



**EXECUTIVE FORUM ON
NATIONAL EXPORT STRATEGIES**

**EXPORT OF SERVICES: HYPE OF HIGH POTENTIAL?
IMPLICATIONS FOR STRATEGY- MAKERS**

**5-8 October 2005
Montreux, Switzerland**

Essentials of Logistics Services in Laos

**A paper contributed by
Khemmani Pholsena
Director General
Foreign Trade Department
Ministry of Commerce
Laos**

ESSENTIALS OF LOGISTICS SERVICES IN LAOS

Logistics Services and Efficiency

Logistics is a procedure to optimize all activities to ensure the delivery of cargo through a transport chain from one end to the other. The comparative efficiency of a country's trade logistics chain is of vital importance in enhancing competitiveness of its industry and commerce.

The development of an effective logistics platform to support trade requires that it complements efforts to create competitive advantage in the export trade and to establish an efficient distribution system for the import trade. It is therefore necessary to consider the nature of export production and the demand for imports and how these affect the demand for logistics services.

For the smaller developing countries, there are two factors to be considered in determining the options for and constraints to improving competitive position. These are scale and market access. Scale is constrained by the availability of resources not only capital and natural resources but also human resources, especially managerial skills. Access is determined not only by location relative to the principal markets and major transport routes but also by the agreements governing bilateral and multilateral trade and cross-border movements of goods.

Since the production activities in Laos are limited in scale, they require a logistics platform capable of handling smaller volumes efficiently. Because market access is limited by its lack of a major gateway and limited ICT infrastructure and cumbersome shipping processes, it is necessary that this logistics platform offer simplified supply chains and efficient communications with the participants in these supply chains. It is also necessary that the logistics platform support low transactions costs but provide both variety in the form and routing of shipment and reliability in meeting delivery schedules.

Overview of Logistics Services in Laos

Much has been made of the fact that Laos is a landlocked country. However, this condition has three dimensions - physical isolation from foreign markets, efficiency of logistic services and availability of infrastructure and border crossings.

The efficiency of logistic services has been a problem for Laos but is being resolved. The remaining difficulties are basically due to limited cargo volumes and constraints on competition rather than the fact that the country is landlocked. The other dimension includes both the land borders and the international ports and airports. Because of the limited number of official international crossings and gateways as well as cumbersome procedures at these facilities, they add time and cost for shipments and reduce reliability of delivery. Some efforts to improve the efficiency of Lao-Thai border crossings and the Thai ports have been successful but in general there has been a lack of consistency and sustainability. There are efficient supply chains that allow larger Laotian companies to compete with neighbouring companies in certain export markets, but improvements are required if there is to be broader participation in these markets and expansion into new markets.

The development of Lao exports will continue to be limited by resources, both capital and labour, and by location. Even with efficient logistics, at least a week is required to move goods from a Lao factory to a trans-shipment port where it can be loaded on a mainline vessel. The growth of Laotian exports will be very much dependent on developing better upstream logistics, specifically increasing subcontracting arrangements and improving quality control.

In Laos, road transport is main mode constituting about two thirds of freight traffic. The waterways carrying most of the remainder in the form of bulk commodities moving along the Mekong river. The road network includes some 32,600 km of which about ¼ are national roads and less than 1/6 is paved. Because of the relatively low road density, a large portion of population is more than 5 km from a road and a significant portion of the villages is not accessible

during the rainy season. Recent investments in road infrastructure have focused on restoring the arterial road network, especially Road No. 13, which runs down the centre of the country, as well as links connecting to Thailand and Vietnam.

The volume of transit traffic has remained relatively small despite the improvement in connections. The most intensively used is that connecting Bangkok and Vientiane. The current traffic is about 150 trucks per day in each direction. Estimates by a local forwarder are that about 50 loaded containers move across into Thailand each day together with another twenty 10-wheel trucks carrying goods for consolidation in Nongkhai of Thailand.

The Lao trucking industry is highly fragmented and largely informal. Most trucking is provided by independents, which operate one or a few 6 or 10 wheel trucks. Even the large registered trucking companies have relatively small fleets and rely on independent operators for peak capacity. There are relatively few articulated trucks and almost no container chasses.

The principal types of trucks used for transport of Lao imports and exports are 18 wheel trucks carrying containers and 10 wheel fixed axle trucks carrying loose cargo. The latter, which can carry up to 25 m³, charge significantly less. Lao 10 wheelers have been used to carry cargo between Vientiane and Nongkhai where they are trans-shipped to Thai 10 wheelers for the bonded movement to Bangkok. The same arrangement applies in the reverse direction, but in both cases the Thai truck has the option of carrying domestic cargo on its backhaul and thus their freight rates reflect the one-way cost for transport. Under the new agreement, it is possible for 10 wheel trucks to avoid the trans-shipment at Nongkhai and thus further reduce the rates, but the entire movement will be Thai trucks operating under bond. In contrast, the container movements have generally involved an empty movement in one direction, either empty up to Laos for loading exports or empty returning from Laos for import cargoes.

Main Constraints on the Logistic Services Sector

Of the various logistics problems facing Laotian foreign trade, the one that has the greatest impact on competitiveness is the cost for moving goods between Laos and its neighbours. This cargo is shipped in 10 wheel trucks. Based on the typical capacity of 25 cbm, the cost for a fully loaded truck of mixed consignments would range from 19.5-21 thousand Baht for two large consignments to 30-35 thousand Baht for five consignments. This is significantly above the cost for a full truckload with the result that shippers will often ship their goods as unconsolidated freight. Any effort to consolidate loads in Laos would have a significant impact on the cost of freight up to the Thai port.

