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The implications of deregulation & liberalization on the logistics service industry in Lao PDR

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ABSTRACT

This study analyses the development of the Lao freight logistics sector with a special focus on factors influencing freight logistics services efficiency after the processes of liberalization and deregulation of the economy. Based on empirical data, the study focuses on two main dimensions of the Lao freight logistics sector: (i) the development of a private freight logistics sector since the formulation of the New Economic Mechanism (NEM) that progressively opened the Lao economy to the world; (ii) the Lao freight logistics sector's awareness of opportunities and challenges arising from Lao PDR's participation in ASEAN, GMS and hopefully the WTO in the near future.

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1. Introduction

Since the launch of market reforms during the late 1980s, Lao PDR has shown a strong record of economic growth. Economic reforms in Lao PDR started at a major scale in November 1986, when the New Economic Mechanism (NEM) was adopted and major steps towards transition from a centrally planned economy to a market economy were taken (World Bank, 2008). Under the NEM, the Lao government announced measures to promote the development of the private sector. It deregulated price, production controls, and granted managerial and financial autonomy to state-owned enterprises. These reforms, together with Lao's participation in the Association of South East Asian Nations¹ (ASEAN) and its free trade area ASEAN Free Trade Area (AFTA), the Greater Mekong Subregion (GMS) co-operation program under the auspices of the Asian Development Bank and its willingness to become a

member of the World Trade Organization (WTO), have created a challenging environment for all types of business activities, in particular for local firms.

The objective of this paper is to: (i) provide an overview of factors influencing the efficiency of the domestic market for freight logistics within the context of an economy in transition towards market economy with large geographical constraints and challenging institutional changes such as deregulation, liberalization of the economy and increased integration with neighboring countries; (ii) analyze the development of the Lao freight logistics sector with a special focus on the demand for freight logistics services. Based on empirical data, the study focused on two main dimensions of the Lao freight logistics sector by studying the development of a private freight logistics sector and its components with a particular focus on components within the logistics industry influencing the level of efficiency and to study the Lao freight logistics sector's awareness of opportunities and challenges arising from Lao PDR's participation in ASEAN, GMS and the WTO in the near future. The first part of the paper propose a framework for how to analyze the national logistics system and its components from a efficiency perspective, the second part of the paper seek to map the development over time and

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¹ Members of ASEAN are Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Singapore, Philippines, Thailand and Vietnam.