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Lao PDR Market Access Guide: Trading with ASEAN Dialogue Partners – Japan

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Lao PDR Market Access Guide: Trading with ASEAN Dialogue Partners

JAPAN

**Prepared by
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March 2013

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Summary

The *ASEAN-Japan Comprehensive Economic Partnership Agreement* (AJCEP) offers duty-free treatment on most of Japan's imports to Lao producers and exporters. This type of preferential treatment has contributed to the rapid rise of Lao exports to that country – nearly 30% a year in the last decade, making Japan one of Lao PDR's top 10 export destinations.

How Lao Producers and Exporters Benefit from AJCEP

- As member country of AJCEP, Lao producers and exporters now enjoy duty-free treatment on most of Japan's imports.
- The Agreement also covers rules of origin; sanitary and phytosanitary (SPS) measures; standards, technical regulations and conformity assessment procedures; trade in services, and investments, and economic cooperation in general in a variety of areas.
- Although Japan's average level of protection is about the same as that of the ASEAN countries, its average tariff on agricultural products is nearly 30%. This high level of protection for non-AJCEP countries gives Lao producers and exporters a large competitive advantage over those countries.
- Japan ranks among the top 10 countries with the most conducive environment for doing business. In trading across borders it outperforms the average for all other industrialized countries. Japan's logistics environment is also highly favorable to trading.
- Japan is one of the fastest growing markets in Asia. Two-way trade between Japan and ASEAN represents 15% person of Japan's total trade, and that share is growing.

What are the Fast-Growing Japanese Product Markets for Lao Businesses

In addition to traditional minerals and ores, forest products and garments, there are several product categories with fast-growing Japanese imports of particular interest to Lao producers and exporters:



These products are those in which Japan has high import growth rates. In some cases, Laos also has high export growth rates of the same products; but in some cases it has 'missed opportunities' to benefit from the high growth markets. Overall, Lao exports are highly compatible with all types of products imported by Japan.

How the AJCEP Works

The AJCEP eliminated Japan's customs duties on imports for 90% of its tariff lines immediately after the agreement went into effect in December 2008. For the remaining imports, one-third will have their tariff rates eliminated by 2018 and the remaining two-thirds will be lowered more gradually. For the Lao PDR, customs duties will be eliminated on 85% of tariff lines over 18 years.

This guide shows how to determine (a) whether there are benefits to using the AJCEP, and (b) whether a particular product being exported from Laos is eligible for a preferential rate. It is important to check these two conditions in order to avoid spending time and money in applying for the preferential rate if a product is already subject to a low customs duty outside AJCEP.

Understanding Rules of Origin

The Rules of Origin (ROO) are an essential feature of the AJCEP. They determine what goods qualify for preferential tariff treatment, that is, what goods count as "Lao" products. There are two ways to qualify:

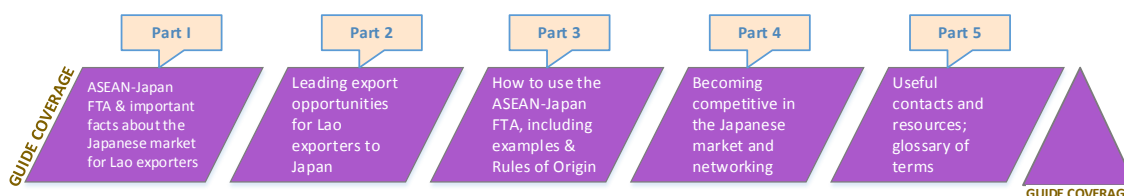
- A good can be wholly originating from Laos, for example, goods obtained from farming; and
- A good can have at least 40% of content originating from Laos, including that occurring after a change in its tariff classification from materials originating in non-AJCEP countries.

The 40% rule also applies to goods produced jointly between Laos and other AJCEP countries. So products from Laos that are destined for Japan are recognized as originating goods and are given preferential tariffs as long as the total value added throughout the production process across Laos and other ASEAN countries is at least 40%.

How to Compete in Japan's Product Markets

- ✓ *Become informed:* Japanese leaders have expressed a strong commitment to supporting SMEs as major beneficiaries of the trade expansion under AJCEP, and they strongly support the facilitation of trade through the ASEAN-Japan Centre. The Centre has been active in organizing workshops to network businesses between Laos and Japan. This guide provides information about resources and contacts that can help you to become familiar with the requirements and opportunities of AJCEP.
- ✓ *Develop networks:* This guide emphasizes the importance of cultivating business relationships that help you to establish networks of mutually beneficial cost-sharing activities, which can lead to establishing contractual arrangements with Japanese companies.
- ✓ *SME Value Chains:* This guide offers advice on how SMEs can effectively compete through value chains, as well as meet international standards like those of Export Quality Infrastructure (EQI) required by Japan.

How This Guide is Organized



PART 1: Guide to Understanding Lao's Exports to Japan

3.1. Facts about Japan's Importance as an Export Market

3.1.1. Lao's Trade Relations with Japan

Opportunities – Japan is the 6th most important destination for Lao exports, and the value of the goods shipped to that country from Laos has expanded by an average of nearly 30% a year in the last decade. Although the overall value of exports is small relative to other ASEAN countries, Lao's exports destined for Japan have increased nearly 5-fold since Laos became a member of ASEAN in 1997.

How Lao Benefits – The *ASEAN-Japan Comprehensive Economic Partnership Agreement* (AJCEP) was signed into effect on 1 December 2008. As a member of ASEAN, Lao producers and exporters now enjoy duty-free treatment on most of Japan's imports.¹

3.1.2. Lao's Preferential Access to Japan's Markets

Elimination of Tariffs – The AJCEP eliminated Japan's tariffs on 90% of its imports from ASEAN countries immediately after the agreement went into effect in December 2008. For the remaining imports, one-third will have their tariff rates eliminated by 2018 and the remaining two-thirds will be lowered more gradually. For the Lao PDR, it will eliminate tariffs on 85% of imports from Japan over 18 years.

Other Areas – In addition to eliminating tariff rates on most products, the AJCEP covers a number of other important areas that are of interest to Lao businesses interested in exporting to Japan:

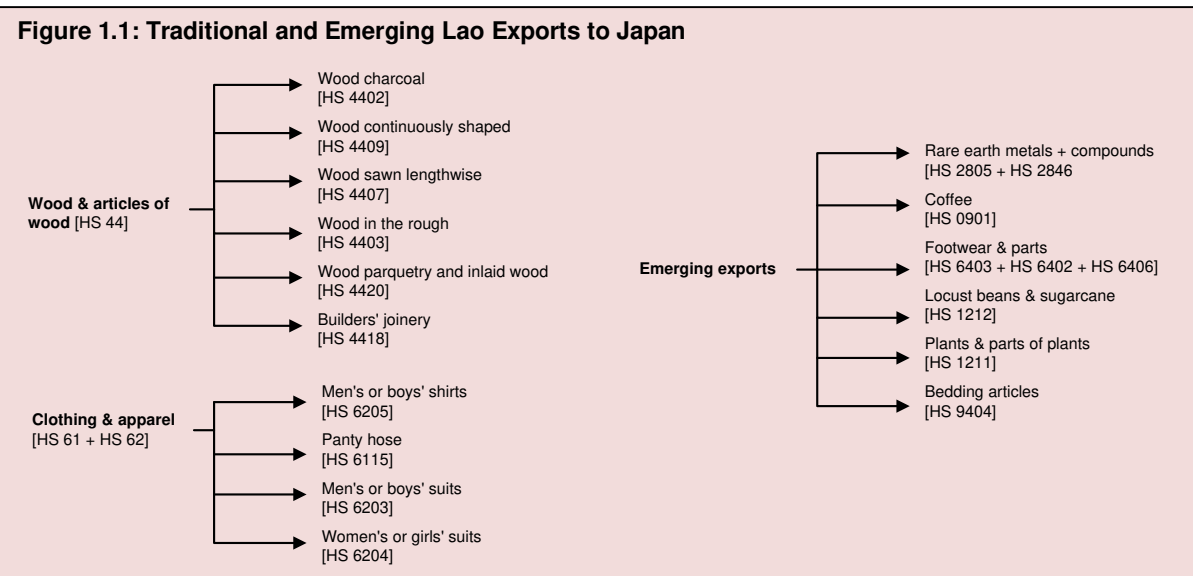
- ✓ The *Rules of Origin* provisions set out the requirements that determine whether goods are considered to be originating from AJCEP member countries (Chapter 3 of the AJCEP);
- ✓ The *Sanitary and Phytosanitary (SPS) Measures* provisions provide a platform for government officials of the different countries to discuss SPS-related issues (Chapter 4 of the AJCEP);
- ✓ The *Standards, Technical Regulations and Conformity Assessment Procedures* provisions ensure that there is mutual understanding of the standards, technical regulations, and conformity assessment in order for trade among AJCEP member countries to be encouraged (Chapter 5 of the AJCEP);
- ✓ The *Trade in Services* provisions establish a framework for continuing negotiations on the liberalization of trade in services (Chapter 6 of the AJCEP);
- ✓ The *Investment* provisions establishes a framework for continuing negotiations on the progressive liberalization, promotion, facilitation, and protection of investments (Chapter 7 of the AJCEP); and
- ✓ The *Economic Cooperation* provisions promote cooperation in a variety of areas, with the end goal of liberalizing and facilitating trade and promoting the well-being of the people of the ASEAN and Japan (Chapter 8 of the AJCEP).

3.2. Lao Exports to Japan

2.2.1. Traditional and Emerging Exports

Exports to Japan – Lao's major exports to Japan are somewhat more diversified than its exports to other markets. In addition to its large traditional exports of clothing and apparel and wood products, it exports large amounts of coffee, footwear and bedding articles. Other important exports are rare earth metals and compounds, sugarcane, and plants.

Top 10 Exports – Among the Lao PDR's top 10 exported products, there are 6 traditional (wood products and clothing and textiles) that represent about two-thirds of the total value of exports. The other 4 non-traditional products (coffee, footwear, bedding articles and oilseeds) account for the remaining one-third of the total value of exports.



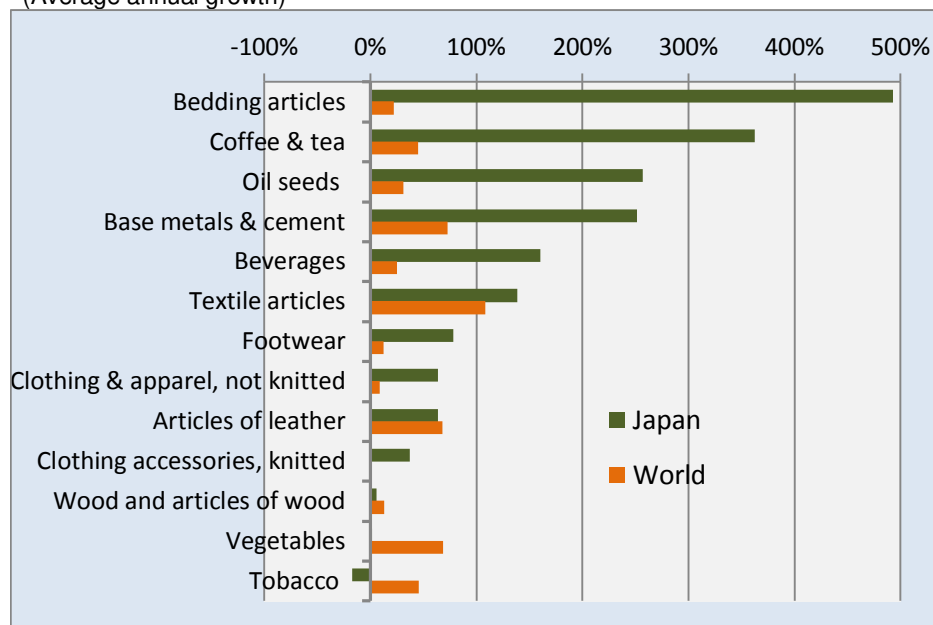
2.2.2. How Exports to Japan Differs from Other Markets

Lao products with dynamic export growth to the Japanese market have important differences from those exported to other markets. Lao's exports to Japan of bedding articles, coffee and tea, oilseeds, beverages, and base metals have all grown much faster than exports to other destinations. In contrast, exports to Japan of vegetables, tobacco, leather articles and wood products have underperformed compared with exports to other destinations (Figure 1.2).

The reason for these differences is that Japan's demand for imports in general and that for specific products exported by Laos differs from demand patterns in other markets. For that reason, it is important to understand the Japanese market and how it differs from other markets. Among the major factors determining those differences are the following:

- ✓ The drivers of trade for Japan and its demand for Lao products.
- ✓ Lao's export compatibility with Korean imports, that is, whether Laos is exporting the types of goods that are most in demand by Japan.
- ✓ Whether Laos is focusing its exports on the types of products that have dynamic markets in Japan.

