People's Democratic Republic has not yet been completed, it can be said that the process of trade liberalization has taken place, privatization of state-owned enterprises is at an advanced stage and the level of tariff protection is among the lowest in the developing country group.

It is obvious that the expansion of international trade and foreign economic relations, coupled with trade liberalization in the domestic market, has had a positive impact on the national economy, particularly overall economic performance. In a sense, this means that integration with the global trading system has already occurred

and the country has started to reap the benefits. The problem now is how to accelerate and deepen the process through accession to WTO.

The concept of free and fair trade prevails in the current global trading system. More gains from international trade are sought through supranational institutions such as WTO, which can administer the system and act as a forum for trade negotiations, especially with regard to reducing tariff and non-tariff barriers to trade, and solving trade disputes through a more effective dispute settlement mechanism.

In addition, countries now tend to group together in preferential bilateral, regional or multilateral trading arrangements. Those who do not follow these practices are either isolated or suffer from a lack of competitiveness in the newly globalized trading environment. These trading blocs are treated as a larger market area that can attract more investment. The organization of international labour with more effective resource allocation for mutual benefits and economies of scale can take place together with the harmonization of standards and rules.

The national economic development of any country cannot be undertaken effectively do without this cooperation and exchange in the flow of trade. The need to integrate itself into the regional and global trading systems is being increasingly felt by countries such as the Lao People's Democratic Republic. Thus, the WTO accession process is in itself a reform catalyst, and it will support the efforts of the Lao People's Democratic Republic to redirect economic activity towards working as a market economy. Without this catalytic effect, the long-term development objective will not be met since the benefits in terms of market access and FDI inflows lie in membership of either regional or global trading arrangements. With this in mind, the Government has pursued the policy of regional integration as a means of further developing the national economy.

The year 1997 was a milestone in the process of regional integration for the Lao People's Democratic Republic, since it in that year the country gained membership of ASEAN. However, the benefits of AFTA as well as its impact still leave something to be desired due to the deferred entry into force of the members' tariff reduction scheme. For the Lao People's Democratic Republic, the commitments made under AFTA will form a testing ground for the national economy to cope with the changing trading environment in the region prior to full integration into the global trading system.

Due to the small size of its domestic market, low domestic saving rate and the fact that it is landlocked, the Lao People's Democratic Republic will face development problems unless it manages to attract a huge amount of FDI and establish the capacity to produce for export. Making the country's trading system more transparent and predictable, coupled with MFN status that is granted to WTO member countries on a reciprocal basis by major global markets, is assumed to be part of the rationale for joining WTO. Of course, this depends on a number of issues, but it generally makes it easier for a foreign investor to invest in a WTO member country than elsewhere.

To better anticipate the positive impact of FDI on the Lao People's Democratic Republic, reference to the Cambodian case seems to be relevant. Currently, garment exports by the Lao People's Democratic Republic, mainly to the European Union countries, total an estimated US\$ 100 million per annum. Prior to receiving MFN, Cambodia's exports to the United States were insignificant; subsequently the figure has increased to some US\$ 1.2 billion per year. The Lao People's Democratic Republic has not yet achieved normal trade relations with the United States, and it is considered that such a relationship would help the country accede to WTO. Should the Lao People's Democratic Republic achieve such a situation, the first consideration is the surplus in the trade balance and eventually the balance of payments. In addition, the exchange rate could prove to be in favour of the local currency while the multiplier effect of increased income generation within the domestic economy could have positive impact.

Employment means income, which, in turn, means higher purchasing power. This flow of revenue will help to generate income in related subsectors, which will finally help to boost the overall national economy. In such a case, fiscal revenue will be derived mainly from taxes rather than import duties; however, as the economy expands, the collection of taxes will come from a much broader base. Therefore, WTO accession is expected to create a positive chain reaction for the whole economy. This does not mean that WTO membership alone can ensure the increase of FDI inflow. However, to attract FDI, a number of conditions must first be met such as improved facilities, incentives, favourable legislation, more promising returns on investment, political stability, abundant natural resources and low labour costs.

