



FOOD AND BEVERAGES SECTOR BRIEF

LAO PDR



Country Overview



Lao People's Democratic Republic (Lao PDR) is the only landlocked country in Southeast Asia, neighbouring Viet Nam to the east, Cambodia to the south, Myanmar and China to the northwest as well as Thailand to the west and southwest. It is a long, narrow country, stretching about 1,700 kilometres from north to south, but only about 100 km across at its narrowest width. The country's population was estimated 7.2 million in 2019.

Although agriculture's contribution to the GDP is declining, it continues to play a major role in Lao PDR's economy with a share of 15.29% of GDP in 2019. Lao PDR's agriculture is dominated by rice as the major crop.

Rich in mineral resources, metallurgy is an important industry in Lao PDR and the government hopes to attract foreign investment to develop the substantial deposits of coal, gold, bauxite, tin, copper, and other valuable metals. The mining industry of Lao PDR has received prominent attention with foreign direct investments. This sector has made significant contributions to the economic condition. In addition, Lao PDR's plentiful water resources and mountainous terrain enable it to produce and export large quantities of hydroelectric energy which is exported to Thailand, Viet Nam and China.

China followed by Thailand and Viet Nam have been the biggest foreign investors in Lao PDR's economy in recent years, turning it into a rapidly growing lower-middle income country. As a socialist state, the economic model resembles the Chinese socialist market and/or Vietnamese socialist-oriented market economies by combining high degrees of state ownership with an openness to foreign direct investment and private ownership in a predominantly market-based framework.

Lao PDR is a member of the Asia-Pacific Trade Agreement, the ASEAN, East Asia Summit, and La Francophonie. In 2013 it was granted full membership of the World Trade Organization.





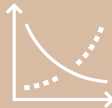


GDP growth averaged 7.7% over the last decade, with per capita income reaching US\$ 2,460 in 2018. The government is seeking to maintain macroeconomic stability by reducing the fiscal deficit and strengthening public debt management. The government is strengthening revenue administration and efficiency through the introduction of electronic tax payments and modernising the tax collection system.

Long-term growth is driven by large infrastructural development projects, such as the Lao PDR-China railway and the completion of several hydropower facilities. Lao PDR electricity is nearly 100% produced by hydro-power plants. Before the COVID-19 pandemic, tourism was another major source of economic growth, growing by 9% per year between 2015-2020.

The country's biggest challenges are the fragile SME sector, low purchasing power of consumers, and the lack of advanced technologies in all sectors.



THE MOST RECENT AVAILABLE INDICATORS OF LAO PDR:

Indicator	 Population (million)	 GDP per capita (USD)	 Economic growth (GDP annual variation, %)	 Inflation rate (%)	 Trade balance (billion USD)	 Exports (billion USD)	 Imports (billion USD)
2016	6.8	2,309	7.0	1.6	-1.1	4.2	5.4
2017	7.0	2,424	6.9	0.8	-0.8	4.9	5.7
2018	7.1	2,542	6.3	2.0	-0.9	5.3	6.2
2019	7.2	2,527	4.8	3.3	-0.5	5.8	6.3

Source: <https://www.focus-economics.com/countries/laos>

Sector Overview



Food manufacturing and food processing sector in Laos

Lao PDR is still an agricultural country, but commercialisation of the value chains has begun recently. A 2018 study by the World Bank Group found that the challenges of the new-born food manufacturing industry in Lao PDR are:

- Despite the high retail prices in the capital, farmers are not making large profits.
- Rice is still the most important agricultural commodity compared to more profitable crops, fish and livestock.
- High consumer costs are mainly caused by high production costs, and infrastructural and logistical inefficiencies along the value chains.
- Farm productivity is low, especially compared to neighbouring Thailand and Viet Nam, and quality-management practices are missing; the market is not rewarding product quality.
- The milling sector is very fragmented, and small operators often cannot afford new technologies and cannot think about innovating.
- Lao PDR lacks a wide consumer class with high purchasing power. This slows consolidation of the wholesale and retail sectors.

Cash crops, fisheries and meat industry are three main segments of food manufacturing in Lao PDR that could be the driving force of overall sector development.

Although Lao PDR produces key food materials for processing, it depends on imports of seasoning and packaging, and the small market size allows processed food imports to be provided to consumers at lower prices than food produced in domestic plants.

For simple production steps that rely on intensive human labour, it is very advantageous to open food processing plants in Lao PDR, where the cost of labour is relatively low. Another advantage is that electricity and water prices are low and the food processing sector, which heavily consumes electricity and water, can therefore benefit. Compared to its neighbouring countries, Lao PDR faces less water pollution.

