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**THE SOCIO-ECONOMIC IMPACTS OF LAO – THAI INFORMAL BORDER
TRADE ON PEOPLE’S LIVELIHOOD AND POVERTY REDUCTION**

Miss Viengxay Thammavong

A Thesis Submitted in Partial Fulfillment of the Requirements
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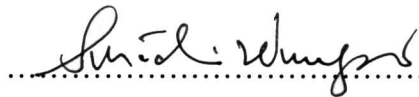
Advisor Puangthong Pawakapan, Ph.D

Accepted by the Faculty of Political Science, Chulalongkorn University in
Partial Fulfillment of the Requirements for the Master’s Degree.



..... Dean of the Faculty of Political Science
(Professor Charas Suwanmala, Ph.D.)

THESIS COMMITTEE



..... Chairperson
(Assoc. Prof. Surichai Wun'Gaeo, Ph.D)



..... Advisor
(Assist. Prof. Puangthong Pawakapan, Ph.D.)



..... External Examiner
(Assoc. Prof. Withaya Sucharittharak, Ph.D.)

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จุดประสงค์ของการศึกษาครั้งนี้ เน้นใ้การศึกษาเกี่ยวกับเครือข่ายของการค้าชายแดน
นอกระบบ และความสัมพันธ์ของมันกับการค้าในระบบ และศึกษาเกี่ยวกับผลกระทบของการค้า
นอกระบบต่อชีวิตความเป็นอยู่ของคนที่มีส่วนร่วมในการค้านอกระบบดังกล่าว

ผลของการศึกษาแสดงให้เห็นว่า เกือบทั้งหมดของผู้ประกอบการค้าชายแดนนอกระบบ
เป็นผู้หญิง อายุระหว่าง 25-45 ปี และมีการศึกษาน้อย การค้าชายแดนนอกระบบทั้งหมดคือการค้า
ขนาดย่อมและมีสินค้าในการค้าขาย คือ สินค้าอุปโภคและเครื่องใช้ครัวเรือน การวิจัยยังได้ชี้ให้เห็น
ถึงรายได้จากการค้าชายแดนนอกระบบของบรรดาผู้ค้าสูงกว่ารายได้ที่พวกเขาเคยได้รับจากอาชีพ
ก่อนหน้าของเขา ดังนั้น การค้าชายแดนนอกระบบ คือ แหล่งรายได้ที่แท้จริงสำหรับคนที่มีส่วน
ร่วมในธุรกิจดังกล่าว และการค้าดังกล่าวยังสามารถกลายเป็นอาชีพหลักของพวกเขาได้ และผลที่
ได้รับ คือ สภาพการเป็นอยู่ของเขาได้รับการปรับปรุงให้ดีขึ้นกว่าเก่า

ผลของการศึกษาแสดงให้เห็นว่า ผู้ค้าชายแดน สามารถพึ่งพาอุปสรรคในการดำเนินธุรกิจ
ของพวกเขา โดยการอาศัยเครือข่ายทางสังคมและความชำนาญทางธุรกิจของพวกเขา พวกเขา
ทำงานเป็น social community ซึ่งมีผู้ค้าชายแดน คนแบกขนสินค้า ฯลฯ การผสมผสานของเครือข่าย
ทางสังคมเหล่านี้ได้ส่งผลดีต่อผู้ค้าชายแดน ในการลดการแก่งแย่งลง สร้างความเชื่อถือและส่งเสริม
ขีดความสามารถของพวกเขา ขณะเดียวกัน พวกเขาที่ใช้เครือข่ายทางสังคมเหล่านี้ป้องกันมิให้
บุคคลอื่นมาเอารัดเอาเปรียบพวกเขา

การศึกษายังชี้ให้เห็นว่า ธุรกิจของผู้ค้าชายแดนเหล่านี้ มีส่วนผสมระหว่างลักษณะของ
การค้านอกระบบและการค้าในระบบในตัวของมันเอง กล่าวคือ ผู้ค้าชายแดนล้วนมีร้านค้าที่ถูกต้อง
ตามกฎหมายของตนและพวกเขาได้ยื่นคำร้องเพื่อขออนุญาตจากหน่วยงานที่เกี่ยวข้องของรัฐเพื่อ
ดำเนินธุรกิจและได้เสียภาษีให้แก่รัฐ ในขณะที่สินค้าในร้าน คือ สินค้าที่ซื้อผ่านระบบและนอก
ระบบเพื่อเป็นการลดต้นทุน และให้ได้ผลกำไรสูง ดังนั้น การค้าในระบบและนอกนอกระบบ จึงมี
บางส่วนของที่ซ้อนทับกันอยู่ (overlapping)

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ลายมือชื่อนิสิต.....
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VIENGXAY THAMMAVONG: THE SOCIO-ECONOMIC IMPACTS OF
LAO-THAI INFORMAL BORDER TRADE ON PEOPLE'S LIVELIHOOD
AND POVERTY REDUCTION

ADVISOR: ASST. PROF. PUANGTHONG PAWAKAPAN, Ph.D. 113 pp.

This study focuses on studying the characteristics of informal border trade networks and its relation to formal channel, and the impacts of informal trade on people's livelihood involving in the informal trade.

The finding determined that almost of the informal border traders are women, aged between 25 to 45 years old, with low level of education. Most of the informal border trade was on a small scale and the products traded are mostly consumption and household goods. The research also indicated that the income earning from informal border trade of the traders is much higher than those from their previous jobs. Therefore, the informal border trade is a real source of income for people who involve in the business and it can be considered as their main job. As the result, their living condition has been improved better.

The finding of the research showed that the border traders are able to overcome the barriers in their business operations by calling on a number of social network and business skills. They work in a social community which included other border traders, porters and other parties. The combination of these social linkages gives border traders advantages in minimizing hassles, building trust and increasing the scope of their capabilities. At the same time, they use these social networks to guard against another party taking advantage of them.

The research also found that the businesses of these cross border traders are themselves combine a formal and informal characteristic. On the shop itself, a shop owner has to apply for a licence from authority concerned and pay taxes to customs while goods suppliers in a shop buy from both formal and informal channel in order to reduce their capital and gain maximize profit. Therefore, formal and informal trades are overlapping in this border trade area.


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ABBREVIATIONS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
ASEAN	Association of South East Asian Nations
CMEA	Council of Mutual Economic Assistance
DAN	Development Analysis Network
ESCAP	Economic and Social Commission for Asia and Pacific
GDP	Gross Domestic Product
GMS	Great Mekong Sub-region
Lao PDR	Lao People's Democratic Republic
LPRP	Lao People's Revolutionary Party
MOC	Ministry Of Commerce
MOIC	Ministry of Industry and Commerce
NEM	New Economic Mechanism
UN	United Nations
UNCTAD	United Nations Conference on Trade And Development
UNDP	United Nations Development Programme
USA	United States of America
USSR	Union of Soviet Socialist Republic
WFP	World Food Programme
WHO	World Health Organization

CHAPTER I

INTRODUCTION

After suffering from the long civil war, the Lao People's Democratic Republic was established as a socialist country in 1975 by the Lao People's Revolutionary Party (LPRP) and adopted the socialist economic system under which the country's economy became slow or stagnant, leaving the society in an underdeveloped and undeveloped situation. Thus, Lao government began to introduce the "New Economic Mechanism (NEM)" to restructure the country's economy from centralized planning policy to market-oriented economic policy in 1986. This reform aimed at restructuring the economic system in order to stabilize, deregulate and improve the performance of the economy.

However, since Laos lacked high technologies and human capacity which are imperative to strengthen the national economy, the government of Laos worked hard to develop the national economy and to improve the people's living standards. The only solution to take the country out of the economic stagnation is to integrate the Lao economy into regional and global economy. In 1997, Laos became a member of the Association of South East Asian Nations (ASEAN), thereby having a chance to enter into the mechanism of the ASEAN Free Trade Area (AFTA). To integrate the national economy into regional and global economy, the Lao government stressed the importance of trade with its neighbours as well as other countries in the regional bloc. As Laos is a landlocked country in the mainland Southeast Asia, the government considered the promotion of the border trade with its neighbouring countries as a major part of its foreign trade cooperation because it can contribute significantly to the growth of the national economy, resulting in reducing poverty and improving the living standard of the people countrywide.

