

CHAPTER 8

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Syviengxay Oraboune

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CHAPTER 8

LAO PDR'S INDUSTRIAL DEVELOPMENT POLICY AND INTERMEDIATE GOODS TRADE

Syviengxay Oraboune

INTRODUCTION

The government of the Lao People's Democratic Republic (Lao PDR) introduced the New Economic Mechanism (NEM) in 1986 in order to transform the country's economy from natural and sub-natural to a market-oriented one. The goal was also set for the Lao PDR to lift out from its status as a least-developed country (LDC) by 2020. As such, the government has introduced a number of strategies and policies in order to develop the economy, alleviate poverty, and enhance industrialization of the country. Among the approaches, trade development and promotion of foreign direct investment (FDI) have been identified as significant tools for industrialization of the country. Foreign trade is the important source of foreign currency and the engine for domestic economy diversification, while FDI is most important for inflow of investment capital, technology, and know-how. FDI is also a means for international trade development of the country, as most of FDI products are traded within the region and internationally.

Although the primary and natural sector seems to be most attractive for FDI and the foreign trade of the Lao PDR, there is some flow of intermediate goods trade between the country and its foreign partners. Statistics also show that FDI contributes

substantially to the intermediate goods trade sector, garments for example. As the majority of garment factories are cut-make-trim (CMT), most materials are from abroad, where most garment products are also exported to original companies.

Since trade in the Lao PDR has not been categorized with this term, it is very difficult to measure intermediate goods trade in the country. This is due to its statistical system not been completely applied to the Harmonized System (HS) nor to Standard International Trade Classification (SITC). Therefore, this paper defines intermediate goods trade in terms of broad economic categories involving semi-finished goods and parts and components. Moreover, as it is difficult to cover the whole picture of intermediate goods trade for the Lao PDR due to the current domestic statistical system, the paper selected two case studies in the garment and motorcycle sectors to analyze the situation, as these are sectors that best fit the case of the Lao PDR.

This paper will review the industrial development process of the country and its intermediate goods trade development. It will also observe the roles of China, Japan and the Republic of Korea in the development of the Lao PDR's intermediate goods trade. The paper is divided into three main parts: Part one reviews the industrialization of the country. Part two shows the characteristics of intermediate goods trade development of the country. Part three compares China, Japan and Korea regarding intermediate goods trade with the Lao PDR through two case studies in the garment and motorcycle sectors. The paper ends with a conclusion and policy recommendations.

1. REVIEW OF INDUSTRIALIZATION POLICY IN LAO PDR

Since the establishment of the Lao PDR in 1975, the government has attempted to develop the country toward industrialization. In early 2000, the government set the goal of graduating the Lao PDR from the list of least-developed countries by the year 2020. A number of strategies have been introduced to facilitate progress in the country's development and industrialization, including strategic papers for 2010 and 2020 industrialization and modernization toward national growth and poverty eradication.

The process of industrialization in the Lao PDR might be divided into two main periods, which are the cooperativization period of 1976-1986 and the NEM since 1986. The NEM might also be divided into a period of preparation (1986-2000) and a period of boosting economic growth toward industrialization and modernization (2000-present)

1.1. Cooperativization Period (1976-1986)

Since the Lao PDR is an agriculture-based country, the government introduced an industrialization policy that draws from agriculture. The agricultural cooperative program derived from the need to improve agricultural productivity by attempting to change the practices of Lao farmers from a so-called nature dependent (primitive agriculture) to a more modern agriculture (agriculture modernization). In the Second Party Congress in 1975, the Central Committee of the Lao People's Revolutionary Party (LPRP) declared that "... it is necessary to reorganize the small individual and less-developed agriculture business in order to become big social businesses under

cooperativization with voluntary participation of farmers.”¹ Furthermore, the country’s interim three-year plan of 1978-1980 set the primary objective of realizing self-sufficiency in rice, which agricultural cooperatives regarded as the tools to achieve the program.

The government strongly believed that cooperatives or agricultural collectives would strengthen agricultural productivity, diminishing traditional farming activities such as slash-and-burn and seasonal-dependent farming.

The agricultural cooperatives began to be established in 1977 under the agricultural collectivization program. After the one-year campaign, the first countrywide meeting of cooperatives was held in May 1979. In the meeting, the annual report showed that the cooperatives had gradually been developing, grouping more than 1,000 cooperatives nationwide. Later, after the first five-year socioeconomic development plan (1981-1985) was launched, agricultural cooperatives continued to be developed. In 1985, the State Planning Committee reported that the number of agricultural cooperatives was 2,932 throughout the country. Of these, 616 cooperatives or 21 percent of the total were in Champasack province, covering 80 percent of the cropped area in the province. There were 247 cooperatives in Xiengkhouang province (8 percent of the total), covering 44 percent of the province’s cropped area; and 117 in Vientiane province (4 percent), covering about 8 percent of the province’s cropped area; with the rest in other provinces.²

¹ Kaysone PHOMVIHANE (former president of Laos); “Selected Thesis 2”; p. 19; para. 2.

² Daman Prakash Dr. “Basic Survey on Fostering Agricultural Cooperatives in Developing Countries-Special Reference to Lao PDR” Nov. 15-26, 1999 & Feb. 18-26, 2000; JA-ZENCHU.

1.2. New Economic Mechanism since 1986

The government of the Lao PDR launched the NEM with the intention to develop the economy into a market-oriented one. Opening up the economy is a significant tool for the development of the country. Development of foreign trade and promotion of FDI is also significant for the country.

- **Preparation period (1986-2000)**

The NEM, together with the *Chitanakan Mai* or “New Concept,” was started in 1986 in order to open the economy toward a market system, or an effort to transform the central planning and command system into a market-oriented one.

In the second five-year socioeconomic development plan, the government strongly promoted the development of agriculture, in which industrialization and commercialization were emphasized. Therefore, a number of reforms were implemented during this period. These include abolishing the command administrative system, promoting a multi-sector market economy in which all economic sectors are equal before the law, abolishing the unlimited-subsidy system of state enterprises to improve self-reliance in budgets and production, operating an exchange rate system, and enhancing the responsibilities and rights of local residents in development of the socioeconomic situations in their areas.

- **Busting economic growth since 2000**

To support industrialization of the country, the Lao PDR government developed an industrialization and modernization strategy with emphasis on sectors such as hydropower, agricultural manufacturing, tourism, mining and construction materials

(Industrialization and Modernization Strategy, 2001). The strategy was divided into another three periods. These are implementation of the 5th Five-Year Plan (2001-2005) as a starting point of integration in regional and global economies, implementation of the 6th Five-Year Plan (2006-2010) as a building-up period, and completion of the industrialized foundation to graduate from the status of an LDC (2011-2020).