Figure 1.2: Lao Exports to Japan versus Other Markets in Last Five Years
(Average annual growth)



2.2.3. Key Drivers for Lao Exports

There are two sets of factors that are important for Lao exporters to consider in the Japanese market:

Factors Related to the Japanese Market

- In considering the Japanese market as a possible market destination, the Lao exporter should examine *growth prospects* and *market access requirements*.
 - (1) Growth prospects for the Japanese market are mainly driven by sectoral growth patterns in that country and by the import demand responsiveness to economic activity in Japan.
 - For more information, see Chapter 2 below.
 - (2) Market access requirements under the AJCEP provide important advantages to the Lao PDR over other non-ASEAN foreign suppliers, and the advantages will improve as tariffs are increasingly eliminated for Laos through 2020.
 - For more information, see Chapter 3 below.

Factors Related to Lao's Competitiveness and Internal Factors

- The ability of Lao producers to effectively compete for market shares of Japan is determined by the following:
 - (1) The compatibility of Lao exports with Japanese imports.
 - For more information, see Section 2.1.
 - (2) The strength of institutional support mechanisms to help producers compete in the market.
 - For more information, see Section 4.1.

- (3) The export quality infrastructure (EQI) opportunities for adding value to exports, that is, for moving Laos from a concentration on unprocessed primary commodity exports, to agro-industrial and manufacturing activities in increasingly sophisticated product exports.

➡ *For more information, see Section 4.2.*

- (4) The ability of Lao businesses to accommodate Asian business styles into their networking operations. The approach emphasizes the cultivation of business relationships in the context of Asian interests in building professional trust and mutually beneficial cost-sharing activities leading to common goals. In contrast, the Western approach to doing business is largely based on competitive tendering and cost-minimizing negotiation strategies. For Lao businesses, it is therefore important to build networks that create buyers' trust and interest in establishing mutually-beneficial, long-term contractual arrangements with Japanese companies.

➡ *For contact information and links to resources, see Section 5.1.*

PART 2: Guide to Emerging Opportunities in Japan's Market

2.1. Lao's Export Compatibility with Japan's Imports

Lao exports have an above-average degree of trade compatibility with Japan's imports. Large and medium-size exports are somewhat more compatible than the small and emerging exports.² For all types of exports, the index of compatibility is between that of trade between industrialized countries, which averages 0.55, and that for developing countries, which averages 0.2.

Figure 2.1: Trade Compatibility Index between Lao PDR Exports and Japanese Imports

	Index of Trade Compatibility	Examples of Lao exports in category
Large-size Exports	0.43	Copper ore & concentrates; clothing & apparel; coffee; maize
Medium-size Exports	0.47	Sugarcane; unmanufactured tobacco; bananas; wood furniture
Small-size Exports	0.28	Fruits and vegetables; nuts; beverages; vegetable sap
Emerging Exports	0.34	Spices; dried fruits; malt; soybeans; palm oil; toys; lamp fixtures

Note: Calculated for products at the 4-digit Harmonized System (HS) level. Large-size exports: greater than US\$10 million; medium-size exports: between US\$1 and US\$ 10 million; small-size exports: between US\$ 0.5million and US\$ 1 million; and emerging exports: under US\$500,000. Benchmark trade compatibility indexes are generally 0.55 for industrialized countries and 0.2 for developing countries.

Advantages for Lao Exporters

With a relatively high degree of trade compatibility, Lao exporters can take advantage of Japan's fast growing imports in a wide range of industries. Additionally, the AJCEP gives Laos a competitive advantage over non-ASEAN countries in supplying products to that country.

Some Key Products

- Among Lao's medium and large-size exports are wood furniture, unmanufactured tobacco, bananas, sugarcane, cigarettes, footwear, articles for bedding, and bananas.
- Among the small and emerging exports are fruits and vegetables, nuts, beverages, vegetable sap, spices, dried fruit, toys, lamp fixtures, and soybeans.

Recognizing these opportunities should stimulate the Laos private sector to take advantage of the AJCEP in order to expand exports to the fast-growing Japanese market.

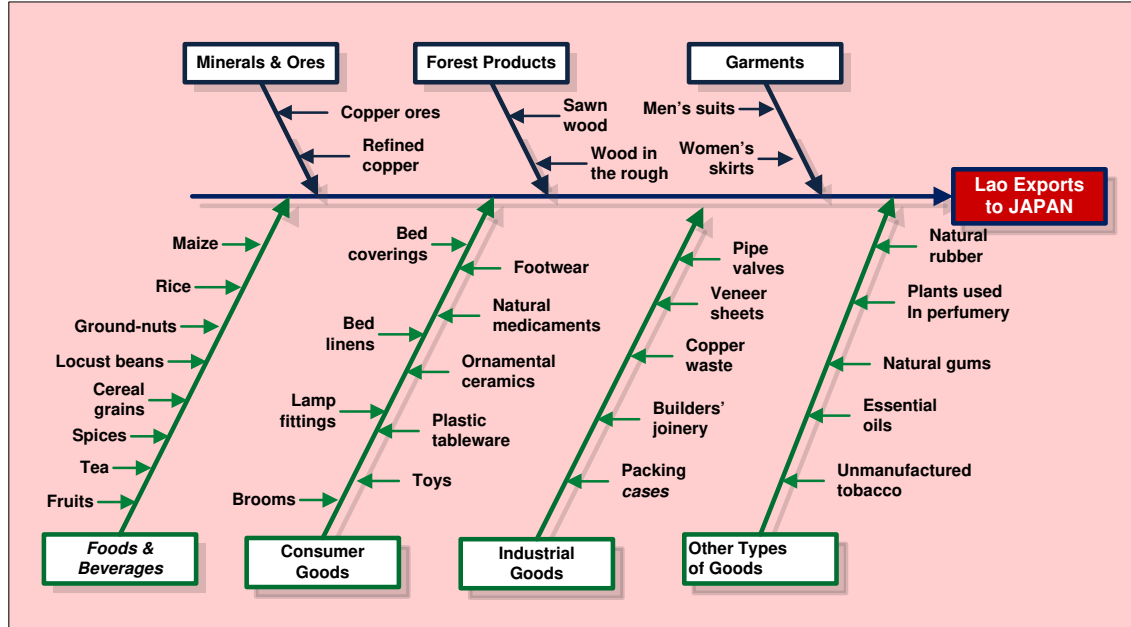
2.2. Winners in the Japanese Markets

Another way to measure export opportunities to the Japanese market is to examine whether Laos' exports have been directed at dynamic product markets and, if so, whether exporters have been expanding their activities in those markets. The potential growth of firms and industries in the world market and the Japanese market in particular are reflected in high rates of export growth and rising market shares. This type of analysis is suggestive of the actual or potential penetration into dynamic markets for Lao exporters.³

Measuring Penetration in Different Types of Markets

Laos' export growth in different types of product markets in the Japanese market has been measured by the trend growth rate of product exports in the four product categories (large, medium, smaller and emerging exports), and the ratio of product exports relative to

Figure 2.2: Lao PDR High Actual and Potential Exports to Japan



Japanese imports of those products. The export performance of Laos has been classified into the following four categories:

- ✓ *Exploited Market Opportunities:* Products in which the Lao PDR has expanding exports and Japanese imports are expanding.
- ✓ *Increased Penetration in Stagnating Markets:* Products in which the Lao PDR has expanding exports but Japanese imports are contracting.
- ✓ *Missed Markets Opportunities:* Products in which the Lao PDR has a falling market share despite expanding Japanese imports.
- ✓ *Reduced Penetration in Stagnating Markets:* Products in which the Lao PDR's market share is falling and Japanese market is contracting.

The most desirable situation is for Lao exporters to be involved in either *exploited market opportunities*, where their products have made headways into dynamic markets, or *missed market opportunities*, where there is strong export growth potential if Lao exporters improve their competitiveness and increase their market penetration.

Lao Large-Size Exports

Among large-size exports, refined copper, natural rubber, coal, maize, coffee, and some types of men's apparel have fast-growing Japanese markets where Lao exports have also expanded rapidly. In contrast, Lao exports have been sluggish in the fast-growing markets for certain types of men's clothing, namely, t-shirts. Exports have, however, expanded rapidly in several slow-growing or stagnant Japanese markets: men's suits, copper ore, and wood in the rough. Lao export growth of men's shirts and jerseys have been sluggish, as have been their markets in Japan.

Figure 2.3: Matching High-Growth Lao Exports with Dynamic Japanese Imports, 2007-2011



Lao Medium-Size Exports

Among medium-size exports, there have been numerous products where both Japanese imports and Lao exports have grown rapidly. They include plants used in perfumery, rice, buckwheat, essential oils, some types of women's clothes, cigarettes and unmanufactured tobacco, and ground nuts. Other fast-growing Japanese markets where Lao exporters would do well to increase their market shares are natural gums and certain types of clothing. Some Japanese markets, such as those for baby garments, fruit nuts, footwear and cabbage in which Lao exports have been fast growing, have been relatively sluggish.

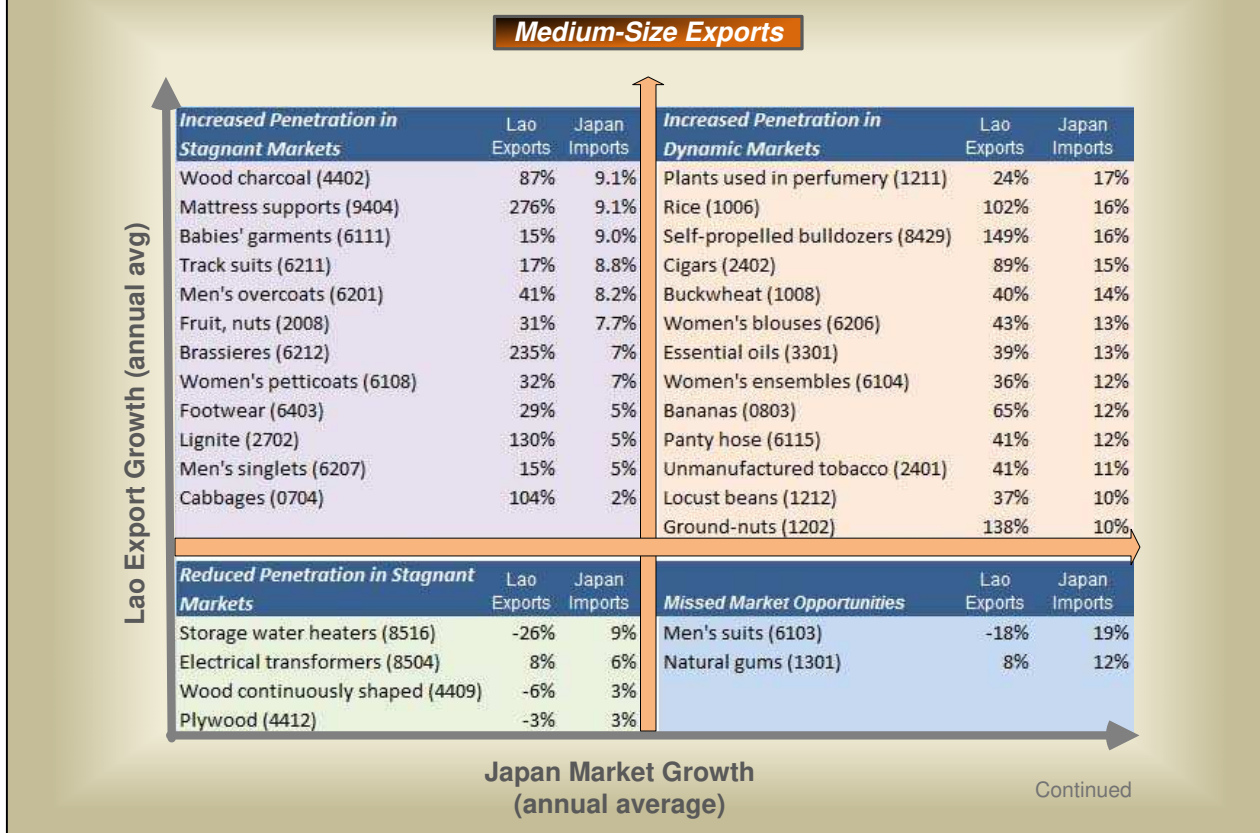
Lao Small-Size Exports

Among Lao's relatively smaller-size exports, there are many types of products with rapidly growing Japanese markets where Lao producers have increased their penetration in the global market and could also do the same in Japan. They range from ores and concentrates to vegetable products, copper waste and scrap, medicaments, and lead ores and concentrates. Some of the rapidly growing product markets in Japan where Lao exporters have lost market shares because of sluggish exports are women's overcoats, air or vacuum pumps and builders' joinery. In contrast, exports have grown rapidly in markets with relatively slow or stagnant Japanese markets, notably surveying equipment, vegetable saps and dried fruits.