Among neighbouring countries, Thailand is the Lao's biggest trading partner. Although Laos and Thailand have differences in term of the political system, the two

countries have a long history of the mutual relationship because they have similarity in culture, customs and languages. Laotian and Thai people have long been crossing the natural borders between the two countries to engage in border trade and social activities such as visiting their relatives or friends on other side. Recently, the trade value in Lao-Thai border is more than 50 percent of the bilateral trade between the two countries¹ which is an important element to contribute to the country's socio-economic development. It is because the growing socio-economic integration in the region as manifested by the free trade agreement and free trade areas within the regional bloc. It has a significant impact on the living conditions of the Laotian local people particularly those who live in the border areas.

The prosperous growth of the border trade, however, has been a result of both formal and informal trade, meaning that the legal and illegal activities have existed in the border trade between the two countries. However, when it comes to the policy formulation of the national economic development, particularly in the area of the foreign trade policy, the Lao government policy mainly focused on regulating the operation of the formal trade sector. The government rarely mentioned about the informal trade sector such as small traders who are engaging in small scale trade activities by buying and selling goods for the demands of the local retail markets.

However, informal trade is a very important economic sector providing a significant proportion of the direct returns not only for the Laotian middle class but also for the local poor people to help them improve their living conditions. In a developing country like Laos where the economic development is small in scale, there has been a sizable population who is relying on the self-employed jobs by engaging in the border trade in order for them to earn a living. Also, the majority people have to rely on these small-scale traders who also play a main role in the retail markets as the vendors from whom the people have to buy goods and services in their daily life. This sector of trade is usually operated by small traders, most of which are unskilled and have low education.

¹ Figure from Department of Foreign Trade, Ministry of Commerce of Thailand.
[http://www.dft.moc.go.th/level4Frame.asp?sPage=the_files/\\$59/level3/loas_8.htm&level4=1878](http://www.dft.moc.go.th/level4Frame.asp?sPage=the_files/$59/level3/loas_8.htm&level4=1878)

1.1. Key Concepts of Research

1.1.1 Formal Trade

Formal border trade refers to trade activities operating through the customs channel at official crossing border check points operated by the governments of two countries through their bilateral agreements, and the official statistical data on the border trade has been recorded (Bank of Thailand, 2003). Formal trade is the common form of trade and it is usually dominated by big companies or traders who are able to mobilize large amounts of capital and to provide multiple services for imports and exports such as transportation, payment transferring, customs clearing and storage etc. In order to trade through formal channel in Laos, it requires an import-export license and submitting official documents to get a license is a long process which takes time and costs a lot of money, according to Taneja and Pohit (2000). Consequently, export-import companies need to register in the relevant government agencies. The formal trade size is for medium and large business sector (Leebouapao, et al. 2005).

1.1.2 Informal Trade

According to O'Hara (1999), the term "informal sector" is taken to describe economic activities taking place outside the formal norms of economic transactions established by the state and the business sector. It is very difficult to define and measure whether an economic transaction is legal or illegal due to the nature of informal trade as well as the close linkages between informal and formal sector in some ways. The term informal sector applies to small or micro-business that carry out by individual or family self-employment, including the production and exchange of legal goods and services that have lack of appropriate business permits, violation of zoning codes, failure to report tax liability, non-compliance with government regulations, and lack of legal protections between suppliers and clients. Therefore, it is difficult to define the informal sector in terms of precise nature, size and significance (Peattie, 1987 and Bromley, 1990 quoted by O'Hara, 1999).

Informal border trade refers to trade activities that not operating through customs channel in order to avoid taxes and there is no income report in the official statistic records (Bank of Thailand, 2003). According to Taneja and Pohit (2000), the informal trade does not require any documents, thus, it does not receive any support or protection by law because it is operated outside the official regulation. Informal border trade activities are usually operated in form of daily crossing borders and carrying small quantity of goods through informal or traditional checkpoints, or sneaking into borders. According to Foreign Trade Department of the Ministry of Commerce of Thailand, “Border Trade” refers to trade activities in many forms of people or traders whose residences are in provinces, districts and villages sharing borders with neighbouring countries.² They practice barter trade by exchanging goods in small scale between people living along the border areas of both sides. Furthermore, border trade is usually simple and quick. It does not require complicated processes as in formal trade activities.

Moreover, Malaphet (1994) and Semyaem (2004) also defined that there are two types of border trade: formal and informal trades. Importing and exporting goods through the customs system are called as “formal trade” while the trade activities that are not conducted through customs system are called as “informal trade.” In fact, Informal trade comes in different forms and is known with different names: for example, illegal, unofficial, underground, paralleling, smuggling or black market activities (Ackello-Ogutu and Echessah, 1997:2). One of the main characteristics of this trade is that it is not mandatory to submit tax returns at the end of each financial year, resulting in not entering into the national accounts (Mwaniki, 2007). Therefore, informal border trade often leads to illegal activities such as drug trafficking and goods smuggling. Many of the informal trade activities are illegal due to lack of official registration and failure to comply with government regulations. Therefore, the informal sector remains outside the formal trade because of the existence of legal prohibition to certain trade activities and the failure of the law to recognize informal enterprises (Poapongsakorn, 1991).

² Ministry of Commerce of Thailand, retired from <http://www.moc.go.th/border.asp>

However, this study will not focus on illegal informal border trade activities such as smuggling legally sensitive items of goods or drug trafficking. Informal border trade in this research will focus only on informal trade activities on consumption goods.

1.1.3 Livelihood

Livelihood does not mean just the activities that people carry out to earn a living. It means all the different elements that contribute to or affect their ability to ensure a living for themselves and their household.

The concept of livelihood is widely used in poverty reduction and sustainable development and the term livelihood was first used as a development concept in the early 1990s. According to Drinkwater and McEwan (1992), livelihood is defined as adequate and sustainable access to income and resources to meet basic needs, including adequate access to food, potable water, health facilities, educational opportunities and housing (quoted in Frankenberger and McCaston, n.d.). In other words, livelihood is generally defined as a means of securing the necessities of life. A livelihood in this aspect must comprise of capacities, assets and activities required for a means of living. It is shaped by various levels and forces of vulnerability and the associated factors referred to as trends, shocks and stresses (Department of International Development, 2000).

Recently the meaning of the term has expanded to include broader systems that encompass social, economic and other attributes. Within these livelihoods systems or livelihood assets, various factors have an effect on the strength, resilience and vulnerability of people's way of life. Those may be their assets, work and other culture activities and factors that help people get access to these assets and activities. People's livelihoods are secure when households have secure ownership of or access to resources and income-earning activities, including reserves and assets, to offset risks, ease shocks and meet contingencies (Chambers and Coney, 1992; Chambers, 1988 quoted by the Strategy and Policy Division, WFP, 1998). Therefore, people's livelihoods are sustainable when they can maintain or enhance their capabilities,

assets, and cope with overcome internal and external stress. Unfortunately, not all people are equal in their ability to cope with stress and repeated shocks. Poor people balance competing needs for asset preservation, income generation and present and future food supplies in complex ways (Maxwell and Smith, 1992, quoted in Frankenberger and McCaston, n.d.). Thus, food and nutritional security are subsets of livelihood security; food needs are not necessarily more important than other basic needs or aspects of subsistence and survival within households.

People are the center of livelihood. Therefore, in order to understand livelihood, first it has to understand how people structure their means of living such as how they use capabilities, assets and activities in a resilient manner to look around for opportunities to diversify and to multiply activities to build a livelihood, which focuses on living in the environment rather than on income and consumption.

In a livelihood system the goal is to procure all the capabilities, assets and activities required for a means of living. Livelihood provides more detailed picture of how poor families cope to meet their basic needs, the importance of adaptation and risk diversification has come to the forefront in the battle against vulnerability. The answer lies in supporting the diversification of income sources and assets, as well as promoting investments and activities that help households to face shocks to their livelihoods and reduce risks. Households can have several possible sources of income and other resources that constitute their livelihood. A household's total resources are based not only on its productive activities and endowments, but also on its legal, political and social position within society (Sen, 1981; Swift, 1989; Drinkwater and McEwan, 1992, quoted by the Strategy and Policy Division, WFP, 1998).

