

## Service liberalization in Lao PDR

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journal or publication title	IDE Discussion Paper
volume	559
year	2016-03-01
URL	<a href="http://doi.org/10.20561/00037619">http://doi.org/10.20561/00037619</a>

IDE Discussion Papers are preliminary materials circulated to stimulate discussions and critical comments

IDE DISCUSSION PAPER No. 559

**Service liberalization in Lao PDR**

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March 2016

**Abstract**

Service liberalization is emerging as a high-priority issue in various parts of the world for mega free trade agreements as well as national policy. Lao PDR is no exception. To examine the level of service liberalization in Lao PDR, we first compare the Hoekman Indices of Lao PDR, Cambodia, and Vietnam on the ASEAN Framework Agreement on Services (AFAS 8). Lao PDR has lower commitment in many subsectors. In particular, we list the sectors in which Lao PDR made a lower commitment than Cambodia and Vietnam in Mode 3 (supply of services through commercial establishments abroad). Second, a simulation analysis using the Geographical Simulation Model (IDE-GSM) from the Institute of Developing Economies at the Japan External Trade Organization (IDE-JETRO) reveals how service liberalization benefits the economic development of Lao PDR. The two analyses clearly reveal that it is essential for Lao PDR to promote further service liberalization since such liberalization will contribute to the country's development.

**Keywords:** Lao PDR, Service, Simulation, AFAS

**JEL classification:** F14, F15, F21

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# **Service liberalization in Lao PDR**

*Ikumo Isono and Hikari Ishido*

## **1. Introduction: Importance of trade in services for Lao PDR**

East Asia has recently undergone remarkable development, with the formation of strong linkages to the global value chain. Its development has been driven by foreign direct investment (FDI). In particular, global production networks, which extend beyond national borders, have played a critical role in facilitating economic development. Developing countries, including Lao PDR, have competed to attract FDI through offering various incentive packages to investors. Since the 2000s, those production networks grew further as a result of bilateral and regional trade agreements, which have concerned tariff elimination and reduction, reduction of non-tariff barriers (NTBs), service liberalization, investment facilitation, economic cooperation, and other issues to attract more FDI and formulate stronger and more resilient production networks in this region. However, it is said that this region's agreements have provided limited liberalization except for tariff elimination and reduction, as NTBs and services barriers are still high.

Now, pressure for upgrading and economic growth, together with rapid wage increases and newcomers catching up with forerunners requires a new stage of liberalization in the services sector. One wave is coming from the Trans-Pacific Partnership (TPP), a mega free trade agreement requiring members to have a high level of liberalization. Another is the China (Shanghai) Free Trade Zone, which promotes services and investment liberalization and is driven by China herself.

Table 1 shows the performance of trade in services by Cambodia, Lao PDR, and Vietnam in recent years. As shown, Lao PDR's trade in services remains limited, although a trade surplus can be observed.

**Table 1: Performance of trade in services (Cambodia, Lao PDR and Vietnam)**

Country	Year	Total export to the world (US\$ million)	Total import from the world (US\$ million)
Cambodia	2008	1,606	958
	2009	1,525	909
	2010	1,669	972
	2011	2,213	1,323
	2012	2,545	1,546
Lao PDR	2008	402	108
	2009	397	136
	2010	511	263
	2011	550	331
	2012	577	341
Viet Nam	2008	7,006	7,956
	2009	5,766	8,187
	2010	7,460	9,921
	2011	8,691	11,859
	2012	9,600	12,520

*Note:* The figures include trade in services under Mode 1 (cross-border supply of services) only.

*Source:* Made from the United Nations Service Trade Database.

The argument urging service liberalization by both developing and developed countries is supported by new insights from the latest studies on trade and investment. A United Nations Conference on Trade and Development report titled *Global Value Chains and Development: Investment and Value-added Trade in Global Economy* discusses international trade, global value chains, and value-added nexuses. The report offers a new perspective for understanding the pattern of global value-added trade. Three particularly notable findings deserve mention here. First, 80% of global trade is dominated by international production networks through intra- or inter-firm transactions. Second, global value chains lead to “double counting” of global trade data when considering customs statistics alone. Approximately 28% of gross exports comprise the value-added attached to products or services generated in a third country and imported to the then-exporting country bundled with parts and components. Finally, the trade in goods contains a large element of services trade. Services trade accounts for only 20%

of gross global exports according to current customs statistics while the service trade industry creates nearly half of the value-added inputs to exports because the manufacturing of products for export requires extensive services. Based on this discussion, it can be concluded that service liberalization will enhance the manufacturing industry's competitiveness through provision of a high-quality service to manufacturing firms at a reasonable price.