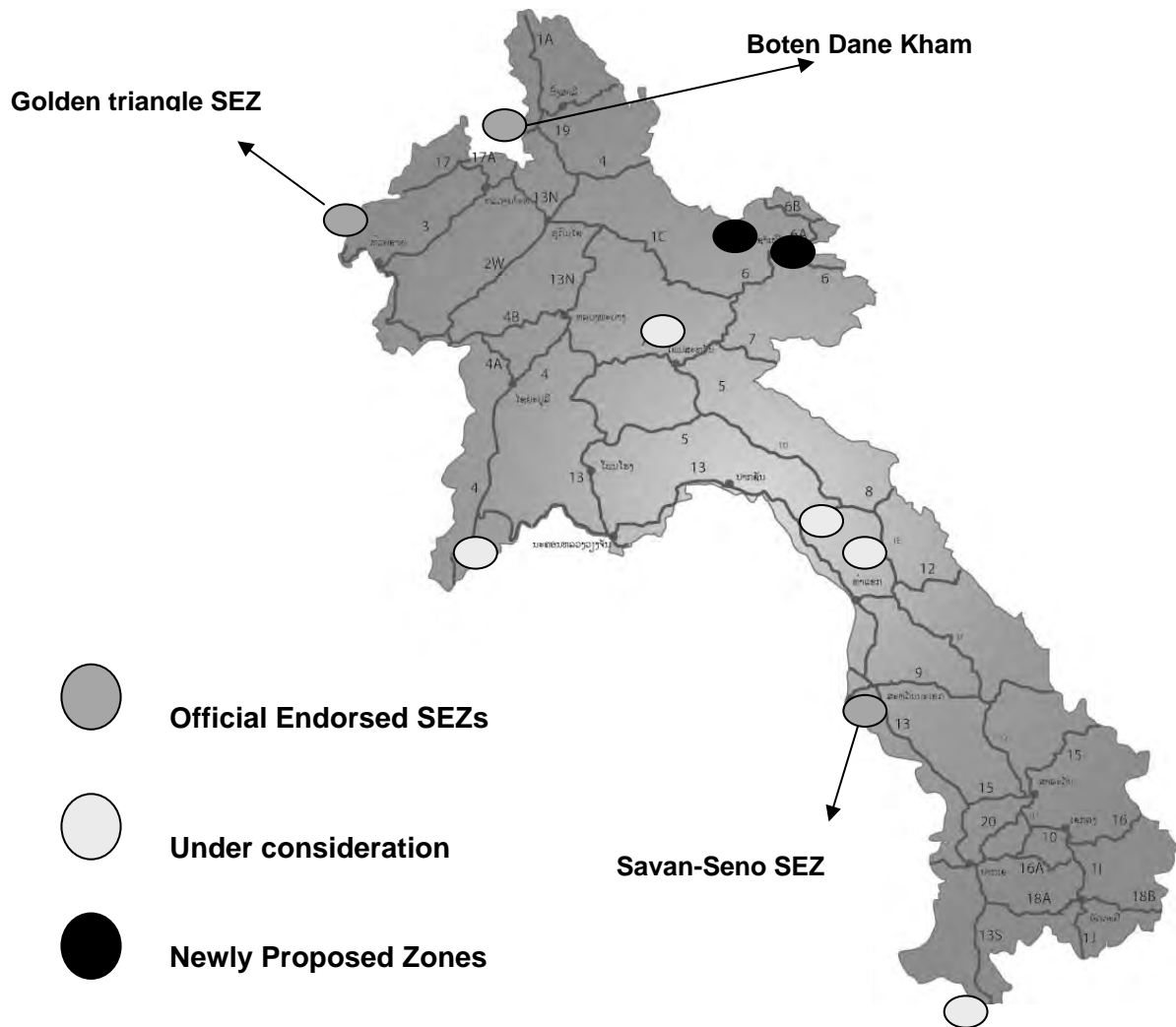
2. CHARACTERISTIC OF INTERMEDIATE GOODS TRADE DEVELOPMENT IN LAO PDR

2.1. Progress of the Implementation of Industrialization Policy

In order to facilitate the country's industrialization, the government emphasizes the importance of infrastructure development. In addition, a number of tax exemptions and other incentives have been introduced in order to attract more FDI. In particular, this is to further facilitate the process of integrating the country into the regional and global economies. A policy on development of special economic zones (SEZs) has also been introduced for developing the infrastructure and improving the business environment.

The SEZ development policy was launched in the late 1990s. Currently, the officially endorsed ones are the Boten Dane Kham SEZ in Luangnamtha province, the Golden Triangle SEZ in Bokeo province, and the Savan-Seno SEZ in Savannakhet province (see Map 1). Several other areas have been identified and are under consideration for SEZs, including in Khammuane, Xiengkhouang, Xayabury, and Champasak provinces. Houaphanh province is also a newly proposed site (see Map 1).

Map 1: Location Site of SEZs in Lao PDR



Source: Special Economic Zone Secretariat, 2010.

Furthermore, trade has also been identified as a significant sector for development under the country’s industrialization. The government introduced its national export strategy in 2005. The main objective is to utilize the export sector as a means for backward linkage sector development within the country. The strategy selected sectors

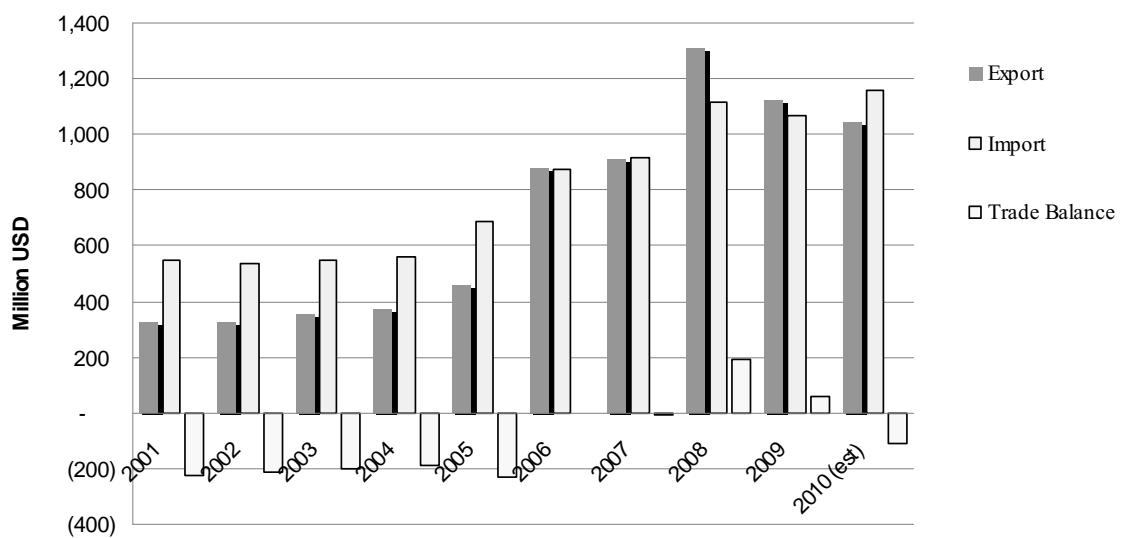
that are significant for domestic backward linkage, including garments, organic agriculture, silk, medicinal plants and herbs, and tourism.

2.2. Overall Picture of Foreign Trade in Lao PDR

In line with the industrialization strategy, foreign trade has developed significantly in the past decade, with especially rapid development from 2006 to 2010. With growth in the export sector, the country’s trade balance improved even with a slight decline in 2010 due to a fall in the mining sector. Figure 1 shows the foreign trade of the Lao PDR during 2001-2010.