Thus, sustainable livelihood is broadly used as it aims to increase the sustainability of poor people's livelihood by focusing on some development activities such as social, economical, institutional and environmental activities. The process is required to put the people at the centre in planning, implementing and managing. The sustainable livelihood approach is that people pursue a range of livelihood outcomes by which they hope to improve or increase their livelihood assets and to reduce their

vulnerability. There are different kinds of assets and resources that play a role in household livelihood (ADB, 2004 and WFP, 1998):

1. Human Capital: the skills, knowledge, experience, ability to labor, and good physical health that enable people to pursue different livelihood strategies to achieve livelihood outcomes.
2. Social Capital: the relationships or active connections among people (the trust, mutual understanding, and shared values and behaviors that bind the members of human networks and communities and make cooperative action possible).
3. Physical Capital: the basic infrastructure (affordable transportation, secure shelter and buildings, adequate water supply and sanitation, clean affordable energy, and access to information) and producer goods and equipments needed to support livelihoods.
4. Financial Capital: the financial resources people use to achieve livelihood outcomes. These can include savings, regular income or pensions, loans and access to credit, and liquid assets like land, livestock and jewelers.
5. Natural Capital: the natural stocks of both renewable and non renewable from which livelihoods are derived (e.g. land, water, wildlife, biodiversity etc.). It includes environmental services as well.

1.1.4 Poverty

Poverty may have different meaning for different people. Some people may say they are living in poverty because they don't have money, but others might say they don't have money but they are not poor, because they still have food on their table everyday though they don't have money. For this reason, there is difficult to define what exactly "poverty" means. However, according to UNCTAD (2002), poverty can be generally defined as "a situation in which a major part of the population lives at or below income levels sufficient to meet their basic needs" (quoted by Santarelli and Figili, 2002).

According to Santarelli and Figili (2002), international organizations divide poverty line into two categories: “relative poverty” and “absolute poverty”. People who earn less than 2 US dollars per day are considered the poor and for those who earn less than 1 US dollar per day are considered the extremely poor. Due to the difficulty in defining the level of poverty, as mentioned above, this poverty line cannot be used to estimate the real poverty situation in every country. Each country has difference condition, including difference levels of economic development. Although each country has set up its own national poverty line based on their real conditions which are more suitable and reflecting the real poverty situation within the country, we cannot deny or acknowledge those poverty lines set by international organizations. The UN poverty lines can be used as a basis reference for a national poverty line, particularly for poor countries.

Poverty is one of social problems that our world has been facing today and that leads to slow down the development of many countries. Therefore, poverty reduction is one of the priority factors that the governments of the developing countries must address if they truly want to develop their countries so that every citizen can enjoy the consequent benefits.

1.2. Literature Review

Although there are many research papers studying about Lao-Thai border trade, most of the previous works on Lao-Thai border trade focus on formal channel, rather than on informal channel. Those research papers mentioned informal trade along Lao-Thai border areas briefly and viewed only the negative impacts of informal trade that became obstacles for Lao-Thai trade along the border. Therefore, in order to find the information of the informal trade, this thesis had to study and review some previous research works not only about Lao-Thai trade relationship, but also other informal border trade economy in other countries in the region and beyond which will be useful and relevant to this thesis.

According to Castells and Portes (1989), the informal trade, both in developed and underdeveloped countries, is related to the modern and regulated trade. Particularly, it represents a central aspect of economic and social dynamics of less developed countries. Castells and Portes focused on informalization and its impacts on urban economies in underdeveloped countries. They placed their emphasis on analyzing the relationship between formal and informal economies. Although they mentioned poverty in their research, they did not study the impacts of informal sector on poverty reduction or how this kind of trade has impacts on local livelihoods.

Johnson, Kaufmann, and Schleifer (1997) stated that during the 1980s, the economies of Central and Eastern Europe and the former Soviet Union have had different experiences in their transitions from communism to capitalism. The informal sector continues to expand in these countries, in which many firms avoided official taxes and regulations. The outputs of these firms are generally not measured in the official statistics of the national economy. It was because retrenched workers often moved into the informal sector when public enterprises were closed down or downsized. It was also because households often needed to supplement incomes earned in formal employment with informally earned incomes in response to inflation or cutbacks in public services. Available evidence confirmed that during periods of economic adjustment, which was due to economic reforms or to economic crisis, the informal part of the economy tended to expand. Johnson, Kaufmann, and Shleifer examined how the interplay of politics, economics and institutional incentives influenced the growth of the informal economy, and in turn how the informal economy affected economic performance. They also claimed that without appropriate institutions and policies, the informal part of the economy will persist or expand even after macroeconomic stabilization and economic growth.

The study on unrecorded cross-border trade between Kenya and Uganda by Ackello-Ogutuu and Echessah (1997) indicated that the gains from informal trade included job creation and provision of both agricultural and industrial goods that would otherwise be unavailable. Informal trade also plays an important role in economic growth and provides income to those involved in it. People involving in

informal trade directly as traders or indirectly as agents and goods couriers would be unemployed people. In order to avoid detection and losses in case of confiscation by authorities, traders transport their goods in small quantities and hire porters or couriers to carry goods across borders through unofficial routes. Therefore, informal trade provides extra income to those porters and couriers who are mostly living under poverty. However, informal trade encourages official corruption and could be a source of revenue loss to the exchequer. In addition, due to the nature of informal trade, there is a low degree of specialization in traders' operations, and the transaction costs could be high. Because informal trade is operated outside official channels and it does not follow government regulation, traders often face harassment from authorities such as border police and custom officials. Therefore, traders have to give bribes to those authorities in order to avoid taxes and detection at border check points. Tax evasion, as a result, makes governments difficult to collect taxes from those who participate in informal trade and affects the economy. Another factor that increase costs in informal trade operation is that during the waiting period for shipping goods in order to avoid detection by the authorities, traders have to spend some extra costs for storage, accommodation and unofficial rents.

As the literature explored the reasons why informal trade is carried out, it points out that high tariffs and export taxes encourage smuggling and exclude some items from imports and exports invoice, primarily as a means to avoid taxes. Taxation policies of a government encourage illegal trade and affect the commodity prices. When a sale added tax, it will make the price of goods higher than the government regulation of prices and it becomes illegal to sale goods at that price. Therefore, traders try to avoid taxes in order to reduce the price of goods, so they can sale goods in low price by smuggling or excluding some amount of goods from the invoice.

The study of informal trade flowing between India, Bangladesh and Nepal by Taneja and Pohit (2000) focused on the nature of markets in informal trade as well as the issues with respect to governance of contractual relations in these markets. The study also analyzed the differences of institutional arrangements and firm attributes in formal and informal trade. The differences between formal and informal trade is that

formal trade can access to the law which provides supports and protection for contracting traders in case of one of two or more trading partners not following a contract or agreement. In addition, in order to trade through formal channel, it requires traders to proceed with official documents for import/export license and other documents. In contrast, informal trade does not require any documents, but it does not receive any support or protection from the law because it is operated outside the official regulation. Therefore, informal trade has developed its own institution arrangements in order to solve problems happening between two parties. In other word, informal trade operates under the trust between the two contracting traders which leads to a development in trading networks in both countries in terms of marketing, payment system, information etc. The study also pointed out that as far as institutional framework in the official channel is not efficient and the transaction costs of trading is higher than those in informal channel, traders would prefer to trade through the informal channel rather than the formal one. High tariffs and tariff differences in the region are other reasons why informal trade is taking place and goods will move from a low tariff to a high tariff country through informal channel. Although there is the establishment of free trade in the region, informal trade will continue to co-exist with formal trade. In the following, the thesis will study the literature on Lao-Thai Border Trade.

Adisorn Semyaem (2004) focused on the bilateral border trade policy and economic cooperation strategy between Lao PDR and Thailand. He also described the situation of Lao-Thai border trade cooperation, the impact of cross border informal trade on formal trade, the struggles, the challenges and opportunities of Lao economy, and the strength and weakness of Lao economic system. The paper also discussed about the foreign trade policy of Lao PDR in Greater Mekong Sub-region (GMS), particularly with China and Vietnam. The New Economic Mechanism (NEM) heralded reform of the Lao's trade system. The Technical Background Paper on Trade Policy (Bui and Ngonvorarath, 2005) summarized current Laos' trade policies detailing the implementation, and discussing the "behind-the-border" policy - a measure to protect domestic production, limit certain imports and give priority to certain economic sectors. Regional and global integration, for instance, multilateral

and bilateral trade policies were also discussed. The conclusion is Laos' trade policy is moving in the right direction in compliance with regional and global integration. However, to reap the full benefits, more reform of trade and other related policies is urgently needed.