A study on the China (Shanghai) Free Trade Zone (Kumagai *et al.* 2015) revealed that service liberalization in China, as enacted through expanding the geographical coverage of the Free Trade Zone, would bring about higher economic growth for the country while the regions in China that did not join the liberalization, as well as the surrounding economies, would experience negative impacts. It implies the existence of a trade diversion effect and suggests that surrounding countries, including the ASEAN countries, should seek to reduce services barriers through stronger political initiatives.

This study's objective is two-fold. First (in Section 2), we compare the Hoekman Indices of Lao PDR, Cambodia, and Vietnam on AFAS 8. Major differences can be seen in Mode 3, commercial presence. In particular, we listed the sectors in which Lao PDR made a lower commitment than Cambodia and Vietnam in Mode 3. Section 3 explores our claim that service liberalization in Lao PDR brings higher economic growth to the country by conducting a simulation analysis using the Geographical Simulation Model (IDE-GSM) from the Institute of Developing Economies at the Japan External Trade Organization (IDE-JETRO). Section 4 offers some policy conclusions in connection to the liberalization of trade in services by Lao PDR.

## 2. Comparison with Cambodia and Vietnam using the Hoekman Index and investment data

We conduct a comparison analysis of service liberalization of Lao PDR with Cambodia and Vietnam using the Hoekman Index. The Hoekman Index is a simple indexation of service trade liberalization developed by Hoekman (1995).

The following three-fold symbolic classification is used for constructing a database of ASEAN countries' commitments by each subsector, by mode and by aspect of liberalization:

N: No limitation (bound);

L: Limited (or restricted) but bound;

U: Unbound.

		01.A. Professional Services				01.B. Computer and Related Services				01.C. Research and Development Services				01.D. Real Estate Services			
		Mode1	Mode2	Mode3	Mode4	Mode1	Mode2	Mode3	Mode4	Mode1	Mode2	Mode3	Mode4	Mode1	Mode2	Mode3	Mode4
Indonesia	MA	N	N	L	L	N	N	L	U	N	N	L	U	U	U	U	U
	NT	N	N	L	L	N	N	L	L	N	N	L	L	U	U	U	U
Malaysia	MA	N	N	L	U	N	N	N	U	N	N	L	U	U	U	U	U
	NT	N	N	L	L	N	N	N	U	N	N	N	U	U	U	U	U
Philippines	MA	U	U	U	L	N	N	L	L	N	N	U	U	U	N	U	U
	NT	L	U	U	L	N	N	N	L	N	N	U	U	U	N	U	U
Singapore	MA	N	N	L	U	N	N	N	U	N	N	N	U	N	N	N	U
	NT	N	N	N	U	N	N	N	U	N	N	N	U	N	N	N	U
Thailand	MA	U	N	N	U	N	N	N	L	N	N	N	L	N	N	N	L
	NT	N	N	N	U	N	N	N	L	N	N	N	U	N	N	N	U
Brunei	MA	L	L	L	U	N	N	L	U	N	N	L	U	U	U	U	U
	NT	L	L	L	U	N	N	N	U	N	N	U	U	U	U	U	U
Cambodia	MA	N	N	L	U	N	N	N	U	N	N	U	U	U	U	U	U
	NT	N	N	N	U	N	N	N	U	U	N	U	U	U	U	U	U
Laos	MA	N	N	L	U	N	N	L	U	N	N	L	U	U	U	U	U
	NT	N	N	L	U	N	N	L	U	N	N	U	U	U	U	U	U
Vietnam	MA	N	N	N	U	N	N	N	U	N	N	N	U	U	U	U	U
	NT	N	N	N	U	N	N	N	U	N	N	N	U	U	U	U	U
Myanmar	MA	N	N	L	U	N	N	N	L	N	N	N	L	U	U	U	U
	NT	N	N	L	U	N	N	N	L	N	N	N	L	U	U	U	U

The constructed database has been utilized to undertake indexation of the degree of service trade liberalization by country. The first such undertaking is to show the degree of liberalization according to the Hoekman Index.

Hoekman (1995) proposed an indexation method for measuring the World Trade Organization (WTO)'s GATS<sup>1</sup>-style degree of commitment in the service sector. This method assigns values to each of eight fields [4 modes times 2 categories—market access (MA) and National Treatment (NT)], as follows: N = 1, L = 0.5, U = 0, then calculates the average value by service sector and by country.

