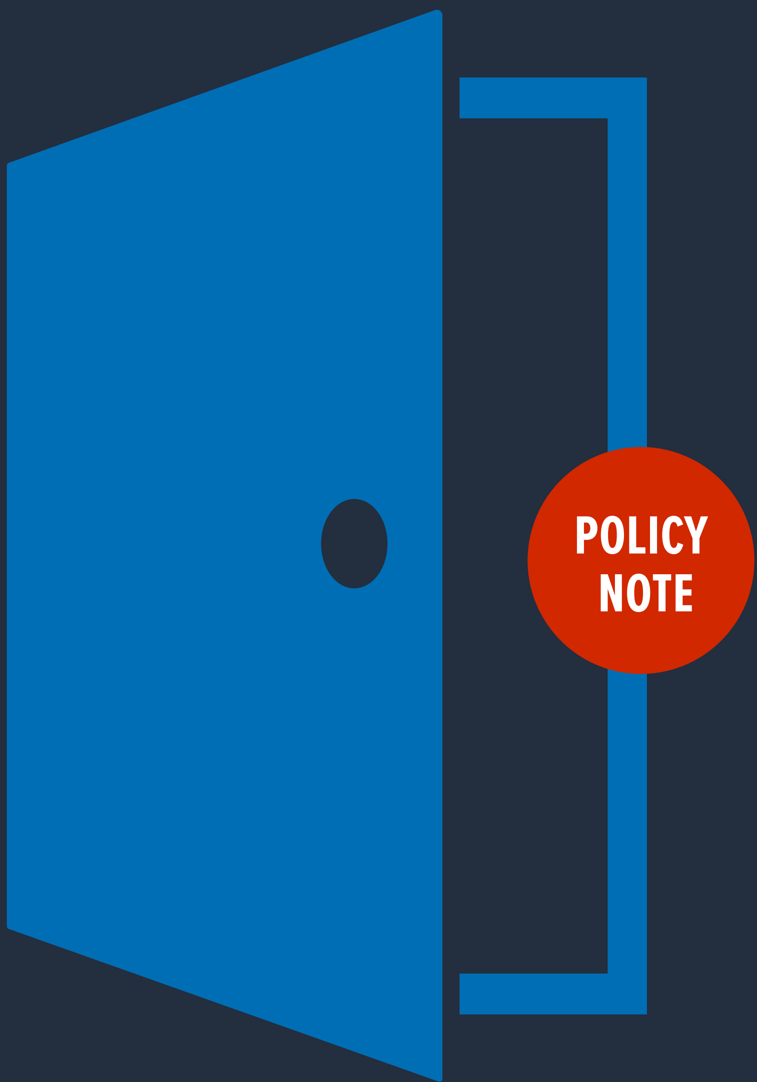


LDC GRADUATION FOR LAO PDR

Based on *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*

1.0 INTRODUCTION

Lao People's Democratic Republic (PDR) joined the list of the least developed countries (LDCs) in 1971.[1] In 2018, for the first time, it met the criteria to 'graduate' from the list, as affirmed by the global Triennial Review that year and subsequently in 2021. In February 2021, the United Nations Committee for Development Policy recommended Lao PDR for graduation with an extended five-year preparatory period. The decision reflected the severe and ongoing impact of COVID-19. Graduation is expected in 2026.[2]

In 2020, the United Nations Department of Economic and Social Affairs published an ex-ante assessment of the impacts of graduation on Lao PDR. The report concluded that a large share of exports will continue to be duty-free under existing bilateral and regional trade agreements or most-favoured-nation (MFN) treatment and will therefore not be affected by graduation.[3] The most significant impacts are expected on exports to the European Union.[4]

The report further concluded that graduation would have limited impacts on development cooperation. It is not expected to affect assistance by the World Bank or most United Nations system entities, as most official development assistance (ODA) is received from members of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC)[5] or via South-South cooperation. Graduation may result in less favourable terms on concessional loans from Japan and the Republic of Korea; a gradual shift from grants to soft loans by Germany; loss of access to the Least Developed Countries Fund (LDCF), the United Nations Technology Bank for Least Developed Countries and the United Nations Capital Development Fund (UNCDF) Investment Support Programme for LDCs; and a reduction in resources for country-specific activities or a requirement for higher cost-sharing by a very small number of United Nations system entities.[6]

Building on the assessment, the Government is currently developing an LDC graduation Smooth Transition Strategy.[7] The framework includes broad policies and actions on macroeconomic stability and financial sustainability, trade and investments, human capital development and structural economic transformation, and climate change disaster management.

THE NOTE AIMS TO STIMULATE DIALOGUE AND ENRICH THE SMOOTH TRANSITION STRATEGY PROCESS WITH ADDITIONAL EVIDENCE, ANALYSIS AND RECOMMENDATIONS

This summary policy note on LDC graduation for Lao PDR draws on data and analysis from a regional policy paper, *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*, published by the UNDP Bangkok Regional Hub in 2022.[8] The note complements the ex-ante graduation assessment and provides additional data and in-depth analysis, particularly on trade preferences and access to development financing. The note aims to stimulate dialogue with relevant government stakeholders and thereby enrich the Smooth Transition Strategy process with additional evidence, analysis and recommendations.

2.0 KEY FINDINGS AND ANALYSIS

2.0 KEY FINDINGS AND ANALYSIS

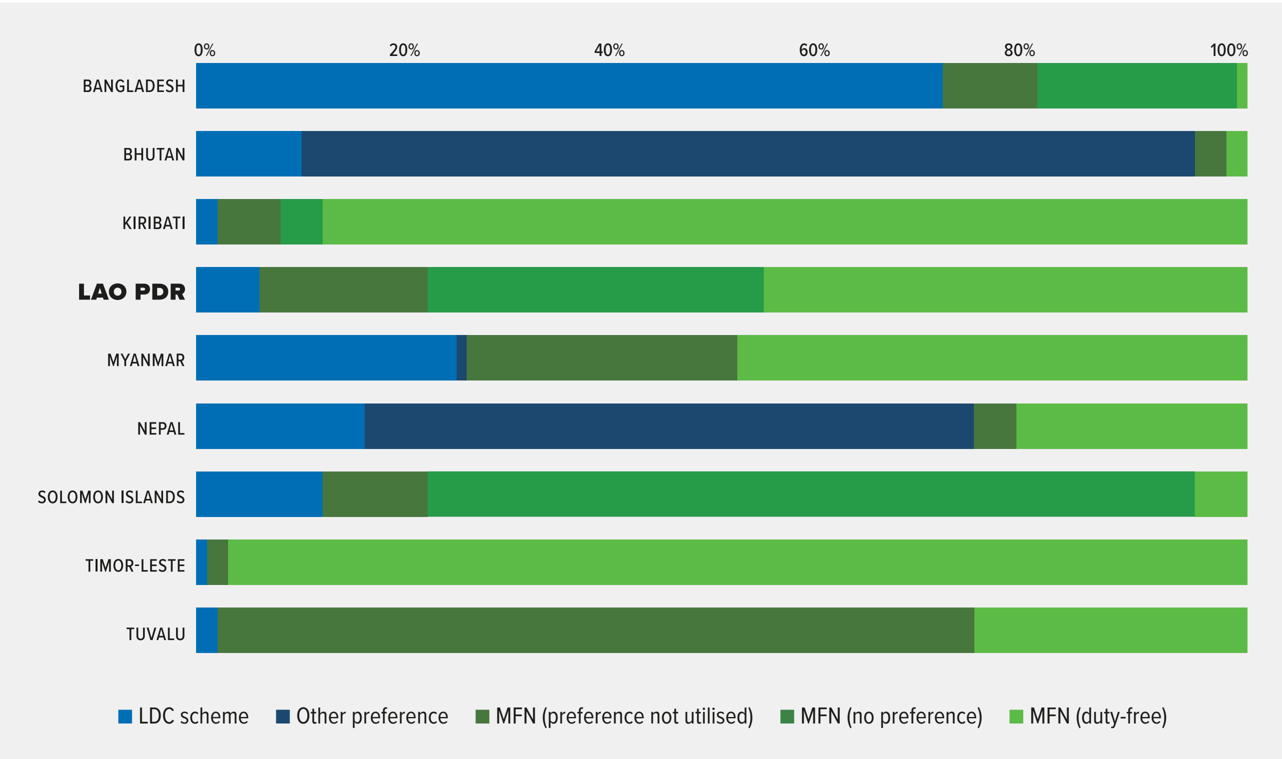
2.1 IMPACT ON LAO PDR'S TRADE POTENTIAL

The following section summarizes data, information and analysis from the regional policy paper.[9] In recent years, Lao PDR has shown robust export performance, exceeding $6 billion in 2020. It has a fairly diversified export basket. Major product categories include minerals (37.3 percent), agricultural products (17.2 percent), metals (8.6 percent), chemicals (8.3 percent), electronic appliances (7.4 percent), wood and wooden products (6.4 percent), precious stones (5.3 percent) and clothing (3.7 percent) (see Appendix 1). Electrical energy accounted for 22.8 percent of exports in 2019.