Malaphet (1992) focused on illegal activities in informal trade, including the way of illegal trade operations, where and how smuggling is happening, the routes of smuggles and who involves in illegal activities in both countries, Laos and Thailand. He claimed that the illegal trade activities along the border areas between Laos and Thailand happened because of the long history and close relationship among the people living in both sides. Normally, there has been barter trade of the necessary goods for daily consumption. However, when the volume of the informal trade becomes high, it comes to aim at avoiding the tax payments and customs. In Malaphet's paper, he didn't study the impacts of informal trade on the livelihoods of the local people who live along border areas and the impact on their poverty alleviation or how informal trade or illegal trade provide earnings for their living.

Srikhamporn (1992) indicated that the Lao-Thai border trade has expanded well in the last decade. Although, the trade has been very active, Lao local businessmen still lack experience and capital; hence their capacity and power to deal with trading partners are limited. Border trade may in fact have some positive impacts on the local livelihoods. Informal interactions - trade in goods, social and cultural activities (for example, visiting relative, friends or participating in traditional festivals), and access to other services - tend to be very numerous especially along the Lao-Thai border. The role of formal trade is relatively small and tends to benefit the stronger trading partners in regional integration while informal trade has a great influence on the daily life of local populations, in particular those who live along the border areas. Regional economic integration does seem to have positively affected poverty mainly through labour migration and trade activities in the border villages.

The case studies on Lao-Thai border trade by the Bank of Thailand in 1993 at Tha Deua-Nong Khai and Savannakhet-Mukdahan and in 1994 at Khammuan-Nakorn

Pranom and Bokeo-Chiang Rai indicated that there were many obstacles for border trade between Lao and Thailand. Firstly, there were problems of goods smuggled by small-scale traders through informal channels along border areas because the porous geography between Lao-Thai border makes it convenient for smuggling. Other obstacles for Lao-Thai border trade are the high cost of transaction from transportation, overtime of officials and other fees, inconvenience of the country entry regulation, lack of promotion of trade and investment information in Laos, especially information of Laws and regulations which often has been changing. Furthermore, the lack of basic infrastructures in Laos is an obstacle for foreign trade and investment. The researchers suggested that the government of the two countries should resolve these obstacles in the future.

Manolom (2001) studied trade smuggling across Lao-Thai border in the upper northern region (Chiang Rai, Phayao and Nan) and indicated that after trade between Laos and Thailand is put into the custom system, which all border-crossing goods have to be taxed, leads to the increasing of goods smuggling along the border of the two countries. The research also pointed out that 50 to 60% of the total smuggling trade along Lao-Thai border is operated through these three provinces of the northern Thailand. Most of the smuggling is from Thailand to Laos through temporary crossing border check points, rather than permanent checkpoints. The study found that the characteristic of border trade between the two countries differs according to the size of enterprises. While big legal enterprises export construction material and import processed wood, the small non-legal enterprises export consumption goods and import woven cloth, agricultural and forestry products. Manolom's study found out that both big and small enterprises in those three provinces prefer to operate business in Thai currency and the payment does in cash rather than through banks due to the convenience in transaction.

There is another case study by Development Analysis Network (2005) on cross border trade of Laos and Thailand examined the nature of the cross border trade and gave an insight of how each country gained the benefits. The study concluded that the more advanced economies are in a better position to gain more benefits since

they have clear policies aiming at maximizing such benefits. There are some welfare benefits, but the extent varied with the country and the community. A common benefit is a greater access to cheaper consumer goods. The direct impact on employment, earnings and the increase in export or production varied considerably depending on the direction and clarity of a particular border trade promotion policy, and the level of human resource and infrastructural development of individual country.

According to Lao National Human Development Report of UNDP (2006), trade contributes to economic development. This benefits people if the growth is pro-poor, sustainable and job creating, among other factors. For foreign trade to benefit poor people and reduce poverty, there need to be clear 'pathways' connecting trade directly and indirectly to many Lao families and providing them improved living standards, new choices and opportunities. The report also indicated that cross-border issues involve protecting informal trade between small border communities and neighbouring countries, which has a positive flow-on effect for local communities, particularly those along border areas where more than half of Lao population living in. The volume of cross-border trade conducted informally by individual traders is significant, and the consequent increase in traders' incomes has positive multiplier-effects on the local economy. Small-scale informal trade of this kind should be protected and not restricted. Government attention should be focused on strengthening formal trade regulations and controlling illegal trade such as goods smuggling, drugs and human trafficking.

The study of the informal border trade between Laos and Thailand, in the Mukdahan-Savannakhet border area, by Bank of Thailand (2003) emphasized on agricultural products for import goods and consumption products for export goods. The study concluded that the high custom tariffs in both countries and the strict Lao export-import control increase the volume of the border informal trade in order to avoid custom tax and to decrease traders' expenses. Therefore, the traders purchased their goods illegally. The study indicated that the illegal trade along Lao-Thai border was operated through both formal and informal channel. The traders declared the

prices of goods lower than the real ones, hired people to transport products for them or carried goods with them as personal belongings. Most of the export goods from Thailand are consumption goods such as seasoning powder, instant noodle and food products. The payment for goods is paid in Thai baht because Thai currency is more stable than Lao currency. There are two types of payment: in cash and through bank account. The traders paid in cash for the small volume of goods and through bank account for the greater volume of goods. The study stated that although informal trade was usually perceived as having a negative impact on the local people, this informal economy could be as important as the formal. Informal trade can play a significant role in creating jobs as well. The informal trade is an important source of income for both the small traders and the villagers.

From the literature review, currently, the informal trade has not only been expanding in many countries but also emerging in new forms. Despite continuing debates on defining the features of informal trade, supporting informal enterprises and improving informal jobs are increasingly recognized as key factors to promote economic growth and to reduce poverty.

Interest in informal border trade has been irresistible, but knowledge of its magnitude, influences, and consequences remains inadequate, leading not only to undervaluation of figures in the national accounts, but also inhibiting formulation of appropriate policies and strategies to exploit its potential impact, particularly on poverty reduction.

Therefore, my research wants to focus more on analyzing the links between trade and poverty. What's more important is to understand the positive impact of informal trade on local livelihoods and poverty alleviation of Lao people living along the border area between Laos and Thailand, particularly Vientiane-Nongkai borders. The research will determine whether the regulation of this form of trade is really necessary and if so what is the most appropriate way of regulation so that local livelihoods would not be adversely affected and to ensure retaining its positive influence.

1.3. Research Questions

1. What is the major characteristic of the informal trade network in the border area between Thailand and Laos? Does the informal trade network maintain a linkage with the formal one?
2. What are the impacts of informal border trade on the livelihoods of local people in the border area?
3. How do the policies and regulations of Thailand and Laos in regard to cross-border trade limit and/or facilitate the involvement of small traders in the area?

1.4. Objectives of the Study

1. To understand the policy framework and practice of Laos in relation to informal border trade and how it affects the informal trade activities.
2. To analyze the network of informal trade and its relation to the formal one.
3. To evaluate the socio-economic impact of informal trade on the livelihoods of people involving in the informal trade.
4. To draw conclusion and highlights some trade policy recommendations that should be taken to enhance trade between Laos and Thailand.

1.5. Scope of the Study

This paper is going to study the current situation of the informal border trade between Thailand and Laos in the Vientiane-Nongkai border area. The case study will be based on Lao traders involving in informal border trade.

1.6. Hypothesis

The informal trade allows low-income people to earn more cash as well as create employment for unskilled labour living along the Lao-Thai border area which help to reduce poverty.

1.7. Conceptual Framework

The conceptual framework of this research is drawn from the work of Ackello-Ogutu and Echessah (1997), whose work suggested that the benefits of informal trade include job creation and provision of both agricultural and industrial goods that would otherwise be unavailable. The informal trade plays an important role in creating jobs and providing income to those people who involved in it. High tariffs and export taxes encourage smuggling as small traders want to avoid being taxed. Informal trade also encourages corruption among officials. Furthermore, the study by Taneja and Pohit (2000) suggested that the lower transaction cost of trading was another key factor drawing people into the informal trade system. The cumbersome official machinery of formal trade may add to the higher costs of the transaction. Besides, the banking facilities are inadequate or too complicated in facilitating the needs of small informal traders who then have to turn to the informal channel.

