

Economic Impacts of LDC Graduation in Lao PDR

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Export Destination Rankings for Laos in 2023, by Industry

	Share (%)	1st	2nd	3rd	4th	5th
Live animals	1	TH	VN	CN	HK	MM
Vegetable products	8	TH	CN	VN	JP	BE
Animal/vegetable fats and oils	0	VN	TH	CN	US	KR
Food products	9	TH	VN	CN	SG	RO
Mineral products	21	TH	CN	VN	AU	SG
Chemical products	8	CN	TH	VN	PH	JP
Plastics and rubber	5	CN	VN	TH	PL	FR
Leather products	0	TH	CN	IN	VN	IT
Wood products	1	TH	VN	CN	KR	JP
Paper products	8	CN	US	TH	CA	VN
Textiles or apparel	4	DE	CN	DK	TH	JP
Footwear	1	US	JP	NL	GB	DE
Plastic or glass products	1	TH	SG	CN	VN	JP
Precision metals	6	AU	CH	IN	HK	TH
Base Metal	6	CN	TH	VN	IN	AU
Machinery	12	CN	TH	VN	AU	JP
Transport equipment	6	CN	TH	JP	VN	KR
Precision machinery	1	TH	CN	KR	US	HK
Miscellaneous	1	CN	TH	US	VN	JP
Total	100	CN	TH	VN	AU	US

Source: Author's compilation using the ASEANStat.

Note: GSP providers to Laos are blue-colored, while ASEAN countries are green-colored.

Imports from Laos in 2022

	Total imports (Mil. USD)			GSP eligible imports (Mil. USD)				GSP Utilization	
	All	MFN=0	MFN>0	All	GSP	MFN	Others	Dutiable	Eligible
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(E)/(C)	(E)/(D)
CHN	2,849	1,140	1,709	1,310	464	273	572	27%	35%
EU	442	90	352	352	336	17	0	95%	95%
JPN	188	111	77	73	50	1	21	65%	69%
GBR	59	14	45	45	31	12	2	70%	70%
KOR	85	43	42	42	12	3	27	29%	29%
CAN	30	18	12	12	8	4	0	68%	68%
CHE	99	76	23	23	2	21	0	10%	10%
IND	74	0	74	74	0	73	0	0%	0%
AUS	350	343	6	6	0	1	5	0%	0%

Source: Author's compilation using the Preferential Trade Agreements Database (WTO)

Note: According to the Customs of Thailand, no imports from Laos under the LDC regime were recorded in 2022.

Import Shares of Each Regime in Laos (%): MFN>0 Items

	EU (2023)	Japan (2023)					South Korea (2022)						Thailand (2022)		
	GSP	Preferential			Others		Preferential				Others		FTAs	MFN	Others
		RCEP	AJCEP	GSP			RCEP	AKFTA	APTA	GSP					
Live animals							75	0	75	0	0	25		100	
Vegetable products	62	99.9	0.4	21	78	0.1	95	0	95	0	0	5	99.7	0.2	0
Animal/vegetable fats and oils															
Food products	91	98	0	0	98	2.1	97	0	87	10	0	3	98	1	1
Mineral products													96	4	
Chemical products	94	100	0	80	20	0	14	0	0	0	14	86	99	1	0
Plastics and rubber	97						0	0	0	0	0	100	9	2	89
Leather products	62	100	0	0	100	0	0	0	0	0	0	100		48	52
Wood products	94	87	0	0	87	13	98	0	64	0	34	2	54	9	37
Paper products													68	7	25
Textiles or apparel	94	98	7	6	85	2	90	0	90	0	0	10	92	4	4
Footwear	94	79	0	31	48	21	62	0	62	0	0	38	23	1	77
Plastic or glass products							0	0	0	0	0	100	8	91	1
Precision metals							7	0	7	0	0	93			
Base Metal	7	0	0	0	0	100	0	0	0	0	0	100	75	0	24
Machinery							0	0	0	0	0	100	10	1	89
Transport equipment							0	0	0	0	0	100	93	0	7
Precision machinery							0	0	0	0	0	100	23	1	76
Miscellaneous	92	100	83	17	0	0	93	0	93	0	0	7	31	2	67
Total	92	94	4	25	64	6	93	0	65	0.0	29	7	89	1	10

Source: Author’s compilation using the data from the Eurostat, the Customs of Japan, the Korea Trade Statistics Promotion Agency, and Customs of Thailand.