Using the database constructed, the Hoekman Index has been calculated for each subsector in this study.

<sup>1</sup> General Agreement on Trade in Services

First, we compare the indices by a simple average of 154 subsectors under AFAS 8. Table 2 shows that Lao PDR has a lower index compared with those for Cambodia and Vietnam. In particular, Mode 3 shows relatively larger differences. In terms of market access, Lao PDR has a value of 0.37 for Mode 3 while Cambodia has a value of 0.59, and Vietnam's is 0.52. In addition, Lao PDR has a value of 0.43 for Mode 3 in the national treatment while Cambodia has a value of 0.61 and Vietnam has a value of 0.56.

**Table 2: Simple Average of 154 Subsectors**

	MA				NT				Whole
	Mode1	Mode2	Mode3	Mode4	Mode1	Mode2	Mode3	Mode4	
Cambodia	0.56	0.64	0.59	0.00	0.59	0.64	0.61	0.00	0.45
Lao PDR	0.53	0.55	0.37	0.07	0.53	0.55	0.43	0.07	0.39
Vietnam	0.47	0.68	0.52	0.03	0.48	0.68	0.56	0.00	0.43

Source: Authors.

In fact, Lao PDR shows lower commitment in many subsectors. Out of 154 subsectors, Lao PDR has 18 subsectors whose indices are higher than those of Cambodia, while 63 subsectors have indices lower than those of Cambodia. The first recommendation to Lao PDR would be that liberalization in the Mode 3 areas should be seriously considered.

Second, we compare Mode 3 indices in market access in AFAS 8, specifically in terms of the priority integration sectors of the ASEAN Economic Community. In the absence of an official definition of the ASEAN Economic Community (AEC)'s "priority integration sectors" of e-ASEAN, air transport, healthcare, logistics, and tourism, we take the following sectors as the priority integration sectors.

Out of these sectors, the two sectors of 01.B. Computer and Related Services and 08.A. Hospital Service in Lao PDR have no commitments lower than those in Cambodia in AFAS 8. However, the following nine sectors in Lao PDR have lower commitments than those in Cambodia in AFAS 8: 02.C Telecommunication Services, 04.B. Wholesale Trade Services, 09.B. Travel Agencies and Tour Operator services, 09.C. Tourist Guide Services, 11.A. Maritime Transport Services, 11.B. Internal Waterways Transport, 11.C. Air Transport Services, 11.E. Rail Transport Services, and 11.F. Road Transport Services. In particular, Table 3 lists the subsectors in which Lao PDR showed lower commitments than those of Cambodia and Vietnam. *These sectors should therefore be Lao PDR's main priority for liberalization.*



**Table 3: Subsectors that should be prioritized in Lao PDR**

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02.Cg	Private leased circuit services
04.B	Wholesale trade services
09.B	Travel agencies and tour operators services
11.Aa	Maritime: Passenger transportation
11.Ab	Maritime: Freight transportation
11.Ac	Maritime: Rental of vessels with crew
11.Ad	Maritime: Maintenance and repair of vessels
11.Af	Maritime: Supporting services for maritime transport
11.Ba	Internal Waterways: Passenger transportation
11.Bb	Internal Waterways: Freight transportation
11.Bd	Internal Waterways: Maintenance and repair of vessels
11.Fa	Road: Passenger transportation
11.Fd	Road: Maintenance and repair of road transport equipment
11.Fe	Road: Supporting services for road transport services

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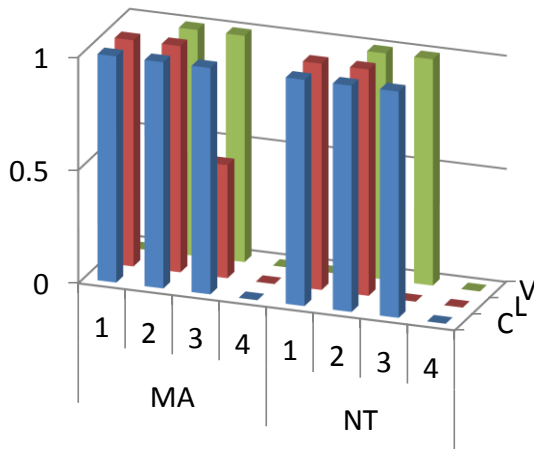
*Criteria:* Lao PDR has a lower commitment than those of Cambodia and Vietnam in Mode 3 for market access in ASEAN priority integration sectors.

*Source:* Authors.