1.8. Research Methodology

1.8.1. Research Area Selection

The research was conducted at the Lao-Thai Friendship Bridge in Vientiane-Nong Khai (border crossing point to Thailand), located in Vientiane Municipality. In total, there are four border checkpoints in Vientiane, of which one is international.

Three types of product were chosen for the case study on Lao's trade with Thailand and the research focused only on imports, namely imports of consumer products, clothes and electrical equipment. Export goods were not included in this research.

1.8.2. Respondent Selection

The target group of the study was informal border traders from which 8 of them were chosen as samples for the case study. The selection of the samples was

used as the accidental sampling through the target group whom operated the business along Vientiane-Nong Khai border area.

Case studies were conducted to identify and gain a better understanding of the flows of goods and services, trade procedures and the networks in informal border trade. Target groups for interviews included local officers at the border checkpoint such as customs and immigration officers, small-scale traders, wholesalers, including customers of border traders.

1.8.3. Data Collection

The fieldwork data collection was conducted in two periods: First in August 2008 and the second in October 2008.

This research is a qualitative study on micro-business level. The data and information for the study analysis divided into 2 categories: primary and secondary data.

Primary Data were used from interviews and questionnaires of the target groups who are engaging in the business activities or involving in informal border trade along Vientiane-Nong Khai border area (the Friendship Bridge checkpoint). The baseline information such as the informal trading networks, the contribution of informal trade on the livelihoods of people involving in the business, the opinions of small traders on the border trade policies and practices will be based on participant observation, interviews of people (traders, wholesalers, officials) involving in the informal trade. As this is a qualitative research, the description will be based on case studies of informal traders who were chosen from the target group of interviewees.

Interviews and Questionnaires were research tools that the researcher chose to use for collecting information from people who are engaging in informal trade activities at Vientiane-Nong Khai border area. Both closed and opened questions were

used in the interviews and the researcher practiced flexibility in some questions in order to make them suitable for the conversation with the interviewees.

Participant Observation was one of the most useful methods for collecting information and data. By participating in the activities, the researcher could get the firsthand information and saw the real situation of what is going on during operating the business and how the traders dealt with other parties who were involving in the trade activities.

Secondary Data were collected from various resources such as official documents and publications, research papers, and article from books, journals, and reliable websites. They provided information related to the estimated volume of trade in the border area, official views, policies and practices related to the border trade.

1.8.4. Data Analysis

This research used descriptive analysis on the basis of the data and information collected from interviews, questionnaires, participant observation, fieldworks and documents. It also included information from case studies to explain about the general characteristics of the informal trade networks and the contribution of informal trade on the livelihoods the people who are being involved in the business.

1.9. Limitation of the Research

During the information collection, there were many challenges and difficulties that the researcher had to overcome. Firstly, border traders were always on the move from one shop to others for buying goods. And after they finished buying the products, they were busy with packing and repacking their goods before loading them to a bus for their return to Vientiane to which the buses were leaving every 15-20 minutes. Therefore, when the researcher approached to border traders to entreat them for an interview, some of them politely rejected. Another difficulty was that when the

researcher asked questions relating to border traders' private information such as family background or where they live, they hesitated to answer these questions.

The most difficult part of the information collection was participant observation because in order to observe how border traders operate a business, it requires the researcher to participate in a trade activity by following border traders during their business operations. However, since the researcher and border traders did not know or meet each other before, it was extremely difficult, and sometimes, impossible for the researcher to request permission from traders to follow them. Therefore, the researcher had to try some creative techniques such as offering the traders that the researcher herself wanted to be their helper or goods carrier in order to study how they are operating their businesses. At the end, the researcher could convince eight border traders to allow her to follow them.

Another difficulty for this research was time limitation. As the researcher had about a month for field observation and data collection, the period was so short that affected the data collection. As the result, it also affected the data analysis of this study to be limited as well.

Finally, the difficulty of this study was partly because of dealing with government authorities in order to collect data and information. This step took a long process and lots of time for receiving the cooperation and information sharing from the authorities concerned such as Ministry of Industry and Commerce of Laos, customs department, migration office and so on. Furthermore, some information and data provided by those government agencies were not reliable and sometimes the information did not complete. They were only some parts of the full reports, thus they could not be used as sources or references.

CHAPTER II

LAO TRADE SITUATION, POLICIES AND REGULATIONS

Practicing socialist economy for more than a decade, the Lao People's Democratic Republic has been steadily improving its economy since 1986, when Lao government started introducing the New Economic Mechanism by changing the country's economy from socialist central-planning to market-oriented economy. In the last five years, Lao economic growth was estimated at 6.3% per year and it grew at 7.6% in 2006 with the per capital income of US\$500 (World Bank, 2007). The poverty declined 23 percent from 33.5 percent in 2003 (World Health Organization, 2007). Poverty is higher in remote and highland areas where the access to roads or river is limited. Therefore, the government of Laos sees a necessary to improve the transportation system in the country to shrink the distance between urban and rural areas as well as to link products with markets. The government also adopted trade policies in compliance with the market economy which aims at securing the economic benefits potentially available from integrating the Laos' national economy into the regional and global economy and international trade based on the multilateral trading system.

To understand the present Laos' economic situation, it is necessary to briefly look back to the past. In fact, this small landlocked country with a population of about 6.5 million people in the mainland Southeast Asia region was torn by a two-decade long civil war soon after the country became independent from French colony in 1954. The country fell into the ideological conflict of the time known as Cold War- the conflict between the United States bloc and the former Soviet bloc or between communism and capitalism. The Cold War divided the country into two sides. While one side got support from communist countries such as Soviet Union, China and North Vietnam, the other side was backed by the liberal countries such as United States of America, Thailand and South Vietnam (Bank of Thailand, 2003:39).

2.1. Laos' Political Economy from 1975-1985

After winning the socialist revolution in 1975, the Lao People's Revolutionary Party (LPRP) established the Lao People's Democratic Republic on 2nd December 1975. The country embraced communism and centralized socialist planning economy. Since then, the government had lead the people to carry out the historical tasks of the national defense and development, restoring the people's democracy by moving toward socialism step by step in order to develop the country both in political and economic system to help its people to improve their living conditions and society to be prosperous and moral.

The Lao government drew its economic development policy based on the ideology that it cannot be separated from the national security (Stuart Fox, 1986:97). As the President, Kaysone Phomvihane stated that "we must always closely link the duties of national defense...with the duties of economic construction...both in the immediate and long range future" (Stuart Fox, 1986:97). In the political system, the country haven't had no problem due to the one-party political system which has brought stability to the country in terms of the national security. However, in the economic façade, the country experienced many problems that the government needed to find solutions. During the civil war period, Laos' natural and human resources were so destroyed that it created many problems for the government to develop its society and economy under the socialist principles.

After changing the country's administration, the general situation of the Lao economy was deteriorating. In 1975, the capital per income of Lao people estimated about 70-80 US dollars per person (Sirikrai, 2005:127). There were many obstacles for the economic development due to the low income of its people and the level of industrial development was very low. In order to solve the economic problems, the government adopted a centrally planned economy, which favoured self-subsistent economy, rather than encouraging foreign investment (Vaughan, 2006:50).

However, the government's economic development plan failed due to the lack of the capital investment. The majority of people living in poverty made their living through subsistence agriculture, while the productivity of all sectors was low and most technical equipment was out of date (Lao News Agency, 2005). In addition, the Lao economy largely depended on trading with its neighbours especially Thailand. During Cold War period, the Thai governments practiced a strong anti-communist policy, leading to conflicts along the borders between Laos and Thailand many times. Thailand feared the spread of communism into the country from its neighbours, including Laos, while Pathet Lao feared that their rebels would regroup and attack Laos from stationing their bases in Thailand. Whenever there were conflicts in the border area, the Thai government closed the borders in order to oppress Laos (Start-Fox, 2002). As the Lao economy largely depended on trading with Thailand, the border closure affected Lao economy. Therefore, the Lao government turned to former Soviet Union, China and Vietnam, which had the same political system, to seek aid to help the country's ill economy (Sirikrai, 2005:129). Soviet Union as well as East European countries sent their expert teams to Laos to provide assistance to the Lao government's development works (Chakrabartty, 1988:676).