Cash crops

Lao PDR's often produced cash crops are mung-beans, soybeans, peanuts, tobacco, cotton, sugarcane, coffee, and tea.

Cash crops in Lao PDR can contribute to the sectoral development as follows:

- The value chains for cash crops are often underdeveloped, and there are therefore various opportunities for improvement and, thus, to generate more income as well as increase profit.
- Cash crops can generate higher levels of income than a traditional rice crop and diversification can minimise the risk of losses due to pests or price fluctuations of certain crops.
- The Lao Agricultural Development Strategy to 2025 and Vision to 2030 aim to increase cash crop exports.
- Annual cash crops for commercial purposes have increased in recent years, which reflects a transition in the country, where agriculture is becoming more commercialised and farmers are growing various crops in larger scales in response to the opening-up of markets.
- Cash crops are often concentrated in certain clusters largely related to market access, road access and irrigation facilities. Main drivers for the expansion of cash crops used for animal feed are the high demand from neighbouring countries, especially Thailand, Viet Nam and China, where rapid economic and demographic growth, often coupled with higher meat consumption, have generated increases in livestock raising and therefore high demand for industrial feed.

Fisheries

Lao PDR is rich in natural resources such as water. Inland capture fisheries as well as aquaculture are based mainly on its water resource ecosystems, which consist mainly of rivers and streams, hydropower and irrigation reservoirs, diversion weirs, small water bodies, natural wetlands and flood plains, as well as wet season rice fields. Lao PDR generates energy and revenue through hydropower projects and its fisheries provide a stable source of protein, thus contributing to food security.

Between 1999 and 2011 the number of agricultural households involved in fish capturing increased by 61,600 (13.3%) and aquaculture accounts for about 60 – 70% of all annual fish production in the country. It is estimated that the national fisheries production was more than 100,000 MT per year from 2010 to 2014, valued at approximately US\$ 150 million. The most popular fish species bred in the Lao PDR are Chinese carp, bighead carp, grass carp, Indian carp, common carp, African catfish, snakehead, silver barb, and in recent years there has been a significant increase in intensive tilapia production.

Meat industry

Lao PDR expects to require a total of 487,000 tonnes of meat, eggs and fish or an average of 65 kg per capita per year by 2020, a figure which is expected to grow to 79 kg by 2025. Therefore, the government of the Lao PDR is focusing on improving slaughterhouses and meat processing houses as well as market management for animal products. A bottleneck to further growth is the capacity of veterinarians and vaccinations. Through multiple interventions by donor agencies, improvements have been made in forage quality and disease diagnosis as well as the production and distribution of vaccines.

The general increase of cattle is related to a range of factors including the availability of forage and large grazing areas, technical assistance from donor agencies, and increases in demand for meat by neighbouring countries, particularly China and Viet Nam, while chicken rearing has expanded to an increased domestic demand for chicken meat and eggs in urban areas.

Food service

As the consumer class is slowly emerging in Lao PDR, growing rates of disposable income are stimulating growth in food and drink spending. In 2019, wholesale and retail sector expanded by 9.9%, while hotels and restaurant only showed a 5.3% growth. In 2020, due to the COVID-19 pandemic, a slowdown occurred, as the tourism sector in the ASEAN region was negatively affected by the economic impact of the coronavirus pandemic.

Modern grocery infrastructure is still underdeveloped compared to the neighbouring countries, but its potential is attracting investors, and even larger multinationals.

Restaurants

In Lao PDR there are large number of high standard Lao and international (European, Japanese and Korean) restaurants, especially in the larger cities, serving a wide variety of well-known and popular international and local dishes like sticky rice, fried seaweed, spicy noodle soups, minced meat salads, sausages and spicy fruit salads.

E-market and food deliveries

Ordering food online is popular in Lao PDR and various food delivery platforms are available, such as Foodpanda, GoTeddy and MfoodDelivery.

Food safety

In Lao PDR various governmental agencies are involved in implementing and monitoring the National Food Safety Policy and related measures. The leading agency is the Ministry of Health with its Food and Drug Department. The prevention of foodborne illnesses, food contamination and other adverse consequences of unsafe food is a major component of the Lao PDR government's approach to protect the health of consumers and to promote safe food production and international as well as domestic trade in safe food. The Food Safety Policy approach in Lao PDR covers the entire value chain from primary production to consumer i.e., from farm to fork, to assure food safety control. Lao PDR supports the implementation of international standards and requirements in terms of globalisation of food trade, such as those of ASEAN and the World Trade Organization (WTO); for example, the application of Sanitary and Phytosanitary (SPS) measures.