Lao Emerging Exports

Some sectors like bed linens, cereal grains, valves for pipes, liquid pumps, dried beans and soybeans have strong growth markets in Japan, while other markets are mixed. In those markets without a clear sector-wide growth pattern, there exist strong markets for spices, cut flowers, and shawls. In various others like wood marquetry, embroidery and woven pile fabrics, the Japanese markets have either been stagnant or contracted.

Figure 2.4: Matching High-Growth Lao Exports with Dynamic Japanese Imports, 2007-2011 (continued)



2.3. Japan's Import Demand Prospects for Lao PDR's Top 10 Exports

2.3.1. Determinants of Foreign Market Demand

Japan's import demand for Lao exports can be described as a two-stage process:

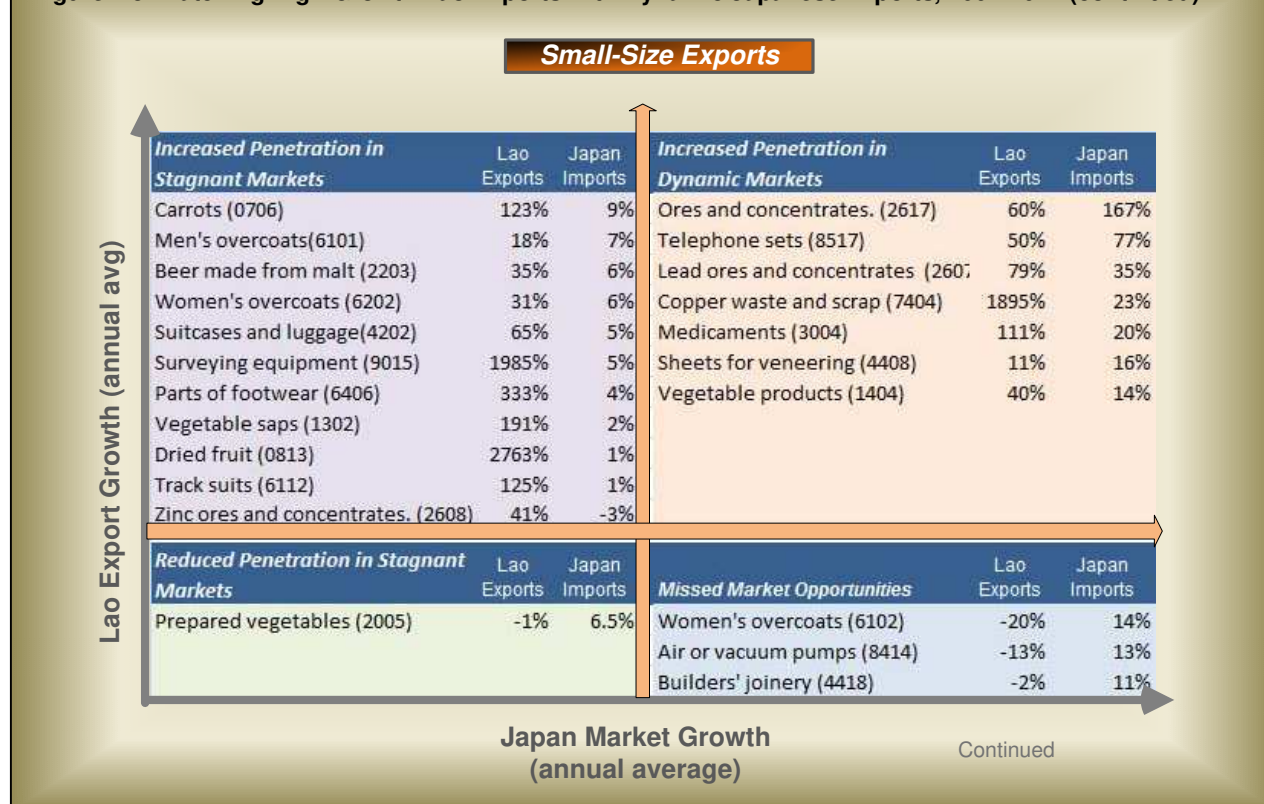
Stage 1: Japanese importers decide how much of a product they want to buy

Major domestic import demand determinants: overall import demand for products is driven by domestic income and economic activity (non-price factors) and prices of foreign goods relative to domestically sourced products.

Stage 2: Japanese importers decide from whom they want to buy the product

Major foreign export demand determinants: All other things being equal, Laos's exports would have a proportional response to Japan imports, that is, they would tend to grow by the same proportion as imports. However, the Lao PDR's price competitiveness depends on two factors: first, the price at which producers and exporters are able to sell their products relative to other suppliers; and, second, the real exchange rate of Laos relative to that of Japan, that is, the nominal exchange rate between the Lao kip and the Japanese yen, adjusted for the general price index of the two countries. Networking and business relationships also affect the extent to which Lao exporters are able to expand their activities in the Japanese market. These relationships are particularly important for doing

Figure 2.5: Matching High-Growth Lao Exports with Dynamic Japanese Imports, 2007-2011 (continued)



business in Asia, unlike Western business practices that are largely based on cost-based competitive procurement practices.

2.3.2. Trending Import Demand Prospects

In order to provide some indication of Japan's import demand prospects for Lao PDR's 10 major export categories, forecasts have been produced using time-series analysis.

Methodology – This approach essentially projects future movements in past patterns of change in trade, and deviations that have occurred from those patterns in the past.⁴ It is a useful alternative to 'structural models' of trade that explain trade based on price and non-price determinants described in the previous section when there is poor data, as is the case of trade volumes for Japan's imports of Lao PDR's major export products.⁵

Forecasts – Time series forecasts of Japan's import demand show a near-term expansion associated with year-on-year patterns of change. After a while, those import forecast tend to stabilize around their long-term growth of trade.

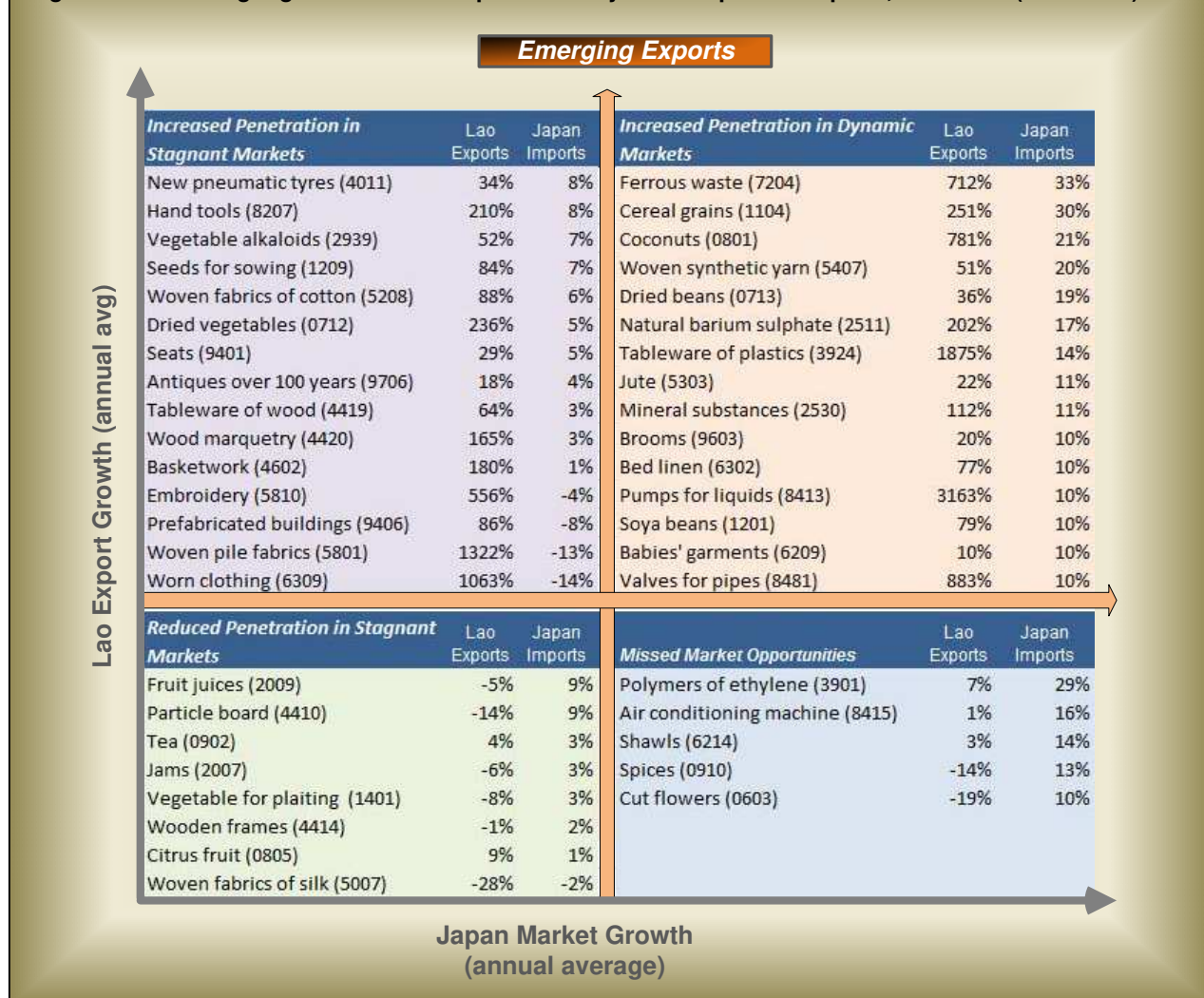
For each of the Lao PDR's 10 top exports, Japan's value of imports is expected to expand as follows:

Table 2.1: Japan's Import Demand of Lao PDR's Top Ten Export Categories, 1990-2020			
	Historical		Forecast
	1991-2000	2001-2011	2012-2020
Copper and articles thereof	-9%	17%	7%
Ores, slag and ash	-3%	18%	10%

Wood articles; wood charcoal	3%	0%	1%
Apparel and clothing	13%	4%	7%
Coffee and tea	9%	5%	7%
Cereals	1%	8%	5%
Rubber and articles thereof	3%	14%	9%
Oil seeds and oleaginous fruits	1%	5%	4%
Footwear	13%	5%	8%
Edible vegetables	11%	1%	5%

As expected, the fast growing imports that are projected for footwear, coffee and tea, ores and slag, rubber and articles thereof and copper and articles thereof are those products

Figure 2.6: Matching High-Growth Lao Exports with Dynamic Japanese Imports, 2007-2011 (continued)



that have had dynamic markets in the past, while those with slower projected growth rates like vegetables, oil seeds and wood articles have had historically slower rates of growth.

For the average of the 10 products, Japan's overall value of imports is projected to grow by 6% annually in 2012-20, in contrast to 4% in 1991-2000 and 7% in 2001-2011.

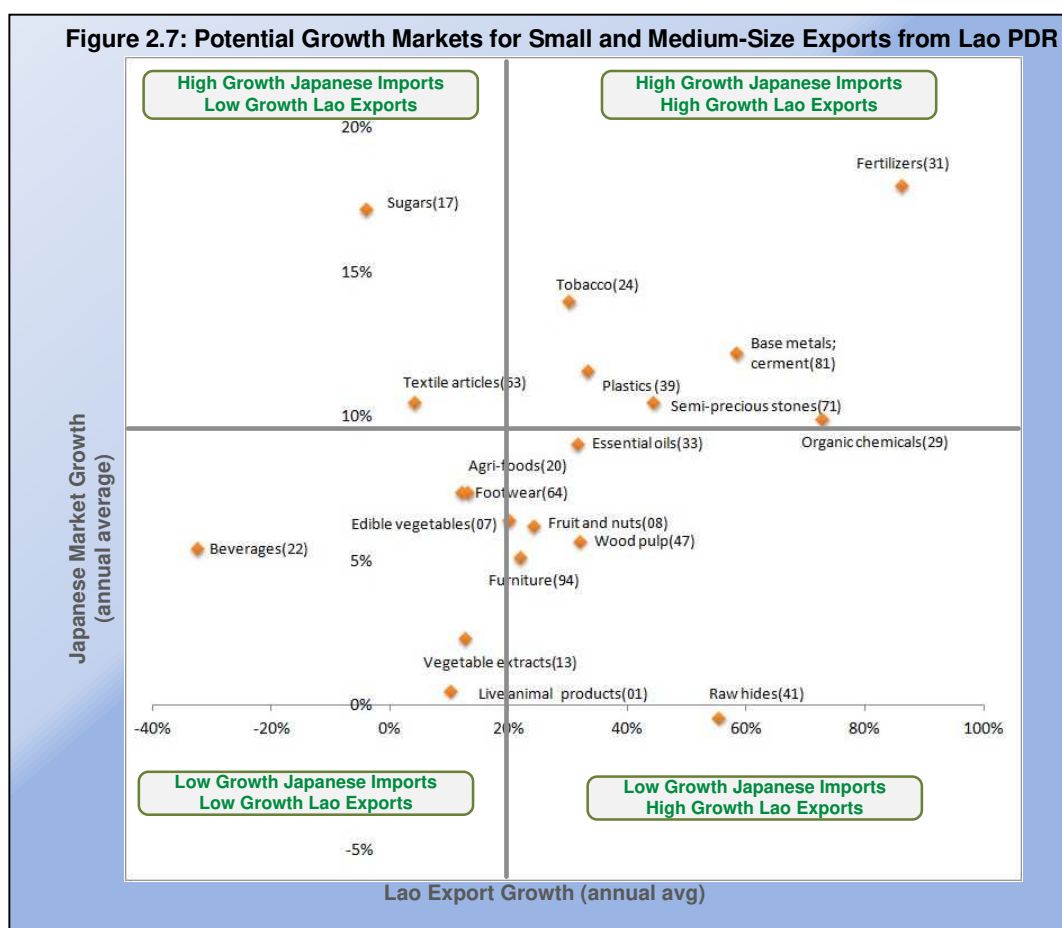
2.4. Potential Dynamic Markets for Small and Medium-Size Exports