The FDI flow may not follow the pattern of neighbouring countries. For example, in the garment sector, the Lao People's Democratic Republic may not be able to compete with more populous countries in the region since it is a labour-intensive industry, but at least the present capacity can be retained with WTO accession. The reason is that from 2005 onwards, with the phasing out of the MFA, garment exports by the Lao People's Democratic Republic will face stiff competition. Thus, relying on GSP alone will not only be inadequate, it will also endanger the country's garment industry. Thus WTO membership will, to a certain extent, ensure the survival of this industry.

Based on the assumption that WTO will bring more FDI into the country, investment in the following subsectors, which are either resource-based or necessary in terms of complementarity, is likely to benefit from integration:

- Hydropower
- Mining
- The tourism industry
- Export-oriented agricultural and wood processing, and other manufacturing industries
- Infrastructure-related construction
- Trade-supporting services such as multi-modal transport and logistics

- Communications
- Banking and finance
- Insurance
- Marketing intermediaries
- Consultancy
- Educational and health services.

It appears that some major investment projects, especially hydropower and mining, are blocked as far as sources of finance are concerned because some development partners still unfairly regard the Lao People's Democratic Republic as a "non-market economy". In addition, the Government has not successfully completed all bilateral trade and investment negotiations with member countries.

Investment in the services sector will increase based on liberalization commitments as a whole or as part of a concession. With regard to agricultural products, according to Kym Anderson, "import quotas are being tolerated within WTO, and there is at least the theoretical possibility that an acceding country might be given some share in that preferential trade". Thus, as soon as the Lao People's Democratic Republic joins WTO it will gain opportunities to negotiate both for shares of in-quota sales and lower tariffs on out-of-quota sales of products of interests to its exporters.

Naturally, there are pros and cons. Those who question why the Lao People's Democratic Republic wants to join WTO, when the country has nothing much to sell, forget that market opportunities emerge out of market access. They may also point out that WTO is very demanding and that a huge amount of resources are required to implement WTO Agreements, especially for LDCs. While no quantification of the resource demands of accession is made in this paper, reference is made to one World Bank study by Finger who noted that it would cost a typical developing country some US\$ 150 million to implement the requirements under WTO Agreements on Customs valuation, sanitary and phytosanitary requirements, and intellectual property rights. This amount is equivalent to the annual development budget of many LDCs.

The Lao People's Democratic Republic is still at an early stage in contemplating this issue, but what the country is facing is the need to meet expenses such as fees related to its observer status, the costs involved in establishing a permanent mission in Geneva, travel and participation in various meetings, training and carrying out various studies. Fortunately, the country has been able to benefit from foreign assistance right from the beginning of the process.

Under an initial project funded by AUSAID and managed by UNDP, the Government was able to hire international consultants to draft the Memorandum on the Foreign Trade Regime of the Lao People's Democratic Republic, and to conduct some studies as well as seminars, workshops and training, translate WTO documents, and attend meetings abroad. This initial project is reaching its conclusion. A subsequent project, costing Euro 1 million and financed by the European Union, will focus on:

- (a) WTO accession assistance;
 - (i) The strengthening of government human resources capacity;
 - (ii) The review and revision of legal framework; and
 - (iii) Assistance in responding to TBT and SPS questions by the WTO Working Group.
- (b) Institutional Support (international trade course at the National University of the Lao People's Democratic Republic).

In this connection, in order for the concept of universal WTO membership to materialize, and to integrate LDCs fully into the multilateral trading system, the international community could assist in reducing the huge burden faced by LDCs in acceding to WTO. Such help could be given in the form of: multilateral and bilateral aid; the implementation of measures to support the WTO work programmes (particularly in the areas of accession), market access, trade-related technical assistance and capacity-building; and diversification of the LDC production and export base.

Having said this, the negative effects of WTO accession also need to be considered. Local production entities and service providers including state-owned enterprises, especially those that have been protected by the State, will be exposed to world competition. They risk being unable to survive in a competitive environment. Preventive measures, as long as they are consistent with WTO rules, can be anticipated on the grounds that locally made products might be undersold by imports. At its present stage of development, the national economy is still vulnerable to the effects of totally free exposure to market forces. However, past experience shows that the national economy is quite resilient and flexible in terms of overcoming the negative impacts of market-oriented changes.

Costs and benefits to the Lao business community

WTO accession will affect the business community as resource allocation begins to take place according to the country's comparative advantages. There will be more efficient allocation of resources among the different sectors. The market will become more open to businessmen. Outlets for local products will be expanded and businessmen will gain more by going international.

