

**ARTNeT Workshop:
Trade and Investment for Tomorrow: Promoting Asia-Pacific
Regional Integration**

**Assessment the Effect of Free Trade Agreements
on Exports of Lao PDR**

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I. Research Background

- Lao PDR initiated shift to the market economy in 1986.
- The economic growth was accelerating after the country has entered to ASEAN members in 1997
- The CEPT scheme, Laos is eligible to export to ASEAN markets with import tariff is relatively low from 0-5%
- Trade relations with more than 50 countries, BTAs with 15 countries, and RFTAs 5 ASEAN Dialogue partners.

I. Research Background (cont)

- Laos is eligible to export several products to the 5 countries with lower preferential tariff (APTA)
- Laos has received the GSP from 47 countries (LDCs)
- An increase in both bilateral and regional FTAs, it can be a significant factor to stimulate export growth rapidly from \$US 324.88 million in 2000 to \$US 1.69 billion 2011.

Table 1A: The share of Lao export to different regions (\$US Million)

Region	1995	2000	2005	2008	2011
ASEAN	171.00	167.41	590.04	678.19	1116.21
East Asia	14.10	22.93	63.47	106.78	106.94
Oceania	-	0.12	92.70	93.44	334.57
EU (15)	31.70	100.27	124.26	233.29	128.91
USA	5.30	7.68	6.91	10.24	5.38
Others	89.10	26.48	0.63	2.46	4.44
Total	311.20	324.89	878.01	1124.40	1696.44

Source: Ministry of Industry and Commerce (MoIC), Laos

1.1 Research Questions

1. Will a reduction of the CEPT and the MFN import tariffs support trade creation or trade diversion?
2. How does the country gain from trade liberalization through various types of FTAs?
3. What are the urgent trade policies needed in order to improve the preferential tariff utilization?



1.2 Research Objective

- To analyze the progress of trade liberalization and the export performance of Laos with major trading partners
- To estimate the determinants of Lao export as a consequence of both bilateral and multilateral FTAs being implemented.

1.3 Scope of Study

- Focusing on 32 trading partners, which is classified to 6 regions (See Table 1)
- The panel data will be applied, during the periods 1996-2011.

II. Research Methodology

- This research apply the gravity model, which was first introduced by Tinbergen in 1962. The basic concept of the gravity model can be written:

$$F_{ij} = C \frac{Y_i Y_j}{D_{ij}}$$

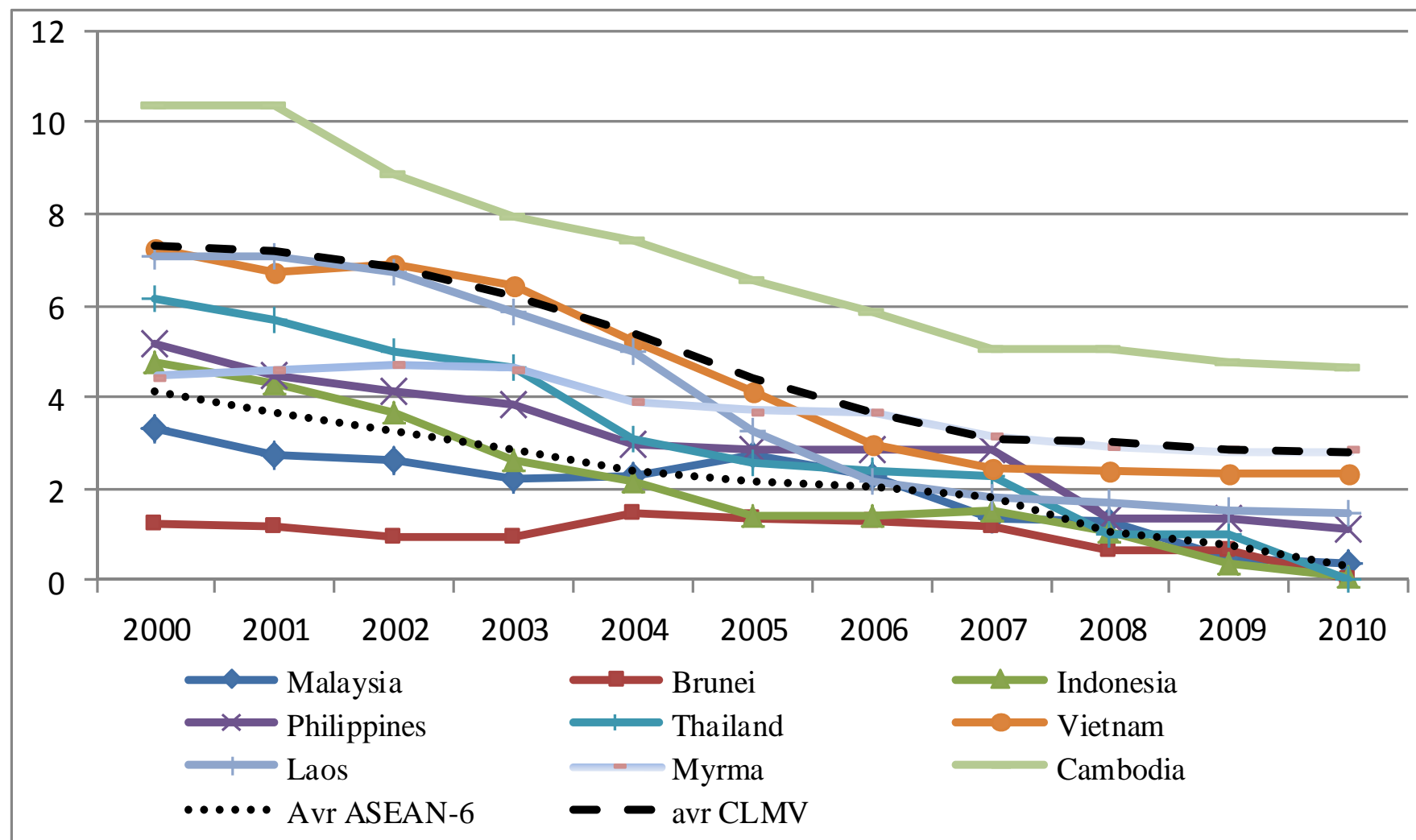
II. Research Methodology (cont)