Some of Lao PDR's small and medium-size exports are among Japan's fastest growing imports.⁶ Among the fastest growing ones are those in which Lao's own exports have been growing rapidly in the last five years (numbers in parenthesis refer to the HS code for the product group):

- ◆ Fertilizers (HS 31)
- ◆ Tobacco (HS 24)
- ◆ Plastics (HS 39)
- ◆ Semi-precious stones (HS 71)
- ◆ Based metals and cement (HS 81)
- ◆ Organic chemicals (HS 29)

Other fast growing imports in the Japanese market have not been matched by similarly fast-growing exports from Laos, so there are opportunities for a more export rapid expansion in the following products (see Figure 2.4):

- + Raw hides (HS 41)
- + Wood pulp (HS 47)
- + Essential oils (HS 33)
- + Furniture (S 94)



PART 3: Exporter's Guide to Japan's Market

3.1. How Lao Exporters Can Benefit from the AJCEP

There are five reasons why Lao exporters should take advantage of the AJCEP:

- (1) **Average tariff rates for non-preferential suppliers.** Japan's level of protection is nearly the same as the average of all other Asian economies. Its Most Favored Nation (MFN) Tariff Trade Restrictiveness Index (TTRI) in recent years has averaged 4.8%, which is in line with that of all East Asian countries. The MFN rate is the non-preferential rate applied to countries.⁷ As a member of ASEAN, Lao exporters can export to Japan under preferential rates and therefore have a substantial competitive advantage in selling their products to Japanese businesses at effectively lower prices.
- (2) **High tariff rates for agricultural products.** Japan's tariffs on agricultural products are very high, averaging 29% in recent years, compared with 8% in other East Asian countries. High MFN rates on those types of products give Lao exporters an especially large competitive advantage over non-preferential suppliers in selling their products to Japanese businesses.
- (3) **Japan is among the top countries with the most conducive environment for doing business.** For 2013, Japan ranks 8 among 185 countries in Ease of Doing Business.⁸ In trading across borders, it ranks number 15. It outperforms the average of all other industrialized economies in the time and cost of importing goods, as well as the number of documents needed to import goods.
- (4) **Japan's logistics environment is highly favorable to trading.** Japan substantially outperforms the average of other East Asian countries in the efficiency of customs procedures, quality of transport and IT infrastructure, logistics competence of officials, international transport costs, traceability of shipments, and timeliness of shipments. Its overall Logistics Performance Index (LPI) is 4.0 on a scale of 1 (low) to 5 (best). In comparison, the average LPI of all East Asian countries is 2.7. This favorable rating for Japan's logistics environment greatly facilitates the trade environment for Lao businesses.
- (5) **Japan is one of the fastest growing markets in Asia.** Two-way trade between Japan and ASEAN represents 15% portion of Japan's total trade.⁹ The Japanese leaders have expressed a strong commitment to supporting SMEs as major beneficiaries of the trade expansion, and they strongly support the facilitation of trade through the ASEAN-Japan Center, which has been active in organizing workshops for networking businesses between Laos and Japan. For example, in January 2013, in collaboration with the Ministry of Planning and Investment of the Government of the Lao PDR, it organized the "Laos Investment Seminars in Osaka and Saitama, Japan, to encourage Japanese investments to Laos."¹⁰ Additionally, the Laos-Japan Center in the National University of Laos (NUL) has pioneered training for business development and it offers an excellent channel for networking with Japanese businesses.¹¹

3.2. Steps for Using the AJCEP

Figure 3.1 shows the general steps to using Lao PDR's FTA with Japan under the AJCEP. Essentially, it involves (a) determining whether there are benefits to using the FTA, and (b) determining whether the product exports are eligible for FTA preferential rates.

Step 1: Establish the tariff classification of a good by determining the Harmonized System (HS) code of your product.

To determine your 6 or 8 digit HS code, visit the Lao Trade Portal at: <http://www.laotradeportal.gov.la/index.php?r=tradeInfo/index>. The HS code can be searched by entering a description of your product.

Step 2: *Step 3:* Check the tariff commitments for the good in the relevant tariff schedule

➡ See Section 3.3 on determining FTA benefits.

Step 3: Determine the Rules of Origin (ROO) applying to the good

➡ See Section 3.4 on determining eligibility for FTA preferential tariff rates.

Step 4: Obtain a Certificate of Origin.

For exporting to India as well as other countries that have a preferential tariff with the Lao PDR or with ASEAN you can obtain a Certificate of Origin from the Certificate of Origin Division of the Ministry of Industry and Commerce (MOIC).¹²

3.3. Key Elements for Laos of AJCEP

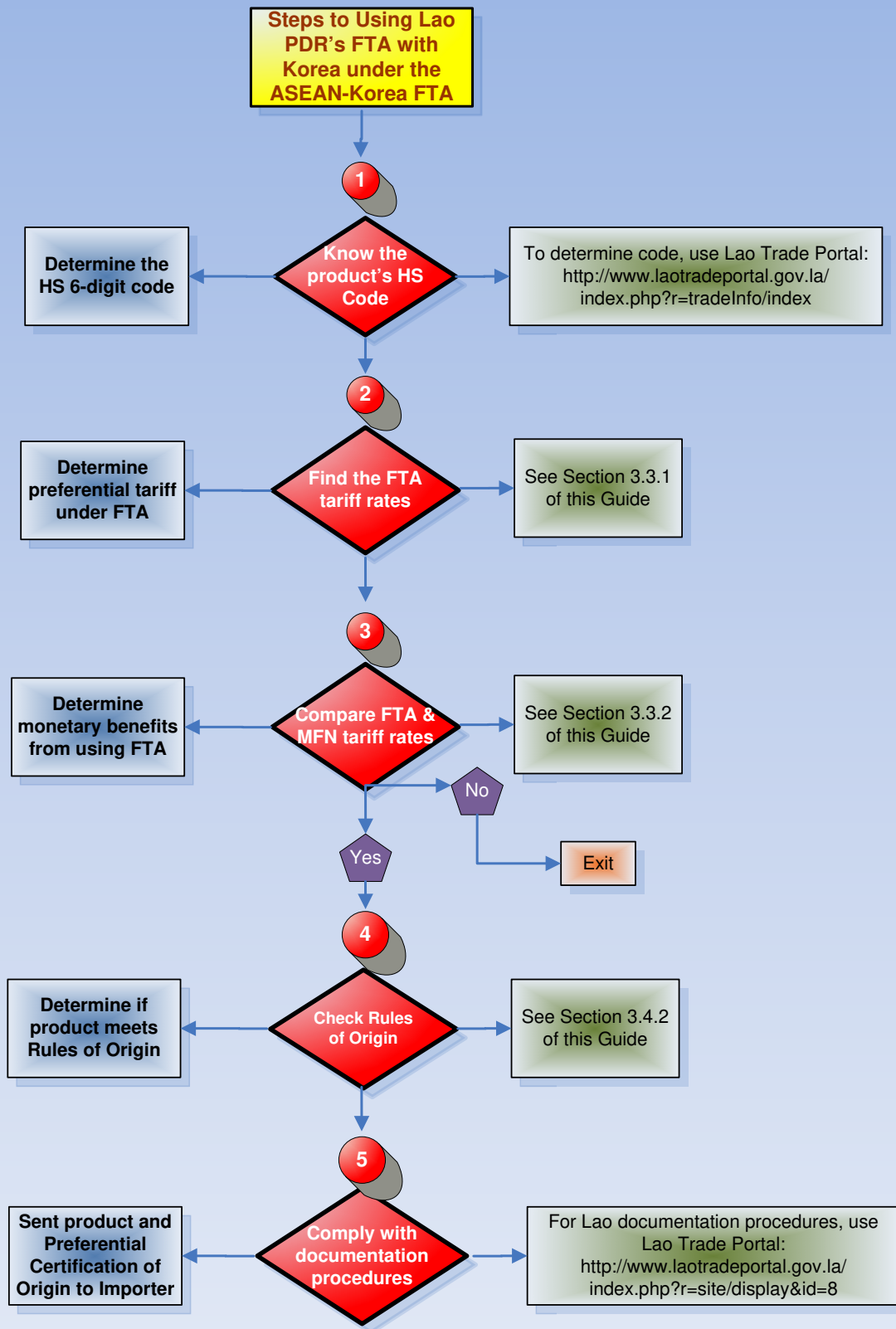
Tariff Reductions and Eliminations

Annex 1 of the APCEP contains the 'Schedule for the Elimination on Reduction of Customs Duties' for each ASEAN member state and for Japan.¹³ Businesses interested in exporting to Japan should refer to Part 12 of the annex for the Schedule for Japan. It is important to read the Notes for the Schedule for Japan before examining the schedule since it explains the meaning of the codes for each of the tariff lines. Businesses interested in importing from Japan should refer to Part 5 for the Schedule of the Lao PDR.

For imports into Japan, customs duties on specific products of goods originating from the Lao PDR and other ASEAN countries are being eliminated, based on the classification letter code given for the tariff line:

- (1) Code "A" – As of the date of entry into force of the Agreement;
- (2) Code "B5" – Eliminated in six (6) equal annual installments from the Base Rate as of the date of entry into force of the Agreement;
- (3) Code "B7" – Eliminated in eight (8) equal annual installments from the Base Rate as of the date of entry into force of the Agreement;
- (4) Code "B10" – Eliminated in eleven (11) equal annual installments from the Base Rate as of the date of entry into force of the Agreement;
- (5) Code "B15" – Eliminated in sixteen (16) equal annual installments from the Base Rate as of the date of entry into force of the Agreement;
- (6) Code "C" – Customs duties remain at the Base Rate as from the date of entry into force of this Agreement;
- (7) Code "R" – Customs duties indicated as "R" are reduced in accordance with the terms and conditions set out in the note indicated in Column 5 in the Schedule of Japan, in Section 2 of Annex 1; and

Figure 3.1: General Steps in Using Lao PDR's FTA with Japan



- (8) Code “X” – The originating goods classified under the tariff lines indicated with “X” are excluded from any tariff commitment referred to in sub-paragraph (a) through (g) in the Schedule of Japan under Annex 1 of the APCEP.

There are also several other codes that refer to reductions in tariff lines to specific rates rather than the elimination of the duty.

The next section illustrates how to calculate AJCEP rate applicable to a given Lao export in a particular year.

Illustration of Benefits for Lao PDR's Top Exports

For some of Lao PDR's top export products, Table 3.1 illustrates the difference between the tariff cost for non-preferential exports to Japan and those under the increasing preferential rates in 2013-2019. Leading export products that have not been included in the example below are those that have zero non-preferential tariff rates and therefore do not represent useful case studies. They include products under the category of chemical, mineral and rubber products.

In almost all cases, the Japanese import tariff rate was eliminated immediately after the signing of the APCEP and they therefore have an “A” code in the schedule. For example, coffee, which has an MFN tariff of 12%, has an APCEP preferential tariff rate of 0% that went into effect immediately after the signing of the Agreement in 2008. The only exception in the products illustrated below is the case of footwear. It has a “B10” code for its preferential rate, which means that the duty is being eliminated in eleven (11) equal annual installments from the base rate of 21.6% as of the date of entry into force of the Agreement. That implies a duty reduction of 1.96 percentage points each year between 2008 and 2019, when the tariff rate is completely eliminated.

3.4. Requirements for Receiving Preferential Market Access

Compliance with Rules of Origin: Chapter 3 of the AJFTA establishes compliance with the Rules of Origin (ROO) for a product to be given preferential tariff treatment. It prevents goods from outside the ASEAN-Japan region from having access to FTA benefits.

Origin Criteria

The Origin criterion says that a Lao good is originating and eligible for preferential tariff treatment if it meets any one of the following:

- (1) A good is wholly obtained or produced entirely in Laos, as set out and defined in Article 25; or
- (2) A good is not wholly obtained or produced in the territory of Laos, provided that the good is eligible under Article 26.