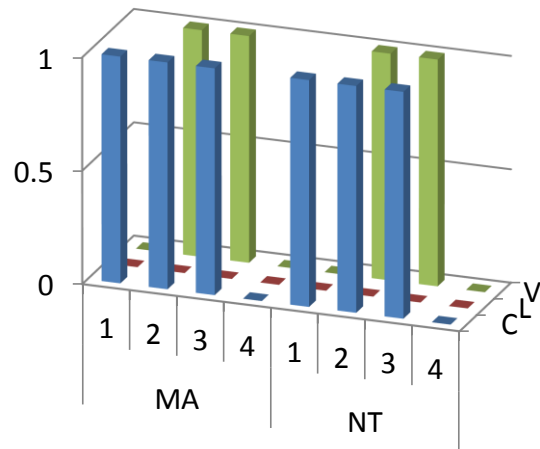
We now take four subsectors, i.e., wholesale trade services, retailing services, travel agencies and tour operator services, and road passenger transportation, for the comparison analysis using the Hoekman indices for Lao PDR, Cambodia, and Vietnam. We include 04.C. Retailing Services because the subsector has many small and medium-size enterprises and the potential impact of liberalization is considered to be large. Figure 1 summarizes the comparison analysis. In those subsectors examined, Lao PDR has lower commitment in Mode 3 than either Cambodia or Vietnam. Confronting a new stage of liberalization in the services sector, such as the TPP or China Free Trade Zone, Lao PDR should seriously take those subsectors into account.

**Figure 1: Detailed Comparison for Selected Subsectors (under AFAS 8)**

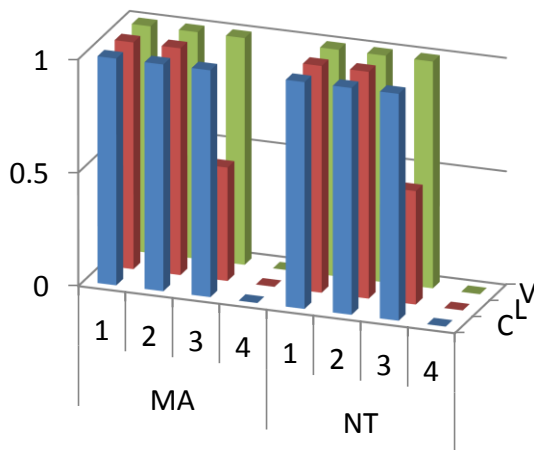
04.B. Wholesale trade services



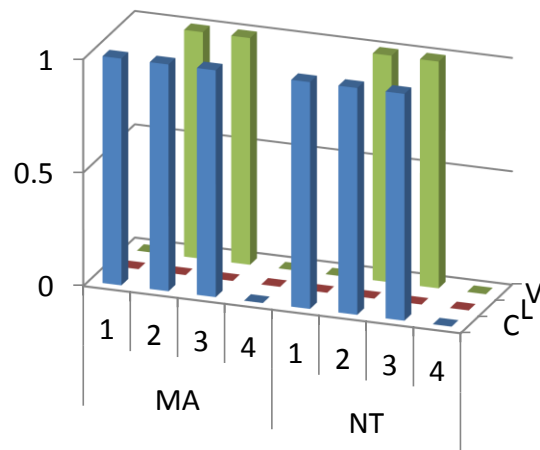
04.C. Retailing Services



09.B. Travel agencies and tour operators services



11.Fa. Road: Passenger transportation



C: Cambodia, L: Lao PDR, V: Vietnam. MA: Market Access, NT: National Treatment.

Source: Authors.

An important recent development has been the May 2015 efforts of liberalization of wholesale and retail services in Lao PDR<sup>2</sup> that permitted foreign investors for the first time. In response to this deregulation, several investment projects (by Chinese, Thai, Vietnamese, and Laotian investors) in the wholesale/retail sectors

<sup>2</sup> The revised regulation (No.1005/MOIC.DDT) allows foreign wholesalers and retailers with a registered capital amount of 4 billion Kip (some 500,000 US dollars) or more to invest in the wholesale/retail sectors.

have put forward concrete proposals. This is unequivocally a welcome trend. Under AFAS 8, however, the commitment in those sectors remains the same (i.e., very limited for the wholesale sector and nil for the retail sector). This is due to the existence of the so-called “water” or policy free space, which could be defined as “the difference in liberalization between the actual policy and the commitment under a free trade agreement.” Because of the existence of this water, the policy change in favor of inviting foreign investment into the wholesale and retail sectors is subject to future change (in terms of direction restrictions being reinstated). In this sense, Lao PDR could commit further liberalization in these important sectors in a future version of AFAS.