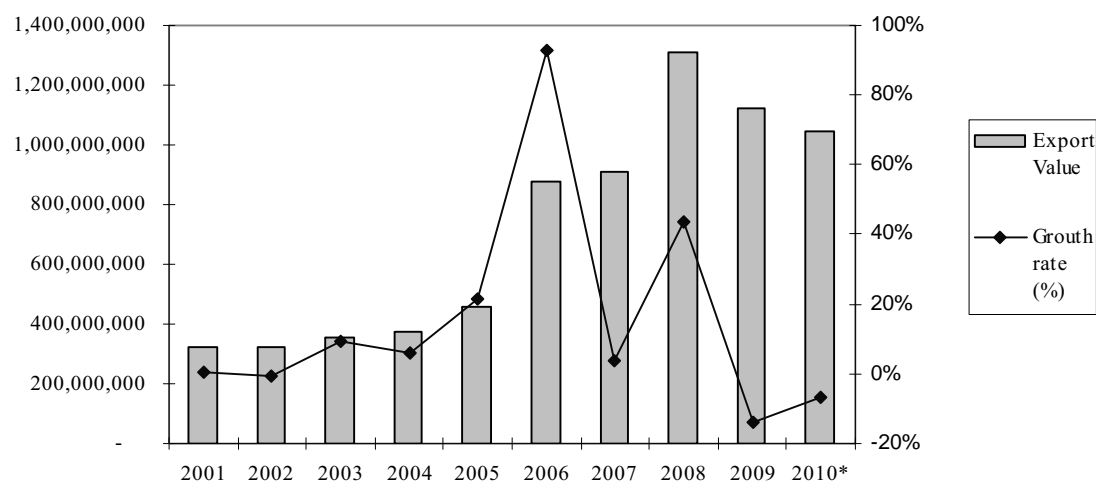
Figure 2 shows the value and growth rate of the Lao PDR’s export sector, which is important for the country. However, nearly 70 percent of official Lao exports are still concentrated in natural-base products such as wood products, mining and electricity, and garments.

Figure 1: Foreign Trade of Lao PDR



Source: Ministry of Industry and Commerce, 2010.

Figure 2: Value and Growth Rate of Lao PDR's Export (2001-2010)

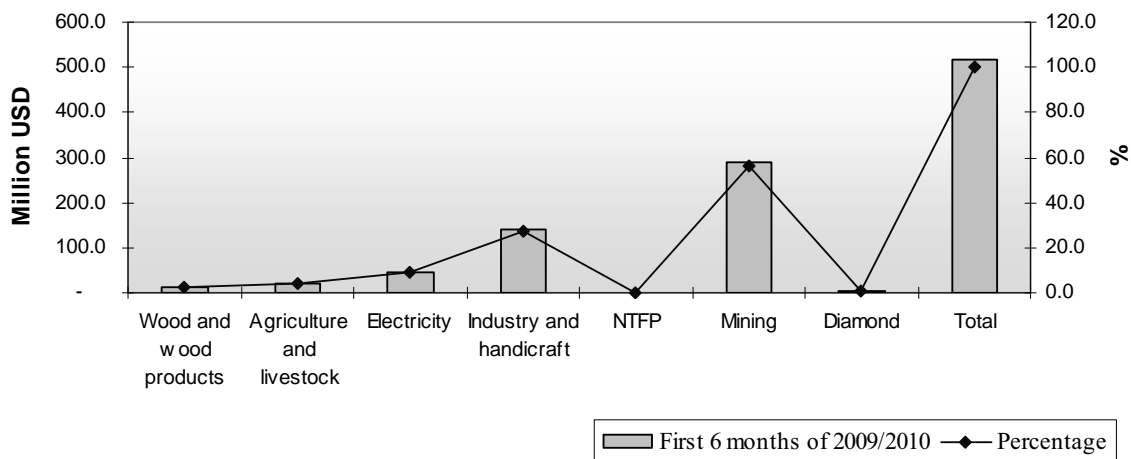


Note: *Estimate.

Source: Ministry of Industry and Commerce, 2010.

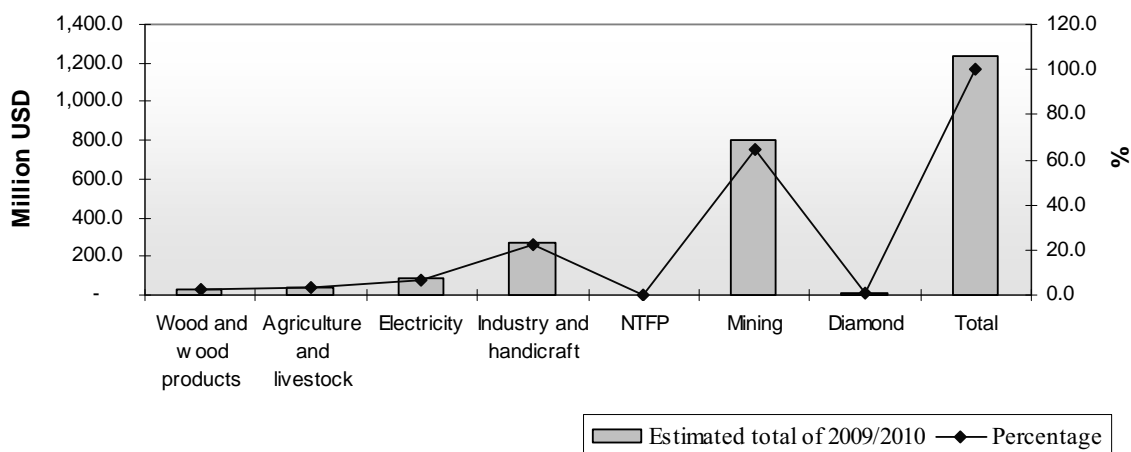
Figure 3 shows the value of Lao exports, with mining accounting for almost 60 percent of the total exports in the first six months of Fiscal Year 2009/2010. In comparison, electricity exports made up 10 percent (see Figure 3). It is expected that the mining sector will continue growing and will top USD 800 million in exports for the whole year, representing about 65 percent of the Lao PDR's total exports. Electricity exports are expected to be USD 87 million for the year or about 8 percent of the total value (see Figure 4).

Figure 3: Component of Lao PDR Export (first 6 months of 2009/2010)



Source: Department of Export Import, MOIC, 2010.

Figure 4: Total Export of Lao PDR, 2009/2010 (est.)

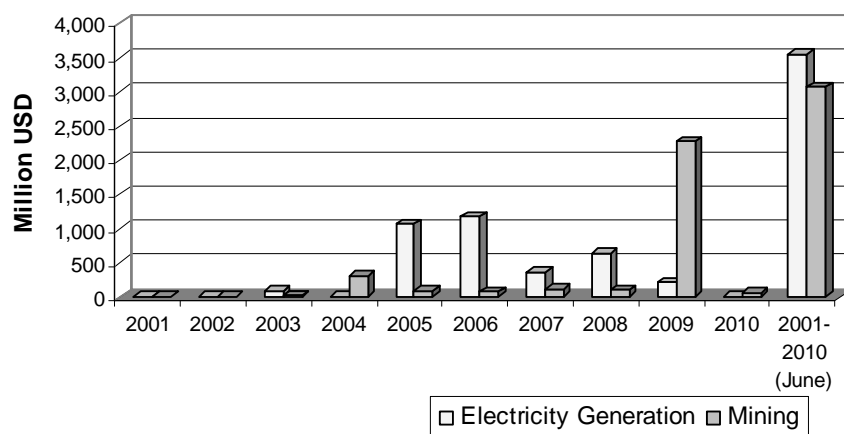


Source: Department of Export Import, MOIC, 2010.