Wholly Obtained or Produced Goods

Certain types of products may be considered to be wholly obtained or produced in the territory of Laos. Among the product types mentioned in Article 25 that are of interest to Laos are minerals, plants and harvested plant products, and products obtained from live animals.

Table 3.1: Difference between Preferential and Non-Preferential Tariffs in ASEAN–Japan FTA for Lao PDR's Selected Top Export Products

Lao Exports of US\$ 100,000 to Japan									
Item		If Exporter Does Not Comply with APCEP	Category (refers to letter code)	If Exporter Does Complies with APCEP					
				2013		2016		2019	
HS Code	Description			Preferential Rate	Savings	Preferential Rate	Savings	Preferential Rate	Savings
VEGETABLE PRODUCTS									
070410	Cabbages , kohlrabi, kale fresh/chilled	3% applied tariff = \$3,000	A	0% applied tariff = \$0.0	\$ 3,000	0% applied tariff = \$0.0	\$ 3,000	0% applied tariff = \$0.0	\$ 3,000
090111	Coffee, not roasted	12% applied tariff = \$12,000	A	0% applied tariff = \$0.0	\$12,000	0% applied tariff = \$0.0	\$ 12,000	0% applied tariff = \$0.0	\$ 12,000
100590	Maize (corn), other than seed	0% applied tariff = \$0.0	A	0% applied tariff = \$0.0	\$ -	0% applied tariff = \$0.0	\$ -	0% applied tariff = \$0.0	\$ -
121299	Locust beans	10.5% applied tariff = \$10,500	A	0% applied tariff = \$0.0	\$10,000	0% applied tariff = \$0.0	\$ 10,000	0% applied tariff = \$0.0	\$ 10,000
ARTICLES OF WOOD									
440729	Wood sawn/chipped lengthwise	6% applied tariff = \$6,000	A	0% applied tariff = \$0.0	\$ 6,000	0% applied tariff = \$0.0	\$ 6,000	0% applied tariff = \$0.0	\$ 6,000
440799	Wood, sawn/chipped lengthwise	6% applied tariff = \$6,000	A	0% applied tariff = \$0.0	\$ 6,000	0% applied tariff = \$0.0	\$ 6,000	0% applied tariff = \$0.0	\$ 6,000
440929	Wood continuously shaped	3.7% applied tariff = \$3,700	A	0% applied tariff = \$0.0	\$ 3,700	0% applied tariff = \$0.0	\$ 3,700	0% applied tariff = \$0.0	\$ 3,700
TEXTILES AND TEXTILE ARTICLES									
610510	Men's/boys' shirts of cotton	10.9% applied tariff = \$10,900	A	0% applied tariff = \$0.0	\$10,900	0% applied tariff = \$0.0	\$ 10,900	0% applied tariff = \$0.0	\$ 10,900
610711	Men's/boys' underpants of cotton	7.4% applied tariff = \$7,400	A	0% applied tariff = \$0.0	\$ 7,400	0% applied tariff = \$0.0	\$ 7,400	0% applied tariff = \$0.0	\$ 7,400
610910	T-shirts, singlets of cotton	10.9% applied tariff = \$10,900	A	0% applied tariff = \$0.0	\$10,900	0% applied tariff = \$0.0	\$ 10,900	0% applied tariff = \$0.0	\$ 10,900
611020	Jerseys, pullovers, cardigans of cotton	10.9% applied tariff = \$10,900	A	0% applied tariff = \$0.0	\$10,900	0% applied tariff = \$0.0	\$ 10,900	0% applied tariff = \$0.0	\$ 10,900
611030	Jerseys, pullovers of man-made fibres	10.9% applied tariff = \$10,900	A	0% applied tariff = \$0.0	\$10,900	0% applied tariff = \$0.0	\$ 10,900	0% applied tariff = \$0.0	\$ 10,900
620343	Men's/boys' trousers, of synthetic fibres	12.8% applied tariff = \$12,800	A	0% applied tariff = \$0.0	\$12,800	0% applied tariff = \$0.0	\$ 12,800	0% applied tariff = \$0.0	\$ 12,800
620520	Men's/boys' shirts of cotton	7.4% applied tariff = \$7,400	A	0% applied tariff = \$0.0	\$ 7,400	0% applied tariff = \$0.0	\$ 7,400	0% applied tariff = \$0.0	\$ 7,400
621133	Track suits of man-made fibres	9.1% applied tariff = \$9,100	A	0% applied tariff = \$0.0	\$ 9,100	0% applied tariff = \$0.0	\$ 9,100	0% applied tariff = \$0.0	\$ 9,100
BASE METALS AND OTHER PRODUCTS									
640399	Footwear without outer soles of leather	21.6% applied tariff = \$21,600	B10	11.8% applied tariff = \$11,800	\$ 9,800	5.9% applied tariff = \$5,900	\$ 15,700	0% applied tariff = \$0.0	\$21,600
740200	Unrefined copper	3% applied tariff = \$3,000	A	0% applied tariff = \$0.0	\$ 3,000	0% applied tariff = \$0.0	\$ 3,000	0% applied tariff = \$0.0	\$ 3,000
740311	Cathodes of refined copper, unwrought	3% applied tariff = \$3,000	A	0% applied tariff = \$0.0	\$ 3,000	0% applied tariff = \$0.0	\$ 3,000	0% applied tariff = \$0.0	\$ 3,000
811292	Germanium, vanadium, gallium	2.5% applied tariff = \$2,500	A	0% applied tariff = \$0.0	\$ 2,500	0% applied tariff = \$0.0	\$ 2,500	0% applied tariff = \$0.0	\$ 2,500

Not Wholly Obtained or Produced Goods

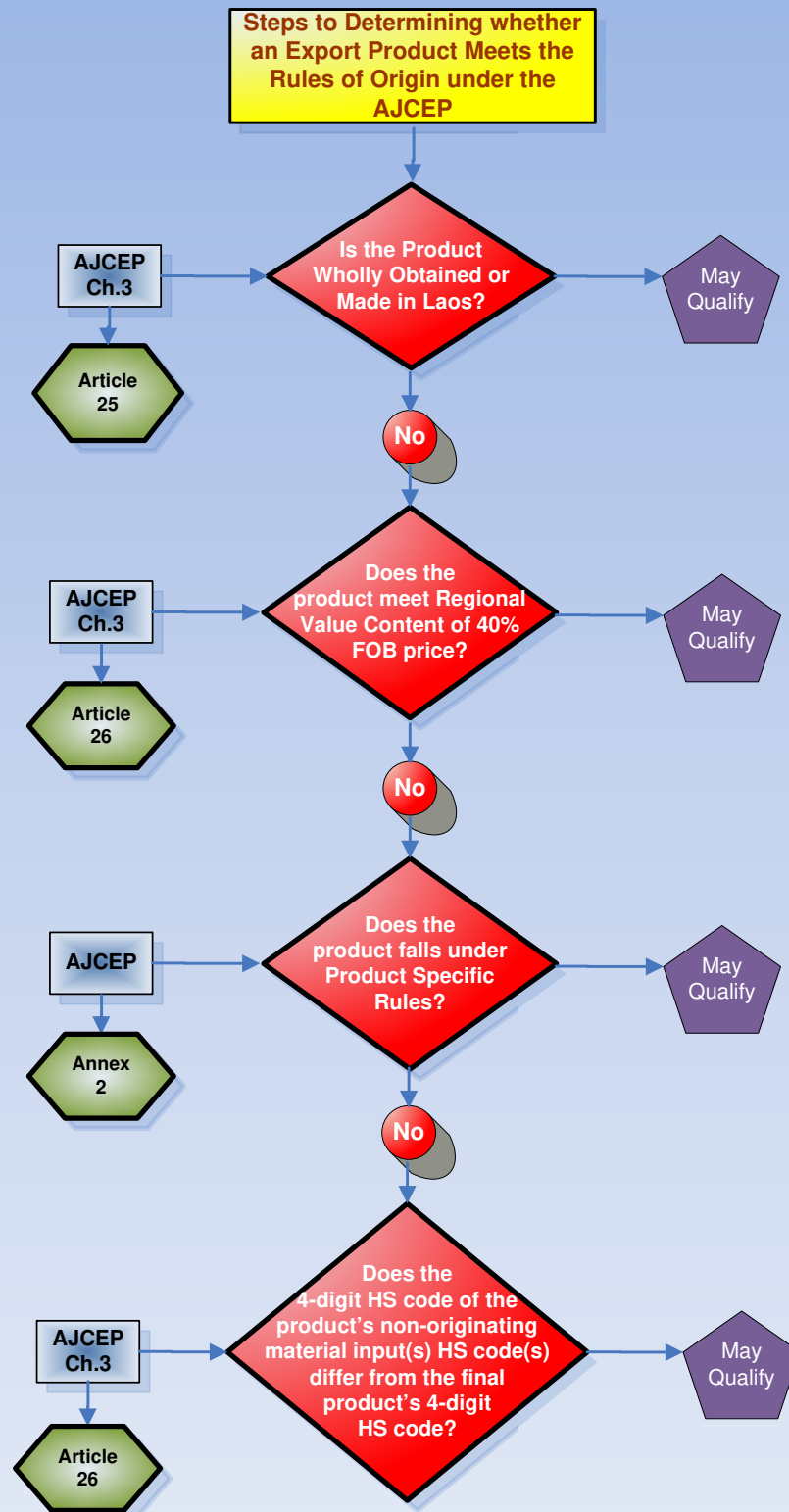
In cases where a good is not wholly obtained or produced in Laos, Article 26 provides that the good may nevertheless be considered to originate from Laos if either of the following conditions applies:

- (1) The *Regional Value Content (RVC)* is at least 40%; or
- (2) There is a change in the tariff classification at the four digit-level of the Harmonized System (HS).

Regional Value Content (RVC) – There is a single formula for calculating the RVC (Article 27):

Let RVC = Regional Value Content
 FOB = Free on Board value of the good
 VOM = Value of Originating Materials of the good
 VNM = Value of Non-Originating Materials of the good

Figure 3.2: Steps to Determining Rules of Origin Eligibility



Then for purposes of calculating the RVC for a good, the following formula applies:

$$RVC = \frac{FOB - VNM}{FOB}$$

Example: In order to calculate the regional value-content of good, a Lao producer first calculates the net cost of the good. The net cost is the total cost of the good (the aggregate of the product costs) per unit, minus the excluded costs (the aggregate of shipping and insurance costs and other non-allowable interest costs) per unit. The producer uses the following figures to calculate the net cost:

Product costs per unit:

<i>Value of originating materials</i>	\$	30.00
<i>Value of non-originating materials</i>	\$	40.00
<i>Other product costs</i>	\$	30.00
<i>Total cost of Good per unit:</i>	\$	<u>100.00</u>

Excluded costs:

<i>Shipping and packing costs</i>	\$	9.00
<i>Other non-allowable costs</i>	\$	<u>3.00</u>
<i>Total excluded costs:</i>	\$	<u>12.00</u>

The net cost is the total cost of Good A, per unit, minus the excluded costs.

<i>Total cost of Good per unit:</i>	\$	100.00
<i>Excluded costs:</i>	\$	(12.00)
<i>Net cost of Good A per unit:</i>	\$	<u>88.00</u>

The FOB value and the value of non-originating materials (\$40) are needed in order to calculate the regional value content (RVC). The producer calculates the RVC of the good in the following manner:

$$\begin{aligned} RVC &= (FOB - VNM)/FOB \\ &= (88 - 40)/88 \\ &= 54.5\% \end{aligned}$$

Therefore the product qualifies as originating since its regional value-content (RVC) of 54.5% exceeds the 40% minimum required to qualify for preferential treatment.

Rule 5: Product Specific Rules

A good subject to product specific rules can qualify as an originating good if it satisfies the applicable product specific rules set out in Annex 2. Each product listed is classified under one of the following categories:

- *Classification "CC"* denotes a change to the chapter, heading or subheading from any other chapter. This means that all non-originating materials used in the production of the good have undergone a change in tariff classification at the 2-digit level (i.e. a change in chapter) of Harmonized System (HS);

- *Classification “CTH”* denotes a change to the chapter, heading or subheading from any other heading. This means that all non-originating materials used in the production of the good have undergone a change in tariff classification at the 4-digit level (i.e. a change in heading) of HS; and
- *Classification “CTSH”* denotes a change to the chapter, heading or subheading from any other subheading. This means that all non-originating materials used in the production of the good have undergone a change in tariff classification at the 6-digit level (i.e. a change in subheading) of HS.

Accumulation

A good originating in the territory of Laos that is used in the territory of another ASEAN country as material for a finished good eligible for preferential tariff treatment is considered to be originating in the territory of the other country where working or processing of the finished good has taken place.