Due to the Lao government and people's hardworking and devotion to the development of the country, Laos have made progress in sectors such as agriculture, industry, forestry, transportation and communication systems, education and health care through the assistance and guidance given by Vietnam, USSR and other friendly countries since 1976. For example, production in agriculture boosted up and the people could live with self-sufficiency in food. In industrial sector, all the old factories were renovated and several small and medium industries were set up. Transportation and communication systems have been developed by repairing or restoring all damaged roads and bridges, and some new roads and bridges have been built up. Health care services became improving and education schemes were launched (Chakrabartty, 1988:681-682).

Since 1979, due to the conflict between China and Vietnam on the Cambodian problem and the conflicts along Lao-Thai border, Soviet Union and Eastern European countries such as Eastern Germany, Poland and Belgium, and Vietnam had increased their assistance to Laos in almost every sector such as providing education scholarships, establishing industrial factories, television station and communication network, helping in repairing or building roads and bridges in order for Lao to be able to get an access to the sea through Danang port in Vietnam. It could reduce Lao's dependency on Thailand as a transit country for the export goods. Vietnam also helped to lay fuel pipes from Vietnam to Laos (Sirisrai, 2005:158).

2.2. Lao Economic Situation from 1986-1990

After Mikhail Gorbachev became a new leader of the Soviet Union in 1985, he introduced a new foreign policy and economic development policies called "Glasnost-Perestrokia" in 1985. That policy changes in the Soviet Union affected the foreign aid policies, resulting in decreasing the Soviet's aid to Laos, Vietnam and Cambodia (Sirisrai, 2005:171-186). During that time, the Lao government realized the reality of the country's economic situation and started to launch market-oriented reforms (Phongpaichit and Baker, 1998). Although, the government had success in increasing the economic growth in the first period of the establishment of the Lao People's Democratic Republic, negative forces emerged in the economy of the country such as high inflation, the increasing trade deficits. Moreover, the country had to rely heavily on the outside assistance for virtually all of its development plans. These factors pushed the government to adopt the "New Economic Mechanism" in 1986 (Saignasith and Lathouly, 1995) by combining capitalist economic principles with socialist administration system to develop the economy of the country. This new policy focused on developing in agriculture, energy industry, border trade, transportation, tourism and investment from both domestic and foreign investors (document of 7th of the Lao People's Revolutionary Party, 1996).

This economic policy reform proved that Laos was ready to open the door to outside world and to cooperate with every country, regardless of different political systems. The government of Laos saw this reform as an opportunity for Laos to strengthen relationships with its neighbouring countries. The shift of the economic policies from the central planning economy to the market-oriented economy suited the reality of the country by using commodity monetary relations and a market mechanism. This policy allowed Laos to cooperate with foreign countries, thereby leading to gaining benefits for the Lao economy such as the decreasing of inflation and the stabilization of exchange rate. As the result, during the period of 1989 to 1995, the average rate of GDP per capita growth was 7.8% per year (UN, 2006).

2.3. Lao Economic Situation during the Post Cold War Era (1991-present)

After 1975 socialist revolution, Laos was mainly traded with the socialist countries of Council of Mutual Economic Assistance (CMEA) known as COMECON (Mya Than, 1992:73). When the Soviet Union and the communist countries in the Eastern Europe collapsed in 1991 due to the failure of Mikhail Gorbachev's new policy, Glasnost-Perestrokia, it led to the end of the long cold war era between the Soviet Union and the United States. Facing shortage of foreign aid after the collapse of Soviet Union in 1991, the Lao government had to improve its relationships with Thailand, China, and the US. Major reforms have been done in its the economic system, by adopting laws of trade, investment, property and so on to make the country opened to the world (Sirikrai, 2005:191).

Since the Lao government implemented economic reforms and introduced new laws to encourage foreign investment, it had positive impacts on Lao economy and also helped improve Lao's relationships with the neighbouring countries in the region, particularly with Thailand, resulting in increasing the volume of Lao-Thai trade. During the mid 1990s, Lao experienced economic growth of 7-8% per year (Sirikrai, 2005:212). The improvement in the economy allowed the Lao government to develop the country and improve the people's living standard in the areas such as

education, health and basic infrastructures. However, despite experiencing economic growth in the country, Laos faced many economic and financial difficulties as a result of shortage of trained personnel and inadequate infrastructure. Furthermore, from mid-1997 to the end of 1999, the Lao economy was affected by the negative impacts of the Asian economic crisis and the country also encountered several natural disasters. These factors led to the increase of inflation and the Lao currency devalued considerably (Lao News agency, 2005:31) from 18% in 1997 to 87.4% in 1998 and 180% in 1999 (Semyaem, 2004:108).

However, the economy has begun able to resume its expansion and seen the potential for growing at a faster pace in the following years. Although the Asian financial crisis affected the economic development of many countries in Asia in the late 1990s, it affected little on trade between Laos and its neighbours, especially border trade between Laos and Thailand. The volume of Lao-Thai border trade was significantly increasing from 2,904 million Baht in 1991 to 12,893.60 million Baht in 1997 and 21,042.20 million Baht in 2000 (see table 1).

Table 2.1 The value of Lao-Thai border trade from 1991-2000 in million baht

Years	Import from Thailand	Export to Thailand	Total Trade	Trade Deficit
1991	1,325.00	1,579.00	2,904.00	-254.00
1992	1,591.00	1,179.00	2,770.00	412.00
1993	2,395.00	1,787.00	4,182.00	608.00
1994	4,557.00	1,954.00	6,511.00	2,603.00
1995	8,171.92	2,112.28	10,284.20	6,059.64
1996	8,077.57	1,982.43	10,060.00	6,095.14
1997	10,893.81	1,999.79	12,893.60	8,894.02
1998	15,000.20	1,483.28	16,483.48	13,516.92
1999	15,928.04	2,822.60	18,750.64	13,105.44
2000	16,960.60	4,081.60	21,042.20	12,879.00

Source: Department of Foreign Trade, Ministry of Commerce (citing in Manolom, 2001:8)

2.4. Lao-Thai Trade Relation

The Lao People's Democratic Republic is a least developed and landlocked country bordering with Cambodia, China, Myanmar, Thailand and Vietnam. Therefore, border trade for Laos is very important to the country's economic development.

As a landlocked country, Lao People's Democratic Republic has been dependent on its neighbours for economic development in terms of import and export goods. The country's exports suffer from high tariffs, transaction and transport costs which weaken the country's competitiveness in the market, beside low labour costs, raw materials, technology and quality of products. Therefore, the government considers border trade as an important component for the national economic development. In the last decade, the government tried to strengthen bilateral trade relations with its neighbouring countries. However, Lao's border trade with Thailand has largely developed into informality.

The Lao People's Democratic Republic shares about 1,810 kilometer-long border with Thailand (Semyaem, 2004). Laos and Thailand has a long history in trade relation due to the geographical closeness and similarity in culture, costume, language and religion. The people of the two countries are able to understand the languages and communicate with each other. However, when Laos changed its administration in 1975 and adopted the socialist principles, it only focused on trading with socialist countries. Thai government at that time practiced anti-communist policy. That difference led to many obstacles for trade relationship between the two countries.

After Chartichai Choonhavan, Prime Minister of Thailand, had changed Thailand's foreign policy towards Indochinese countries in 1988 by turning "battle fields into market places" and ushering the country into a commercial diplomacy era (Phongpaichit and Baker, 1998:50). Chatichai Choonhavan's policy responded well to

the new thinking policy of Laos, aiming to cooperate in trade and investment. Thus, the two countries had positive interactions which led to the reestablishment of Lao-Thai relation and cooperation in trade and investment (Suvan, 1992:22).

The relationship between Laos and Thailand changed according to the political development of the two countries. Although the change in the two country's political relation didn't affect border trade activities between the two countries, it caused the decrease in the trade volume (Semyaem, 2004:93). For example, there was a conflict between Laos and Thailand on three villages in Saiyabuly province of Laos in 1984. Each party claimed that these villages belonged to them, and it led to the armed conflict between Laos and Thailand (Sirikrai, 2005:179).

As a result, the border was closed, resulting in sharply decreasing in the value of Lao-Thai trade from 790.37 in 1983 to 422.40 in 1984. This showed that the political relation was a major factor to determine the growth of the border trade between Laos and Thailand. However, the incident in the border areas temporarily happened from time to time and the value of Lao-Thai trade continued to increase steadily over time (Bank of Thailand, 2003:12).