Thailand is the single largest export destination, accounting for more than 40 percent of exports from Lao PDR, followed by China at 21 percent and the European Union at 3.7 percent. In terms of service exports, Lao PDR accounts for 2.4 percent of the total global LDC share and has seen a sharp increase in earnings from $204.2 million in 2015 to $1.2 billion in 2019, similar to the regional trend observed for other LDCs in Asia and the Pacific. Travel services comprise more than a third of LDC services exports in the region. Due to the border closures and lockdown measures of the COVID-19 pandemic, these countries, including Lao PDR, experienced an absolute decline in services exports in 2020.[10]

FIGURE 1: Asia and the Pacific LDC export products by country and duty type

Source: Razzaque, Mohammad A. 2022. *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*. Bangkok: UNDP.



Trade preferences linked to LDC status

Almost all developed and some developing countries unilaterally offer preferential market access for LDC merchandise exports under the importer's Generalized System of Preferences (GSP) regime. LDCs enjoy duty-free market access and less stringent rules of origin requirements for their export products. These trade preference schemes supersede the World Trade Organization's (WTO) MFN principle, which gives equal access to all WTO members' markets and guarantees equal—not lower or higher—tariffs for all other members.[11] LDCs also benefit from tariff liberalization when they are signatories to bilateral or regional trade agreements.

For Lao PDR, about 5 to 10 percent of its exports depend on LDC-specific trade preferences (Figure 1). About 40 to 50 percent of exports enter importing countries under an MFN zero-duty rate, with no preferences based on LDC status. A little over half of exports receive trade preferences ('other preferences') through bilateral agreements without reference to the country's LDC status, mainly due to regional free trade agreements. In short, LDC graduation will not impact the large majority of Lao PDR's exports.

Trade preference utilization

The trade preference utilization[12] rate is the percentage of GSP-eligible exports that actually realize trade preferences. For example, while nearly 100 percent of Bangladesh's exports to the European Union are GSP-eligible, only 97 percent of goods can make use of duty-free market access. The remaining 3 percent are subject to MFN tariffs because the goods do not fulfil rules of origin conditions.

For the majority of LDCs in Asia and the Pacific, including Lao PDR, preference utilization applies to a small proportion of exports, implying little impact from graduation. A significant share of exports to the European Union is duty-free. For GSP-eligible

TABLE 1: The top HS six-digit-level export products from Lao PDR to the European Union, by duty type in 2020, percentage

Source: Razzaque, Mohammad A. 2022. *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*, p. 16. Bangkok: UNDP.

HS code	Product description	LDC scheme	Other preference	MFN (preference not utilized)	MFN (duty-free)
620343	Men's or boys' trousers, breeches of synthetic fibres	99.10	0.00	0.90	0.00
170114	Sugars; cane sugar, raw, in solid form, other than as specified in Subheading Note 2 to this chapter, not containing added flavouring or colouring matter	100.00	0.00	0.00	0.00
640391	Footwear with rubber… soles and leather uppers, covering the ankle	88.40	0.00	11.60	0.00
170199	Cane or beet sugar, in solid form, nes	99.70	0.00	0.30	0.00
620520	Men's or boys' shirts of cotton	86.30	0.00	13.70	0.00
610711	Men's or boys' underpants and briefs of cotton, knitted or crocheted	99.90	0.00	0.10	0.00
620333	Men's or boys' jackets and blazers of synthetic fibres	98.10	0.00	1.90	0.00
100630	Semi-milled or wholly milled rice	99.40	0.00	0.60	0.00
611030	Jerseys, pullovers, etc, of man-made fibres, knitted or crocheted	96.90	0.00	3.10	0.00
620342	Men's or boys' trousers, breeches, etc, of cotton	98.50	0.00	1.50	0.00
Other	Other	56.00	0.00	7.50	36.40

Note:The Harmonized Commodity Description and Coding System (HS) is a product nomenclature developed by the World Customs Organization. It comprises more than 5,000 commodity groups, each identified by a six-digit code, arranged in a legal and logical structure, and covering over 98 percent of the merchandise in international trade. More than 200 countries and economies use the HS as a basis for their customs tariffs and for the collection of international trade statistics (World Customs Organization, n.d.)

TABLE 2: Loss of exports among LDCs in Asia and the Pacific, by destination, by country, percentage

Source: Razzaque, Mohammad A. 2022. *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*, p. 53. Bangkok: UNDP.

	Canada	China	European Union	India	Japan	Republic of Korea
BANGLADESH	-42.05	-8.29	-26.30	—	-30.53	-27.53
BHUTAN	6.49	7.07	-26.30	8.93	0.95	-30.53
KIRIBATI	-30.53	0.25	-42.30	0.00	-26.28	-27.53
LAO PDR	**-7.47**	**0.35**	**-20.90**	**0.01**	**-3.53**	**-6.16**
MYANMAR	-18.25	0.12	-22.30	0.01	0.12	-10.07
NEPAL	-13.39	0.71	-19.10	-0.03	-11.40	-7.98
SOLOMON ISLANDS	0.07	0.00	-43.30	-0.04	-1.63	-0.07
TIMOR-LESTE	0.07	0.00	-43.30	-0.04	-1.63	-0.07
TUVALU	0.05	-1.33	—	0.00	0.03	-2.47

exports, around 90 percent are duty-free under the Everything but Arms scheme, which removes tariffs and quotas for all imports of goods (except arms and ammunition) coming into the European Union from LDCs (Figure 2). Among major Lao export items at the six-digit level, more than 10 percent of the preference for footwear with rubber and men's or boys' cotton shirts remains unused. Similarly, more than 70 percent of GSP-eligible exports from Lao PDR, Myanmar and Nepal to Canada enjoy LDC tariff preferences but it is not a major export market.

Tariff implications after graduation

Tariff increases and potential adverse implications for exports arising from graduation differ for countries depending on export products, volumes, markets, trade preference eligibility and use of preferences. A WTO Enhanced Integrated Framework (EIF) study in 2020 estimated that graduation might result in an average weighted-tariff rise of 4.2 percentage points for LDCs in Asia and the Pacific.[13] For Lao PDR, the estimated tariff increase is 3 percentage points. Post-graduation, Lao PDR will not face any tariff changes in China or India given the free trade agreements of the Association of Southeast Asian Nations. But it will see an increase of 2.7 percentage points in Canada, 8.4 percentage points in the European Union, 1.5 percentage points in Japan and less than 1 percentage point in the Republic of Korea.

Tariff hikes translate to losses in the competitiveness of exports. The WTO-EIF analysis employs a partial equilibrium model that shows graduating LDCs in Asia and the Pacific losing various magnitudes of exports. The model suggests that Lao PDR's exports will decline by $66.3 million or 1.45 percent of its pre-graduation volumes. Like other apparel exporters, Lao PDR will likely see the largest impact from the loss of the Everything but Arms preference in the European Union (Figure 2). Clothing, sugars and confectionary, leather and footwear, and cereals and preparations are items facing the most significant reductions across Lao PDR's major export markets.