Trade Regulations

Tariffs

At present, Lao PDR uses the ASEAN Harmonized Tariff Nomenclature (AHTN) and the Harmonized Commodity Description and Coding System (HS) developed and maintained by the World Customs Organization (WCO). The Tariff Nomenclature in Lao PDR contains 10 digits that determine the import tariff rates. It consists of normal duty rates and reduced duty rates under Free Trade Agreements, which Lao PDR is bound by, namely: World Trade Organization (MFN), ASEAN Trade in Goods Agreement (ATIGA), ASEAN-China Free Trade Agreement (ACFTA), ASEAN-Korea Free Trade Agreement (AKFTA), ASEAN-India Free Trade Agreement (AIFTA) and ASEAN-Australia and New Zealand (AANZFTA).

Non-tariff measures

Non-tariff measures are special requirements applicable to goods to obtain a permit, or a licence to be able to trade with often compulsory technical standards, as well as prohibitions and quantitative restrictions. Non-tariff measures are commonly used barriers by countries to protect their domestic producers or regulate their export-import procedures.

ASEAN aims to reduce the number of non-tariff barriers to enhance intra-ASEAN trade and give more opportunities to the regions' developing SMEs.

According to a recent study, 301 non-tariff measures were registered in the legal system of Lao PDR. The largest share of these regulations come from the Ministry of Agriculture and Forestry, and more than 95% of animal/vegetable products and other foodstuffs are subject to three (3) or more non-tariff measures.



State-initiated trade promotion

The government's trade promotion body is the Trade and Product Promotion Department (DTP) under the Ministry of Industry and Commerce (MOIC). Its task is to support companies in promoting and developing products for the domestic and export market through exhibitions and fairs, to provide product information required for companies entering the domestic and/or international market, facilitating entrepreneurs and their companies to produce and develop products in compliance with the various needs of the domestic and international market.

Lao PDR Trade Portal (LTP)

A national webpage regarding market information is the Lao Trade Portal (LTP - www.laotradeportal.gov.la). The portal contains information on relevant regulations, including tariffs, and non-tariff measures, as well as bilateral and ASEAN-level trade agreements and related news. For newcomers on the market and start-ups, most of the information on licensing and other formalities to set up a trading route is searchable.

Foreign investment opportunities

One of the governmental agencies in Lao PDR which provides a One-Stop Service (OSS) for investors is the Investment Promotion Department (IPD: <http://investLaoPDR.gov.la/>), operating under the Ministry of Planning and Investment (MPI). A further agency regarding investment opportunities in Lao PDR is the Lao National Chamber of Commerce and Industry (LNCCI - <https://lncci.la/>)

Conducive conditions Lao PDR

- Political and economic stability.
- Rich in natural resources, including minerals, sources of energy, forests, which could be developed through proper technology and converted to commodities for export to international markets.
- Low-cost competitive workforce.
- Geographically situated in an economic growth area, sharing borders and common interests with Thailand, Viet Nam, Cambodia and China.
- As a member of ASEAN, access to a market with a population of 500 million people as well as to China.
- Special Economic Zones (SEZ) close to the Lao PDR's borders with Myanmar, Thailand, and China.
- Legal frameworks, such as the enactment of laws on investment promotion, business and labour.
- Eligible for Generalized System of Preferences (GSP) from 42 countries and Normal Trade Relation (NTR) with the USA. In addition, countries of the European Community as well as Japan have granted Lao PDR trading privileges, such as tax exemption on imports where more than 200 listed items are under a special quota. Therefore, Lao PDR, products can access the global markets with lower tariffs or completely duty free.
- Lao PDR provides investors with various tax incentives including tax exemption, tax holiday, no import tax for raw materials to be processed and re-exported, and no tax on exports.



Recommendations and Trends



Lao PDR government's vision is to change from a Land-Locked Country into a Land-Linked Nation. Therefore, corridors for economic development have been identified and infrastructure projects have high priority to enable a better market access to the ASEAN market, with 500 million inhabitants, and neighbouring China. In December 2020, the expressway between Vientiane and Vang Vieng was opened, which is the first section of the planned Vientiane - Boten expressway to link Vientiane with the northern province of Luang Namtha, which borders China. In addition, the the Boten - Vientiane railway (also known as the China - Lao PDR railway) is a new railway under construction that will connect Kunming in China to Vientiane in Lao PDR. From Boten on the China/Lao PDR border the railway will travel 414 km through Lao PDR to the capital of Vientiane and is expected to be completed by the end of 2021.