



AGRICULTURE SECTOR BRIEF

LAOS



Country Overview



The only landlocked country in the ASEAN region, Lao PDR is neighbour to Viet Nam, Cambodia, Myanmar, Thailand and China. It is a long, narrow country, stretching about 1,700 km from north to south but only about 100 km across at its narrowest width. The country's low population of about 6.5 million in 2017 and mountainous topography limit expansion of agricultural development, with only about 10% of the country's land area used for agriculture. Moreover, agricultural land is dispersed, especially in the northern mountains.

Once an isolated communist regime, in the last three decades Lao PDR has slowly been opening to the world, fighting poverty and transforming its economy to a more advanced stage. The country is dependent on foreign aid, and most of the investments are arriving from China and through international development projects, like ODA.

GDP growth averaged 7.7% over the last decade, with income per capita reaching \$2,460 in 2018. The government is seeking to maintain macroeconomic stability by reducing the fiscal deficit and strengthening public debt management. As a result, there has been fiscal consolidation, with the fiscal deficit declining to 4.3% of GDP in 2019 from 4.4% in 2018 and 5.5% in 2017. 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's electricity is nearly 100% produced by hydro-power plants. Before the global pandemic, tourism was another major force of the economic growth, growing by 9% per year in the last five years.

The country's most challenging problems are the fragile SME sector, the low purchasing power of consumers, and the lack of advanced technology in every sector. The coronavirus outbreak hit Lao PDR at these points, so short-term forecasts are not available, though in the long run, the country is expected to find its way back to growth, transforming sectors like agriculture.



THE MOST RECENT AVAILABLE INDICATORS OF LAO PDR ARE IN THIS TABLE:

Indicator	 Population (million)	 GDP per capita (USD)	 Economic growth (GDP annual variation, %)	 Inflation rate (%)	 Trade balance (billion USD)	 Exports (billion USD)	 Imports (billion USD)
2015	6.7	2,135	7.3	1.3	-2.0	3.7	5.7
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	6.2	2.0	-0.9	5.3	6.2

Sector Overview



While Lao PDR's economy has surged by around 7% over the past decade, making it among the fastest growing economy in the ASEAN, its agricultural sector has grown at a rate of only 3% over the past two decades.

At least 5 million hectares of Lao PDR's total land area of 23,680,000 hectares are suitable for cultivation (ca. 21%). 17% of this land area, between 850,000 and 900,000 hectares, is cultivated, just under 4% of the total area. Moreover, agricultural land is dispersed, especially in the northern mountains. About 50% of the arable land supports annual crops, the balance being used for perennial crops, such as coffee, or pastures and grasslands. Only a few areas along the Mekong River and its tributaries have large contiguous cropped land, notably in the Vientiane plain, and in central and southern riverine plains. Less than 10% of the country is approved for concessions or leases, and unclear land use rights are a big constraint for the sectors' future.

General characteristics

The agrifood sector is becoming more commercialised in Lao PDR, and currently around a third of the farmers are producing mainly for sale, though still around 80% of the rural population are still subsistence farmers. Agriculture and food consumption is rice-based, with a few other crops being planted. Livestock is growing in importance, as the regional demand for protein drives farmers to commercialise their capacity.

Many rural households generate only 30%–40% of their income from agriculture, with the remainder coming from off-farm sources including casual labour, paid employment, government salaries, and remittances from extended family members. In general, households with a higher proportion of income from agriculture are poorer especially if they predominantly grow wet season or irrigated rice.

The agriculture sector is lagging behind other parts of the economy, as a result of several physical, socio-economic and other factors. This table shows the main constraints of the Lao agriculture:

● Physical (geographic characteristics and climate)	● Socio-economic	● Capacity
Amount and quality of arable land – due to mountainous terrain	Farmers lack experience, and sometimes basic technical, production and market skills	Farmers have very limited access to training or other forms of education
Limited water sources during the dry season	Low market prices and strong competition from neighbouring countries	Inconsistent policies and regulations create uncertainty in the market
Dispersed population with expensive and underdeveloped travel and transport options	Underdeveloped value chains for cash crops and livestock	Limited institutional capacity of government agencies to develop infrastructure, trade and to face economic challenges.
Vulnerability of climate change and natural disasters like floods and droughts	Poor physical infrastructure: limited irrigation, logistics	Limited capacity of financial institutions to provide services in support of agriculture, as well as the government to support the sector
	Insecure land ownership and property rights – which leads to slow investments	Inability of farmers and agro companies to meet standards and food safety regulations
	Lack of financing for agriculture, and agribusiness as a whole	

Most important products and segments - crops

Rice

Rice is the major crop for Lao PDR, and nearly half of the sectors' output comes from this single source. Due to lack of infrastructural development, in the wet season about a million hectares are cultivated, while in the dry season only ca 5% of this area is used for rice production. Paddies are concentrated in four provinces in southern Lao PDR, Xayaboury, Khammouane, Savannakhet and Champasak. In the mountainous north, rice is less cultivated.