2.3. Characteristic of Intermediate Goods Development in Lao PDR

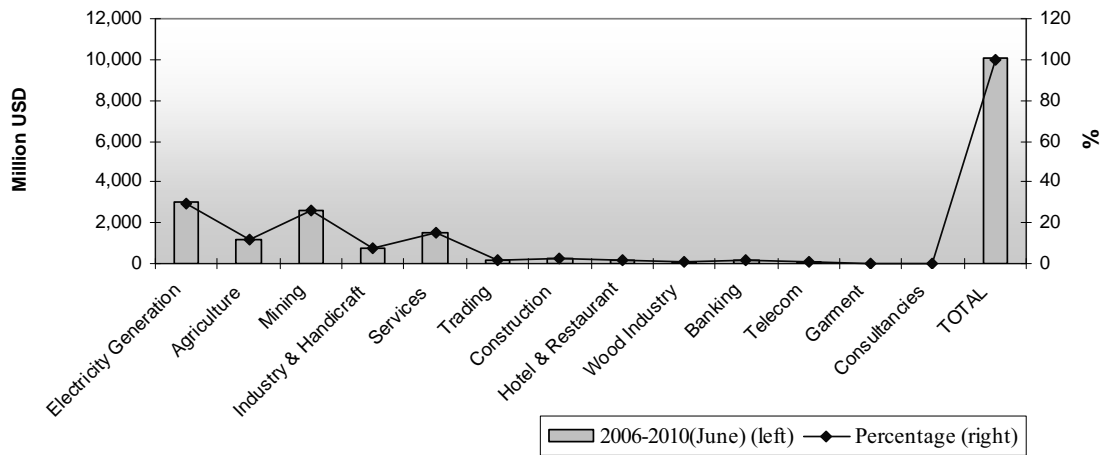
Although the trade of the Lao PDR has achieved significant progress recently, the natural sector remains the driver of growth. Just as the country's export sector development is going along with FDI development, the growth of FDI in the natural sector (electricity and mining) will contribute significantly to the advancement of the natural and primary sector's exports. Figure 5 shows the increasing trend of FDI in electricity and mining in the past decade. From late 2005 through 2006 the FDI in electricity increased significantly, and from late 2008 through 2009 the value of FDI in the mining sector showed and especially sharp increase. These two sectors ranked at the top of FDI in terms of value from 2001 to 2010. The two sectors accounted for almost 60 percent of total FDI for 2006/2010 with a total value of over USD 5 billion (see Figure 6).

Figure 5: Value of FDI in Electricity and Mining Sector (2001-2010)



Source: Department of Investment Promotion, MPI, 2010.

Figure 6: FDI in Lao PDR by Sector (2006-2010)



Source: Department of Investment Promotion, MPI, 2010.

According to available statistics, the intermediate goods exports of the Lao PDR can be identified only for 2007/08. Figure 7 is an attempt to calculate the value of the intermediate goods exports,³ which account for less than 10 percent of the country’s total export value. As for the intermediate goods imports of the Lao PDR,⁴ they make up about 20 percent of total import value (see Figure 8).

³ Calculated from some semi-finished products, including wooden products, agriculture products, industrial components and parts, handicrafts, non-timber forest products, and diamonds.

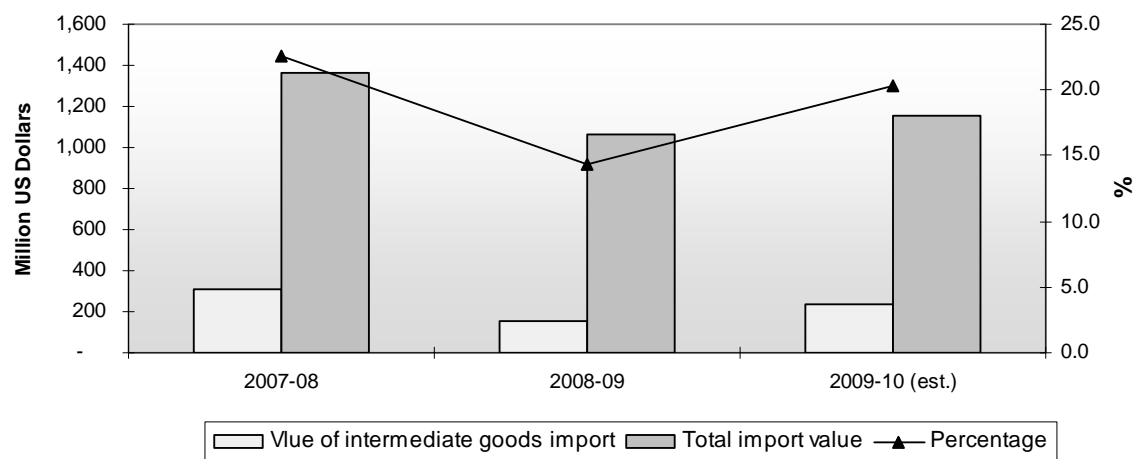
⁴ Calculated from some imported items, including raw materials for garments, diamonds, industrial products for raw materials, and agriculture products.

Figure 7: Intermediate Goods Export (Lao PDR)



Source: MOIC, 2010.

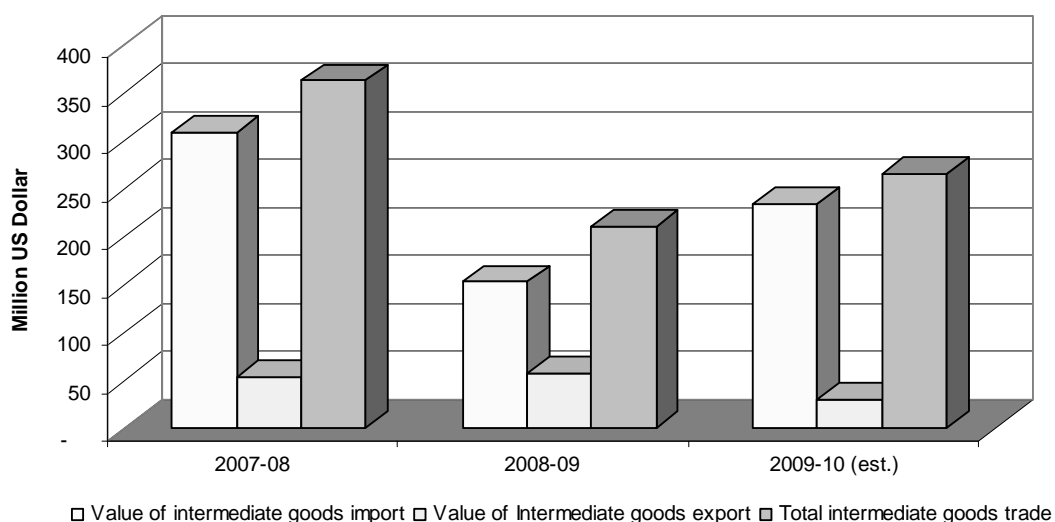
Figure 8: Intermediate Foods Import (Lao PDR)



Source: MOIC, 2010.