Average Tariff Increases for Laos in 2030 due to the LDC Graduation (%)

	AUS	CHN	JPN	KOR	NZL	EU	GBR	CAN	IND
Live animals	0	0.0	3.8	0.4	0.0	4.8	5.1	13.3	3.1
Vegetable products	0	1.0	1.4	0.4	0.0	2.9	3.5	0.8	12.8
Animal/vegetable fats and oils	0	1.4	1.2	0.0	0.0	2.3	3.7	1.5	16.0
Food products	0	2.1	5.7	0.7	0.1	8.5	8.6	3.2	8.8
Mineral products	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
Chemical products	0	0.2	0.0	0.2	0.0	0.7	2.6	0.3	0.8
Plastics and rubber	0	0.5	0.0	0.3	0.0	0.8	3.7	1.0	2.2
Leather products	0	0.0	1.1	0.0	0.1	0.6	1.6	1.8	1.3
Wood products	0	1.2	0.4	0.8	0.0	0.9	1.1	0.5	0.1
Paper products	0	3.6	0.0	0.0	0.0	0.0	0.0	0.1	0.5
Textiles or apparel	0	0.2	0.0	0.2	0.6	6.3	6.8	6.2	3.3
Footwear	0	0.0	3.0	0.0	0.2	3.8	6.2	6.6	2.3
Plastic or glass products	0	0.0	0.0	0.1	0.0	1.0	1.6	0.7	0.6
Precision metals	0	0.0	0.0	0.0	0.1	0.4	0.6	0.9	0.0
Base Metal	0	0.0	0.0	0.0	0.0	0.5	0.7	0.6	0.1
Machinery	0	0.1	0.0	0.0	0.0	0.1	0.6	0.2	0.7
Transport equipment	0	1.3	0.0	0.0	0.0	1.3	2.5	3.9	11.5
Precision machinery	0	0.0	0.0	0.0	0.0	0.2	0.6	0.6	0.1
Miscellaneous	0	0.0	0.0	0.0	0.1	0.1	1.1	2.1	0.3

Source: Author's compilation using the World Integrated Trade Solution (WTO)

Notes: This table includes only the major GSP providers to Laos. Cells with greater than 3% are blue-colored. The staging of some preferential tariffs (e.g., RCEP tariffs) is taken into account.

Export Structures in Laos

- ❑ Exporting mainly to either GSP providers or ASEAN countries
- ❑ Tariff regimes utilized in exporting from Laos
 - LDC regime: European countries, Japan, and Canada
 - FTAs: Korea (and Thailand)
 - MFN: Australia and India
- ❑ Against FTA partners, few changes in applied tariffs after the LDC graduation
 - Rises in exporting agricultural goods, food products, or apparel products to European countries or Canada