Table 2.2 The value of Lao-Thai trade from 1975-1990 in million baht

Years	Import from Thailand	Export to Thailand	Total Trade	Trade Deficit
1975	254.3	102.3	356.6	152.0
1976	376.1	46.7	422.8	329.4
1977	291.2	48.3	339.5	242.9
1978	360.4	56.4	416.8	304.0
1979	648.5	53.9	702.4	594.6
1980	910.5	37.2	947.7	873.3
1981	586.2	17.5	603.7	568.52
1982	969.0	33.43	1,002.43	935.57
1983	763.13	27.24	790.37	735.89
1984	396.34	26.06	422.40	370.28
1985	488.85	34.54	523.39	454.31
1986	601.64	35.43	637.07	566.23
1987	1,045.40	152.38	1,197.83	893.02
1988	1,300.68	567.98	1,868.66	732.7
1989	1,642.53	1,286.0	2,928.53	356.53
1990	1,683.19	1,134.26	2,817.45	548.93

Source: Foreign Trade Department, Ministry of Commerce (quoting in Sirikrai, 2005:189).

Thailand has become the main and the biggest trading partner of Laos with a share around 53 percent of total imports and 14 percent of total exports in terms of value of goods (See Table 2). Vietnam is the second most important trading partner, approximately 42 percent of exports and 27 percent of imports (WHO, 2007). The value of cross border trade between Lao PDR and Thailand is more than the value of bilateral trade of the two countries while the value of unofficial trade is estimated to be about 1.5 - 3 times greater than the value of official trade (Bank of Thailand,

2003). The volume of Lao-Thai trade has increased every year, but Laos still faced trade deficit with Thailand. Therefore, the Lao government has promoted trade relationships with China and Vietnam in order to help Laos reducing its trade deficit with Thailand.

Most import goods from Thailand are consumption goods and industrial products such as fuels, vehicles and spare parts, chemical products, machinery and spare parts, electronic products and construction materials, textile fabrics, plastics, cosmetics, soaps and skin care products, soft drink, sugar and preserved food products, while the export goods from Lao PDR to Thailand are raw materials or semi-raw materials such as timbers, logs, mineral ores, cereals and processed cereals, hides and animal origin products, garment products (Fiscal Year Report, MOC, 2007).

In the last five years, the value of Lao-Thai trade had increased from 488,498,161 dollars in 2002-2003 to 886,197,721 dollars in 2006-2007 or increased about 55.12% and the trade deficit increased from 165,552,667 dollars to 318,591,893 dollars in the same period or increased about 51.96% (see table 3).

Table 2.3 The value of Lao-Thai Trade, fiscal year 2002-2007 in US\$

Description	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Total Trade	488,498,161	449,236,017	597,109,947	1,030,037,325	886,197,721
Export to Thailand	161,472,747	146,900,611	164,552,592	456,040,790	283,802,914
Import from Thailand	327,025,414	302,335,406	432,557,355	573,996,535	602,394,807
Trade Balance	165,552,667	155,434,795	268,004,763	117,955,745	318,591,893

Source: Fiscal Year Report 2006-2007, Ministry of Industry and Commerce of Laos, 2007.

Because of the fact that Laos shares borders with five neighbouring countries and lacks of capital and high technology to strengthen the country's economy, the bilateral trade relations are more effectiveness than multilateral trade. The value of Lao-Thai border trade has become so large that it counts nearly a half of bilateral trade between the two countries and it has been increasing annually. Thus, border trade has been a significant activity to boost Lao economy. Recently, many traditional checking points have been improved and transformed into international checking points. Both sides have seen positive changes in border trade. Border trade has also opened up new opportunities for the local Laotians along border areas by providing job opportunities for their living. Therefore, border trade has become an important element to contribute to socio-economic development of the country in general and to better income distribution and poverty alleviation on both sides of the border in particular.

2.5. Lao - Thai Border Trade Relation

After the decline in trade between the two countries, the governments of the two countries re-established trade relationship in 1978. The first crossing points that were opened for trading after 1975 revolution was Vientiane-Nong Khai and Savannaketh-Mukdahan. In addition, the government of the two countries changed their policies. Lao government opened the country to outside world and Thai government also adopted a policy to encourage trading cooperation with Indochinese countries, especially with Laos. Therefore, in order to support the trading operation between people of the two country, the governments have opened more border crossing points between Laos and Thailand at Vientiane municipality, Savannakhet and Champasack, Khammuan, Vientiane province, Saiyabuly and Bokeo of Laos opposites of Nong Khai, Mukdahan, Ubon Rachathani, Nakhon Phanom, Chiang Rai, Loei, Nan, Phayao and Uttaradit of Thailand (Sirikrai, 2000:200-201).

Since Laos adopted NEM and Thailand changed its policy to improve relationship with its neighbouring countries, it led to the improvement of Lao-Thai

relationship. Consequently, the value of Lao-Thai border trade has increased, particularly in the last three years. The trade value has increased from 36,610 million baht in 2005 to 51,310 million baht in 2007 or increased about 40.15%. Likewise, the trade deficit increased from 23,077 million baht to 30,753 million baht in the same period or increased about 33.26% (see table 4).

Table 2.4 The value of Lao-Thai border trade from 2005 to 2008

Value: million baht

Description	2005	2006	2007	2008* (January-October)
Border Trade	36,610	46,432	51,310	65,832
Changing rate (%)		+26.83	+ 10.5	+ 59.96
Import to Thailand	6,767	10,938	10,279	18,425
Changing rate (%)		+ 61.6	-6.0	+ 30.62
Export from Thailand	29,844	35,494	41,032	47,407
Changing rate (%)		+ 18.9	+15.6	+ 122.9
Trade Balance	23,077	24,556	30,753	28,982
Changing rate (%)		+6.41	+ 25.24	+17,71

Source:[http://www.dft.moc.go.th/level4Frame.asp?sPage=the_files/\\$59/level3/loas_8.htm&level4=1878](http://www.dft.moc.go.th/level4Frame.asp?sPage=the_files/$59/level3/loas_8.htm&level4=1878)

* Compared with the same period of 2007 (January-October).

2.5.1. Flows of Formal Trade

The value of Lao's cross-border trade with neighbouring countries is more than 45 percent of the total of bilateral trade. The amount of Lao-Thai border trade through Nong Khai province of Thailand is the highest among other provinces because Nong Khai is located opposite to Vientiane, the capital of Laos which is the central of Lao economy. In the fiscal year 2004-2005, the value of Lao-Thai border

trade through Nong Khai province was more than 50 percent of the total border trade with Mukdahan, Ubon Ratchathani and Nakhon Phanom (see table 5).

Table 2.5 Border Trade between Laos and Thailand by Provinces, fiscal year 2003-2005 (October-September)

Value: million baht.

Provinces	2003	2004	2005	Total (2003-2005)	Percentage
Nongkhai	9,831.44	13,032.93	19,784.33	42,648.70	50.77
Mukdahan	4,461.58	5,309.64	6,576.06	16,347.28	19.46
Ubon Ratchathani	3,777.28	3,422.09	3,590.19	10,789.56	12.84
Nakhon Phanom	1,923.49	1,773.44	2,569.45	6,266.38	7.46
Chiang Rai	804.46	1,122.69	1,718.27	3,645.42	4.34
Loei	778.27	1,001.98	1,733.16	3,513.41	4.18
Nan	51.48	67.61	127.08	246.17	0.29
Phayao	251.55	84.88	39.81	376.24	0.45
Uttaradit	32.82	62.64	84.67	180.13	0.21
Grant Total	21,912.37	25,877.90	36,223.02	84,013.27	100

Source: Department of Foreign Trade, Ministry of Commerce, Thailand. Available from: <http://www.dft.moc.go.th/nongkhai/border.asp>,
<http://www.dft.moc.go.th/chiangrai/border.asp> ,
<http://www.dft.moc.go.th/sakaew/border.asp>

2.5.2. Flows of Informal Trade

Informal trade between Laos and its neighbouring countries has been going on for a long time. Laos has had informal trade ties with Thailand, Vietnam, China, Cambodia and Myanmar.