Statistics show that the Lao economy has participated in the regional and global production networks to some extent, especially in the labor-intensive industry. Therefore, the value of intermediate goods imports as raw materials to supply manufacturing and assembly factories in the Lao PDR is increasing. Meanwhile, the value of the intermediate goods exports of the country is relatively small and mostly from the agriculture and forestry sectors. Figure 9 shows statistics on the intermediate goods trade of the country, where the value of imports accounts for almost 90 percent of total trade value. Most of the intermediate goods trade of the Lao PDR transacts within the Asian region, especially with neighboring countries such as China, Thailand, Malaysia, and Vietnam.

Figure 9: Intermediate Goods Trade Value of Lao PDR



Source: MOIC, 2010.

3. COMPARISON OF INTERMEDIATE GOODS TRADE BETWEEN LAO PDR AND ITS TOP ECONOMIC PARTNERS: CHINA, JAPAN, AND KOREA

This section provides case studies from the garment and motorcycle industries for a deeper understanding of the processes and characteristics of intermediate goods trade in the Lao PDR. The two case studies also make comparisons between the garment and motorcycle industry intermediate goods trade of the Lao PDR, China, Japan and Korea.

3.1. Garment Industry Case

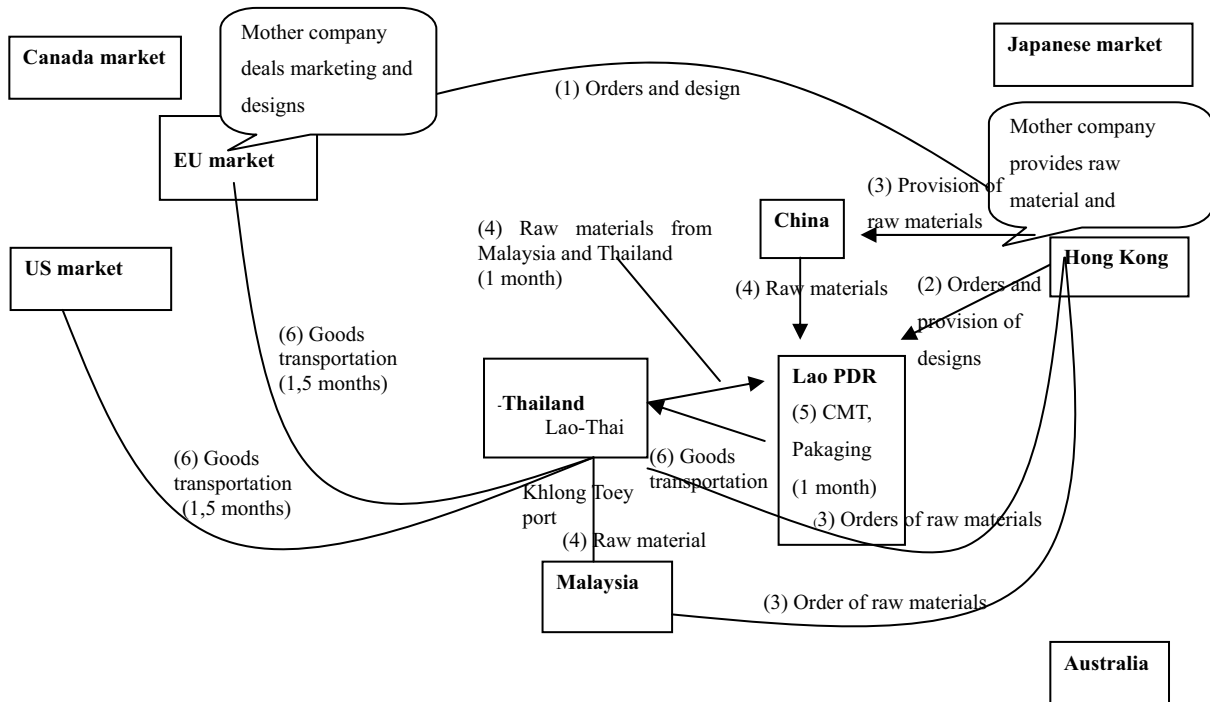
The garment industry is an important economic sector in the Lao PDR. It is a significant area that attracts FDI, as the majority of garment factories are foreign investments, whether foreign-owned or joint ventures (S. Oraboune, 2005). Currently, there are 90 to 100 garment factories in the Lao PDR, 54 of which are members of the Lao Garment Association. Of these 54 factories, 26 are foreign-owned, 13 are joint ventures, and 15 are pure Lao factories.

The main markets of Lao garment products are Italy, the United Kingdom, France, the United States, Canada, Australia, and Japan. The garment industry contributes significantly to the Lao PDR's exports. In 2008, garment exports accounted for 13.8 percent of the country's total industrial value added, and 3.6 percent of its GDP. Garment exports represented 23.4 percent of total export value, posting an average annual growth rate of 14 percent from 1995 to 2008 (S. Insisienmay and V. Nolintha, 2010).

The major foreign investors in the country's garment industry are from Thailand, mainland China, Japan and Taiwan (S. Insisienmay and V. Nolintha, 2010). Most manufacturers are basically subcontractors that offer only CMT with no backward linkage to fabrics and accessories. The designs, quality measures, and almost 100 percent of the raw materials for the Lao PDR's garment industry are imported. Therefore, the industry directly contributes to the country's intermediate goods imports. This shows that the Lao PDR still relies on labor intensity with very low value added. However, most of the raw materials come from neighboring countries, especially China, Thailand and Malaysia. This indicates a spreading of the production chain within sub-regions and the region (see Diagram 1).

As illustrated by Diagram 1, the garment industry in the Lao PDR is highly reliant on international markets. As buyers and markets are mainly in the West, Australia and Japan, these also often dictate the designs and marketing issues. It is their regional companies (mostly in Hong Kong) that deliver the orders with the designs to the garment factories in the Lao PDR, in conjunction with orders and the transport of raw materials from China, Thailand, and Malaysia. Imports of raw materials for the garment industry accounted for approximately one-fifth of the total intermediate goods import value of the Lao PDR between 2007 and 2010. Garment factories in the Lao PDR are mostly in charge of sewing, cutting, knitting, and producing finished products for export.

Diagram 1: Market Channel of Lao Garment Industry



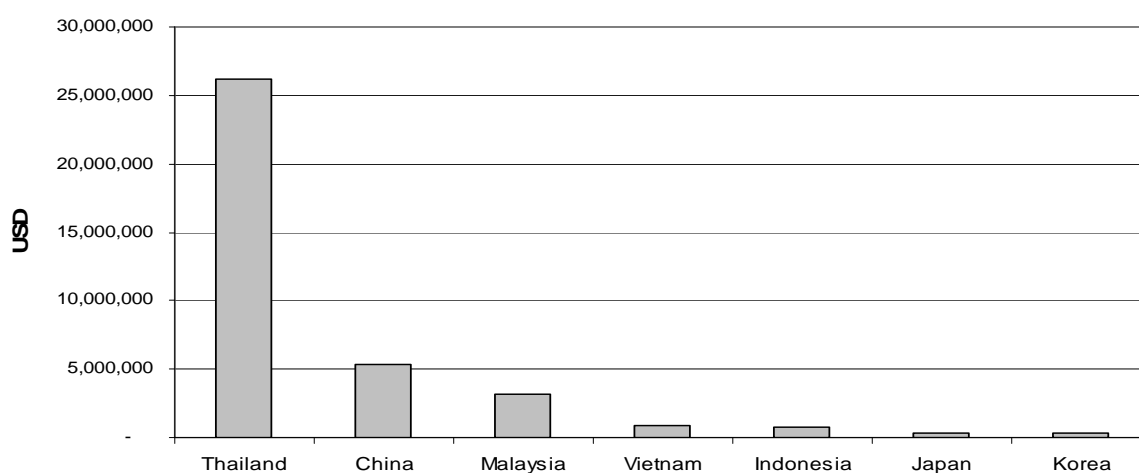
Source: NERI Survey, 2010.