The main concern is that constraints on the supply side of the economy could emerge. Certain industries may not be able to survive due to fierce competition in the globalized trading environment. They should consider reconversion or downsizing their activities and go for niche markets or merge in order to create more powerful entities. In such an emerging competitive context, the business community, particularly the private sector, will have to reorganize and become more efficient in order to survive and grow. For example, retail business that is currently reserved for Lao nationals may have to compete directly with foreign-owned department stores following WTO accession. Experience in other countries has shown that traditional retail businesses can be adversely affected. In the case of the Lao People's Democratic Republic,

the effect might be slightly different in that the winners in the competition will be the low-cost leaders.

At present, local business practitioners, for lack of a ready export market, focus more on the domestic market. Exports of more valued-added items should substitute for the exports of raw material or primary commodities. Diversification of activities or partners will be essential. The development of entrepreneurship should be promoted to the fullest extent. Business development should concentrate on improving competitiveness.

With regard to the prospects for agricultural export expansion after WTO accession, especially horticultural and floricultural products, success will depend on the ability of producers to raise the quality and uniformity of their commodities. Similarly, they will need to ensure timely deliveries of exported products and meet international standards in order to overcome SPS barriers in importing countries. In the agricultural trade, investments in trade-related infrastructure are needed in order to implement the SPS agreement. Moreover, business entities will have to compete on a level playing field. Interest groups will not be able to lobby the Government in order to circumvent the WTO rules.

E. Impact on different social sectors and groups of people

Trade has been accepted as the door through which all social and economic sectors pass to become integrated into the multilateral trading system in this era of globalization. Both sectors will feel the impact of such globalization.

Acceding countries expect to gain market access. They also need to become involved in the setting of rules for the world trading system in order to protect their interests during the negotiation process with stronger trading partners. At the same time, they also need to have access to the dispute settlement mechanisms when necessary. Market access leads to more FDI in the production, trade and services sectors, which results in the economic growth that is essential to poverty alleviation.

In the case of Lao People's Democratic Republic, the population growth rate is currently 2.3 per cent per annum. Consequently, the population within the employment age group is also increasing, which means that the labour force is increasing every year. If the expansion of employment opportunities does not keep pace with the population growth, unemployment will be unavoidable. Chronic unemployment is a social problem. At present, those engaged in agriculture represent about 80 per cent of the workforce while some 20,000 workers are employed in the garment sector. When acceding to WTO, the prime interest of the Lao People's Democratic Republic, in terms of market access, will be in the agriculture, textiles and clothing sectors, while other sectors remain to be exploited. LDCs suffer from inadequate market access to developed countries due to various constraints. Agriculture in developed countries is still highly protected by tariffs, subsidies and many other forms of non-tariff barriers. This places LDCs and developing countries in a disadvantageous position with regard to competing on the world markets.

Moreover, the service subsectors such as education, health, tourism, telecommunications, transport, construction and finance also deserve liberalization as the process of socio-economic development moves forward. The Lao People's Democratic Republic, like any other developing country, will observe changes in the pattern of GDP composition with the shift from agriculture to the industrial and services sectors. The projected changes in the relative positions of the agriculture, industrial and services sectors in 2010 are 36.6, 31.5 and 31.9 per cent of GDP, compared with the present rates of 51.3, 22.6 and 26.1 per cent, respectively.

As the industrial and services sectors develop, a rural exodus will enhance urban population growth. As a result, the accession to WTO will affect the social sectors such as education, health, culture, labour and social welfare. As to whether the total impact will be positive or negative, and to what extent that impact will be felt, remains to be seen. However, such change can be anticipated, and preventive and remedial measures prepared. The education and health sectors will be open to FDI, and will thus have to be modernized and upgraded in order to meet international standards. Healthy, well-educated and well-trained people are a prerequisite for economic development.

The country's culture will also be affected since the nation will reach a crossroad where different cultures will meet. As a WTO member, the country will no longer be isolated. A steady cultural exchange will take place. However, every country tends to preserve the peculiarities and uniqueness of its culture. Therefore, it is hoped that in the Lao People's Democratic Republic the change will be manageable since the Government is rather strict in this regard. The effects of modernization will be felt more in terms of the physical and technological aspects of the national culture. It is realized that the temptations of modernization, especially the westernisation of Asian culture, are difficult to resist among the younger generation. A range of examples can be observed in other Asian countries. Some have been more successful than others in preserving their national cultures as their economies have developed, especially when the people themselves are deeply committed to religion and the history, customs and traditions of their country.