Other crops

Besides rice, the major crops include maize, cassava, banana, sugarcane, vegetables and beans, all of them grown for subsistence and increasingly for commercial purposes. Cash crops are mung-beans, soybeans, peanuts, tobacco, coffee and tea. The government has set a production goal for 2025, and according to this plan, coffee should reach 280,000 tons, sugarcane 2.4 million tons, cassava 1.6 million tons and beans 52,000 tons. This production growth should lead export volumes to rise.

Coffee

A relatively new crop, but increasingly important in Lao PDR' agriculture and export is coffee. Due to the country's high temperatures and humidity, the climate is perfect for coffee. It is also linked to tourism with coffee plantation tours, coffee homestays and a campaign advertising Lao PDR as a sustainable coffee production country. In 2020, around US\$ 5 million exports were expected by the Coffee Producers' Cooperative from organic coffee, cooperating with a Swiss coffee distributor.

The growing coffee industry can be a unique way out of poverty for farmers, and also to ethnic minority groups of northern Lao PDR. A UN report presented that with coffee production alone, an average farmer's income grew by 25% in the last five years.

Other export crops

here is very little reliable data about the Lao PDR's exports, but from the European statistics, the following list of products can be seen:

● Product	● Est. value in million USD (2017)
Beet and cane sugar	29
Unroasted coffee, tea in bulk & mate	18
Rice	3
Vegetable, fresh, chilled and dried	2
Gums, resins and plant extracts	3
Bulbs, roots and live plants	1
Fruits, fresh or dried, including tropical fruits	2
Coffee and tea extracts	1

Most important products and segments - livestock

Livestock production, which accounts for 18% of agriculture GDP, contributes a significant amount to household and national income with most farm families owning some livestock to be used as a form of household savings, or for commercial sales. The most important animals are pigs, cattle, goats and chicken. Livestock are particularly important in the poorer northern provinces, where there is less land available for cropping due to the mountainous terrain. Some 89% of farm households own one or more types of livestock, and where possible, many households will have fish ponds. Smallholder farmers dominate livestock production, accounting for approximately 95% of the national herd. Commercial livestock production has developed around major towns and cities such as Vientiane, supplying meat, eggs, and milk to the urban population.

Trading opportunities arose from the development of neighbouring China and Viet Nam, and Thailand to a certain extent, where there is a growing demand for meat proteins. Significant cross-border livestock trade is expanding with further potential growth if reproductive and survival rates continue to improve, ensuring livestock health and easing the sale and transport of stock. Current livestock trade is significantly underreported with cross-border movement of livestock mostly not included in official statistics.

Freshwater aquaculture

The Mekong river is the world's second richest freshwater systems in terms of fish diversity. With 6-18% of the global freshwater fish catch it is also home to the largest freshwater fisheries. In Lao PDR, fish contributes about 48% of the population's protein consumption. With its reliability and accessibility, the fish catch contributes to the country's food security as well.

There are four types of aquaculture practices in the country. These are cage culture with cages made of steel frames, cages of bamboo or net or wood; rice-fish culture in irrigated areas - pond culture in small ponds created in rural areas in lowland areas, basically to meet family requirements, and the rain-fed culture in irrigated paddy lands in agricultural fields under suitable climatic conditions.

Natural resources and biodiversity

Lao PDR is particularly rich in natural resources, and biodiversity remains high, with some ecologists estimating that biological resources contribute 66% to the country's GDP. Agro-biodiversity is a source of food, nutrition and income, especially in the poorer rural areas. Non-timber forest products include honey, khem grass, bamboo, rattan or even edible insects, most of which are sold on the local markets, but which are also exported by some new enterprises. These non-wood products can give up to 60% of the income in rural regions.

It is vital to the future of the agri-food sector to conserve the ecosystem in Lao PDR. The World Wildlife Fund (WWF) lists Lao PDR among the most important biodiversity regions, which is under pressure and is in decline. Inadequate regulations, and deforestation are the key factors of this decline.





Tariffs

Lao PDR is currently using the Tariff Nomenclature 2017, and goods are classified by the ASEAN Harmonised Tariff Nomenclature (AHTN) and the Harmonised Coding System, known as HS Code from the World Customs Organization (WCO). This 10-digit code determines import tariff rates, which can be normal duty rate and reduced duty rate, the latter ruled by free trade agreements (FTA). Lao PDR is bound by several FTAs, the World Trade Organization, the ASEAN Trade in Goods Agreement (ATIGA), ASEAN-China Free Trade Agreement (ACTFA), ASEAN-Korea Free Trade Agreement (AKFTA), and the ASEAN-India, and ASEAN-Australia and New Zealand Agreements. The texts of these agreements can be found on the governments' trade website: www.laotradeportal.gov.la. Actual tariff rates can be searched on the same portal, here.

Non-Tariff Measures

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

ASEAN aims to reduce the number of non-tariff barriers, in order to enhance intra-ASEAN trade and give more opportunities to the regions' developing SMEs. Organisations like the ASEAN Business Advisory Council are constantly giving warnings and recommendations to reduce the number of prohibiting measures.