As for the status quo of FDI, Table 4 compares Japanese firms’ direct investments in Cambodia, Lao PDR, and Vietnam. Compared with Cambodia and Vietnam, the number of Japanese firms operating in Lao PDR is rather limited and concentrated in the capital (Vientiane). Considering the supporting role of service firms for other business activities (i.e., agriculture and manufacturing), the total number of only five services firms is rather meager, and much more investment is awaited, together with agriculture and manufacturing investments from abroad. From a locational perspective, more investments should take place outside the area of the capital in Lao PDR.

**Table 4: Japanese firms' direct investment in Cambodia, Lao PDR, and Vietnam (at the end of 2014)**

Country	Location	No. of agricultural companies listed in the database	No. of manufacturing companies listed in the database	No. of service companies listed in the database	Total
Cambodia	Total	0	14	30	44
	Located in Phnom Penh	0	4	27	31
	Located outside of Phnom Penh	0	8	5	13
Lao PDR	Total	2	4	5	11
	Located in Vientiane	1	3	5	9
	Located outside of Vientiane	1	1	0	2
Vietnam	Total	5	421	255	681
	Located in Ha Noi	0	94	121	215
	Located in Ho Chi Minh	0	78	108	186
	Located outside of Ha Noi or Ho Chi Minh	5	249	26	280

*Source:* Data from Toyokeizai Shimposha, Kaigai Shinshutu Kigyo Soran (a directory of Japanese firms' foreign investment).

Table 5 shows the Japanese firms listed in Toyokeizai Shimposha's company directory. The number of workers remains rather small for all firms listed. This small-scale nature of firms makes it difficult for them to bear the relatively higher cost of using free trade agreements (Melitz, 2003). The main objective of FDI by firms (including those Japanese firms listed in the Table as well as future investors) is to capture benefits in cost terms, exemplified by the existence of Lao PDR's cheap labor force. However, the Lao PDR government should seek different benefits from FDI, including technology transfer and the development of skills within the labor force, among others.

While the aim of firms to construct the most efficient international production network is driven by their pursuit of profit, the host country should take advantage of inward investment to improve itself. Otherwise, investing multinational firms would simply shift only their labor-intensive and therefore low-value-added production

processes to Lao PDR, despite the government's policies designed to attain economic development through the establishment of all-encompassing domestic industries. After all, firms retain the right to decide whether to undertake FDI or not.

The firms listed in the Table are still rather “young” (i.e., they were established only recently), meaning that Lao PDR has scope for further promoting inward investment. It is therefore imperative for Lao PDR to consider upgrading<sup>3</sup> the contents of inward investment from abroad through the opening up of service sectors, since service firms would, as stated above, support and facilitate inward investments in the other sectors.

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<sup>3</sup>According to Dunning (1992), the extent to which a firm possesses its firm-specific assets (also known as “ownership advantages”) vis-à-vis firms of other nationalities in a particular market functions as a determinant of FDI. These firm-specific advantages are the source of upgrading economic activities, which largely take the form of the privileged possession of intangible assets as well as those arising as a result of the common governance of cross-border value-adding activities (Dunning, 1992).

**Table 5: Japanese firms operating in Lao PDR (at the end of 2014)**

Industry (contents of business, if any, or GATS classification for the service industry)	Company name	Location	No. of workers	Year of establishment
Agriculture	Oji Lao Plantation Forest Co.,Ltd.	Vientiane	146	1999
Agriculture	Advance Agriculture Co.,Ltd.	Thataeng Secong	n.a.	2007
Manufacture (automobiles)	Santiphab Suzuki Lao Factory	Vientiane	34	1992
Manufacture (textiles)	Lao Yamaki Sole Co.,Ltd.	Vientiane	336	2006
Manufacture (textiles)	Union Yagi Lao Co.,Ltd.	Vientiane	203	2008
Manufacture (precision machinery)	MANI Vientiane Co.,Ltd.	Vientiane	60	2009
Service (04 Distribution)	KP3G & Nomura Trading Co.,Ltd.	Vientiane	28	2011
Service (07 Finance)	MSIG Insurance(Lao)Co.,Ltd.	Vientiane	8	2009
Service (11 Transport)	Lao Nissin SMT Co.,Ltd.	Vientiane	39	2012
Service (11 Transport)	Lao-Japan Airport Terminal Services Co.,Ltd.	Vientiane	170	1999
Service (11 Transport)	Logitem Laos GLKP Co.,Ltd.	Savannakhet	6	2007

*Source:* Data from Toyokeizai Shimposha, Kaigai Shinshutu Kigyo Soran (a directory of Japanese firms' foreign investment).