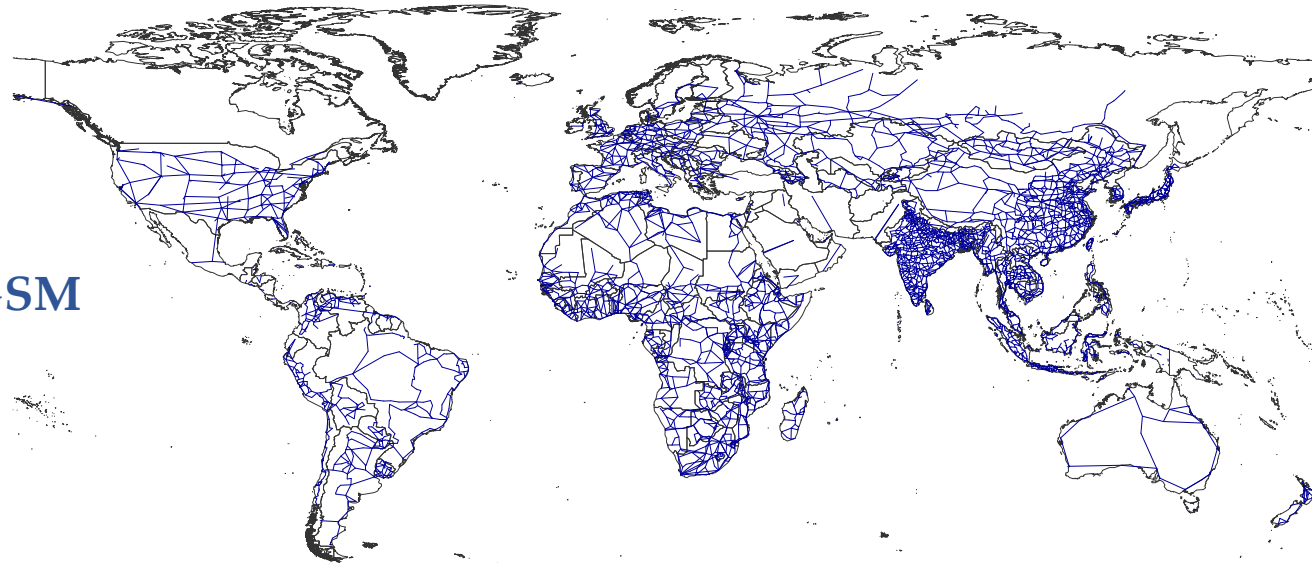
Simulation Analyses

❑ Simulation analyses on the economic impacts of LDC graduation

❑ Simulation analyses

- Many models, e.g., Global Trade Analysis Project (GTAP) model
- IDE-GSM (Geographical Simulation Model)
 - ✓ A computable general equilibrium (CGE) model based on spatial economics
 - ✓ Detailed geographical units: A one or two lower administrative level (e.g., provinces in Laos), covering more than 3,000 regions
 - ✓ More than 20,000 road, sea, air, and rail routes are included,
 - ✓ Rough industry classification (Agriculture, Mining, 5 Manufacturing, Services)