3.5. Export Compliance Requirements

The requirements for exporting Lao PDR-originating product are described in detail in the **Lao Trade Portal** at <http://www.laotradeportal.gov.la>. The following is a brief outline of those requirements. Details and helpful resources are available online on the Lao Trade Portal.

Registration

Export should register with the *Ministry of Industry and Commerce, Enterprise Registration Division*.

Export License

Some products require an export license from the *Ministry of Industry and Commerce, Department of Import and Export (DIMEX)*. The license can be either automatic or non-automatic. Rules about licensing are governed by *Notification No. 0076*

Certificate of Origin

A *Certificate of Origin* for Japan can be obtained from the *Ministry of Industry and Commerce, Certificate of Origin Division*.

Sanitary and Phytosanitary Requirements

For those products subject to sanitary and phytosanitary (SPS) measures, a permit can be obtained from the *Ministry of Agriculture and Forestry*, either from the *Livestock Department* or from the *Plant Quarantine* department depending on what products are to be exported.

Lao PDR has established an *SPS Enquiry Point* as required by the WTO *SPS Agreement*. Questions can be directed at the *SPS Enquiry Point* on any issue about sanitary and phytosanitary requirements. Details of the *SPS Enquiry Point* are available on the Lao Trade Portal website at <http://www.laotradeportal.gov.la>.

Technical Requirements

For certain types of products it may be necessary to obtain a permit that certifies that these products conform to certain technical standards. These technical regulations are administered by the *Ministry of Science and Technology*.

Lao PDR has established a *TBT Enquiry Point* as required by the *WTO SPS Agreement*. Questions regarding technical standards can be directed at the *TBT Enquiry Point*. Details on the *TBT Enquiry Point* are available on the *Lao Trade Portal* website at <http://www.laotradeportal.gov.la>.

Export Declaration

All goods exported from Laos must be declared to Customs. A declaration is made by submitting a duly completed and signed ACDD Form together with the following minimum supporting documents:

- A commercial invoice or contract of sale document from the supplier of the goods
- Transport documents such as Bill of Lading or Air Way Bill
- Packing List (if available)

Payment of Duties

Once a declaration has been submitted and accepted by Customs, payments must be made for any applicable duties.

Duty Exemption for Exports

The Government of the Lao PDR encourages exports of certain types of products, including most agricultural products, products derived from natural resources, and manufactured products. Those types of products are exempt from the payment of Customs duties. Where export duty is payable, information can be obtained from the *Department of Customs* or from the *Department of Import and Export (DIMEX)* of the *Ministry of Industry and Commerce*.

PART 4: How to Expand Exports to Japan

4.1. SWOT Analysis for Lao Exports to Japanese Preferential Markets

The Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis in Figure 4.1 show that *lack of awareness* is the primary factor preventing Lao exporters from making greater use of the AJCEP. Other limitations, such as lack of sufficient Export Quality Infrastructure (EQI), are being remedied. These EQI issues involve import standards and certification of products, competence of laboratories related to export, and accreditation of laboratories.¹⁴

The SWOT analysis emphasizes that the *strengths* of Lao exporters offer large *opportunities* for exporters of all sizes, including SMEs, to realize the opportunities that currently exist in the Japanese markets. Some of the key opportunities are as follows:

- Expanding and diversifying exports into high-growth markets in Japan.
- Increasing export competitiveness by invoking preferential tariffs, thereby reducing costs to importers and expanding demand for exports from Laos.
- Filling domestic supply gaps of Japanese producers in agriculture and natural resources that are abundant in Laos.
- Facilitating SME networking in focal sectors of high interest to Japanese importers, thereby ensuring their sustained growth in the Lao economy.
- Proactively supporting Lao exports to Japan through the institutionalization of training programs to facilitate processing of export documents, instituting best practices in production, distribution and marketing products destined for Japanese markets, and linking producers to high value chains in Japanese markets.

Figure 4.1: Strengths, Weaknesses, Opportunities and Threats (SWOT) for Lao PDR's Exports to Japan

	Supply Chain Structure and Functioning	Japanese Market	Small and Medium-Size Enterprises	Institutional Framework
Strengths	<ul style="list-style-type: none"> • Wide range of natural resources and agricultural products that form part of Japanese supply chains. • Laos has a comparative advantage in terms of distance to Japanese market relative to other agricultural and resource rich countries. 	<ul style="list-style-type: none"> • Japanese demand for quality agri-food products and natural resources is growing rapidly. • Sourcing from non-Japanese producers is outpacing domestic sourcing. • Japanese non-preferential tariffs in agriculture and textiles are high, so Laos has a large competitive advantage in supplying these types of products to those markets. 	<ul style="list-style-type: none"> • The ASEAN-Japanese FTA provides special treatment for SMEs. • Strengthening of domestic SPS measures is greatly facilitating agi-food exports by SMEs. • Lao SMEs are competitive in handicrafts and garments. • Rapid economic growth is helping proliferation of SME numbers. 	<ul style="list-style-type: none"> • Accessing domestic or foreign government support and information is relatively easy and accessible to all, for example, identification of proper access channels to FTA tariff schedules, FTA rules and trade regulations, and documentation requirements. • Lao Trade Portal facilitates SME access to procedures to export to Japan under preferential arrangements. • SMEPDO is implementing business networks and exchange of best practices for SMEs to access foreign markets like those in Japan.

(Continued)

Figure 4.1: Strengths, Weaknesses, Opportunities and Threats (SWOT) for Lao PDR's Exports to Japan
(Continued)

	Supply Chain Structure and Functioning	Japanese Market	Small and Medium-Size Enterprises	Institutional Framework
Weaknesses	<ul style="list-style-type: none"> • Laos lacks sufficient Export Quality Infrastructure (EQI) to meet Japanese quality standards. • Impediments for Japanese markets are (i) import standards and certification of products, (ii) competence of laboratories related to export, (iii) accreditation of laboratories, metrology and inspection. 	<ul style="list-style-type: none"> • Large competitions from ASEAN-6 countries (Indonesia, Thailand, Malaysia, Singapore, Philippines and Vietnam). • ASEAN-6 countries have faster track for implementing tariff preferences in normal and sensitive products in ASEAN-Japanese FTA. • Lao producers lack awareness of ASEAN-Japanese FTA, for example, how to read and interpret FTA provisions. 	<ul style="list-style-type: none"> • Relatively few SMEs meet Japanese product standards. • SME lack access to information technology (IT) needed to compete in Japanese markets. • SMEs lack sufficient technical and skilled labor in supply chains of importance to Japan. • SMEs have low perception about benefits of Japanese preferential market access. 	<ul style="list-style-type: none"> • Lao Chamber of Industry and Commerce (LNCCI) lacks support mechanisms for helping Lao exporters to improve to Japanese preferential market. • Trade financing is lacking in Laos, partly because of insufficient IT supporting risk mitigation that would otherwise lower risk premiums of exporters. • Complex and differing rules of origin make it difficult for SMEs to complete export documentation. • Large number of documentation requirements and time need to complete them reduce incentives for businesses, especially those involved in SME activities.
Opportunities	<ul style="list-style-type: none"> • Opportunity to impact growth and employment from upstream and downstream linkages. • Building of sustainable exporter groups can provide leading sectors with continuous supplies. • Opportunity to add value to agricultural products. 	<ul style="list-style-type: none"> • Opportunity to expand and diversify markets from the currently narrow focus on the ASEAN market. • Direct exports of agricultural products to Japanese specialized companies and supermarket chains. • Organic food ingredients and food products are one of the fastest growing segments of the food Japanese market. 	<ul style="list-style-type: none"> • Implementation of outreach programs for Lao SMEs to use ASEAN-Japan FTA, similar to existing programs for SMEs to use Japan-USA FTA. • Target export sectors having high SME participatory rates: handicrafts, agri-foods, wood processing, garments, footwear, and machinery parts. 	<ul style="list-style-type: none"> • Design programs to apply of best practice methods in production, logistics and marketing Lao exports to Japan and other preferential markets. • Implement support programs to assist businesses certify that goods destined for Japan meet Rules of Origin requirements. • Establish outreach programs to target sectors with high Koran market potential. • SMEPDO and LNCCI to support businesses networks with Japanese importers and businesses, including field visits.
Threats	<ul style="list-style-type: none"> • Other ASEAN countries, especially those with faster tracks than Laos, could accelerate growth of products that compete with key Lao exports. • High logistics cost due to inadequate infrastructure. 	<ul style="list-style-type: none"> • Japanese importers focus on suppliers from other ASEAN countries having a faster tariff reduction track than Laos. • Japanese product standards out of reach of Lao producers due to insufficient or inadequate Export Quality Infrastructure (EQI). 	<ul style="list-style-type: none"> • Lao SMEs are not given access to outreach and special training programs on ASEAN-Japanese FTA. • Lao SMEs continue to lack access to IT and sufficient technical and skilled labor. 	<ul style="list-style-type: none"> • Lack of funding for programs to support Lao exporters to Japan and other preferential markets. • Lack of export financing leads to high export risks, which in turn lowers incentives to target Japanese markets. • Lack of sustainability of Lao Trade Portal after project contract is completed. • Lack of sufficient interest in business networking.

4.2. Five Ways to Benefit from AJCEP

Channel 1: Preferential Pricing for Japanese Importers

Lao businesses can take advantage of cost-cutting measures from the AJCEP. The cost structure of Japanese industries is, in part, reflected in the price of raw materials and intermediate goods imported by the industries. Since imports from Laos are cheaper for Japanese importers than they are from non-preferential supply sources, this cost advantage can greatly increase the demand of Japanese industries for Lao exports.

Channel 2: Focus on High Growth Markets

The Lao PDR has an abundance of natural resources that are essential to Japanese industries, and it also produces a number of products that have dynamic markets in Japan. They include garments and apparel, refined minerals and mineral ores, wood products, footwear, fresh and processed agricultural products, nuts, cereals, and furniture. With this knowledge, Lao businesses can take full advantage of the favorable business environment offered by the AJCEP.

Channel 3: Networking among SMEs

Lao businesses can develop networking systems within domestic industries and with overseas distributors and companies to strengthen their presence in Japanese markets. In agri-foods, for example, supermarkets now dominate food supply chains in Asia and are rapidly expanding their global presence. At the same time, international mergers and acquisitions and aggressive pricing strategies have concentrated market power in the hands of a few major retailers. That type of industry structure means that Lao businesses can focus their production and marketing activities on a relatively few Japanese buyers.

Channel 4: Improve Export Quality Infrastructure

Access to overseas markets like the ones in Japan is generally subject to stringent production standards. For example, in agri-foods, there are supply chain standards worldwide for Good Agricultural Practice (GAP), and other types of certification that are now prerequisite for doing business in Japan and other markets. Similarly, standards exist for clothing and footwear produced for multinationals operating in Japan. The benefits from bringing Export Quality Infrastructure (EQI) in line with those international standards are considerable, as are the economy-wide impact that would be produced from additional employment and expenditures on downstream and supporting industries.

Channel 5: Strengthen Institutional Support Mechanisms

Lao businesses can benefit from several types of institutional mechanisms:

- ✓ Information systems such as the Lao Trade Portal.
- ✓ Japanese agencies promoting trade with ASEAN countries in support of the FTA.
- ✓ Domestic institutions helping to facilitate best practices for production, distribution and marketing to overseas buyers in Japan and elsewhere.
- ✓ SME clusters that facilitate logistics and possibly strengthen access to trade financing.

Figure 4.2 below summarizes these opportunities for Lao exporters to the Japanese market under the type of competitive analysis that is useful for businesses when developing a strategy and action plan for their business plans.

Figure 4.2: Competitive Analysis of Lao PDR Exporters in Japanese Market

	Strengths	Weaknesses
Pricing Conditions	<ul style="list-style-type: none"> ■ Proximity of upstream activities. ■ Abundance of natural resources for basic agricultural and processing activities. ■ FTA cost-reducing preferences enhance price-competitiveness. ■ Wide range of opportunities to increased pre-export processing. 	<ul style="list-style-type: none"> ■ SMEs lack access to export financing. ■ High logistics costs for individual businesses. ■ Cost of meeting Japann health product standards and controls.
Demand Conditions	<ul style="list-style-type: none"> ■ Increasing use of Japann-consistent product standards. ■ Experience in marketing and distribution in ASEAN regional market. ■ Strong Japann demand for types of products produced in Laos. 	<ul style="list-style-type: none"> ■ Inconsistent quality standards for export market. ■ Regulations difficult to access for SMEs. ■ Japann consumer preferences differ from those of ASEAN consumers. ■ Lack cutting edge knowhow or sophistication for export markets.
Industry Networking	<ul style="list-style-type: none"> ■ SMEs have ample opportunities to network and develop scale economies through clusters ■ Strong supporting relationships and relationships among Lao businesses. 	<ul style="list-style-type: none"> ■ Lacking cluster development and collaboration with overseas networks. ■ Weak linkages to shipping, logistics, warehousing, software, banking and finance.
Conditions for Conducting Business	<ul style="list-style-type: none"> ■ Increasingly transparent business environment. ■ Clusters disseminate information about business regulations. 	<ul style="list-style-type: none"> ■ Price-based competition for similar products from other ASEAN countries in Japann market. ■ Lack of attention to design and manufacturing processes. ■ Weak product design feedback loop.