### **3. Geographical Simulation Analysis for Service Liberalization in Lao PDR**

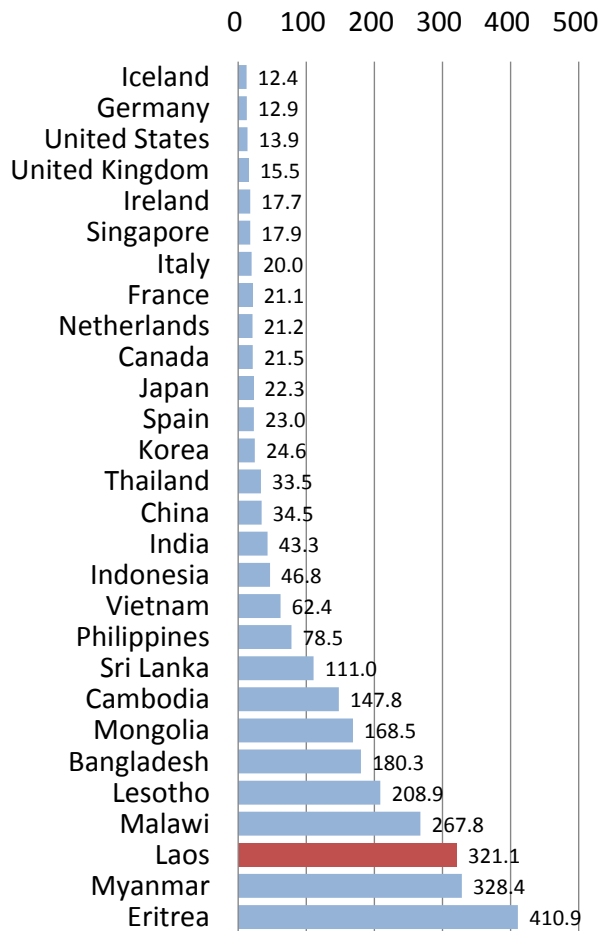
#### **3.1. What is the IDE-GSM?**

What is the potential economic impact of service liberalization in Lao PDR? Using the IDE-GSM, we conduct a simulation analysis to estimate the potential impact on Lao PDR and other countries. IDE-JETRO has been developing the IDE-GSM since 2007. This model makes it possible to predict the type of physical or institutional integration that will favorably or adversely affect regions of interest at the subnational level. The model also makes it possible to predict how policy measures to facilitate international transactions will affect trade traffic and along which routes; this allows potential bottlenecks to be identified and so enables a country to know what areas to address in order to reap the full benefits of economic integration. In this chapter, we provide a customized version of the model that divides Lao PDR into 139 districts, whereas the original version has only 17 provincial districts for the country. The model expands upon a basic model of new economic geography to incorporate numerous features such as multiple industrial sectors with intermediate inputs, a multimodal transport selection model, and the existence of tariff and NTBs to international trade.

#### **3.2. Services Barriers in the IDE-GSM**

First, we estimated services barriers for selected countries as shown in Figure 2. The barrier level for Lao PDR in the service sector is very high compared with that of other countries. The estimated barriers include institutional barriers, difficulty in undertaking procedures, difficulty in finding partners, difficulties arising from cultural differences, and barriers coming from popular preferences toward foreign services. Therefore, it captures various types of barriers and these barriers can be higher than in other countries even if a country has a higher level of commitment in the services sector in the WTO framework or in bilateral and regional trade agreements.

**Figure 2: Services Barriers in Selected Countries (Indices)**



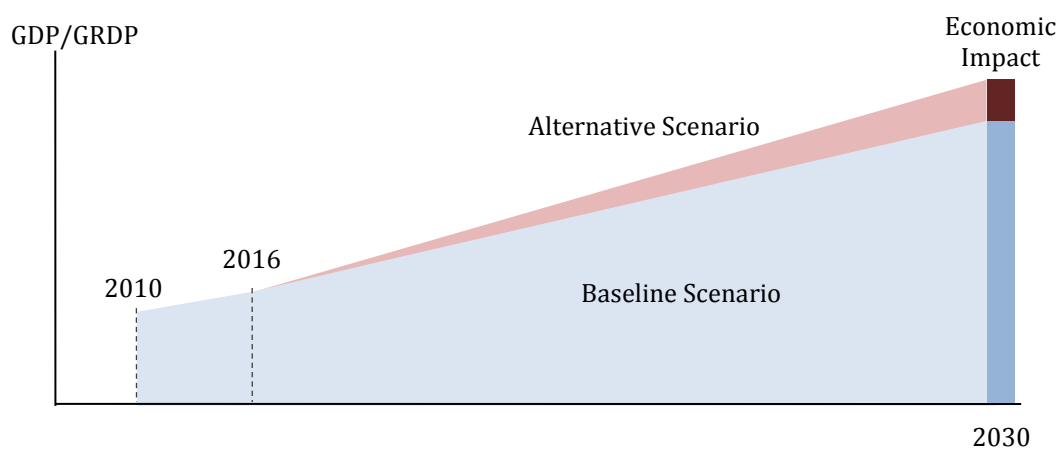
Source: Authors.