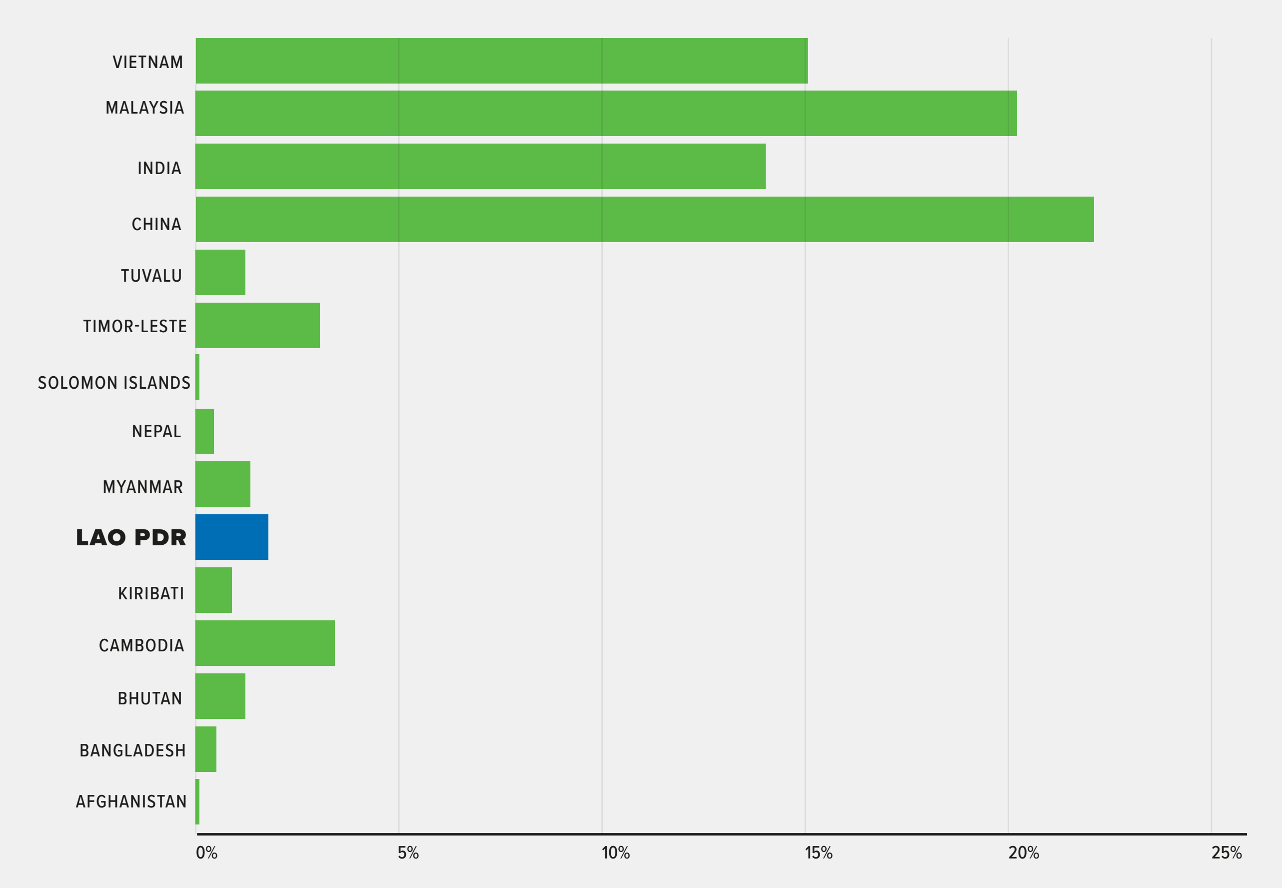
Other potential trade-related impacts and challenges

▶ Participation in global value chains.

Participation in global value chains is considered an important determinant of export success. Lao PDR, like many LDCs, has a small share of exports in parts and components (Figure 2), compared to 10 to 25 percent shares for China, India, Malaysia and Viet Nam. A loss of trade preferences due to graduation and an increase in tariffs could further

FIGURE 2: Global value chain participation among LDCs in Asia and the Pacific: Share of parts and components in total exports, 2017-2019 average, percentage

Source: Razzaque, Mohammad A. 2022. *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*, p. 57. Bangkok: UNDP.



minimize the potential of LDCs participating in global value chains

▶ **Loss of competitiveness due to other countries' trade agreements.** Recently, countries such as Indonesia and Viet Nam have secured preferential market access terms through the Regional Comprehensive Economic Partnership. These terms are more favourable than those that Bangladesh and Nepal will receive after graduation in the major Chinese, Japanese and Korean markets. Similarly, the 2020 free trade agreement between the European Union and Viet Nam will gradually lower tariffs on Viet Nam's clothing exports from 9 percent to zero by 2027. Even if graduating LDCs in Asia and the Pacific qualify for GSP+, the agreement will cause significant erosion in their competitiveness. In addition, several ongoing bilateral European free trade agreement negotiations, including with India and Indonesia, are expected to affect non-signatories' export competitiveness in favour of agreement partners. Competition will also emerge from apparel-exporting African LDCs.

▶ **Investment diversion.** The loss of trade preferences could pose challenges in attracting foreign direct investment (FDI). Interviews with Chinese FDI strategists for the textile and clothing sector show that losing LDC-specific market access to the world's leading apparel import market could hurt the attractiveness of Bangladesh, Cambodia, Lao PDR and Nepal as FDI destinations for Chinese textile and apparel companies.[14] Furthermore, COVID-19-induced supply disruptions and increased shipping costs have led to 'near-sourcing' and 'reshoring' by major importers, which could potentially hurt the trade and investment prospects of graduating LDCs. For example, European Union-based retailers are interested in sourcing from Eastern European countries and Turkey while investors in the United States are increasing sourcing from Mexico and Central American countries.[15]

▶ **Economic, social and governance issues can undermine competitiveness.** Environmental, social and governance standards (ESG) are increasingly important in international trade sourcing. Because LDCs in Asia and the Pacific rely more on tariff preferences for their competitive strength, and have less financial support and compliance capacity, graduation and the associated loss of LDC-specific preferential tariffs and financing could pose challenges for firms in terms of investing in ESG-related issues.

2.2 IMPACT ON DEVELOPMENT FINANCING

Lao PDR's domestic financing context

Government spending plays a key role in development finance and in meeting national development and sustainable development priorities. Most countries in Asia and the Pacific have high levels of public spending as a proportion of gross domestic product (GDP). Lao PDR's public expenditures amount to about 20 to 25 percent of GDP. Despite the extensive financing needs of LDCs, most can mobilize limited domestic resources, and Lao PDR is no exception. Its domestic revenue mobilization stands at 13.4 percent of GDP. To finance the deficit between government expenditures and domestic revenue generation, many countries, including Lao PDR, rely on domestic borrowing and external sources (Figure 3). About 30 percent of Lao PDR's public expenditures are financed from domestic and external borrowing.[17]

External financing

Faced with limited scope to mobilize domestic resources, countries depend on external sources of finance for meeting development needs, including remittances, FDI and ODA. In Lao PDR, FDI is a mere 7 percent of GDP. Over the past two decades, total official finance[18] to all 11 LDCs in Asia and the Pacific from OECD-DAC donors, non-DAC donors and multilateral organizations increased more than fivefold (Table 3). Lao PDR has seen a steady rise from $171.7 million in 2002 to $750.8 million in 2019.

FIGURE 3: Government expenditures by LDCs in Asia and the Pacific, disaggregated by source, 2017-2019 average, percentage

Source: Razzaque, Mohammad A. 2022. *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*, p. 60. Bangkok: UNDP. Note to designer to highlight Lao PDR