Ways in which various groups of people will be affected

Apart from the shift in the occupational pattern from the primary to the secondary and finally the tertiary sector (that is, when farmers become industrial workers, then entrepreneurs and businessmen), groups of intellectuals and an elite will emerge.

It should be noted at this point that the population of the Lao People's Democratic Republic, although totalling only 5.2 million (2000 figure), comprises three main ethnic groups: Lao Loum, Lao Kang and Lao Soung, which are subdivided into 47 ethnic minorities. Lao, the language of the Lao Loum, which is the majority group, is the national language. Under government policy, all ethnic groups enjoy equal rights, live together peacefully and are allowed to develop themselves. It is the opinion of the authors that WTO accession will contribute to the country's poverty reduction programme given the direct linkages between trade and growth, and growth and poverty

reduction. This will not occur spontaneously, but should be carefully considered. If proper preparations for WTO accession by LDCs are not ensured, the result will be the deference of accession to a later date due to a lack of capacity-building, competitiveness and adequate resources for implementing the WTO Agreements, or even a decision to withdraw in order to avoid damage and losses.

One problem that often arises is unequal income distribution that economic growth brings. In this sense, certain groups will presumably reap the benefits of accession, whereas some others will still lag behind. For example, in the Lao People's Democratic Republic, village tourism is promoted as one component of cultural tourism, whereby tourists are encouraged to visit localities where ethnic minorities actually live. If these people are forced to lead a primitive life for the sake of attracting tourism, they will not gain much benefit from any influx of tourists in terms of income growth. Since WTO requires acceding countries to adopt trade policy reforms, the concept of pro-poor trade sector strategy must be considered and negotiated during the process of WTO accession.

In this connection, further studies are needed in order to assess the likely impact on different sectors. Even in developed countries, certain groups of people still fear globalization and free trade as was demonstrated during the Seattle Ministerial Meeting. It is quite possible that certain groups of people will feel that they have been left out of the process, since the Government as the policy maker is a WTO member; however, business operators and other stakeholders may not understand the rules of the game. Close consultation with businesspeople, the creation of public awareness, and capacity-building among policy makers, business operators and other stakeholders are necessary tools for coping with the possible negative impacts of accession. The people most likely to be affected are those who are unable to survive the resultant international competition.

F. Recommendations for appropriate negotiation strategies

Negotiation strategies should include those based on regional cooperation among the developing countries of the ESCAP region in order to ensure that the terms of accession are compatible with national development objectives.

At present, supply side constraints do exist, but with membership of WTO, market access opportunities will pave the way for FDI in the infrastructure sector, which will, in turn, attract more FDI in export-oriented activities. The same logic applies with regard to the liberalization of the services sector, although action plans and commitments have yet to be worked out for each sub-sector. Most of the services sector activities are related to trade support or trade facilitation. This means that the sector has the potential to boost trading activities. The undeniable fact is that while the Lao People's Democratic Republic is recording a chronic trade deficit in goods, it has gained a surplus in the services balance in the past few years. The problem is how to further liberalize the subsectors in order to gain more benefits that will enhance domestic supply and export competitiveness. The experiences of some countries have

shown that it is better to open up those subsectors that the local investors are not in a position to develop on their own, rather than protect them.

One more point that needs to be stressed is that WTO membership can help alleviate the problem of being landlocked by improving the transit rights under the freedom of transit (Article V of GATT 1947). This right is enforceable under the WTO dispute settlement mechanism. This issue is particularly pertinent to the situation in the Lao People's Democratic Republic as well as other landlocked countries of the ESCAP region. In the future, Lao People's Democratic Republic will be transformed to a land-linked country in the Greater Mekong subregion. In the process of accession, the Lao People's Democratic Republic wishes to point out to other landlocked countries that it wishes to jointly raise the issue and negotiate for such rights. Second, the Lao People's Democratic Republic should make every effort to become a transportation hub for the subregion.