In most cases, after receiving the raw materials, the garment factories in the Lao PDR need about a month for production and packaging. Most of the raw materials imported from Malaysia and other sources except China go through Khlong Toey Port in Bangkok to Vientiane. The factories in the Lao PDR transport their garment products via the Lao-Thai Friendship Bridge to Bangkok, which takes about two days, and then to final buyers in the EU and the United States, taking about 1.5 months. So the lead time for garment factories in the Lao PDR is about 90 days (see Diagram 1).

The diagram explains how the garment industry in the Lao PDR links to the world market. Although most final buyers are from elsewhere, the raw material suppliers are

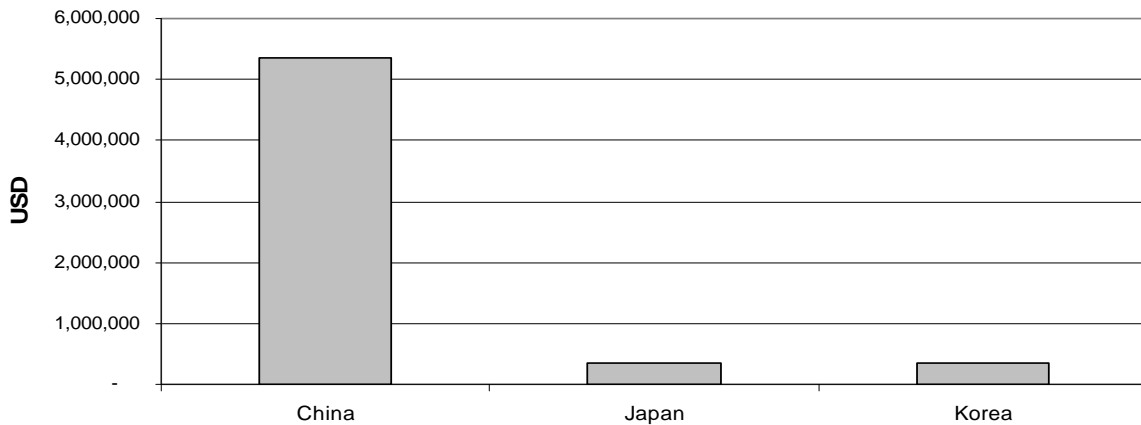
from countries in the Mekong River Subregion and ASEAN. Very few are from other regions of the world (see Figure 10). The figure shows that most of the raw materials for garment manufacturing are imported from Thailand (over 70 percent), followed by China and Malaysia. Figure 11 also compares the values of garment raw material imports from China, Japan and Korea, with China accounting for almost 90 percent of total value.

Figure 10: Value of Raw Material for Garment Manufacturing in Lao PDR (2008-09)



Source: MOIC, 2010.

Figure 11: Value of Raw Material for Garment Manufacturing Imported from China, Japan and Korea (2008-09)



Source: MOIC, 2010.

This case shows that while the garment industry contributes very limited value added to the Lao PDR's economy, it is a significant contributor to the industrialization process of the country. It provides thousands of jobs and income to local people though basically only unskilled employment. As an overall observation, garments are a significant industry that contributes to the intermediate goods trade of the Lao PDR, but mostly in terms of imports.

3.2. Motorcycle Industry Case

Beside garments, the motorcycle industry contributes to the intermediate goods trade of the country. In 1991 Suzuki Santiphab became the first motorcycle company to come to the Lao PDR, but New Chip Seng was the first motorcycle assembler. Both companies produce Japanese motorcycles, with Suzuki Santiphab making Suzuki-brand and New Chip Seng assembling Honda-brand. Suzuki Santiphab is a joint-venture company with

Lao, Japanese, and Thai investors. New Chip Seng is 100 percent FDI from Thailand.

By 2009, there were 12 motorcycle assembly companies in the Lao PDR (see Table 1). Of these, one produces Korean brands, two make Japanese brands, and the rest produce Chinese brands. Most of the assembly factories are located in Vientiane, while only three are in the other provinces with one each in Savannakhet, Bokeo, and Oudomxay).

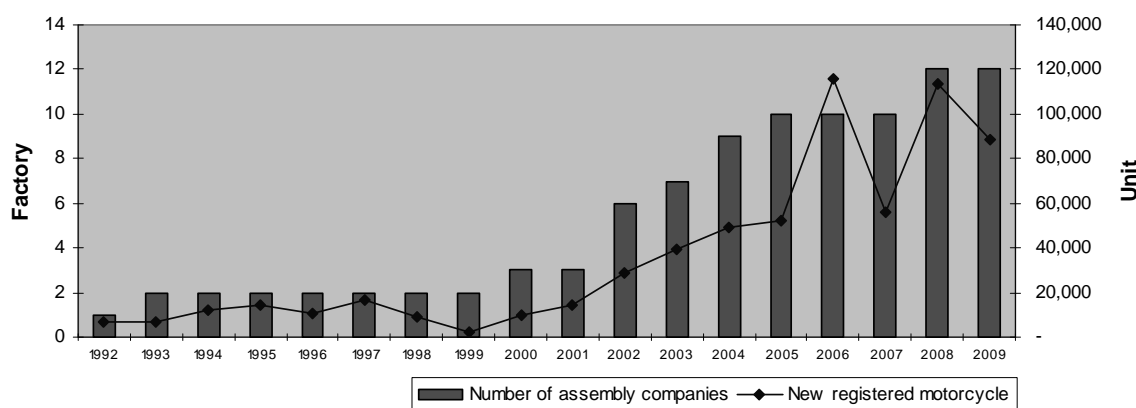
In the first stage of development, there were only two factories and they produced 6,000 to 10,000 motorcycles a year, supplying not only the domestic market but also foreign countries such as Vietnam. Since 2000, motorcycle production has increased gradually, averaging 100,000 units annually during 2005-2009 (see Figure 12) to supply only the domestic market. Most of the raw materials for motorcycle production are imported in the form of intermediate goods, with very limited use of local content. Statistics show that imports of parts and components for motorcycle production make up approximately 25 percent of the total intermediate goods imports value of the Lao PDR.