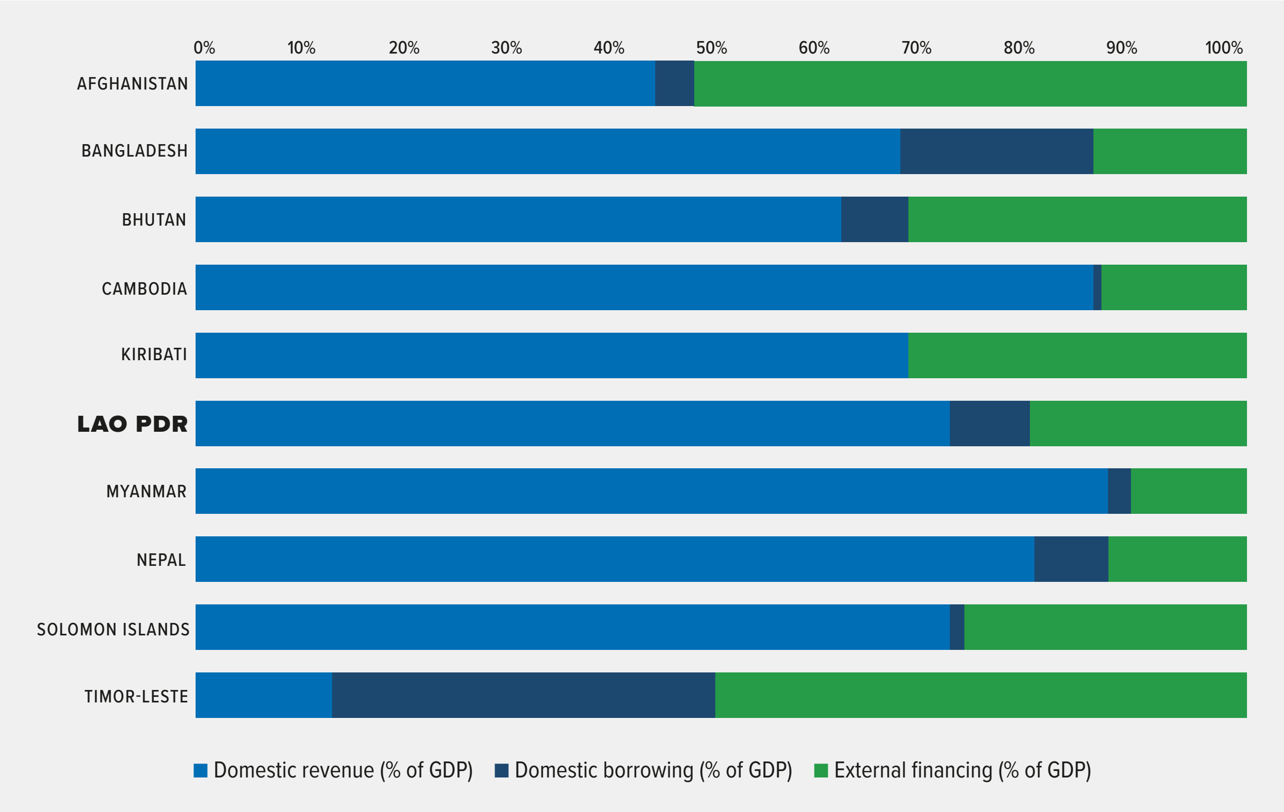


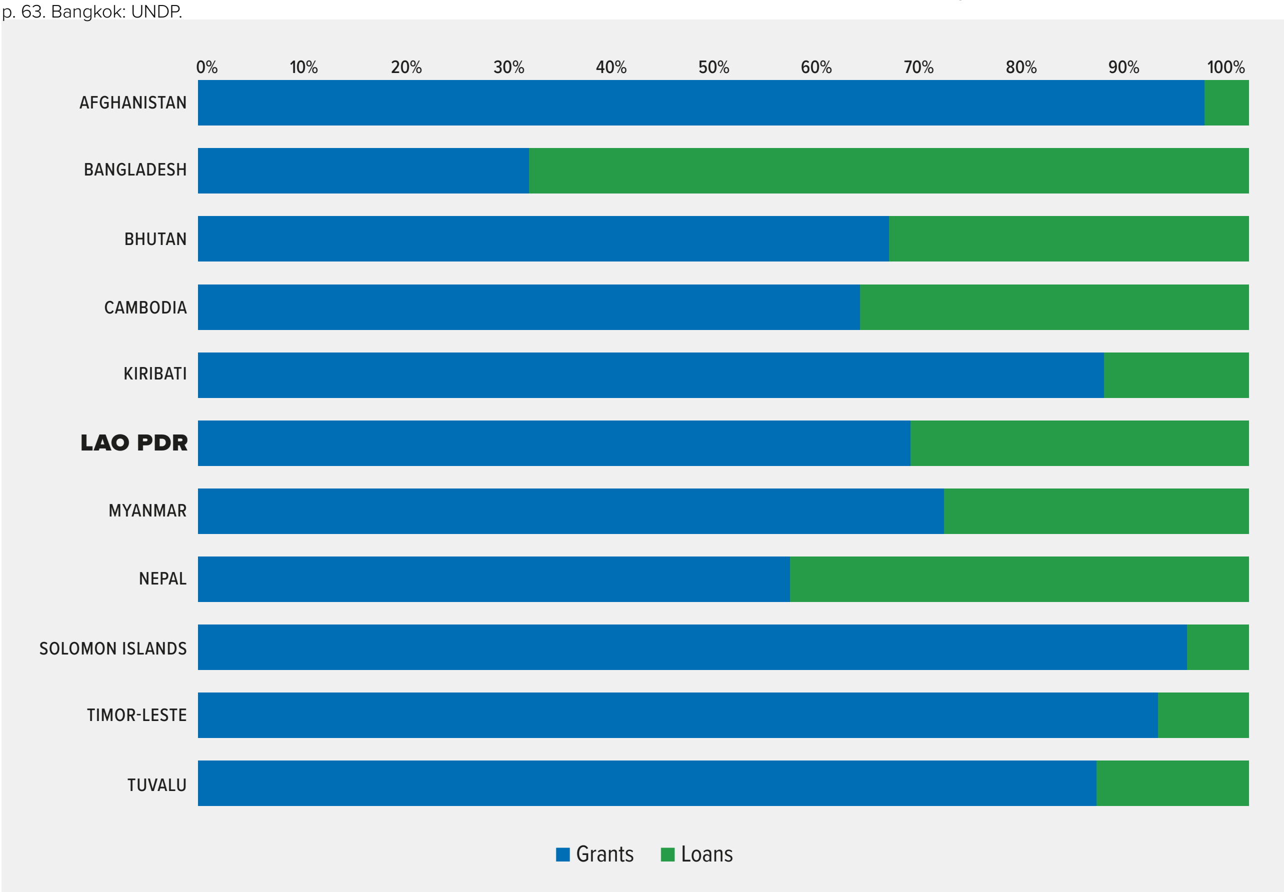
TABLE 3: Total official financial flows to LDCs in Asia and the Pacific, 2002-2019, millions of dollars

Source: Razzaque, Mohammad A. 2022. *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*, p. 61. Bangkok: UNDP.

	2002	2010	2019
AFGHANISTAN	932.30	6,510.70	4,398.30
BANGLADESH	966.90	2,240.20	6,540.10
BHUTAN	32.30	153.60	203.80
CAMBODIA	307.50	777.20	1,238.70
KIRIBATI	18.10	24.20	57.60
LAO PDR	**171.70**	**467.90**	**750.80**
MYANMAR	72.50	383.50	2,283.30
NEPAL	278.80	945.90	1,552.80
SOLOMON ISLANDS	28.40	365.60	305.50
TIMOR-LESTE	173.10	296.60	251.90
TUVALU	11.30	14.20	36.90

FIGURE 4: Shares of grants and concessional loans in ODA flows to LDCs in Asia and the Pacific, 2015-2019

Source: Razzaque, Mohammad A. 2022. *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*, p. 63. Bangkok: UNDP.



ODA constitutes more than 85 percent of official finance to LDCs in Asia and the Pacific, and grants dominate ODA flows. Grants comprise more than 50 percent of ODA to Lao PDR (Figure 4). Despite fluctuations, it has recently seen up upward trend (in absolute terms) in concessional loans, with the average loan amount between 2015 and 2019 standing at about 30 percent of total ODA flows.

External debt

Contending with low revenue mobilization capacity and high dependency on ODA, LDCs typically accumulate debt to finance development needs. Lao PDR is among the LDCs in Asia and the Pacific with high external debt levels (Figure 5). In 2020, its external debt stock stood at 95 percent of gross national income (GNI) while annual debt servicing was equivalent to 6 percent of GNI (Figure 5).

LDC graduation and implications for development finance

LDCs are usually not the leading recipients of ODA, accounting for less than a quarter of all ODA resources. Aid allocation patterns and trends imply that country-specific conditions, such as civil wars and unrest, natural catastrophes, epidemics, refugee crises, recipient nations' historical and bilateral connections with donors and regional proximity, and donors' strategic priorities override recipients' development status as key decision factors. Among UN organizations and development partners, only a few make annual ODA or other financial aid allocations specifically to LDCs.