### 3.3. Baseline and Alternative Scenarios

We now take the differences in national and regional GDPs between the baseline scenario and an alternative scenario (Figure 3) to calculate the economic impacts of various trade and transport facilitation measures (TTFMs). The baseline scenario assumes minimal additional infrastructure development after 2010. The alternative scenario assumes specific policy measures in 2016 and beyond. We compare the GDPs and Gross Regional Domestic Products (GRDPs) between the two scenarios as of 2030. If a region under the scenario with specific TTFMs has a higher (resp., lower) GRDP than under the baseline scenario, we regard this surplus (deficit) as a positive (negative) economic impact of the TTFMs.



**Figure 3: Image Diagram: Difference between Baseline and Alternative Scenarios**



Source: Authors.

### 3.4. Scenarios and Results

Scenarios 1 and 2 are set to provide a message that service liberalization will deliver a positive economic impact to the country. In both scenarios, we assume a gradual reduction of the barrier in the services sector. We specify the scenarios as follows:

[Scenario 1]

Lao PDR will gradually lower services barriers from 2016 to 2025 to levels equal to those of Cambodia. NTBs to manufacturing do not decrease.

[Scenario 2]

Lao PDR will lower services barriers from 2016 to 2025 to levels equal to those of Cambodia. The NTBs to manufacturing goods will gradually decrease as the services sector increases its efficiency and has a positive impact on reducing NTBs to manufacturing goods.

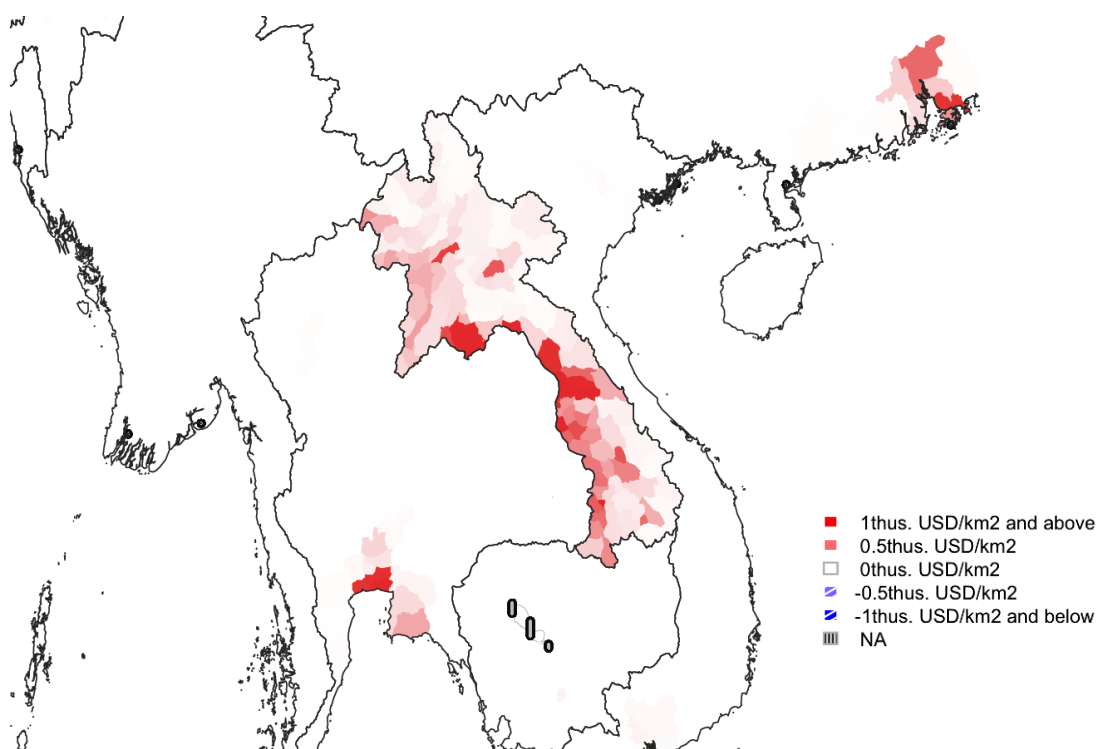
Scenario 1 is the *No Barrier Reduction in Manufacturing Sector* scenario, in which barriers are not lowered in the manufacturing sector, even though reforms in this sector are undertaken. This scenario reveals the importance of providing better services to the manufacturing sector as an input to boost economic activities.