The analysis in this paper focuses more on the favourable aspects of WTO accession for LDCs. However, the reverse side of the coin has not sufficiently been touched upon. In fact, LDCs could be successfully integrated into the global trading system only if the developed member countries take the lead in liberalizing their foreign trade regimes by (a) removing their protective tariff and non-tariff barriers, and (b) reducing agricultural subsidies that restrict imports from developing countries. These developed member countries should set an example to the poorer LDC members by liberalizing their trade policies and accepting competition, the virtues of which they often preach to LDCs. More efficient resource allocation could be obtained from the consequent international division of labour. At the same time, they should augment technical and financial assistance as well as provide special and differential treatment for less developed countries.

Accession to WTO will create benefits as well as challenges. WTO membership is applicant-dependent. As a matter of fact, no LDCs have joined WTO since 1995. Nevertheless, the number of small countries that have recently concluded the accession process suggests that the smaller a country is, and the more liberal its regime, the faster its accession process.

In December 2002, the WTO General Council adopted guidelines, proposed by the WTO LDC subcommittee, that seek to streamline and simplify the accession of LDCs. The guidelines cover four main areas: market access, WTO rules, the accession process, and trade-related technical assistance and capacity-building. This appears acceptable and it should facilitate and accelerate the negotiations of acceding countries. Since the accession process of the Lao People's Democratic Republic is still at an early stage, at present it cannot be said that the guidelines are useful. However, if Cambodia is able to accede to WTO at the fifth ministerial conference in Cancun, that will, to some extent, indicate that the will exists among WTO members to put the guidelines into practice.

In addition, special and differential treatment is very important for all LDCs, including the Lao People's Democratic Republic, since it will help to build up the capacity of the Lao People's Democratic Republic to observe its rights and obligations

under the WTO rules as well as enable the country to share some of the benefits derived from the multilateral trading system. Therefore, it is crucial that special and differential treatment be made more effective during the accession process. The Lao People's Democratic Republic suggests that the first LDC to accede to WTO after 1995 should make every possible effort to negotiate and accept the terms of accession that are not beyond the related guidelines set forth in the document WT/COMTD/LDC/12. In doing so, it would make the special and differential treatment more effective for those LDCs that subsequently accede.

In the case of the Lao People's Democratic Republic, the reason for faster accession is basically that the cost of protection is too high for the country (for example, the provision of subsidies and the small size of the national economy). This means reduced market access. As the Lao People's Democratic Republic is a country in transition, and because the accession process has entered its second stage (i.e., questions and answers), delays may occur since the rules and regulations required by WTO accession have not yet been put in place.

Within the context of the laws and the operation of government institutions, the extent to which the government agencies are involved in the regulation of economic activity needs to be clarified. Transparent rules and criteria will be put in place in order to leave little room for administrative discretion, especially in the import regime. Second, there are some issues related to the jurisdiction and capacity of national agencies to implement policies on which commitments are being made. The present domestic legal framework needs to be strengthened, and the introduction, or a commitment to do so, of the necessary legislation will have to be undertaken. The fundamental concern is one of governance, i.e. the authority and capacity of agencies to implement commitments made, in the context of WTO accession, regarding those laws and regulations that affect international trade. A related concern has to do with the enforcement of such laws, especially the role and jurisdiction of local authorities with regard to commitments made by the national authorities in the context of accession negotiations.

The following paragraphs do not necessarily reflect the position of either the Foreign Trade Department or that of the Ministry of Commerce. By taking all this into account, and from the perspective of the authors, the recommended strategies for WTO accession by the Lao People's Democratic Republic should include:

- (a) The creation of public awareness, familiarization with WTO rules as well as the benefits and challenges of accession, and the involvement of key stakeholders;
- (b) Capacity-building among government officials in the ministries concerned, and the establishment of the negotiating team;
- (c) Trade policy and institutional reforms;
- (d) The enhancement of competitiveness at the microeconomic level; and
- (e) A mixed or combined trade liberalization accession strategy.

1. Rationale for recommending the mixed or combined trade liberalization accession strategy

The initiation of the trade liberalization process by the Lao People's Democratic Republic dates back to 1986. Another important milestone in the liberalization process was reached in 1997 when the country joined the ASEAN community. However, in that same year, the Lao People's Democratic Republic was unexpectedly hit by the Asian economic crisis, the result of which was unprecedented high inflation that required government intervention.

