

**Keynote Speech by
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Vice Minister of Industry and Commerce of Lao PDR
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**Excellencies,
Distinguished Guests,
Ladies and gentlemen,**

It gives me pleasure to be present here today at the World Export Forum to share Lao PDR's experiences on integrating SMEs into the global value chain. This Forum also provides a unique opportunity for the public and private sector to discuss and share challenges and prospects for SMEs' growth in the global value chain. Before beginning my session I would like to express my deep appreciation to the Government of the Republic of Indonesia, especially the Ministry of Trade of Indonesia for inviting us to this very important event and for the hospitality extended to me and my delegation.

**Excellencies,
Distinguished Guests,
Ladies and gentlemen,**

Over the last 30 years global value chains have become more pervasive and complex. Global value chains now contain activities that are tightly integrated and often managed on a day-to-day basis. Trade is now viewed from a different perspective. Trade flows should be measured today in terms of the value added by each production link along a supply chain to the final value of goods and services.

Global value chains offer opportunities as well as challenges for SMEs in developing countries. They not only facilitate market access but also demand efficiency from suppliers. Therefore, developing countries are required to implement policy reforms that help increase competitiveness as well as improve the Enterprises' reliability and efficiency. Not long ago preferential market access has been a key determinant for enterprises' competitiveness in developing countries. Nowadays the relevance of such a determinant has been declining due to tariffs liberalization and global value chain application as a business model. In global value chains, competitiveness is determined by many factors particularly a sound business environment. LDCs tend to face major constraints in terms of resource availability to formulate and execute good policies. Therefore, LDCs are likely to be providers of low value added products in global value chains that make only a limited contribution to their development.

1. Let me give you an overview of the value chains in Lao PDR Like in many LDCs, Lao PDR's economy is mainly dominated by SMEs accounting for more than 98% of all operating enterprises. More than 81 percent of Lao employment is generated from SMEs. However, the SME sector contributes only around 6-9 percent to our BIP. That might be due to the fact that Medium Sized Enterprises are relatively few leading to a limit in ability by the sector to adopt new technology and take part in the rapidly expanding regional production network and more integrated regional market. Similarly the high rate of subsistence agriculture in Lao PDR limits the scope for developing

integrated agri-businesses. Hence, most Lao enterprises produce for the local market and they are very small and vulnerable. It is an unavoidable fact that with the integration into regional and global markets our enterprises will face stiff competition.

On the other hand integrating SMEs with regional and global value chains could help stimulating more growth in the SME sector through improving linkages between local SMEs and international investors and other large companies. Lao PDR is located at the center of the economic corridors which link with China in the North and with ASEAN in the South. The development of these corridors will transform Lao PDR from a land-locked to land-linked country and will provide new opportunities for SMEs in Lao PDR.

2. *Now I would like to share Lao PDR's present experiences in the integration of SMEs into global value chains* To a certain extent, Lao SMEs in the garment, wood processing, coffee and handicraft textile sectors have already integrated into the global value chains. However, this has only partially been achieved because the quality of added value in Lao PDR is still based on basic processing or simple production steps. We identified the following as key factors limiting our SMEs' integration into global value chains.

Entrepreneurism There is a shortage of a sustainable entrepreneurial drive in the SME sector. This is not only attributed to a weak culture of innovation but also to the lack of entrepreneurial knowledge. Entrepreneurship capabilities are crucial for SMEs to maximize their comparative advantages gained from operating on a small scale, such as the flexibility to adapt to changing market demands.

Lack of Expertise and market information The development of the SME is also constrained by a lack of skill and expertise in management and organization, which are important for an enterprise's efficiency, flexibility, and competitiveness. The need for competent and modern management is compounded by the fact that drastic economic and technological developments have created new and modern ways of production and service delivery.

Networking and market linkages There has been minimal clustering and network forming among SMEs, in Lao PDR. Barriers they commonly face include difficult access to information, markets, and inputs. There is still an inward-looking mentality that is typical among the family enterprises which account for a large proportion of the sector.

Access to Finance. SMEs in Lao PDR have found it difficult to gain access to finance for a long time. This can be attributed to imperfections in the financial markets and a lack of critical primary and secondary markets such as those for SME equity and bond financing. Thus, SMEs are still struggling to secure long-term bank loans, working capital and bridge financing.

3. *The Lao government is trying to improve the business environment in order to*

encourage investors to include Lao SMEs into global value chains. Various measures have been undertaken to improve the business environment for both SMEs and investors. The industry and trade promotion plan of the Ministry of Industry and Commerce (MoIC) comprises a number of complementary strategies and action plans. Development of international value chains is a cross cutting topic, which is considered in various plans especially the "Trade promotion Strategy" and the "National SME Development Plan". The first national SME development plan was developed and

implemented from 2006 – 2010 and, after an evaluation followed by the SME development plan 2011 -2015. The development plan is a multi-stakeholder approach which involves the private sector, concerned government agencies, civil society and foreign donors. Objective is to improve the business environment by tackling bottlenecks and constrains for SME growth on several levels:

- The enterprise level – for example skills development and other capacity building measures
- The institutional level, (for example strengthening the capacity of chambers of commerce and industry, SME promotion agencies, licensing offices etc.)
- And the level of government policies and regulations.

The present SME development plan contains the following focus areas:

- 1. Improving regulatory environment and public administration of economic activities,**
- 2. Improving access to finance for SMEs**
- 3. Formation of new entrepreneurs**
- 4. Increase the provision of support and Business development Services (BDS)**
- 5. Enhance business linkages between large enterprises and SMEs** This is also closely linked to International value chains. It comprises the establishment of a database of business opportunities arising from large investment projects for SMEs and to create a mechanism to encourage cooperation's between large enterprises and SMEs. Large enterprises are stimulated to make use of products and services provided by SMEs/
- 6. Promote the increase of productivity for upgrading the quality and standard of products and services of SMEs**
- 7. Enhancing access to markets and enlarge markets for SMEs** This focus area is closely linked with global or international value chains and value chain development activities for products like organic coffee, teak wood, bamboo, rice, tourism and others have been conducted or are ongoing. It comprises also measures like the establishment of a database about business and market opportunities. To provide research and indentify sectors, products and services were Lao PDR's SMEs have potentials and comparative advantages. Support SMEs in participation at local and international fairs and trade exhibitions and implement the Trade and Export Promotion Strategy.

The SME development plan has to be seen as a crosscutting exercise which is complementary with other government strategies like the implementation of the new "Investment promotion law", which tries to make Lao PDR more attractive for local and foreign investors and trade policies of the government.

With this I would like to end my session and thank you very much for your kind attention.