Table 1: Motorcycle Companies in Lao PDR, 2008

No.	List of Motorcycle Company	Ownership	Production	Main Products	Year of Establishment	Location
1	SUZUKI Santiphab	Laos, Japan and Thailand	6,398	SUZUKI Smash	1991	Vientiane Capital
2	New Chip Seng	Thailand	10,440	Honda dream, Tena, Wave	1993	Vientiane Capital
3	Hojin Vientiane	China	8,000	Shengma, Loncin, Haoqing, Haobo, Jialing	2000	Vientiane Capital
4	Samsing Lao motor	Canada	19,200	Samsing, Homta	2002	Vientiane Capital
5	Kolao Developing	Korea	30,000	Sonato, Roi, Carato, Mylove, Scruiser, Veracruz	2002	Savahnakhet province
6	Yunan Vientiane Km 48	China	Na	Dafeng, Aguo, JinLong, JinBao	2002	Vientiane Capital
7	SinTham Industry	Lao	Na	Sinco	2003	Vientiane Capital
8	Yincin	China	Na	Yincin, Fucing, Tawang	2004	Vientiane Capital
9	Houysai Motorcycle Assemble factory	China	12,640	Honshun, ZongShen	2004	Borkeo province
10	Hongsinseueya	China	5,500	Hongxing, LuoJia	2005	Oudomxay province
11	Lao YinXieng	China	Na	LLM, FEKON, Kenbo	2008	Vientiane Capital
12	Yunan Vientiane Km 46	China	8,400	Dafeng, Aguo, JinLong, Jinbao	2008	Vientiane province

Source: NERI Survey, 2010.

Figure 12: Number of Motorcycle Assembly Factory and Motorcycle



Source: Department of Transportation and NERI Survey, 2010.

3.2.1. Routes and mechanisms of intermediate goods trade of the motorcycle industry in Lao PDR

- **Case of Japanese-brand factories**

Suzuki Santiphab and New Chip Seng were the first two motorcycle companies established in the Lao PDR. Both companies produce Japanese-brand motorcycles, Suzuki and Honda. During the 1980s and 1990s, Japanese-brand motorcycles⁵ occupied the total market share in the Lao PDR, and Suzuki Santiphab and New Chip Seng accounted for the major portion of all brands in the country. In the 1990s, both Suzuki Santiphab and New Chip Seng not only supplied the domestic market but also exported to Vietnam.

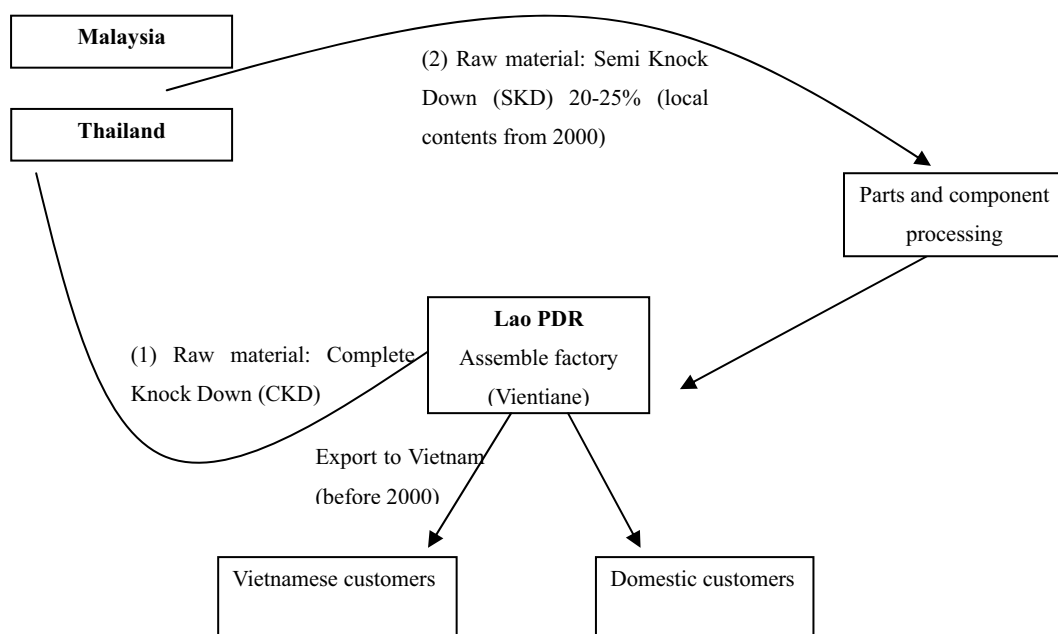
During the 1990s, both companies imported components and parts to assemble their motorcycle products from suppliers in Thailand and Malaysia. Most components and parts were imported in the form of CKD (complete knock down) components. The companies in the Lao PDR only assembled and distributed to markets (see Diagram 2).

From 2000 onward, New Chip Cheng has gradually upgraded and changed its production by improving technology and adding local content in its products. Therefore, the company currently imports its parts in the form of SKD (semi knock down) components. Some 20 to 25 percent of its motorcycle parts and components are using local content. Changing to this system might be due to the Lao government's policy on local content promotion with incentives and the heightened competitiveness of other motorcycle industry investors. However, Suzuki Santiphab still keeps to its production system of importing all CKD components and assembling and supplying in

⁵ The major brand-name motorcycles in the Lao PDR are Honda, Suzuki, and Yamaha.

the Lao PDR. The main reason for this is its quality concerns, as the mother company in Japan currently does not permit expansion of the parts and components factories or the use of raw materials outside the current status.⁶

Diagram 2: Production Channel of Japanese Brand Name Motorcycle Factories in Lao PDR



Source: NERI Survey, 2010.

Diagram 2 shows that intermediate goods imports of parts and components for Japanese-brand motorcycles in the Lao PDR come mostly from Thailand and Malaysia. Even though some local content has gradually been incorporated into production, the major sources of parts and components are still within the ASEAN region, particularly Mekong River Subregion countries such as Thailand.

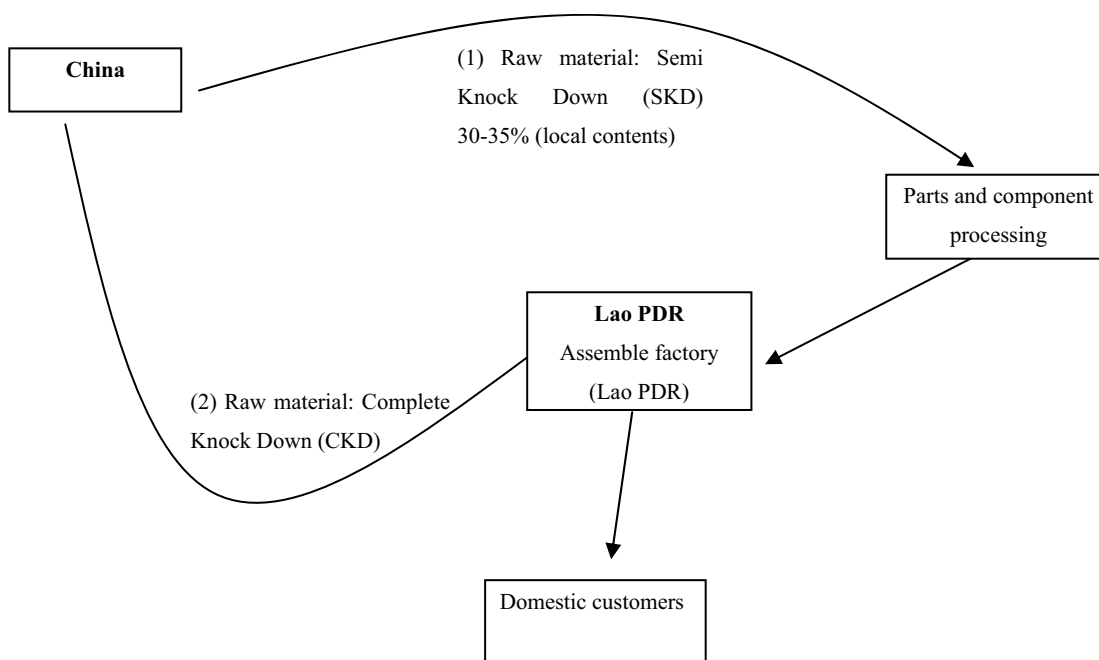
⁶ Vanxay Xayyavong, based on an interview with Suzuki Santiphab, 2010.