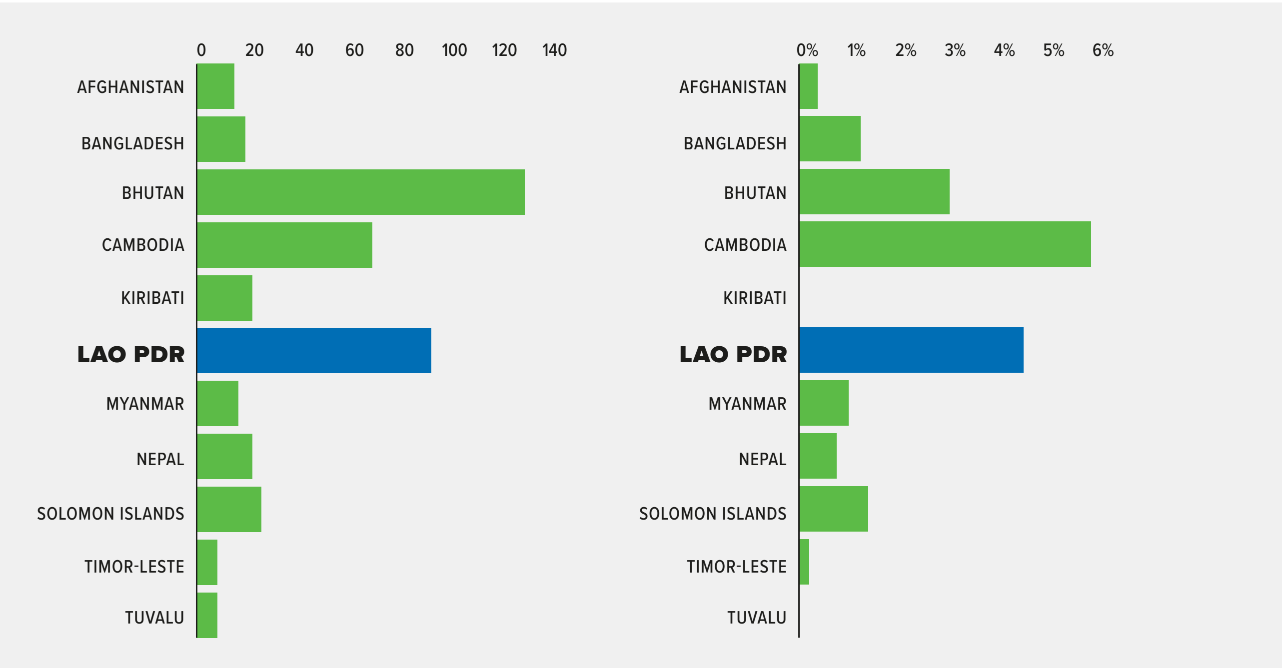
The Monterrey Consensus and the Doha Declaration on Financing for Development committed to allocating 0.7 percent of developed countries' GNI to ODA, of which 0.15 to 0.2 percent is dedicated to LDCs. Most developed countries have not met those targets; by 2019, only a handful of OECD-DAC members—namely, Denmark, Luxembourg, Norway, Sweden and the United Kingdom—had fulfilled their commitments.

Bilateral donors and the use of LDC status as a criterion for aid allocation

The LDCF, Technology Bank for Least Developed Countries, EIF for Trade-Related Assistance for Least Developed Countries and the UNCDF Investment Support Programme for LDCs all use LDC status as a criterion for aid allocation. Lao PDR has tapped a cumulative $37.73 million from the LDCF but will lose access to new funding upon graduation. Projects already approved by the LDCF Council prior to graduation will continue to be supported until completion. After graduation, Lao PDR will have access to financing and

FIGURE 5: External debt stocks of LDCs in Asia and the Pacific (left) and total debt service (right), 2020, percentage of GNI

Source: Razzaque, Mohammad A. 2022. *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*, p. 65. Bangkok: UNDP.



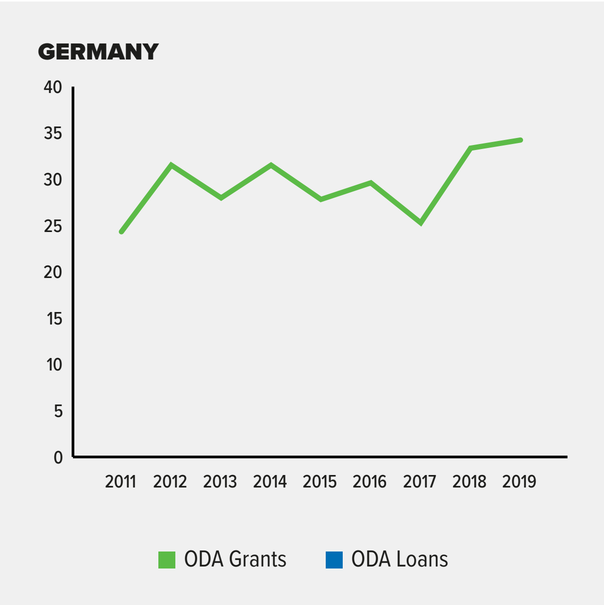
assistance from the EIF, the Investment Support Programme and the Technology Bank for five years. Several bilateral donors support LDCs; most, except Germany, Japan and the Republic of Korea, do not set LDC status as a precondition for aid. Figure 6 shows trends in ODA loans and grants from the three countries to Lao PDR.

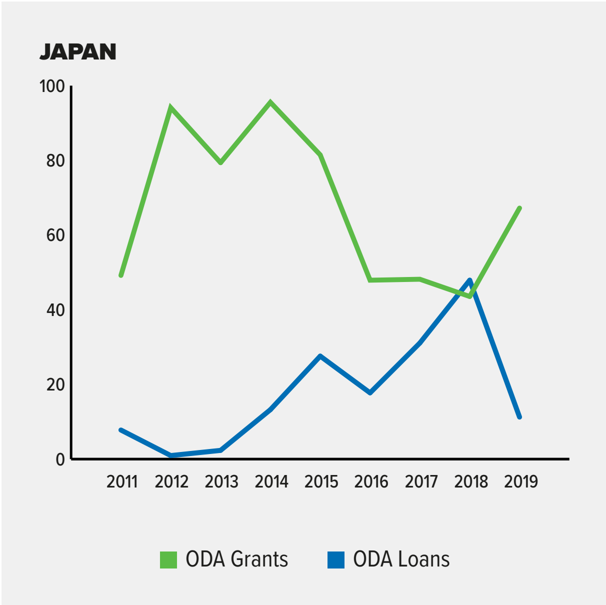
International development finance institutions and agencies often do not use the LDC designation when allocating resources and assistance. Several multilateral and regional development organizations, including the United Nations, dedicate a significant portion of their resources to LDCs but rarely consider them as a category. Nonetheless, they make allocations in line with LDC criteria: levels of GNI, human assets, and economic and environmental vulnerability[19].

3.1 TRADE-RELATED

FIGURE 6: ODA loans and grants to Lao PDR, 2011-2019, millions of dollars Germany, Japan, Republic of Korea

Source: Razzaque, Mohammad A. 2022. *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*, pp. 102–106. Bangkok: UNDP.