- To capture various kinds of trade phenomena, some common factors such as a common border, a common language, a common currency, and a preferential trade agreement are included:

$$\begin{aligned} \log EX_{ijt} = & \beta_0 + \beta_1 \log Y_{it} + \beta_2 \log Y_{jt} + \beta_3 \log D_{ij} \\ & + \beta_4 \log E_{ijt} + \beta_5 \log T_{jt} + \beta_6 D_{FTA_{ijt}} + \beta_7 D_{GSP_{jit}} \\ & + \beta_8 D_{ASEAN_{ij}} + \beta_9 D_{EU_{ij}} + \beta_{10} D_{E_Asia_{ij}} \\ & + \beta_{11} D_{America_{ij}} + \beta_{12} D_{border_{ij}} + \beta_{13} D_{lang_{ij}} \\ & + \beta_{14} D_{crisis_{it}} + \delta_{ij} + \tau_t + e_{ijt} \end{aligned}$$

III. The Progress of Trade Development in Lao PDR

Figure 1.1: Average CEPT rate of ASEAN



III. The Progress of Trade Development in Lao PDR (cont)

- The custom law No 05/NP, dated on May 20, 2005 to ensure a consistent to the WTO regulation;
- The Prime Minister Decree No 228/PM, dated on April 11, 2010 on the rule of origin requirements for export and import goods;
- The Prime Minister Decree No 180/PM, dated on July 7, 2010 on reducing a number of procedure of import goods;
- A structural reform by reducing government units in international borders from 15 units to 3 basic units (customs, immigration and quarantine);
- The establishment of the automated Systems for Customs Data (ASYCUDA)
- It followed by the successful WTO accession in February, 2013.