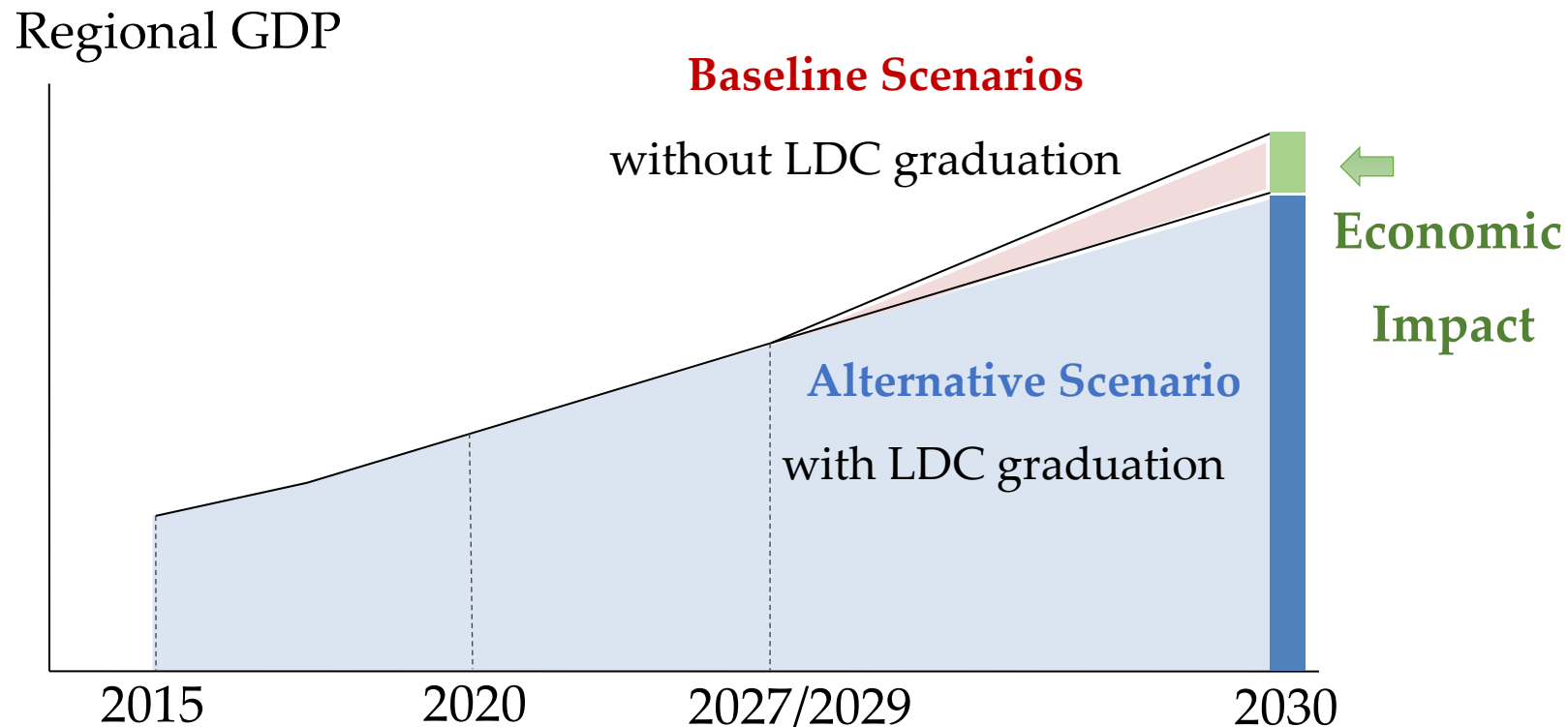
Road networks in the GSM



Simulation Analyses (Cont.)

□ Scenarios

- Baseline scenario: No graduation in Bangladesh, Cambodia, and Laos
- Alternative scenario: LDC preferential tariffs are no longer available for Bangladesh and Laos from 2027 and for Cambodia from 2029
- Economic impacts = GDP difference in 2030 between the two scenarios



Simulation Analyses (*Cont.*)

□ Assumptions

- All GSP providers to these countries stop granting LDC access.
- Can use MFN tariffs or other preferential tariffs (e.g., GSP tariffs)

□ Tariff computation

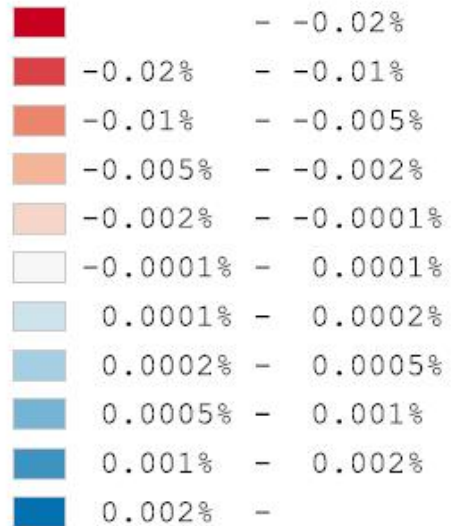
- Identify the lowest available tariff rates for each HS six-digit level
- Example: HS 620920 (Babies' garments) in Japan
 - ✓ MFN = 8.3%, GSP = 7.6% (LDC = 0%), AJCEP = 0%, RCEP = 0% ➔ 0% for HS 620920
- Take a simple average of the lowest rates according to our industry classification