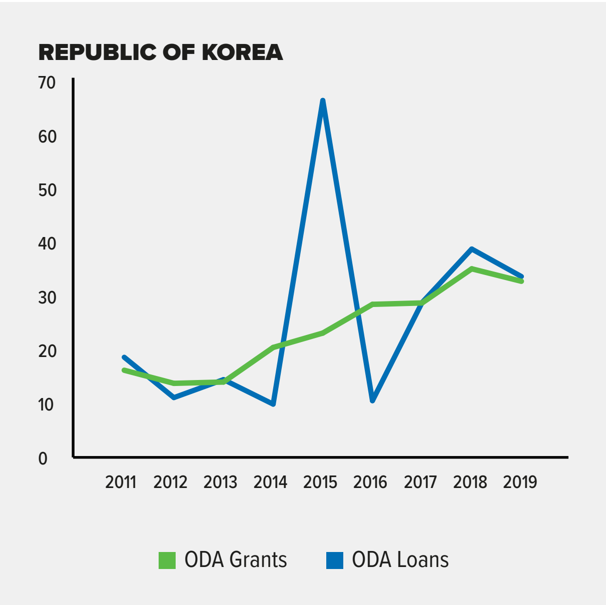


TABLE 4: Resource allocation by bilateral and multilateral partners

COUNTRY	Position on ODA with respect to LDC status	Specific to Lao PDR
GERMANY	The Federal Ministry for Economic Cooperation and Development provides grants and concessional loans to LDCs and developing countries. LDCs typically receive grants whereas non-LDC developing nations mostly receive loans, with certain exceptions.	Germany will continue to support Lao PDR, Myanmar and Nepal. Graduation would imply a change from grants to concessional loans, although grant assistance for some areas may continue. After graduation, changes in aid programmes would not be automatic and would be based on several other factors.
JAPAN	The Japan International Cooperation Agency offers loans to countries on favourable terms based on various requirements. These include whether a country is an LDC, its World Bank income classification, its existing debt levels and so forth.	As of 1 April 2021, most LDCs in Asia and the Pacific, including Lao PDR, are eligible for Japan's second category of borrowing.[20] Japan has indicated that LDC graduation would have no influence on its grant funding or technical collaboration decisions.[21] Post-graduation, Lao PDR will still qualify for the second category of borrowing as a non-LDC lower-middle-income country. Irrespective of LDC status, Japan is moving towards fewer grants and more loans to Bangladesh, Cambodia, Lao PDR, Myanmar, Nepal and Timor-Leste.
REPUBLIC OF KOREA	The Republic of Korea's Economic Development Cooperation Fund operates under the aegis of the Export-Import Bank of Korea and the Ministry of Strategy and Finance. LDC graduation will have little or no impact on ODA grants provided by the Korea International Cooperation Agency.[22] Its concessional loans are grouped into five categories, including loans for LDCs identified by the United Nations. Post-graduation, LDCs in Asia and the Pacific will have access to concessional loans, although with higher interest rates and shorter repayment periods.	Over the past decade, ODA loans from the Economic Development Cooperation Fund to Lao PDR have trended upward.
AUSTRALIA	LDC status has no effect on the prioritization of bilateral development assistance by the Department of Foreign Affairs and Trade. It considers LDC graduation among a range of factors for bilateral aid investment plans and associated funding allocations,[23] graduation is unlikely to affect regional aid allocations.	
UNITED KINGDOM	LDC status is not a determining factor for aid allocation by the Foreign, Commonwealth and Development Office.[24]	
EUROPEAN UNION INSTITUTIONS	Under the Neighbourhood Development and International Cooperation Instrument, the European Union plans to allocate between 0.15 and 0.2 percent of the European Union's GNI to ODA for the LDCs, achieving 0.20 percent by 2023. It mentions LDCs along with fragile or conflict-affected countries, small island developing States, landlocked developing countries and heavily indebted poor countries as among those that require 'special attention' and prioritization in the implementations and allocations of the European Fund for Sustainable Development Plus. Currently, the major recipients of European Union ODA resources are non-LDC developing countries.[25]	LDC countries in Asia and the Pacific, including Lao PDR, will not see a significant shift in assistance after graduation.[26] In some cases, LDCs approaching graduation may meet other criteria that trigger changes, potentially making them ineligible for certain types of grants.

1) Japan applies four types of preferential terms (1) Preferential Terms for High Specification for projects promoting quality infrastructure; (2) Preferential Terms for Global Environmental and Climate Change, Health and Medical Care and Services, Disaster Prevention and Reduction, Human Resource Development; (3) Special Terms for Economic Partnership (STEP), applied to the projects for which Japanese technologies and know-how are substantially utilized, based on the recipient countries' request to utilize and transfer Japanese technologies; and (4) General Terms for general cases. LCDs are not eligible for STEP terms. Different options for interest rates, loan repayment periods and grace periods are applied under each specific preferential term (JICA, n.d.)

COUNTRY	Position on ODA with respect to LDC status	Specific to Lao PDR
THE WORLD BANK	The World Bank and its lending arm for developing countries, the International Bank for Reconstruction and Development (IBRD), do not use the LDC classification. The bank's International Development Association (IDA) offers financial support to the world's 74 poorest countries through credits that provide concessional loans. Eligibility for IDA support depends on a country's risk of debt distress and relative poverty, defined as GNI per capita below an annually updated threshold ($1,205 in fiscal year 2020) (IDA, 2021).[27] It also depends on the borrower's low creditworthiness, which precludes it from qualifying for an IBRD Flexible Loan.	Lao PDR is a lower-middle income country according to the World Bank's income criteria. It is therefore eligible for IDA credits on blended terms and for 100 percent grants due to its high risk of external debt distress.
INTERNATIONAL MONETARY FUND (IMF)	The IMF does not use the LDC category to identify developing country loan or grant recipients; instead, it uses World Bank-defined low-income country criteria, based on the IDA per capita GNI income threshold, market access conditions and short-term vulnerabilities, to allocate concessional assistance through its Poverty Reduction and Growth Trust.[28]	Since Lao PDR exceeds the low-income country income threshold, graduation will have no implications for access to IMF financing.
ASIAN DEVELOPMENT BANK	The Asian Development Bank provides three types of concessional financing: concessional assistance only (Group A); ordinary capital resource (OCR) blended loans (Group B); and regular market-based OCR loans (Group C). Country group categories are defined based on GNI per capita and creditworthiness for regular OCR loans. Whether graduation affects a country's reclassification is subject to its creditworthiness ('lacking', 'limited' or 'adequate'). The bank uses the World Bank's GNI per capita classification of economies and the IDA's operational cut-off.	The type of assistance that Lao PDR can tap after graduation would depend on its creditworthiness and income level at the time. Currently, Lao PDR belongs to Group A countries with access only to concessional assistance.
UNITED NATIONS	Although assistance may not be greatly affected, the post-graduation period could be associated with changes in the nature of support. These shifts partly stem from the country's development advancements and public sector capacity, and partly from agency-wide policies (UNDP and the United Nations Children's Fund have based core resource allocations on LDC criteria). UN Volunteers' (UNV) government cost-sharing general management support charge for LDCs and others is set at 3 percent and 8 percent, respectively. Therefore, graduates' cost-share may rise.	Lao PDR should not see significant impacts from graduation since many UN-system organizations dedicate a significant portion of their technical and financial resources based on individual country needs. For UNV deployment, the actual rate is determined by several other factors negotiated with the Government of Lao PDR.
GLOBAL ENVIRONMENT FACILITY (GEF)	GEF funding is allocated through its System for Transparent Allocation of Resources (STAR) methodology, based on country performance, country potential to achieve global environmental benefits and a social and economic index based on GDP.[29] GEF adjusts funding based on these factors to ensure that countries receive a minimum allocation in each priority area. Currently, the minimum allocation levels for LDCs are greater than those for non-LDCs (the minimum allocation for non-LDCs is $4 million in the GEF-7 replenishment period and $6 million for LDCs).	After graduation, Lao PDR will continue to qualify for GCF funding that targets climate-vulnerable developing countries.

COUNTRY	Position on ODA with respect to LDC status	Specific to Lao PDR
GREEN CLIMATE FUND (GCF)	The GCF assists developing nations in reducing greenhouse gas emissions and adapting to climate change. It gives special consideration to LDCs and small island developing States through 'minimum adaptation floors'. Graduated LDCs will continue to have access to the GCF's Special Climate Change Fund and Adaptation Fund, which help all vulnerable developing countries develop and implement national adaptation strategies.	After graduation, Lao PDR will continue to qualify for GCF funding that targets climate-vulnerable developing countries.
GAVI	Gavi, the Vaccine Alliance, is a public-private global health partnership created in 2000 to increase immunization in poor countries. It does not take LDC status into consideration when allocating funds. Eligibility conditions depend on GNI per capita and certain other conditions, assessed by an independent group of experts. Countries are eligible for Gavi support when their per capita GNI averages up to $1,580 over the previous three years.	The type of assistance that Lao PDR can tap after graduation would depend on its creditworthiness and income level at the time. Currently, Lao PDR belongs to Group A countries with access only to concessional assistance.
GLOBAL FUND (GCF)	The Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria is an international financing facility and partnership that invests $4 billion annually. Eligibility criteria depend on GNI per capita and an official disease burden index, not on LDC status.	After graduation, Lao PDR will continue to qualify for GCF funding that targets climate-vulnerable developing countries.

3.0 RECOMMENDATIONS

3.0 RECOMMENDATIONS

MEASURES FOR SMOOTH LDC GRADUATION

This section summarizes key recommendations from the regional paper. The recommendations align with the analysis on trade and development finance impacts.

Negotiate to extend transition periods for trade-related preferential treatment

- Currently, the European Union and the United Kingdom provide a three-year transitional period after graduation, during which graduated LDCs can access LDC benefits. Lao PDR should join with other LDCs to collectively urge other preference-granting countries, such as Australia, Canada, Japan and the Republic of Korea, to offer a similar transition period. Notably, Australia extended duty-free access to several graduated LDCs, including Equatorial Guinea, the Maldives and Samoa.[30] Lao PDR can approach GSP countries for an extended transition period for LDC-specific preferences based on its risk of experiencing a high level of economic vulnerability and excessively high trading costs due to its landlocked status.
- Lao PDR should work with other LDCs in the region and beyond to engage with the European Union on relaxed terms in its proposed 2024-2034 GSP scheme, specifically in terms of rules of origin requirements for GSP+ countries. Lao PDR and other graduating LDCs should collectively request the European Union to apply liberal rules of origin terms, similar to those of Everything but Arms, for a longer transition period. This would allow time to comply with more stringent requirements. Lao PDR should also approach other preference-granting countries to ask for LDC rules of origin treatment.
- Lao PDR should engage with other LDCs in Asia and the Pacific to petition the Government of the United Kingdom, which is developing its own GSP regime, for a longer transition period, a generous post-graduation preferential scheme and simplified rules of origin requirements.