- **Case of Chinese-brand factories**

The first Chinese motorcycle company to invest in the Lao PDR was Hojin Vientiane in 2000. It was followed by other companies such as Yunna Vientiane and Yincin. Currently, there are seven Chinese motorcycle factories in the Lao PDR, with various Chinese brands. There are two Lao motorcycle companies (one Lao-Canadian and one purely local), but both also produce Chinese-brand motorcycles. Chinese-brand motorcycles target the domestic market, especially rural people, due to the lower price.

Almost all of the Chinese motorcycle factories in the Lao PDR import parts and components in the form of SKD from China. They also use local content of 30 to 35 percent in producing their motorcycles. Very few of them import as CKD, particularly those companies of the border provinces such as Yunnan province (see Diagram 3).

Diagram 3: Production Channel of Chinese Brand Motorcycle in Lao PDR

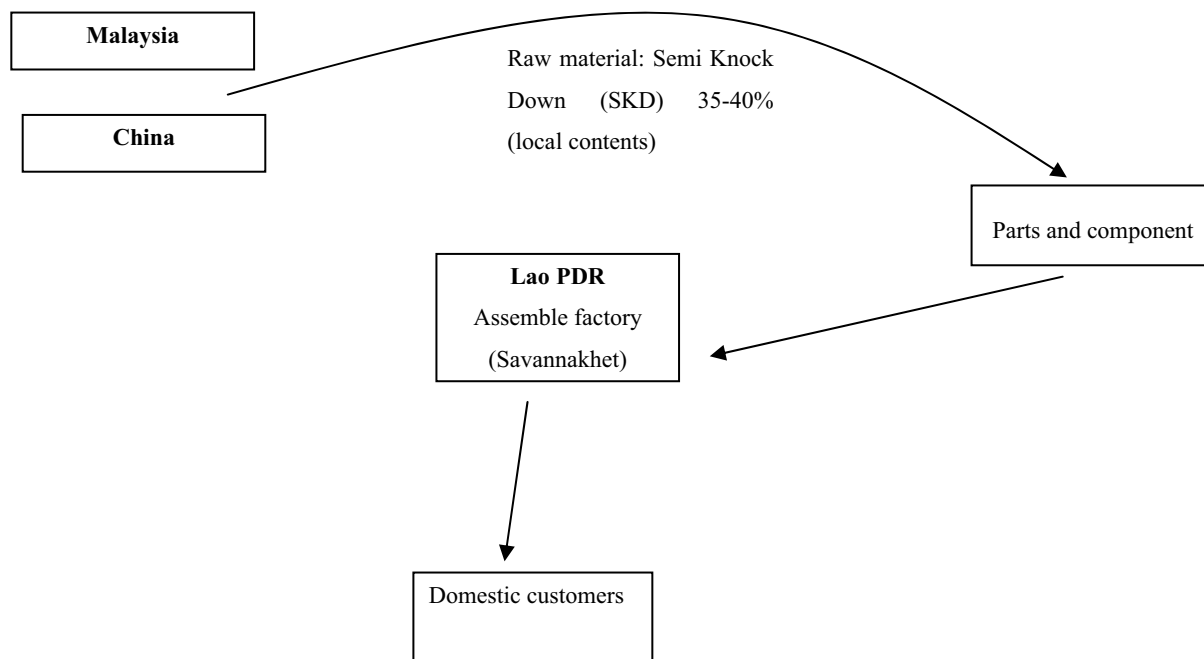


Source: NERI Survey, 2010.

- **Case of Korean-brand factory**

The KOLAO Developing Company is a Korean automobile company, but from 2002 it has been running a motorcycle assembling factory at the same site of its automobile plant in Savannakhet. Korean motorcycles currently have the highest production capacity, with production at 30,000 units in 2008 or about 20-25 percent of the total motorcycle production in the Lao PDR. KOLAO produces various Korean brands, including Sanato, Roi, Carato, Mylove, Scruiser, and Veracruz. However, the parts and components for the Korean-brand motorcycles assembled in the Lao PDR do not come from Korea. Most are actually imported from China and Malaysia (see Diagram 4).

Diagram 4: Production Channel of Korean Brand Motorcycle in Lao PDR



Source: NERI Survey, 2010.

Diagram 4 describes that KOLAO imports parts and components for its motorcycle assembly in the form of SKD and that production uses some local content, about 35-40 percent.⁷ Most of the Korean-brand motorcycles only supply the local market. According to a survey, Korean-brand motorcycle factories use more local content in comparison to Japanese and Chinese-brand motorcycles.

⁷ According to an interview with KOLAO.

3.2.2. Comparing Chinese, Korean, and Japanese-brand motorcycles

All brand-name motorcycles in the Lao PDR (whether Chinese, Korean, or Japanese) mainly use imported parts and components as intermediate goods from countries in the Mekong River basin, ASEAN (especially Thailand and Malaysia) and China. Japanese-brand motorcycles have a higher standard of quality compared to the Korean and Chinese brands. The price of a Japanese-brand motorcycle ranges from 10,000,000 LAK to 19,000,000 LAK, or about USD 1,200 to USD 2,300.

The price of a Korean-brand motorcycle ranges from 8,000,000 LAK to 10,000,000 LAK, or approximately USD 900 to USD 1,200 per motorcycle. Parts and components for assembling Korean-brand motorcycles are imported from Chinese suppliers in China, although KOLAO uses Korean technology to assemble the motorcycles in the Lao PDR. The Chinese-brand motorcycles have the lowest prices of the three, at 4,500,000 LAK to 8,000,000 LAK, or about USD 580 to USD 800.

Due to the lower prices, Chinese-brand motorcycles are especially popular among people in the rural areas of the Lao PDR. Chinese-brand motorcycles account for about 40-45 percent of the Lao PDR market. Korean-brand motorcycles have a 30-35 percent share and Japanese brands account for only about 20-25 percent of the market. The motorcycle industry is a sector that contributes to the intermediate goods trade and the industrialization process of the Lao PDR.

4. CONCLUSION AND POLICY RECOMMENDATIONS

Integration and participation in the regional production network is significant for the Lao PDR's industrialization. FDI remains the main driver of the industrialization and technology development of the country. Even so, countries in the Mekong River basin and the ASEAN region are the main connecting chain of the Lao PDR to the global production network. This is because the main sources of the intermediate goods used as raw materials for industrial production in the Lao PDR are countries such as Thailand, Malaysia, Vietnam, and China. Therefore, in respect to the results of the study above, in order to promote industrialization in the Lao PDR, the following recommendations are provided for consideration:

- Integrating into the regional and global production networks through countries in the region, especially Thailand and China, is important, as targeting specific industries in those countries will help attract FDI from the region to foster the industrialization of the Lao PDR.
- Development of SEZs is crucial to attracting FDI, but it is important to select SEZs with the most potential to develop them as good models before expanding to other areas.
- In the short term, it is significant to utilize intermediate goods trade in the form of Chinese and Korean companies for domestic capacity development, while gradually improving quality-control capacity for trade development.

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