The level of Cambodia's barriers is 46.0% of that of Lao PDR. Therefore, we reduce the barrier for Lao PDR by 54.0% in 10 years, that is, from 321.1 to 147.8. In addition to the reduction in service sector barriers, we also reduce the NTBs for the manufacturing sectors in order to take account of the fact that services are used as an

input to the manufacturing sector, as discussed in the introduction. We take as a proxy the ratio of domestic service inputs against the output value for each industry from the input–output (IO) matrix for Thailand in the ASIA Input–Output Matrix 2005 published by IDE-JETRO. The specific values are 0.104 for the automotive industry, 0.107 for the electronics and electric appliances (E&E) industry, 0.172 for the textile/garment industry, 0.125 for the food processing industry, and 0.131 for other manufacturing industries. In the simulation analyses, we reduce the NTBs for the automotive industry by 5.6% ( $0.104 \times 0.54$ ) in 10 years in Lao PDR.

The result of Scenario 2 is provided in Figure 4 and Table 6. Lao PDR will experience a positive economic impact. More precisely, the reforms in this scenario will boost the national GDP of Lao PDR by 0.31% in 2030 compared with the value of GDP in 2030 in the baseline scenario.

**Figure 4: GRDP Differences, Service Liberalization (Scenario 2) vs. Baseline (2030, Impact Density, USD per square kilometer)**



Source: Calculated by IDE-GSM.

On the other hand, Scenario 1 provides Lao PDR with positive but much smaller impacts. The economic impact of Scenario 1 on Lao PDR will be only 0.05%. This implies that manufacturing-related services should be liberalized to boost their

economic impact. Specific sectors, such as logistics, insurance and finance, and professional services should be included. Hotels and residential services are also important to accommodate foreign investors.

**Table 6: Economic Impacts by Province (2030, %)**

Province	Scenario 1	Scenario 2
Bokeo	0.09%	0.17%
Louang Namtha	0.06%	0.11%
Khammouan	0.08%	0.81%
Bolikhambxai	0.06%	0.54%
Vientiane	0.06%	0.30%
Vientiane capital	0.05%	0.39%
Phongsali	0.04%	0.09%
Oudomxai	0.03%	0.10%
Louangphabang	0.05%	0.14%
Xekong	0.11%	0.41%
Xiangkhouang	0.05%	0.17%
Savannakhet	0.03%	0.16%
Attapu	0.05%	0.35%
Salavan	0.05%	0.15%
Xaignabouli	0.05%	0.22%
Houaphan	0.06%	0.18%
Champasak	0.03%	0.15%
Lao PDR (Total)	0.05%	0.31%

*Source:* Calculated by IDE-GSM.

#### **4. Conclusions and Policy Recommendations**

The comparative analysis and simulation analysis revealed that Lao PDR needs to implement service liberalization as it will bring about positive economic impacts for the country. Some policy recommendations were drawn from the three different scenarios constructed in this study.

First, non-members of the TPP should proceed to undertake service liberalization by themselves. In fact, China is active in service liberalization through its China (Shanghai) Pilot Free Trade Zone and the expansion of this to the whole country.

Second, service liberalization should be at higher level than for those in the AFAS or in other ASEAN+1 FTAs. Procedures should be more targeted to provide a

better investment environment for foreign services providers.

Third, service liberalization in sectors such as wholesale and retail brings higher economic growth. In particular, services related to the manufacturing sector, such as logistics, finance, and professional services, should become a focus in order to reduce barriers in the manufacturing sector and produce higher economic growth.

Last but not least, service firms in general play an important “supporting function” to other business sectors. A narrowly defined “benefit,” most notably a surplus/deficit of the service trade account, might not be the top priority, since even a service trade account deficit could attract manufacturing investment, thereby more than offsetting a negative service trade account. Policymakers in Lao PDR should bear this in mind when formulating a policy to bring about service trade liberalization under ASEAN-related FTAs.

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