Simulation Results by Country and Industry (GDP in 2030)

	Agri	Mining	Food	Textile	Electrical	Automotive	Oth. Mfg.	Services	GDP
Brunei	-0.00%	0.00%	0.00%	0.00%	-0.00%	0.00%	0.00%	-0.00%	0.00%
Cambodia	-0.01%	0.00%	-0.01%	-0.05%	-0.00%	-0.01%	-0.00%	-0.01%	-0.02%
Indonesia	-0.00%	0.00%	0.00%	0.00%	-0.00%	-0.00%	-0.00%	0.00%	0.00%
Laos	0.00%	-0.00%	-0.00%	0.00%	-0.00%	-0.00%	-0.00%	0.00%	0.00%
Malaysia	-0.00%	-0.00%	0.00%	0.00%	-0.00%	-0.00%	-0.00%	-0.00%	-0.00%
Myanmar	0.00%	-0.00%	0.00%	0.00%	-0.00%	-0.00%	-0.00%	0.00%	0.00%
Philippines	-0.00%	0.00%	0.00%	0.00%	-0.00%	0.00%	0.00%	0.00%	0.00%
Singapore	-0.00%	-0.00%	0.00%	0.00%	-0.00%	-0.00%	-0.00%	-0.00%	-0.00%
Thailand	-0.00%	-0.00%	0.00%	0.00%	-0.00%	-0.00%	-0.00%	0.00%	0.00%
Vietnam	-0.01%	-0.00%	0.00%	0.00%	-0.00%	-0.00%	-0.00%	-0.00%	-0.00%
Japan	-0.01%	-0.00%	-0.01%	0.00%	-0.00%	-0.00%	-0.00%	-0.00%	-0.00%
Korea	-0.00%	-0.00%	0.00%	0.00%	-0.00%	-0.00%	-0.00%	-0.00%	-0.00%
China	-0.00%	-0.00%	-0.00%	0.00%	-0.00%	-0.00%	-0.00%	-0.00%	-0.00%
India	-0.00%	0.00%	-0.00%	0.00%	-0.00%	-0.00%	-0.00%	-0.00%	-0.00%
Bangladesh	-0.00%	-0.00%	-0.00%	-0.09%	-0.00%	-0.01%	-0.00%	-0.01%	-0.02%
USA	-0.00%	-0.00%	0.00%	0.00%	-0.00%	-0.00%	-0.00%	-0.00%	-0.00%
EU	0.00%	-0.00%	0.00%	0.00%	0.00%	0.00%	-0.00%	0.00%	0.00%
World	-0.00%	-0.00%	-0.00%	0.00%	-0.00%	-0.00%	-0.00%	-0.00%	-0.00%