IV. The Progress of Trade Development in Lao PDR (cont)

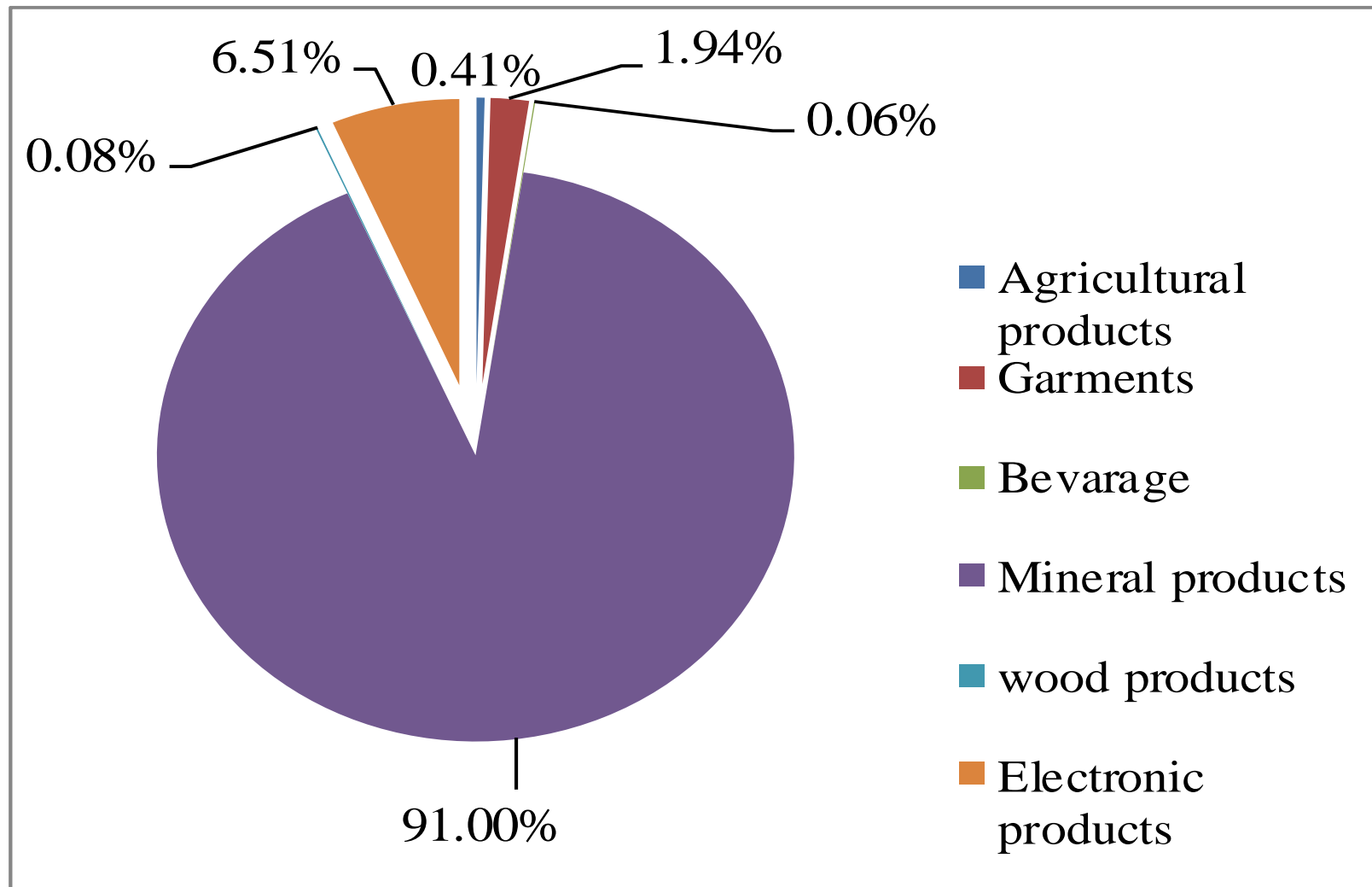
FTAs	Preferential Tariff Concession
AFTA (1998)	99.1% (70,000 tls) of the ASEAN total tariff lines is in the IL in 2010
ACFTA (2005)	Import tariff of 372 tls (Agro products) was eliminated in 2010 (EHP) Import tariff of 330 tls was reduced to zero in 2010 (ACFTA)
AKFTA (2005)	Import tariff of 4,734 tls was reduced to zero in 2010 Import tariff of 326 tls was reduced to 0-5% in 2016
AJCEP (2009)	Import tariff of 10,690 tls will be reduced to 0-5% during 2009-2019
APTA (1976)	Laos was recieved the NLC of 4,270 tls from 5 countries (MoP 5-100%) in 2011 Laos was recieved the LSC of 500 tls from 4 countries (MoP 10-100%) in 2011
LVFTA (2005)	Some originating products from Laos enjoyed import duties free
GSP	EU granted GSP to Laos under the EBA initiative in 2002

Table 1.1: Lao's export to ASEAN countries under preferential tariff (AFTA)

	2009 (\$ Thousand)			2010 (\$ Thousand)			2011 (\$ Thousand)		
Countries	Export using TP	Export	TP utilization (%)	Export using TP	Export	TP utilization (%)	Export using TP	Export	TP utilization (%)
Philippines	-	2.20	-	-	307.32	-	-	6.46	-
Thailand	60,432.58	1,207,577.50	5.00	75,042.02	933,094.72	8.04	48,304.64	936,755.66	5.16
Malaysia	4.23	274.63	1.54	23.85	1,762.27	1.35	15,933.72	18,121.18	87.93
Vietnam	12,699.41	133,649.53	9.50	18,741.83	153,310.46	12.22	41,371.80	174,904.54	23.65
Singapore	0.83	242.14	0.34	12.48	1,728.93	0.72	-	19.16	0.00
Cambodia	-	304.30	0.00	495.45	3,252.70	15.23	63.44	800.14	7.93
Indonesia	-	35.94	0.00	1,640.24	1,747.37	93.87	3070.50	4,526.21	67.84
Total	73,137.05	1,342,086.25	5.45	95,955.86	1,093,563.51	8.77	108,744.09	1,116,129.13	9.74