PART 5: Useful Resources

5.1. Contacts and Resources

ASEAN-Japan Centre

Description: Their website is Japan's official ASEAN promotion center for trade, investment and tourism. It contains information about the Centre's exhibitions of ASEAN products, seminars and workshops, dispatch and invitation of missions, and publication and information services, including statistics. It has a directory of experts that Lao businesses can contact about specific information on topics ranging from product suitability for the Japanese market to inspectors available for factory visits. There is detailed information on import procedures for ASEAN products, and a series of marketing guides for specific sectors like food and beverages, furniture, health and wellness, and interior furnishings for households.

Site: <http://www.asean.or.jp/en>

Customs Department of Ministry of Finance

Description: Information on customs duties and border regulations, along with legislation and customs regime, and tariff nomenclature.

Site: <http://customs.gov.la>

Lao National Chamber of Commerce and Industry (LNCCI)

Description: LNCCI represents the business community in Lao PDR. It has more over 1000 members represented through Chambers of Commerce in 13 provinces and business associations and groups. Its mandate is to identify problems and concerns of members and make sure that they are presented to the government.

Site: www.laocci.com

Contact: Kayson phomvihane Ave., Ban Phonphanao, Saysettha District, Vientiane Capital, Lao PDR, P.O.Box: 4596, Tel: (+856 - 21) 453 312; Fax: (+856 - 21) 452 580. Email: lncci@laopdr.com

Lao Trade Portal

Description: Their website is a single stop point for all information relating to export from Laos, along with imports into the country.

Site: www.laotradeportal.gov.la

Contact: Department of Import and Export, Ministry of Industry and Commerce. Phonexay Road, Ban Phonexay, Saysettha District, PO Box 4107, Vientiane Capital, Lao PDR. Tel: +856 21 454 224; Fax: +856 21 454 224. Email: enquiries@laotradeportal.gov.la

Ministry of Agriculture

Description: For exports of agricultural products, producers and exporters can obtain the relevant permits and sanitary and phytosanitary certificates from the following departments: (a) Department of Agriculture; and (b) Department of Livestock and Fisheries.

Site: www.maf.gov.la

Ministry of Industry and Commerce

Description: Provides comprehensive information on all aspects of trade and industrial activity in Laos, with links to contacts in the key department for exporters:

- Import and Export Department

- Inspection Department
- Industry and Handicraft Department
- Production and Trade Promotion Department
- SME Department.

Site: www.moc.gov.la

Contacts: Phonexay Road, Ban Phonexay, Saysettha District, PO Box 4107, Vientiane Capital, Lao PDR. Tel: +856 21 454 224; Fax: +856 21 454 224.

Ministry of Science and Technology

Description: For exports that must meet certain technical standards, this Ministry issues the necessary certificates or permits required to import or export products which are subject to certain technical standards.

Site: <http://www.most.gov.la/>

National Portal of Lao PDR

Description: The site has extensive information on all government agencies, legislation, e-services, and the business sector.

Site: www.laopdr.gov.la/

SPS-TBT Inquiry Point

Description: A comprehensive site providing answers on technical requirements and SPS-related measures for products sold in their countries.

Site: <http://www.laotradeportal.gov.la/index.php?r=site/displayb&id=103#Top>

Contact: Department of Planning, Division of Agriculture and Forestry Ministry of Agriculture and Forestry, P.O.Box 811 Vientiane, Lao PDR, Tel: +856 21 415363; Fax: +856 21 412343. Email: spsenquiries@laotradeportal.gov.la

SMEPDO: National Small and Medium Sized Enterprise Office

Description: The principal office promoting Lao SMEs.

Site: <http://www.smepdo.org>

Contact: Nong Bone Rd, Xaysettha District, Ban Fai Area, Vientiane Capital, Lao PDR, P.O.Box 474, Tel.: +856 21 414064, +856 21 263590, Fax: +856 21 263591, E-mail: info@smepdo.org.

5.2. Glossary of Terms

Term	Acronym	Description
Accumulation	-	Provision that allows, when determining the origin of a good, for the consideration of inputs as originating provides that they come from another country that participates in the free trade zone.
ASEAN Japan Comprehensive Economic Partnership	AJECP	ASEAN member states and Japan signed the AJCEP Agreement on 14 April 2008.
Ad Valorem Tariff	AVT	A tariff rate charged as percentage of the price.
Applied Tariff/Applied Rate	-	Duties that are actually charged on imports. These can be below the bound rates.

Term	Acronym	Description
Association of Southeast Asian Nations	ASEAN	Comprises of 10 member States. Nine ASEAN members are members of the WTO - Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.
Certificate of Origin (C/O)	C/O	A document used in international trade. It is a printed form, completed by the exporter or its agent and certified by an issuing body, attesting that the goods in a particular export shipment have been wholly produced, manufactured or processed in a particular country
Change in Tariff Classification(CTC)	CTC	Criteria used in the determination of origin that stipulates the change in the tariff nomenclature that an imported input must undergo when incorporated into a final good so that the final good may acquire originating status. The change in tariff classification can be at Chapter level (first two digits of the tariff nomenclature), Heading level (first four digits of the tariff nomenclature), or Sub-heading level (first six digits of the tariff nomenclature).
Change in Tariff Heading (CTH)	CTH	Refers to the processing and manufacturing operations of non-originating materials carried out in the area of one side and resulting in a product of different four-digit tariff heading under the 'Product Description and Harmonized System Codes'
Cost in freight (CIF)	CIF	Refers to the value of the good imported and include the cost of freight and insurance up to the port or place of entry into the country of importation.
Department of Import and Export (DIMEX)	DIMEX	Within the Ministry of Industry and Commerce (MOIC), the department is responsible for issuing import and export licenses for all products that require them, along with the issuance of Certificates of Origin for countries that are part of a preferential trade agreement.
Export Quality Infrastructure (EQI)	EQI	Covers all export-related fields of metrology, standardization and testing, of quality management and conformity assessment, including certification and accreditation. In the past, the abbreviation MSTQ (Metrology, Standardization, Testing and Quality Assurance) was used for this combination of single elements.
Free on Board	FOB	Indicates the price for goods including delivery at seller's expense to a specified point.
Free Trade Agreement (FTA)	FTA	Trade within the group is duty free but members set their own tariffs on imports from non-

Term	Acronym	Description
		members (e.g. ASEAN).
Good Agricultural Practice (GAP)	GAP	A set of principles to apply for on-farm production and post-production processes, resulting in safe and healthy food and non-food agricultural products, while taking into account economic, social and environmental sustainability.
Harmonized System (HS)	HS	An international nomenclature developed by the World Customs Organization, which is arranged in six-digit codes allowing all participating countries to classify traded goods on common basis. Beyond the six-digit level, countries are free to introduce national distinctions for tariffs and many other purposes.
Harmonized System 6-digit	HS 6-digit	The World Customs Organization's Harmonized System (HS) uses code numbers to define products. A code with a low number of digits defines broad categories of products; additional digits indicate sub-divisions into more detailed definitions. Six- digit codes are the most detailed definitions that are used as standard. Countries can add more digits for their own coding to subdivide the definitions further according to their own needs. Products defined at the most detailed level are "tariff lines".
Most Favored Nation (MFN)	MFN	Most-favored-nation treatment (GATT Article I, GATS Article II and TRIPS Article 4), the principle of non-discriminating between one's trading partners.
Most Favored Nation Tariff	MFN Tariff	Normal non-discriminatory tariff charged on imports (excludes preferential tariffs under free trade agreements and other schemes or tariffs charged inside quotas).
Non-Originating Good	-	A good of material that does not qualify as originating according to the established Origin Regime.
Non-Tariff Barrier to Trade	NTB	Quotas, import licensing systems, sanitary regulations, prohibitions, and other non-tariff trade impediments.
Originating Good	-	A good that, by virtue of fulfilling the requirements of the Origin Regime is considered originating in the country in which its production process has been carried out, regardless of whether imported inputs were used in its production.

Term	Acronym	Description
Preferential Tariff	-	A tariff rate extended to partner countries who have signed Free Trade Agreements(FTA) with each other. This means that customs duties for selected imported goods that originated from the FTA partner countries are lower or totally eliminated.
Regional Value Content (RVC)	RVC	Refers to the total value of raw materials, component parts, labor costs and product development costs exclusively incurred in one side being greater than or equal to an agreed percentage of the FOB value of the exporting goods, and that the final manufacturing or processing operations should be completed in area of that side.
Rules of Origin (ROO)	ROO	Laws, regulations and administrative procedures, which determine a product's country of origin. A decision by customs on whether a shipment falls within a quota limitation, qualifies for a tariff preference or is affected by an anti-dumping duty.
Sanitary and Phytosanitary (SPS)	SPS	Refers to measures taken to protect public health within their borders so long as they do so in a manner that restricts trade as little as possible
Sensitive List	-	A list containing each country's sensitive products.
Sensitive Products	-	Products that would have smaller tariff cuts than from the products in the Normal Track.
Tariff Line	-	A product as defined in lists of tariff rates. Products can be sub-divided, the level of detail reflected in the number of digits in the Harmonized System (HS) code use to identify the product.
Tariff Trade Restrictiveness Index (TTRI)	TTRI	Refers to the uniform tariff which, if applied to all goods, would yield the same welfare level as the existing tariff structure.
Tariffs	-	Customs duties on merchandise imports. Levied either on an ad valorem basis (percentage of value) or on a specific basis (e.g. \$7 per 100 kgs). Tariffs give advantage to similar locally - produced goods and raise revenues for the government.
Trade Facilitation	-	Process that eliminates obstacles to movement of goods across borders (e.g. simplification of customs procedures).
Transaction Value	-	Customs value of an imported good computed on the basis of the price actually paid or payable for it at the time it was exported.

Term	Acronym	Description
Value of Non-Originating Materials	VNM	The that are acquired and used by the producer in the production of good; VNM does not include the value of a material that is self-produced.
Wholly Obtained	-	A good that contains no imported inputs and that has been wholly produced or obtained within a country participating in a free trade area.

ANNEX: The ASEAN-Japan Free Trade Agreement

The complete *Agreement on Trade in Goods under the Framework Agreement on Comprehensive Economic Co-operation among the Governments of the Member Countries of the Association of South East Asian Nations and the Republic of Japan* is available online at the following site:

<http://www.laotradeportal.gov.la/index.php?r=site/display&id=82>

APPENDIX: Japan-Lao Trade in Lao Leading Exports

A. TOP 35 LAO EXPORTS TO JAPAN (Value and Volume)

HS Code	Description	Value (US dollars)					Quantity (Weight in kilograms)				
		2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
090111	Coffee, not roasted, not decaffeinated	279761	1253639	3240500	5660701	28336989	112399	441544	1259537	1723499	6426720
640399	Other footwear without outer soles of leather, not covering the ankle	1309847	1184797	3468393	6063350	6369780	73841	79507	211075	347953	343616
620530	Men's or boys' shirts of man-made fibres	349034	1868690	2335481	2296582	3914588	17128	79026	94451	94571	136076
440290	Wood charcoal whether/not agglomerated.	651461	1321949	1988659	2512401	3712721	1025000	1566000	2302000	2889000	3489000
611596	Other n.e.s. in 61.15, knitted/crocheted, of synthetic fibres.	474927	919283	1542682	1612962	2241080	44300	100259	78573	47888	56842
620520	Men's or boys' shirts of cotton	686344	966385	885544	1654858	2115959	33106	36202	32248	59642	58692
620343	Men's or boys' trousers, shorts of synthetic fibres	31190	130806	519815	797715	1748219	494	9994	26080	45729	61826
440929	Wood continuously shaped along any of its edges	2656142	2916809	2582634	1454961	1729318	1461755	1278728	1031209	688889	1043926
620312	Men's or boys' suits of synthetic fibres	0	0	0	0	1697607	0	0	0	0	40255
121299	Locust beans&sugar cane of a kind used primarily for human consumed	0	38699	88094	173044	1574659	0	5000	11600	20200	90100
640391	Other footwear without outer soles of leather, covering the ankle	42778	68822	186670	992346	1571557	1802	3775	5793	57985	73128
940490	Other articles of bedding & similar furnishing fitted with cellular rubber or plastics	199607	1173855	1953814	1765732	1569937	7938	20441	34926	35761	35045
640610	Uppers & parts thereof whether/not attached to soles other than outer soles	0	0	1102257	164294	1523256	0	0	43245	7891	57338
630790	Other made-up textile articles, incl. dress patterns	32833	106256	583793	1471740	1327079	1301	5547	52239	71869	55710
620413	Women's or girls' suits (excl. knitted/crocheted), of synthetic fibres		79726	297293	622318	1220971	0	4321	11880	18320	30364
440710	Wood sawn or chipped length wise of a thickness >6mm, coniferous	1738975	1426987	382975	645939	1008078	3526219	2450887	629667	1315656	1910607
440729	Wood sawn/chipped lengthwise, sliced/peeled of tropical wood	466896	758693	527993	217213	923659	0	586176	347366	163709	720435
121190	Plants & parts of plants used primarily in perfumery or pharmacy	180447	7185	0	669080	544917	112500	6332	0	299637	211766
640299	Other footwear with outer soles & uppers of rubber/plastics	67826	86245	1458436	17875	399099	6453	9552	78462	1080	22288
630221	Bed linen (excl. knitted/crocheted), printed, of cotton	18199	77678	262362	746281	374937	1114	4237	11152	24970	12425
420292	Trunks, suit-cases with outer surface of plastic sheeting or textile materials	5156	41799	15734	12302	356074	29	162	208	255	26033
280469	Silicon, containing by weight <99.99% of silicon	0	403032	0	302558	302499	0	160000	0	120000	120000
620463	Women's or girls', trousers, shorts of synthetic fibres	9708	56315	164869	158743	282192	54	2998	6640	4741	8846
380210	Activated carbon	0	67364	0	77818	256785	0	66000	0	66000	197520
620640	Women's or girls' blouses, shirts of man-made fibres	0	0	0	209674	253797	0	0	0	4554	4511
620342	Men's or boys' trousers, shorts of cotton	137303	208581	253584	168429	195562	3340	5742	7684	3349	2805
442190	Articles of wood	508509	285341	186069	196996	177918	247920	111023	78401	118821	79961
610510	Men's or boys' shirts, knitted/crocheted, of cotton	25958	116445	93903	53467	145504	932	3278	2695	1024	2428
940390	Parts of the furniture	0	10131	24406	41930	142025	0	2545	4769	2246	28845
621142	Track suits excluded knitted/crocheted of cotton	3139	7958	12669	54392	109900	76	54	264	741	1341
440799	Wood sawn or chipped lengthwise, sliced or peeled	38575	208919	124729	62924	72739	0	211444	102208	66094	74851
630231	Bed linen excluded knitted or crocheted of cotton	0	17461	0	22399	72513	0	878	0	1678	5027
620333	Men's or boys' jackets of synthetic fibres	0	0	0	0	64903	0	0	0	0	1593
640291	Other footwear with outer soles & uppers of rubber/plastics, covering the ankle.	34696	33648	0	0	50146	3285	5249	0	0	4284
620462	Women's or girls', trousers, shorts of cotton	46624	48714	76207	80080	47132	844	852	2230	1195	724

B. JAPAN IMPORTS FROM ALL COUNTRIES (of Top 35 Lao Exports to Japan)

HS Code	Description	Value (US dollars)					Quantity (Weight in kilograms)				
		2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
090111	Coffee, not roasted, not decaffeinated	998,314,602	1,176,758,050	1,079,223,892	1,323,614,785	1,953,043,297	389,140,014	386,631,886	390,025,239	409,385,609	415,634,862
640399	Other footwear without outer soles of leather, not covering the ankle	592,244,179	582,554,263	521,699,556	586,943,639	694,211,377	21,743,872	18,667,995	16,636,230	19,870,658	20,365,882
620530	Men's or boys' shirts of man-made fibres	237,050,228	238,731,086	225,539,118	235,510,277	334,452,871	15,012,315	13,523,258	12,478,177	12,509,232	14,628,196
440290	Wood charcoal whether/not agglomerated.	79,693,041	92,755,208	107,055,295	108,569,982	120,004,373	135,658,331	141,211,469	147,032,000	150,715,183	150,189,612
611596	Other n.e.s. in 61.15, knitted/crocheted, of synthetic fibres.	238,084,380	295,598,874	309,748,495	368,974,950	507,947,795	20,036,175	22,321,700	22,670,528	25,182,473	30,701,298
620520	Men's or boys' shirts of cotton	595,566,535	593,994,076	577,155,423	609,414,175	799,497,924	25,297,055	23,084,978	22,324,541	22,104,552	24,034,017
620343	Men's or boys' trousers, shorts of synthetic fibres	421,876,694	469,102,001	470,904,534	475,999,405	743,012,061	26,066,865	25,053,758	23,577,697	22,776,074	31,240,019
440929	Wood continuously shaped along any of its edges	220,402,537	199,143,731	156,505,613	194,082,905	244,428,377	117,992,298	95,388,501	72,851,870	90,575,806	99,722,491
620312	Men's or boys' suits of synthetic fibres	50,340,141	117,502,383	132,210,627	135,478,799	178,839,948	1,724,022	3,834,501	4,237,623	4,291,267	4,792,685
121299	Locust beans&sugar cane of a kind used primarily for human consumed	21,945,077	24,418,045	26,620,360	33,847,461	41,584,945	6,622,149	6,716,041	6,619,955	7,008,114	7,161,667
640391	Other footwear without outer soles of leather, covering the ankle	223,579,737	259,803,938	276,515,032	347,988,854	412,369,390	7,017,112	7,575,500	8,319,595	10,496,488	10,917,074
940490	Other articles of bedding & similar furnishing fitted with cellular rubber or plastics	714,951,072	762,794,317	785,998,825	853,535,018	1,105,631,928	118,419,388	116,318,355	119,793,447	125,452,096	139,166,340
640610	Uppers & parts thereof whether/not attached to soles other than outer soles	223,078,137	218,859,904	182,188,027	177,711,493	203,880,232	8,198,039	7,080,337	5,582,941	5,118,088	5,569,554
630790	Other made-up textile articles, incl. dress patterns	651,277,172	838,684,892	1,572,878,093	990,626,003	1,109,022,208	73,278,883	85,577,005	139,010,522	92,186,802	97,243,244
620413	Women's or girls' suits (excl. knitted/crocheted), of synthetic fibres	57,576,178	66,663,939	56,333,361	56,742,760	62,742,565	2,241,464	2,236,700	1,847,903	1,743,471	1,675,636
440710	Wood sawn or chipped length wise of a thickness >6mm, coniferous	2,324,005,388	2,089,889,822	1,697,864,439	2,099,781,004	2,450,289,968	4,712,517,176	3,589,438,758	2,791,538,566	4,276,859,769	4,644,026,231
440729	Wood sawn/chipped lengthwise, sliced/peeled of tropical wood	83,101,549	72,986,090	50,916,128	43,774,176	54,205,964	-	56,390,073	33,497,624	32,991,647	42,279,515
121190	Plants & parts of plants used primarily in perfumery or pharmacy	105,006,459	128,924,193	131,471,601	147,322,417	200,467,146	27,827,982	28,372,267	25,387,195	26,623,407	30,024,882
640299	Other footwear with outer soles & uppers of rubber/plastics	1,297,859,540	1,410,847,231	1,420,574,529	1,457,251,188	1,589,144,111	117,323,417	115,903,921	112,139,962	112,647,002	110,918,693
630221	Bed linen (excl. knitted/crocheted), printed, of cotton	60,816,567	58,664,179	57,255,776	57,919,184	64,486,124	8,697,842	7,487,239	7,188,882	6,824,028	5,423,383
420292	Trunks, suit-cases with outer surface of plastic sheeting or textile materials	1,994,737,042	2,195,069,094	2,087,253,688	2,208,176,662	2,408,577,289	119,397,720	116,864,172	110,520,028	119,317,814	119,788,173
280469	Silicon, containing by weight <99.99% of silicon	392,600,834	620,982,521	327,693,061	545,202,264	680,849,602	252,025,086	240,682,910	146,979,856	214,993,005	228,710,943
620463	Women's or girls', trousers, shorts of synthetic fibres	310,049,432	320,662,673	322,517,493	332,811,878	475,790,069	15,827,704	14,693,486	14,073,571	13,305,650	16,752,729
380210	Activated carbon	109,861,266	132,270,767	135,545,095	145,407,673	196,387,664	92,402,360	90,187,504	84,579,063	84,125,830	98,849,990
620640	Women's or girls' blouses, shirts of man-made fibres	237,596,223	280,821,132	267,011,701	335,491,337	528,474,421	7,601,769	7,913,887	7,178,272	8,476,708	11,604,960
620342	Men's or boys' trousers, shorts of cotton	683,386,158	711,246,252	729,010,181	767,420,188	987,336,830	36,646,022	35,345,318	36,687,314	35,203,444	36,527,148
442190	Articles of wood	603,589,795	571,815,505	537,075,240	567,755,633	685,039,399	336,367,996	281,530,252	261,742,327	271,129,132	294,549,430
610510	Men's or boys' shirts, knitted/crocheted, of cotton	282,094,318	297,320,987	260,787,918	273,704,860	322,214,475	13,016,784	13,082,597	10,712,493	10,716,347	10,537,429
940390	Parts of the furniture	514,249,692	508,700,096	438,003,809	457,910,256	522,475,133	176,818,215	163,858,624	147,336,446	148,943,064	157,224,459
621142	Track suits excluded knitted/crocheted of cotton	131,252,308	169,357,809	174,634,855	198,428,531	191,939,336	7,635,875	8,139,516	7,918,526	8,309,332	6,609,711
440799	Wood sawn or chipped lengthwise, sliced or peeled	139,407,162	115,618,598	79,935,099	86,132,432	111,115,164	-	117,016,073	65,502,384	90,471,946	114,341,189
630231	Bed linen excluded knitted or crocheted of cotton	129,799,841	131,720,172	119,184,337	139,823,911	161,123,658	19,694,941	18,292,598	16,079,691	16,605,860	13,993,562
620333	Men's or boys' jackets of synthetic fibres	61,180,142	68,167,812	70,275,250	69,176,999	83,040,248	1,895,350	1,810,956	1,952,688	1,745,041	1,865,458
640291	Other footwear with outer soles & uppers of rubber/plastics, covering the ankle.	248,241,082	302,243,163	359,264,130	402,151,378	407,969,174	20,180,106	22,063,514	26,782,227	28,533,864	26,526,930
620462	Women's or girls', trousers, shorts of cotton	1,150,590,498	1,150,512,680	1,150,605,150	1,135,423,648	1,307,783,407	59,630,156	55,964,099	57,881,400	51,137,076	46,010,206

¹ The Framework Agreement for Comprehensive Economic Partnership (CEP) between the Association of Southeast Asian Nations and Japan was signed in Bali, Indonesia, on 8 October 2003. Subsequently, the ASEAN Japan Comprehensive Economic Partnership (AJCEP) was signed after 11 rounds of negotiation over a period of four years. Ministers of ASEAN Member States and Japan then completed the signing of the AJCEP Agreement on 14 April 2008.

² The *trade compatibility index* measures the similarity between Lao's exported products and products imported by Japan. The index approaches zero when Lao exports none of what the Japan imports, and it approaches unity when the exports share of product *i* of Lao is identical to the import share of that product by the Japan. The index of compatibility is usually between 0.50 and 0.60 for trade between industrialized countries, and it averages about 0.20 for trade between developing countries.

³ The methodology was developed by the United Nations Economic Commission for Latin America (ECLAC) and applied to its Competitiveness Analysis of Nations (TradeCAN) software. Available: http://extop-workflow.worldbank.org/extop/ecommerce/catalog/product?context=drilldown&item_id=893378

⁴ The analysis is based on an Auto-Regressive Integrated Moving Average (ARIMA) model, using EViews software to estimate the equations for each product.

⁵ Volume data for imports of Japan's imports for the products were found to be unreliable at the HS 6-digit level needed to estimate structural equations.

⁶ Lao's small and medium-size exports are defined as those products whose average annual value of exports in the last five years (2007-2011) averaged between US\$1 million and US\$ 10 million. These product groups are defined at the 2-digit HS level.

⁷ Data from World Bank, "World Trade Indicators". Available: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:22421950~pagePK:148956~piPK:216618~theSitePK:239071,00.html>.

⁸ Data from International Finance Corporation, "Doing Business". Available: www.doingbusiness.org.

⁹ Two-way trade is calculated as the sum of Japan's exports *plus* imports to/from ASEAN divided by Japan's total exports *plus* imports to all countries of the world.

¹⁰ For details, see http://www.investlaos.gov.la/show_encontent.php?contID=60.

¹¹ For information, see http://japancenter.jica.go.jp/country/laos/laos_e.html.

¹² For all other countries, Certificates of Origin are issued by the Lao National Chamber of Commerce.

¹³ Annex 1 of the APCEP is available at <http://www.mofa.go.jp/policy/economy/fta/asean/agreement.html>.

¹⁴ A recent analysis of the situation for Lao businesses is available from GIZ, "Enterprise Survey 2011". Vientiane, November 2012.