The agrifood sector is one of the most affected by non-tariff measures. Some are very simple, e.g., the Decree on the Control of the Movement of Animals and Animal Products, number 230/GOL dated on 4th June 2012, indicates that 'To import of livestock and animal products, the import permit issued designated by the relevant department of the Ministry of Agriculture and Forestry is required'. It becomes a real trade barrier, when companies, especially SMEs face the problem of this licence is not available, takes too much time, etc.

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 or more non-tariff measures. Typical measures include:

- Technical barriers
- Export restrictions
- Price control measures, which affect all tariff lines
- Sanitary and phytosanitary measures
- Licencing.



State-initiated trade promotion

The government's trade promotion body is the Trade and Product Promotion Department, under the Ministry of Industry and Commerce. Its task is to support companies on the domestic and the export market as well, organising fairs and exhibitions, facilitating business networking, and co-operation between Lao and foreign companies.

Lao Trade Portal

The most useful online tool to find information on the Lao market is the Lao Trade Portal, www.laotradeportal.gov.la. The portal includes relevant regulations, including tariffs, and non-tariff measures, as well as information on 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.

Sales channels

The general method of trading in agriculture in Lao PDR is that wholesale companies import goods into Lao PDR and sell it to retailers. Imported products reach the country by air, road or by river – as the country currently possesses only one short railway track. This will change with the completion of the China-Lao PDR railway in the next few years, as well as the proposed Viet Nam-Lao PDR express and railway link. The generally underdeveloped road system makes goods distribution very difficult. Lao exporters try to send their products to Viet Nam or Thailand, as the nearest ports are in these two countries.

Supply chains in Lao PDR are still more cooperative than contractual, built and based on personal relationships. The established agribusiness outside the largest cities and its surroundings is very sparse and larger enterprises in the sector are very few.

Selling to the government

The Lao government is one of the largest consumers of many different goods and services, as the country remains a self-declared communist state. As the state budget is heavily financed by ODAs (Official Development Assistance), these donor-funded projects offer business opportunities for agri-tech and agri-IT companies.

Special relation to Thailand and Thai market

Due to language relation, most Lao consumers keep an eye on Thailand as a reference market, people watch Thai TV-channels and therefore a high reputation of a product in Thailand makes a smoother way to enter the Lao market. Foreign producers are advised to make their market entry first in Thailand then to Laos.

Personal and official networking, E-commerce

The basics of business networking do not work differently in Lao PDR than in other countries of the region, but there are some approaches to keep in mind for new exporters. As the Lao PDR remains a communist state, good relations and a reliable, trustworthy network with state and official institutions is a must. The western way of competing and tendering for an assignment is not practiced in Lao PDR.

The e-commerce market in Lao PDR is set to take off amidst the rapid growth of internet penetration in the region but the country still does not have laws to regulate such activities, as experts have noted. The Lao Trade Portal now has a section on regulations ruling e-commerce which can be found here.



Tech transfer and human capital development

One of the disadvantages of Lao PDR is that the agriculture sector is dependent on foreign technology and skilled workforce. Many of the state-aid or ODA projects are focusing on technology transfer and training of local labour. Lao PDR has the youngest population in the ASEAN, and it is a critical issue to provide them with proper education. For foreign companies, the education sector can alone be an attractive opportunity.

Special fields of technology transfer, where the Lao PDR would react most positively, is the development of food safety and security – especially after the COVID-19 pandemic. There is no local practice or institutional background so far, so know-how transfer and projects backed by the state are likely to be welcomed.

Investments

Undoubtedly, Lao agriculture need fresh capital, and the government is actively promoting foreign investments now. But even though the accumulated FDI rose from US\$ 333 million to 1,7 billion between 2010 and 2017, most of this is directly spent on infrastructure, mostly electricity production. Agriculture attracted only about 10% of the FDI.

Investing in Lao PDR, despite the positive attitude from the government, remains quite difficult. Technically all land is owned by the state, and foreigners can only lease for 30 years. Starting a new company is the only practical way as an investor, as local companies cannot be bought. There is no real stock exchange, and most of the valuable enterprises are public corporations owned by the state.

The Investment Promotion Department has more detailed information, and can be contacted via their website: www.investlaos.gov.la

Challenges and recommendations to the agriculture sector of the Lao PDR

There are many challenges, Lao PDR has to face to improve its agriculture sector and reach the main goal: a successful transition from a not-even self-sufficient, small farm-based state to a healthy, technologically advanced sector with diverse companies, from which medium and large ones can export, at least to the neighbouring markets. The critical spots of this transition are:

- Improving the moving of products from the production site to the marketplace. This includes physical infrastructure development, better storage options, as wastage and spoilage is high, and new players that link farmers with traders.
- More transparent regulations on agrifood products, deregulating non-tariff measures and barriers.
- Financial assistance to all players in the sector, including micro-credit, and insurance options, which are preliminary conditions of any transition to a market-driven agriculture sector.
- More companies that can export short distances. Even though Lao PDR is a landlocked country, it has borders with five nations, which could be used as an advantage by new, emerging enterprises.