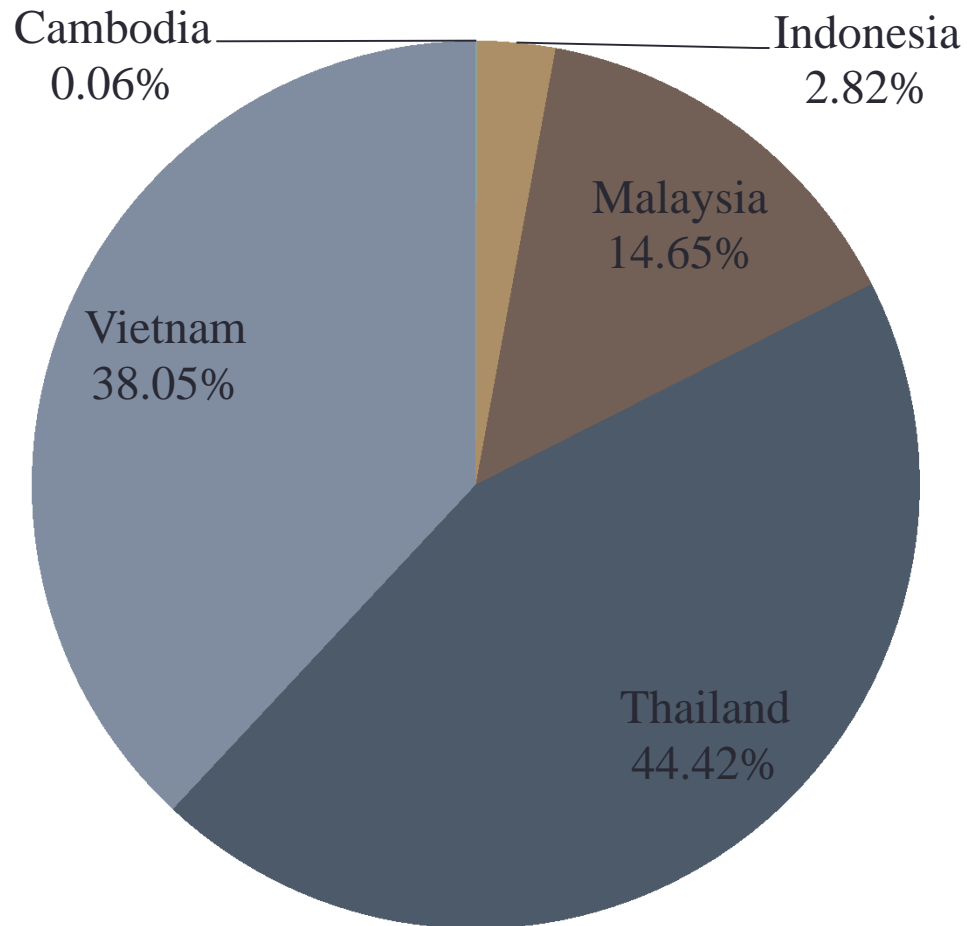
Source: Export and Import Department, MoIC

Figure 1.2a: Lao's export products based on the AFTA commitment in 2011



Source: Export and Import Department, MoIC

Figure 1.2a: The share of Lao's export based on the AFTA preferential utilization in 2011



Source: Export and Import Department, MoIC

Table 1.2: Lao' export to ASEAN dialogue partners and bilateral FTAs

Export (\$ Thousand)	2008	2009	2010	2011
China	62,611.17	79,252.96	64,672.88	70,631.49
TP utilization (Form E)	-	130.41	1,124.11	352.29
TP utilization (%)	-	0.16	1.74	0.50
Japan	10,460.89	26,840.00	52,825.29	32,905.29
TP utilization (Form AJ)	-	1,202.70	1,865.76	2,072.93
TP utilization (%)	-	4.48	3.53	6.30
Korea	16,793.17	1,713.04	1,714.88	794.80
TP utilization (Form AK)	49.18	1,011.95	440.66	603.04
TP utilization (%)	0.29	59.07	25.70	75.87
Export (\$ Thousand)	2005	2006	2010	2011
Vietnam	93,961.52	112,142.13	153,310.46	174,904.54
TP utilization (Form S)	1,785.14	3,945.37	5,402.96	5,165.45
TP utilization (%)	1.90	3.52	3.52	2.95