One of the major concerns of Lao exporters is to improve their supply chains, both inbound carrying the inputs to production and outbound delivering their products to the market. In order to understand where the greatest bottlenecks lie, it is necessary to consider the time, cost and reliability for supply chains in both directions. To determine the appropriate initiatives to correct these bottlenecks, it is necessary to separate the domestic component of the supply chain from the international component. The current discussion focuses on a composite of these together with the information obtained from the logistics service providers.

Laos shares the border with 5 countries in the region: China in the north, Vietnam in the east, Cambodia in the south, Thailand in the west and Myanmar in the northwest. It has a strategy to transform its "landlockedness" to become a "landlinked" country under the Greater Mekong Sub-region (GMS). One initiative is that Laos starts negotiating the Transit Agreement with Thailand in 1999 and it was ratified in 2004. It is expected that the Agreement will expand competition and provide a significant reduction in logistics costs but only a modest reduction in shipping time for exports. The reduction in logistics costs will depend on improving the access of Laotian exporters and importers to competitive logistics services in neighbouring countries. Local logistics service providers will always be at a competitive disadvantage relative to Thai providers because of the economies of scale as well as restrictions, which prevent Lao service providers from competing for the transport of Thai domestic cargo or Thai trade with other countries.

The general conclusions to be drawn are that the potential improvement in logistics will have relatively little impact on the competitive position of the larger exporters producing medium to high value goods for export to Europe and North America. There would be benefits to exporters of low value goods and also those exporting within the region. The most significant improvements would be for the smaller exporters who have a significant amount of imported inputs and whose shipments are primarily cargo in 20' containers.

The basic strategy for improving supply chains is to reduce intermediaries and minimize cargo handlings and strengthen domestic logistics service providers while improving access to foreign providers. Among the primary initiatives are:

- Simplify import and export licensing procedures for Lao traders to speed transactions.
- Continue customs reform through computerization of entry of declarations and clearance of cargoes.
- Restore and expand opportunities for clearance of exports at the factory and imports at the traders warehouse.
- Allow imports to move directly to the Lao border bypassing the transit facility in Bangkok Port.
- Introduce consolidation services to improve small and medium enterprise supply chains.
- Procure domestic containers to facilitate movements.
- Introduce a dry port to reduce empty backhauls.
- Provide access to finance for Laotian trucking companies seeking to compete for traffic in the Thai-Lao corridor.
- Provide training for small and medium enterprises and freight forwarding industry in supply chain management.

Recommendations

There are a number of initiatives that the government can undertake to improve the performance of the supply chains for goods traded with Laos' neighbours and foreign countries, thereby improving the competitiveness of exports and reducing the cost of imports. These include changes in procedures that require relatively little investment. Most of them would build on existing practices and either simplify them or remove key constraints.

The first initiative would be to simplify approval procedures for imports and exports. The Ministry of Commerce has so far tried to improve the import and export procedures by enacting many decrees and regulations.

The second initiative would be a reduction in the number of signatures required to clear cargo. Once accepted, a procedure for electronic submission of these documents would be developed along with a process for expedited approvals in order to reduce the incidence of informal payments. There are a number of systems available for this purpose such as ASYCUDA or C2000, which is being used by Lao Customs.

The third initiative would be to simplify procedures for door-to-warehouse or door-to-port movements of containerized goods on the Vientiane-Bangkok corridor. This would involve expanding and regularizing practices already developed for clearing both inbound and outbound full container loads (FCLs) at the warehouses of the major exporters and importers, e.g. WFP, Unilever, Trio.

The fourth initiative would be to license customs clearance agents. This would include certification of technical knowledge combined with a commitment to remain current on customs procedures. It would also include a requirement for bonding individual customs agents.

The fifth initiative would be to develop a consolidation service for small freight shipments on the Vientiane-Bangkok route. The current practice of consolidating loads at Nongkhai would be replaced by a similar activity at a container freight station in Vientiane. Export cargo would be loaded into domestic containers equipped with modern electronic seals and transported to the transit warehouse in Bangkok where the cargo would be reconsolidated in marine containers for overseas shipment. In the reverse direction, imports would be consolidated into domestic containers at the Bangkok transit warehouse. They would then be moved under seal by bonded carriers to Vientiane.

This initiative requires an agreement from Thai customs to treat these movements in the same way as FCL shipments. This facility would be accessible not only to domestic forwarders but also to Thai and foreign companies that have a presence in the Vientiane market.

The sixth initiative would be to establish an Inland Container Depot/Dry Port near the border where the shipping lines could deliver containers, receive cargo for loading into containers and reposition empties. This facility would allow importers to return empty containers to the ICD rather than to Bangkok. Similarly, it would act as a dispatch point for empty containers to be loaded with exports thus avoiding bringing empty containers from Bangkok. The facility would allow repositioning empties to shippers within Thailand and to Bangkok with two 20' containers on a trailer or rail wagon if efficient service is available from Nongkhai.

The seventh initiative would be to provide technical assistance to the logistics industry to develop their capability. For the trucking companies this would involve financing for equipment suitable for hauling containers on the roads in Thailand.

The eighth initiative would be to begin monitoring performance at the border crossings. This data would be used to evaluate not only the effectiveness of the customs functions but also the impact of various initiatives for improving that function. There are a number of standard indicators of efficiency. Some measure the effectiveness of trade facilitation, e.g. times for individual processes and total in-out time, while others measure the efficiency of the resources used, e.g. number of clearances per customs agent or signatures required.