Lao PDR trade facilitation performance
An update from the 2010 Logistics Performance Index

Key messages
New data from the World Bank’s Logistics Performance Index suggests that the Lao PDR has made modest improvements in connectivity to international markets, particularly in measures of the frequency of which international shipments arrive on schedule and the ability of shippers to track and trade consignments. However, performance is still relatively poor in measures of the quality of trade-related infrastructure, the efficiency of border processes and in the quality of logistics services available in country. More importantly, while the Lao PDR compares favorably with other landlocked low-income countries, the country lags behind regional competitors. Continued reforms and investments will be needed to strengthen trade facilitation performance and offset the trade-related disadvantages associated with being landlocked.

Methodology
The Logistics Performance Index (LPI) is a benchmarking tool that provides a means of comparing the overall logistics environment across countries. It is constructed based on a survey of freight forwarders and express carriers on the ground worldwide, providing feedback on the logistics "friendliness" of the countries in which they operate and those with which they trade. These operators handle the movement of goods across borders, coping with operations from factory to warehouse to port, from port to overland transit, and through one or more borders, to the destination with each link testing a country’s logistics infrastructure that best summarize the current overall logistics environment. These six dimensions cover:

1. Customs—efficiency of the customs clearance process assessed by scoring from very low (1) to very high (5);
2. Infrastructure—quality of trade and transport-related infrastructure rated from very low (1) to very high (5);
3. International shipments—ease of arranging competitively priced shipments marked from very difficult (1) to very easy (5);
4. Logistics competence—competence and quality of logistics services scored from very low (1) to very high (5);
5. Tracking and tracing—ability to track and trace consignments scored from very low (1) to very high (5), and;
6. Timeliness—frequency with which shipments reach the consignee within the scheduled or expected time rated from hardly ever (1) to nearly always (5).

The LPI is therefore created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve. The LPI was first prepared by the World Bank in 2007, and new data for 2009 has just been released.

Lao progress since 2007
The overall logistics performance of the Lao PDR, as measured by the 2009 LPI, has seen a modest improvement compared to in 2007 (see Figure 1). The overall performance indicator has improved from 2.25 to 2.45, on a scale of 1 to 5. Improvements have been seen in the ease with which competitively priced international shipments can be arranged (up from 2.40 to 2.70), on the ability to track and trace consignments (up from 1.89 to 2.45), and on the frequency with which shipments reach the consignee within the schedule or expected time (up from 2.83 to 3.23). Such improvements may well be accounted for by the increased level of openness in the Lao PDR as the country integrates more closely with the regional economy and into cross-border supply chains.

A more modest improvement was recorded for measures of the efficiency of the customs and border clearance processes (up from 2.08 to 2.17). Greater improvements in area are likely to be seen as the ASYCUDA system is installed into Lao border posts. A Time Release Survey currently being undertaken by the Lao Customs Department and the World Bank will reveal more detailed insights on the efficiency of border processes.

Comparing with other countries in the region
Comparisons with regional benchmark countries show mixed results, with the Lao PDR (2.46 overall on the LPI) well behind Thailand (3.29) and Vietnam (2.96) but performing slightly better than Cambodia (2.37) (see Figure 2). Lao PDR also compares favorably with the average for landlocked low-income countries. Compared to this grouping, the Lao PDR is better than average on the measures of the efficiency of customs, international shipments and timeliness, and below average on measures of infrastructure, logistics competence and (just) tracking and tracing.
Research suggests that there are clear economic consequences associated with being landlocked. Econometric studies comparing the growth experience of large numbers of countries, over several decades, showed that being landlocked had resulted in significantly lower economic growth. Analysis of data for 92 low and middle income countries over the period 1980–96 showed that landlocked economies grew more slowly than coastal countries, by around 1.5 percentage points per year. More recent research covering a higher number of countries and over the full period from 1960 to 2000, distinguishes between countries that are rich in natural resources from those that are not. It finds that over the period from 1960 to 2000, coastal countries grew by an average of 4.7 percent per year, compared to just 3.2 percent for landlocked countries. The average difference was 1.5 percentage points per year slower growth in income per head than coastal countries, by around 1.5 percentage points per year. More recent research covering a higher number of countries and over the full period from 1960 to 2000, distinguishes between countries that are rich in natural resources from those that are not. It finds that over the period from 1960 to 2000, coastal countries grew by an average of 4.7 percent per year, compared to just 3.2 percent for landlocked countries. The average difference was 1.5 percentage points per year slower growth in income per head than coastal countries, by around 1.5 percentage points per year slower growth in income per head than coastal countries.

Comparing corridors for landlocked countries

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Data collected in 2008 by the World Bank for the Trade and Transit Facilitation for Landlocked Developing Countries study compares the performance of ten transit corridors that link landlocked developing countries to the sea. The results for a twenty-foot container (TEU) using the ten landlocked corridors and their coastal comparators are provided in Table 2. The average cost of shipping a container from Vientiane to Los Angeles is US$ 4,152, compared to just US$ 2,857 for Bangkok to Los Angeles – a “landlocked” premium or cost penalty of 45 percent. This is obviously a challenging disadvantage to offset, although 45 percent is actually slightly better than the LLDC average of a 53 percent cost penalty. Laos performs worse on the time penalty associated with being landlocked. Shipping a container from Vientiane to Los Angeles takes an average of 78.5 days, almost double the time taken to ship from Thailand. This 97 percent time penalty is well above the LLDC average of 32 percent. Combined with the findings from the LPI, this suggests that while the time taken to ship goods into and out of Laos may be long, the time taken is reasonably consistent.

Conclusions

It is widely recognized that logistics have a major impact on economic activity. World Bank estimates suggest that global logistics costs add up to over 11 percent of global GDP, or some US$ 3 trillion. This encompasses an array of actions, from transportation, consolidation of cargo, warehousing and border clearance to in-country distribution and payment services. These processes involve a variety of public and private sector agents, and the efficiency and consistency with which the logistics and trade facilitation system in a country functions has a significant effect on international trade. Research suggests that each additional time delay that occurs within a logistics supply chain reduces trade by one percent, or has the equivalent effect of distancing a country on average by an additional 70km from trading partners. Clearly, while the Lao PDR is moving in the right direction in terms of trade reforms and is performing well compared to other landlocked countries at a similar level of development, much more still needs to ensure that the Lao private sector is able to compete in export markets with regional competitors.

References


Logistics Performance Index website: http://www.worldbank.org/lpi

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Produced with resources from the Trade Development Facility Multi Donor Trust Fund, financed by the European Commission and the Government of Australia, and administered by the World Bank.

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