The next major advance by the Lao People's Democratic Republic within the AFTA framework will be the reduction of its tariffs for most goods by 2008. The Government has divided its import tariff lines into an Inclusion List (2,098 items), a Temporary Exclusion List (1,291 items), a Sensitive List (88 items) and a General Exception List (74 items).

Goods on the Inclusion List will see their tariffs reduced to between 0 and 5 per cent by 2008. The Temporary Exclusion List will have to be split into five equal portions and transferred to the Inclusion List annually, with the reduction of their tariffs to zero per cent being completed by 2005. The Sensitive List, which consists of agricultural and agro-processing products, will undergo tariff reduction not later than 2015.

The above facts clearly illustrate the ongoing trade liberalization process that is part of the Lao People's Democratic Republic's commitments under the Common Effective Preferential Tariff scheme of AFTA. Since this liberalization will continue during the process of accession to WTO, these commitments will hopefully become multilateral.

With regard to negotiating strategies and regional cooperation, the Lao People's Democratic Republic believes that ASEAN membership will prove useful in facilitating its accession process to WTO on the grounds that the experience has provided basic multilateral negotiating skills to Lao negotiators and laid down a foundation for policy reforms that are WTO supportive. The reason for this confidence is that of the 10 members of ASEAN, seven are already WTO members; only the three newest members (Cambodia, the Lao People's Democratic Republic and Viet Nam) are still in the process of WTO accession. ASEAN supports the accession of its members by not raising any questions and by offering training on WTO agreements and principles to its acceding members. As in the case of other regional economic cooperation arrangements, ASEAN was formed under the principles of Article XXIV of GATT. Therefore, a regional approach is considered to be one way of facilitating accession to WTO by the Lao People's Democratic Republic in view of the learning and sharing experiences that such an approach can provide.

With regard to whether minimum liberalization is appropriate or not, a small LDC such as the Lao People's Democratic Republic has little leverage in market access negotiations; thus, the potential benefits to be obtained through such a strategy may be very small. At the same time, maintaining protection through relatively high

tariffs and protecting agriculture and services sectors imposes costs on the country's own economy. A more liberal trade regime following accession could be beneficial ultimately.

In this connection, if the Lao People's Democratic Republic opts for binding tariffs at levels higher than those applied and few commitments regarding agriculture and services, it will face the risk that interest groups may in future exert pressure for additional protection. At the same time, it may produce uncertainty about trade policy among the country's trading partners.

As far as the maximum or unilateral liberalization strategy being made a part of the accession process, the authors do not recommend it due to the lengthy process of liberalization. For a transition economy, time to adjust and adapt is required. The WTO rules have provided for special and differential treatment for LDC members, reflecting the different levels of preparedness for their compliance with WTO rules. Moreover, the LDC economies are generally too fragile to be suddenly exposed to world competition and also too vulnerable to be subjected domestically to market forces. In this regard, no country is pursuing a truly liberal trade policy. Even developed countries are still protecting and subsidizing agriculture, while LDCs find it too costly to pursue similar strategies.

Therefore, the most appropriate strategy will be somewhere in the middle or in the form of a combined strategy. It means that national trade interests should be protected, based on a cost-benefit analysis. However, this must be in line with WTO requirements as the Lao People's Democratic Republic supports freer and fairer trade.

In the case of other ESCAP members, it is suggested that sufficient preparation, capacity-building, institutional arrangements and trade policy reforms need to take place together with the strengthening of competitiveness among business operators and other stakeholders. The above steps should precede or be part of the accession process.

2. Regional cooperation among ESCAP member countries

WTO is member-driven and the large majority of its members are developing countries whose objective is national development. Mutual assistance, networking among trade negotiators and corresponding institutions and stakeholders in ESCAP member countries are all crucial to the exchange of information, the protection of common regional interests and the maximization of benefits stemming from WTO membership. Hence a common stance should be taken when negotiating under WTO such as linkages between trade and development, trade and poverty reduction, and trade and investment. Special and differential treatment for LDCs should be made more substantial and practical, for example, by making the rules less stringent for new or less developed members. Developed country members should pay more attention to new members, such as through the provision of increased technical assistance to developing countries, particularly LDCs.