Source: Export and Import Department, MoIC

Table 1.3: Lao garments and textiles export to European countries and other countries based on the GSP treatment

Distination	2008 (\$ Thousand)			2009 (\$ Thousand)			2010 (\$ Thousand)		
	Export under GSP	Export	GSP utili- zation (%)	Export under GSP	Export	GSP utili- zation (%)	Export under GSP	Export	GSP utili- zation (%)
Austria	136.14	500	27.23	28.16	90	31.28	44.81	610	7.35
Belgium	3,974.99	5,278.23	75.31	4,072.56	10,557.39	38.58	4,627.83	7,593.63	60.94
Dendark	3,709.85	4,040.74	91.81	3,847.83	4,540.00	84.75	4,162.69	9,268.65	44.91
Findland	186.65	390	47.86	17.91	137.77	13	-	1.50	-
France	15,955.57	25,320.00	63.02	7,471.59	10,720.00	69.7	11,538.35	12,151.54	94.95
Germany	30,004.57	42,864.12	70	39,213.17	52,790.00	74.28	40,399.24	58,680.00	68.85
Greece	4.31	70	6.16	-	3.21	-	6.7	10	67.02
Italy	6,680.51	11,590.00	57.64	3,856.03	5,675.47	67.94	5,600.62	23,043.10	24.3
Netherland	12,126.69	14,841.59	81.71	13,045.94	14,970.00	87.15	14,833.08	24,263.80	61.13
Spain	3,474.59	4,730.00	73.46	1,668.11	1,738.65	95.94	2,985.03	3,648.89	81.81
Sweden	199.05	301.79	65.96	86.65	455.26	19.03	762.42	795.27	95.87
United Kingdom	55,522.18	59,930.00	92.65	48,446.15	68,490.00	70.73	47,578.85	53,707.15	88.59
Other countries	1,725.87	4,832.19	35.72	1,308.29	6,300.11	20.77	4,040.76	5,396.60	74.88
Total Europe	133,700.96	174,688.65	76.54	123,062.39	176,467.87	69.74	136,580.39	199,170.12	68.57
Cannada	2,453.02	4,488.63	54.65	4,190.98	4,765.98	87.94	4,069.13	8,630.00	47.15
Japan	2,861.51	10,460.89	27.35	3,756.57	26,840.00	14.00	4,054.32	52,825.29	7.67
Norway	1,695.42	1,810.00	93.67	296.51	760	39.01	11.37	290	3.92
The United States	8,279.61	44,400.00	18.65	2,271.63	36,615.26	6.2	881.74	41,672.50	2.12

IV. Determinant of Lao Bilateral Exports to Major Her Trading Partners

- The main empirical results can be summarized in Table 1.4
- Trading partners' income (Y_j) have a strong positive effect on real exports. The elasticity of real partners' income to the real export ranged from 1.59 to 2.91
- A 1% point rise in distance between Laos and her trading partners tends to have a negative effect on export on average of 2.59%
- The depreciation of bilateral exchange rate causes domestic goods to be more competitive, as a result it will support Lao's export to major trading partners.

IV. Determinant of Lao Bilateral Exports to Major Her Trading Partners (cont)

- Trade liberalization of Laos under WTO commitment has provided significant evidence in supporting trade creation.
- A 1% point reduction of import tariff under MFN scheme (T) will encourage the real bilateral exports to increase on average by 0.82%
- The finding suggests that FTA implementation between Laos and her trading partners would increase trade volume by 55.27% more than baseline case of neither FTA execution.

IV. Determinant of Lao Bilateral Exports to Major Her Trading Partners (cont)

- We find that Lao's export under the Generalised System of Preferences (D_GSP) have played a crucial role to support an increase of Lao's export by 50.68% greater than whose partners do not granted GSP.
- Having geographical proximity between Laos and her trading partners (D_border) shows a strong positive effect on real export.

V. Conclusion and Policy Implications

- Lao PDR has made a great effort to liberalized trade by participating in both bilateral and multilateral free trade agreements, as a consequence leads to a greater market access
- The overall of Lao export under preference tariffs treatment remains a relatively low.
- The trade liberalization under WTO commitment and several Free trade agreements made with major trading partners are an important factor to support trade creation

Some Policy Implications are given:

1. The government should continue improve and diversify export products and to process them, especially for agricultural and mineral products
2. To increase benefits to exports under preferences, exporters should broader and diversify a number of the export products, with more cautious in selecting FTAs based on their comparative advantages
3. MoIC should organize regularly technical trainings in promoting preferential utilization to entrepreneurs to together with following up evaluation programs; this is to ensure the effectiveness FTAs utilization.



Thanks You