Explore alternative preferential trade treatment

- Most LDCs in Asia and the Pacific will not graduate for several years, which gives them time to prepare for transition. In the European Union and United Kingdom markets, any graduating LDCs can access the same LDC preferences for an additional three-year grace period after graduation. This time period can be used to tackle any supply-side bottlenecks to boost competitiveness. Lao PDR should strive to enhance supply-side responses to any preferential schemes that remain available. It should secure preferential market access in the European Union's second-best preferential trade regime, GSP+, which allows duty-free access for 66 percent of tariff lines. Accessing the GSP+ scheme requires countries to ratify and implement 32 pre-specified international conventions, with which Lao PDR should prepare to comply as a preparatory step to graduation. If necessary, the country can seek assistance from various international organizations in terms of legal and institutional frameworks.

Develop bilateral and regional free trade agreements

- Graduating LDCs must consider options for bilateral and regional free trade agreements to maintain duty-free market access for their exports. In addition to the existing agreements, Lao PDR should explore further options to negotiate and sign bilateral FTAs with its most important export partners, towards maintaining favorable market access after graduation. The recently implemented free trade agreement between the European Union and Viet Nam is an example of securing improved access in important markets.

Improve trade policy and enhance trade negotiation capacity

- Building trade policy and negotiation capacity is crucial in preparing to graduate. Support for this should be mainstreamed in development strategies. Graduation could imply more rigorous trade negotiations at various regional and multilateral forums, including the WTO. In addition, moving from unilateral LDC preference schemes to reciprocity-based bilateral, regional and multilateral negotiations means that Lao PDR must assess the implications of its commitments. Undertaking required domestic reform measures to comply with trade agreements will also depend on enhanced capacity at various levels. It is imperative for Lao PDR to seek as much support as possible from development partners.

Explore new export opportunities and relationships

▶ Lao PDR should explore the diversification of its export markets, especially its exports to countries and regions affected by its graduation. Respective governments can provide extended support for establishing new export relationships; destination market governments and private sector enterprises can also help establish trade and commercial links among traders.

Maximize the benefits of WTO LDC treatments

▶ Graduating LDCs should collectively endeavour to retain the WTO's LDC services waiver preferences for a longer transition period. Given that these preferences have not been effectively operationalized to date, extended access should be negotiated for graduating countries for 10 years or more after graduation.

3.2 MEASURES TO INCREASE THE VOLUME AND IMPACT OF DEVELOPMENT FINANCE

Improve absorptive capacity for ODA and concessional finance

▶ Lao PDR should improve its absorptive capacity to use all available ODA and concessional finance. Given socioeconomic challenges, vulnerabilities and limited domestic revenue mobilization capacity, ODA remains an important source of development finance. Improving administrative and project management efficiency can contribute to improved delivery of ODA. Delayed procedures and unutilized resources mean that Lao PDR is not making the most of available international support measures before graduation. If necessary, Lao PDR can also work with development partners to build absorptive capacity through technical assistance.

Maximize the use of LDC-specific funds to bolster private sector competitiveness

▶ Lao PDR should look for opportunities to use LDC-related development financing mechanisms more extensively to aid firm-level preparedness and overall economic competitiveness. This includes the EIF for institutional and capacity-building support, UNCDF for supplemental capital assistance through grants and loans, the LDCF for climate change adaptation and the Technology Bank for LDCs. With the extended transition periods offered under these schemes, Lao PDR will have 5 to 10 years to benefit from available funding. The country should plan to use these schemes to the fullest.

Tap other available assistance and instruments

▶ Lao PDR should explore new instruments to support its graduation at the international level. UNCDF has proposed a graduation support facility to provide technical assistance. This would help prepare Lao PDR by providing important technical and capacity-building support; it would also facilitate South-South knowledge-sharing on graduation.[31] Furthermore, under the global Aid for Trade initiative, trade-related adjustment support is an important pillar of assistance. Lao PDR and other LDCs in Asia and the Pacific can collectively ask for a larger allocation from this source to support their graduation process and focus such support on trade-related capacity-building.

Seek continued ODA support

▶ Lao PDR should accelerate the implementation of committed funds and approach ODA donor countries for increased aid allocations. In addition, Lao PDR should negotiate with bilateral and multilateral donors to keep ODA terms and conditions unchanged for the transition period after graduation.

Improve domestic resource mobilization capacities

▶ Low mobilization of domestic revenues, specifically, limited tax revenues, constrains the Government's ability to invest in a wide range of areas crucial to achievement of the Sustainable Development Goals (SDGs). Domestically mobilized resources should play a bigger role in development financing as countries make socioeconomic progress. This would require tax and fiscal sector reforms along with the modernization of tax collection. Lao PDR should use graduation as an opportunity to boost domestic resource mobilization efforts by strengthening relevant institutional capacity and broadening the tax base.

Improve debt management

▶ Debt management should be a priority consideration for Lao PDR. Debt distress could hamper development gains after LDC graduation. Debt swaps are an option to gain fiscal space for measures to smooth graduation and create a macroeconomic environment conducive to sustainable development and climate actions. Debt-for-environment swaps can support environmental goals and green-growth investment. Such arrangements can also help donor countries and agencies contribute to sustainable and smooth LDC transitions.

Stimulate foreign direct investment

▶ Foreign direct investment is a powerful tool for domestic investment. Attracting it is crucial for export success in LDCs, including Lao PDR. Many Asian emerging countries, such as China, Malaysia and Viet Nam, demonstrate the importance of FDI in boosting exports and promoting export diversification. The direct impacts of FDI include skills upgrading, productivity increases, positive knowledge and technology spillover effects, and improved management practices. Spillover effects can benefit local businesses, allowing them to upgrade their operations and enhancing participation in global value chains. FDI also can accelerate Lao PDR's development efforts and support SDG achievement. As a landlocked country with a small domestic market, Lao PDR is subject to high trade costs, which can make it difficult to attract FDI. Therefore, improving the country's investment climate should be a key priority.

APPENDIX I: LAO PDR'S TOP EXPORTS IN 2019

Source: Razzaque, Mohammad A. 2022. *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*, p. 95. Bangkok: UNDP.

HS Code	Commodity	Exports $ million	% of total exports	Major destination andexport shares
27	**Mineral fuels, mineral oils**	**1,347.30**	**23.20**	Thailand (93.8%)
2716	Electrical energy	1326.90	22.80	Viet Nam (4.8%)
2701	Coal (briquettes, ovoids and similar solid fuels) manufactured from coal	20.40	0.40	Cambodia (0.8%)
26	**Ores, slag and ash**	**654.10**	**11.30**	China (96.5%)
2603	Copper ores and concentrates	589.40	10.10	Viet Nam (2.7%)
2601	Iron ores and concentrates, incl. roasted iron pyrites	43.50	0.70	USA (0.7%)
85	**Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television**	**403.70**	**6.90**	Thailand (92.1%) Japan (3.2%)
8525	Transmission apparatus for radio-broadcasting or television, whether or not incorporating reception	210.20	3.60	Viet Nam (2.1%)
8517	Telephone sets, incl. telephones for cellular networks or for other wireless networks;	114.80	2.00	
8544	Insulated incl. enamelled or anodised wire, cable incl. coaxial cable and other insulated wire	41.40	0.70	
47	**Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper**	**286.50**	**4.90**	China (99.6%) Thailand (0.3%)
4703	Chemical wood pulp, soda or sulphate (excluding dissolving grades)	121.80	2.10	
4702	Chemical wood pulp, dissolving grades	90.20	1.60	
4706	Pulps of fibres derived from recovered waste and scrap paper or paperboard or of other fibrous	72.80	1.30	
71	**Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad**	**223.00**	**3.80**	India (40.1%) Switzerland
7108	Gold, incl. gold plated with platinum, unwrought or not further worked than semi-manufactured	192.30	3.30	(26.0%) Hong Kong
7104	Precious and semi-precious stones, synthetic or reconstructed, whether or not worked or graded	21.50	0.40	(17.4%) Thailand (6.8%)
40	**Rubber and articles thereof**	**218.70**	**3.80**	Viet Nam (55.2%)
4001	Natural rubber, balata, gutta-percha, guayule, chicle and similar natural gums, in primary	217.50	3.70	China (44.3%)
74	**Copper and articles thereof**	**434.80**	**7.50**	Thailand (91.8%)
7403	Copper, refined, and copper alloys, unwrought (excluding copper alloys of heading 7405)	433.80	7.50	China (8.2%)

REFERENCES

1 Ministry of Foreign Affairs, Government of Lao PDR. 2023. The Lao PDR LDC Graduation Smooth Transition Strategy. https://rtm.org.la/wp-content/uploads/2023/01/Lao-PDR-draft_V2_-Smooth-Transition-Strategy-13012023ed.pdf.