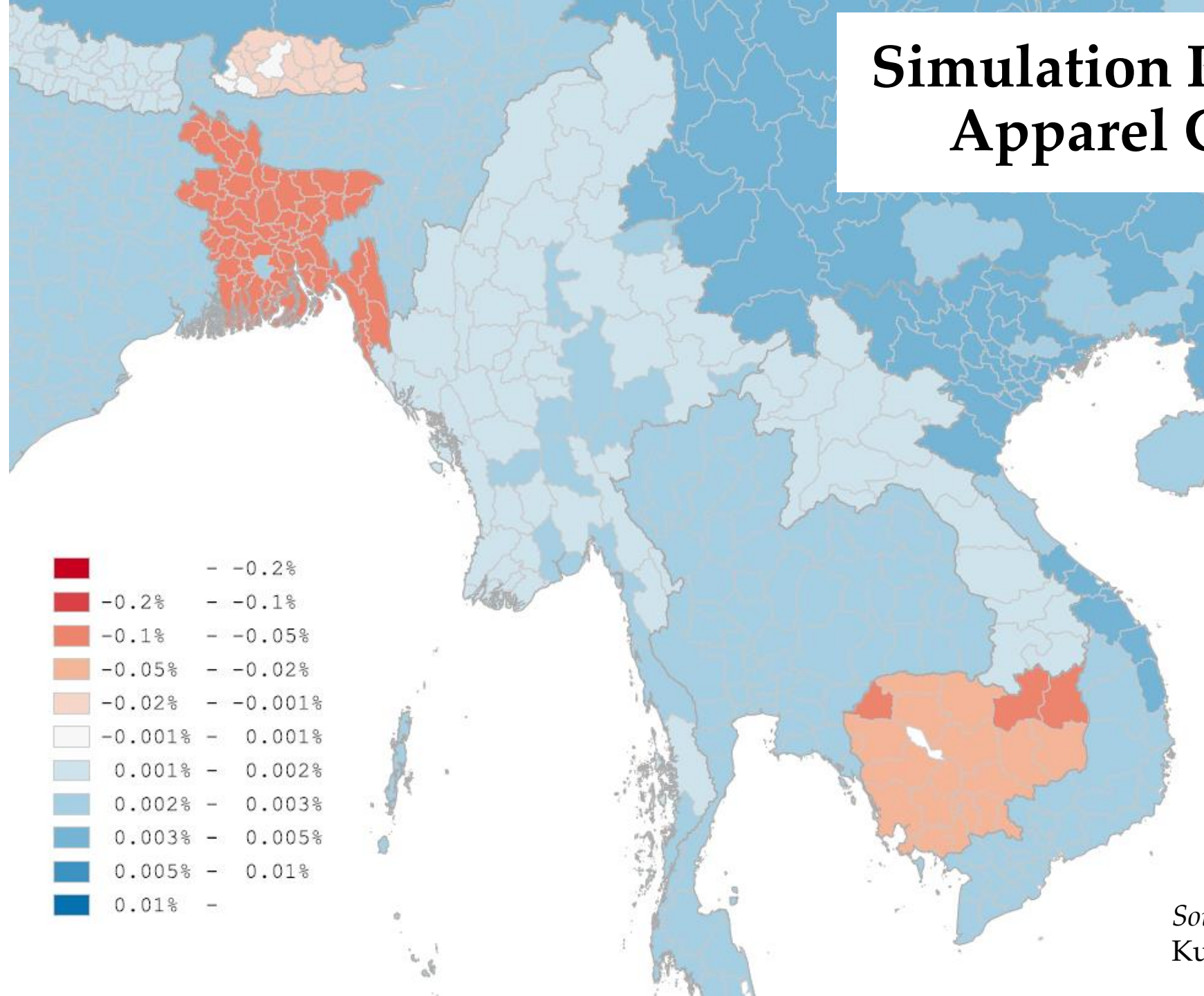
Source: The compilation by Mr. Satoru Kumagai (IDE) using the GSM.

Simulation Results on GDP by Province



Source: The compilation by Mr. Satoru Kumagai (IDE) using the GSM.

Simulation Results on Textile & Apparel GDP by Province



Source: The compilation by Mr. Satoru Kumagai (IDE) using the GSM.

Concluding Remarks

□ Findings from the Simulation Analysis

- The impacts on the Lao economy are trivial, even tiny positive, due to competitors' loss of preferential market access in major export destinations such as the EU or the US.
- Competition will become tougher in the world market due to the revival of traditional exporters such as China or Vietnam.

□ Implications

- The negligible impacts in Laos are attributed critically to our assumption of 100% utilization rates of FTA regimes if available. Crucially important for Lao policymakers to encourage firms to utilize FTA regimes.
- Since the pressure to upgrade industries becomes weak, industrial restructuring may be delayed. Due to the tariff hike, higher competitiveness will be required for future industrial restructuring through export expansion.
- Laos improves its relative market access to Japan due to Bangladesh's LDC graduation and to the US due to Cambodia's LDC graduation, i.e., a chance for Laos to expand exports to these countries. However, it needs to compete with traditional exporters.

Thank You Very Much!

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