2 Ibid.

3 United Nations Department of Economic and Social Affairs. 2020. Ex-ante Assessment of the Impacts of the Graduation of Lao PDR from the Category of Least Developed Countries (LDCs). New York: United Nations. United Nations Department of Economic and Social Affairs. 2020. Ex-ante assessment of the impacts of the graduation of Bangladesh from the category of least developed countries (LDCs). New York: United Nations. United Nations Department of Economic and Social Affairs. 2020. Ex-ante assessment of the impacts of the graduation of Lao PDR from the category of least developed countries (LDCs). New York: United Nations.

4 European Parliament. 2021. Post COVID-19 Value Chains: Options for reshoring production back to Europe in a globalised economy. Brussels: European Parliament. https://www.europarl.europa.eu/RegData/etudes/STUD/2021/653626/EXPO_STU(2021)653626_EN.pdf. Lu, S. 2021. 2021 USFIA Fashion Industry Benchmarking Study. Washington, DC: United States Fashion Industry Association. https://www.usfashionindustry.com/pdf_files/20210715-fashion-industry-benchmarking-survey.pdf.

5 Including from Australia, the European Union, New Zealand and the United States, and grants from Japan and the Republic of Korea.

6 United Nations Department of Economic and Social Affairs. 2020. Ex-ante Assessment of the Impacts of the Graduation of Lao PDR from the Category of Least Developed Countries (LDCs). New York: United Nations.

7 Ministry of Foreign Affairs, Government of Lao PDR. 2023. The Lao PDR LDC Graduation Smooth Transition Strategy. https://rtm.org.la/wp-content/uploads/2023/01/Lao-PDR-draft_V2_-Smooth-Transition-Strategy-13012023ed.pdf.

8 Razzaque, Mohammad A. 2022. *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*. Bangkok: UNDP.

9 Ibid.

10 Except Afghanistan and Bangladesh.

11 World Trade Organization. 2022. “Principles of the Trading System.” Geneva: WTO. https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm.

12 In addition to receiving preferential market access for goods exports under the WTO services waiver, LDCs may benefit from special treatment for services exports, such as facilitated or longer entry visas for services suppliers. Despite the waiver, the notified preferences of WTO members have not been operationalized, leaving LDCs unable to benefit from it. They will not lose exports after graduation unless the waiver is operationalized prior to graduation and LDCs make use of it.

13 World Customs Organization (n.d.). “What Is Harmonized System (HS)?” Brussels: World Customs Organization. https://www.wcoomd.org/en/topics/nomenclature/%20overview/what-is-the-harmonized-system.aspx. World Trade Organization and Enhanced Integrated Framework. 2021. Trade Impacts of LDC Graduation: Insights from country-specific market access analyses. Geneva: WTO and EIF. https://www.wto.org/english/res_e/booksp_e/trade_impacts_of_ldc_graduation_insights.pdf.

14 Razzaque, Mohammad A. 2022. *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries*. Bangkok: United Nations Development Programme.

15 European Parliament. 2021. Post COVID-19 Value Chains: Options for reshoring production back to Europe in a globalised economy. Brussels: European Parliament. https://www.europarl.europa.eu/RegData/etudes/STUD/2021/653626/EXPO_STU(2021)653626_EN.pdf. Lu, S. 2021. 2021 USFIA Fashion Industry Benchmarking Study. Washington, DC: United States Fashion Industry Association. https://www.usfashionindustry.com/pdf_files/20210715-fashion-industry-benchmarking-survey.pdf.

17 Composed of ODA, non-export credit and private-sector development finance.

18 United Nations Conference on Trade and Development. 2017. LDC: What is a least developed country? New York: United Nations. https://unctad.org/press-material/ldc-what-least-developed-country

19 Japan applies four types of preferential terms (1) preferential terms for high specification for projects promoting quality infrastructure; (2) preferential terms for global environmental and climate change, health and medical care and services, disaster prevention and reduction, human resource development; (3) special terms for economic partnership (STEP) applied to the projects for which Japanese technologies and know-how are substantially utilized, based on the recipient countries' request to utilize and transfer Japanese technologies; and (4) general terms for general cases. LDCs are not eligible for STEP terms. Different options for interest rates, loan repayment periods and grace periods are applied under each specific preferential term. Japan International Cooperation Agency (n.d.). Official Development Assistance Loans. Tokyo: JICA. https://www.jica.go.jp/english/our_work/types_of_assistance/oda_loans/index.html

20 United Nations Department of Economic and Social Affairs. 2020. Ex-ante Assessment of the Impacts of the Graduation of Lao PDR from the Category of Least Developed Countries (LDCs). New York: United Nations. United Nations Department of Economic and Social Affairs. 2020. Ex-ante assessment of the impacts of the graduation of Bangladesh from the category of least developed countries (LDCs). New York: United Nations. United Nations Department of Economic and Social Affairs. 2020. Ex-ante assessment of the impacts of the graduation of Lao PDR from the category of least developed countries (LDCs). New York: United Nations.

21 United Nations Committee for Development Policy. 2021. Report of the Committee for Development Policy on the twenty-third session (22-26 February 2021). E/2021/33, Supplement No. 13. New York: Economic and Social Council.

22 United Nations Department of Economic and Social Affairs. 2020. Ex-ante Assessment of the Impacts of the Graduation of Lao PDR from the Category of Least Developed Countries (LDCs). New York: United Nations.

24 United Nations Department of Economic and Social Affairs. 2020. Ex-ante assessment of the impacts of the graduation of Bangladesh from the category of least developed countries (LDCs). United Kingdom, the National Archives. (n.d.). Official Development Assistance (ODA). London. https://www.gov.uk/government/collections/official-development-assistance-oda--2#oda-allocations-aid-policy.

24 United Nations Committee for Development Policy. 2021. Report of the Committee for Development Policy on the twenty-third session (22-26 February 2021). E/2021/33, Supplement No. 13. New York: Economic and Social Council.
25 United Nations Committee for Development Policy. 2021. Report of the Committee for Development Policy on the twenty-third session (22-26 February 2021). E/2021/33, Supplement No. 13. New York: Economic and Social Council.
26 United Nations Committee for Development Policy. 2021. Report of the Committee for Development Policy on the twenty-third session (22-26 February 2021). E/2021/33, Supplement No. 13. New York: Economic and Social Council.
27 International Development Association. 2021. Borrowing Countries. Washington, DC: The World Bank Group. https://ida.worldbank.org/en/ about/borrowing-countries.
28 International Monetary Fund. 2020. IMF Policy Paper: Eligibility to use the fund's facilities for concessional financing, 2020. Washington, DC: IMF. https://www.imf.org/-/media/Files/Publications/PP/2020/English/PPEA2020016.ashx.
29 Global Environment Facility. 2022. Updating the System for Transparent Allocation of Resources (STAR). Washington, DC: GEF. https://www.thegef.org/sites/default/files/documents/2022-06/EN_GEF.C.62.04_Updating%20the%20System%20for%20Transparent%20Allocation%20of%20Resources%20%28STAR%29.pdf.
30 Razzaque, M. A., and Y. Tateno. 2021. *Asia-Pacific Least Developed Countries: A review of implementation of the Istanbul Programme of Action and way forward. ESCAP Working Paper Series, June*. Bangkok: United Nations Economic and Social Commission for Asia and the Pacific. https://www.unescap.org/kp/2021/asia-pacific-least-developed-countries-review-implementation-istanbul-programme-action-and.
31 World Trade Organization and Enhanced Integrated Framework. 2021. Trade Impacts of LDC Graduation: Insights from country-specific market access analyses. Geneva: WTO and EIF. https://www.wto.org/english/res_e/booksp_e/trade_impacts_of_ldc_graduation_insights.pdf.

‘A Policy Note on LDC Graduation for Lao PDR’ summarizes data and analysis presented in a regional policy paper, *Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries.* Dr. Mohammad A. Razzaque prepared the paper, which was published by UNDP’s Bangkok Regional Hub in 2022.

Weblink: Graduation from LDC Status: Trade preference and development financing implications for Asia-Pacific countries

Raniya Sobir and Sinthavy Malavong prepared this summary note for UNDP Lao PDR in 2023.