Among neighbouring countries, informal trade is largely carried out by small merchants and traders along Lao-Thai border areas. Most of goods trading through informal channels are consumption goods that are necessary for the daily life of the local people. This trade pattern is unregulated and some are illegal, but it serves as an important source of income for people living along border areas. The traders involving in the informal trade usually require only small amounts of capital to buy and sell low value products in the local markets within the border areas and the payments have to transact in cash. These informal trading flows depend largely on personal relationships that have developed over time between traders, and between traders and customers.

Most of import goods from Thailand to Laos through informal trade channels are consumption goods and seasonal products such as vegetables, fruits, and preserved food as well as household products and the volume is small in quantity of goods on each trip. Export goods from Laos to Thailand are silver products, forest products such bamboo shots and mushroom.

Small scale and regular traders use public buses and boats or private vehicles such as cars or trucks to transport their goods across the borders. These traders usually are exempted from any kind of customs or import fees because of small quantity of goods and they only need to pay for about 15,000 kip per person for border crossing fee to customs office and about 50,000 kip and 200 baht for car/truck fee in Lao side and Thai side respectively at the Friendship Bridge checkpoint.

2.6. Trade Policies, Regulations and Practices

After the 4th Congress of the LPRP the government introduced the “New thinking policy” or NEM in 1986, the government relied on the fact that the central planning system had created incompetency in the functioning of the country’s administration and in the performance of its economy. Thus, the government saw the necessity to shift from a centralized-planning to market-oriented economy, including

foreign trade (Saignasith, 1997). The objective of this new thinking policy aimed at reforming the economic system to stabilize and improve the economy. Under this policy, the government of Laos opened up the economy in its public and private sectors. The government allowed the private sector to manage the trade operations freely based on the principles of the market economy. At the same time, the economy attracted foreign direct investment in Laos.

In its transition, the Lao economy is still tackling the problems generated by the shift from central economic planning to a market-oriented economy. Although many trade barriers have been removed in the process of trade reforms, informal border trade continues operating side by side with formal border trade as far as the government's control and restrictions are making trade through formal channels very difficult. In another word, as long as the transaction costs of the formal trade may exceed those of informal trade, traders will prefer to use informal channels.

Due to the increasing in border trade between Laos and Thailand in the last few decades, it has open up new opportunities for the expansion of the new businesses on both sides of the borders such as restaurants, coffee shops, small shops (convenience shops). It also created jobs for the people such as small traders, goods carriers, porters, and transport workers (such as bus drivers and tuk-tuk drivers) in both side of the border. Therefore, the Lao government considers border trade as one of the most important element for contributing the national economic development. In 2001, Ministry of Industry and Commerce issued an instruction on Small Export Border Business and established border economic zone along the borders between Laos and its neighbouring countries (Leebouapao & Souksavath, et al, 2005), aiming at promoting small scale commercial production for export and managing border trade as well as creating jobs and income generation which will contribute to the socio-economic development of the country.

2.6.1. Trade Procedures

Procedures at the local checkpoints are not much different to those at the international checkpoints since both are operating under the national border trade policy. In order to become a registered trading company, a business must receive the approvals from the Department of Foreign Trade on Ministry of Commerce or a provincial trade division whether it has the ability to conduct export or import activities for certain kinds of products (Khontaphane, Insisiangmay, and Nolintha, 2006). In addition, for goods related to other concerned ministries, the companies have to get a certificate of compliance from all concerned parties before a certificate of compliance is issued to the company (Leebouapao, Souksavath, et al, 2005). For example, an importer who applies for a license to import medical products is required to have a certificate of compliance from the Ministry of Public Health. Importers who apply for import vehicles need a certificate of compliance regarding to technical specification requirements from Ministry of Communication, Transport, Post and Construction, and for importers who want to import agricultural and forestry products need to apply for a certificate of compliance of goods from Ministry of Agriculture and Forestry.

Small traders who transport their goods regularly either using their own vehicles or hired transport are required first to proceed through immigration and then to customs for tax clearance. The customs official inspects the loaded vehicles. If the declared goods are as stated on the tax clearance form, then the procedure is quick, otherwise the traders must re-declare the excess. For the informal imports of small volume of goods, the traders do not need any quotas or certificates or approvals. Upon arrival at the checkpoint, the traders only need to submit a tax clearance form listing the quantity and price of the imports. Then, customs officials will calculate the import duty. The informal imports of small volumes by small traders are mostly in the form of personal belongings (Khontaphane, Insisiangmay, and Nolintha, 2006).

2.6.2. Taxation and Tariffs

In order to develop and integrate the Lao economy into the regional and global economy, the Lao government continues to improve its customs and taxation system and to reduce its tariffs. Tariff structure remains an impediment to market access in many sectors. Therefore, in 1993 the Lao government introduced the tariff reform to reduce the duty rate from 5-100 percent to 10-40 percent, and to collect 5 percent of the customs user charge at the same time (Mya Than, 1996:251). After a full member of ASEAN in 1997, Laos has made a commitment to liberalize its trade with other members in the accordance with the ASEAN Free Trade Area (AFTA). Under AFTA, the members of ASEAN have to reduce tariffs to 0-5 percent by 2015 (Leebouapao, Souksavath, et al, 2005). The tax reform has been undertaken to raise tax collection. Existing taxes are high on some items such as consumption and luxury goods. The duties on imported consumption products range between 5-40 percent (Manolom, 2001).

2.6.3. Banking System

After the government of Laos had implemented economic reforms in 1986 by moving from centralized planning to market oriented economy, the government has taken major steps to improve the financial and banking system to support the expansion of the economy. In 1990, the Lao government had issued a law to establish Bank of Lao PDR (Kitipravat quoted in Ucha, 1995:83). Currently, banks in Laos were divided into four categories: state banks, joint venture banks, private banks and foreign banks.

The Central Bank of the Lao PDR and two state-owned commercial banks serve as policy implementation banks. Foreign banks offer limited services primarily to foreigners and are mainly located in the capital of Vientiane, which severely limited their competitiveness in providing financial services to the southern part of the country where businesses are concentrated.

2.6.4. Transport System

The Lao government realized that if Laos wants to develop its economies, it has to improve the country transportation system in order to connect products to the markets and rural areas to urban areas. Therefore, transportation system is an important factor that can support for the expansion of trade, including border trade. In the last few decades, the road network in Laos was being developed in order to link Vientiane to other part of Laos. The road links also connect Laos with its neighbouring countries. The improvement of the road network makes easier for the flows of goods from one part of the country to the other and helps traders to get an easy access to markets. The expansion of the road network between Laos and Thailand such as the Lao-Thai friendship bridge at Vientiane-Nong Khai border leads to the increasing and expansion of the Lao-Thai trade (Nprarut quoted in Ucha, 1995, p. 96). In addition, the development of a new economic corridor is expected to have positive impacts on the socio-economic development, not only facilitating trade flows between Laos and Thailand but also enhancing trade cooperation and interaction between the two countries and GMS countries (Khontaphane, Insisiangmay & Nolintha, 2006).

Lao government views that these structural buildings are also the necessity to encourage the foreign investors coming to invest in the country. In addition, Economic development in the Asian region and the emerging opportunities for the integration of trade and commerce are stimulating new directions which are creating a demand for the landlocked countries to become land-link countries to provide transit services to their neighbours. As the result, both landlocked countries and neighbouring transit countries can benefit from providing services to increase the efficiency of transit transportation. Thus, if Laos wants to spur development and to benefit from the globalization process, it will take this opportunity to shift the country from a landlocked to land-link country (ESCAP, 2003).

The government is consistently making great efforts to turn the disadvantage of being "a landlocked country" into an advantage by adopting a "land-linked" strategy capitalizing on the regional flow of goods through sub-regional cooperation. The idea is to develop the country as a regional trans-shipment centre of the East-West and North-South Economic Corridors. These corridors will not only facilitate trade and integration of the two or more countries at either end but will also promote investment and strengthen the Lao trade sector (Khontaphane, Insisiangmay and Nolintha, 2006).

2.7. Vientiane-Nong Khai Border Trade Situation

Vientiane, located on the Mekong River bank, is the capital and the largest city of Laos with about 700,000 populations, sharing about 187 kilometers border with Nongkhai Province of Thailand. It is about 25 kilometers away from the Friendship Bridge, which was built across Mekong River to link the two countries as part of the East-West Economic Corridors. Vientiane is a center of Lao economy, trade and investment as well as transportation, communication and education. Vientiane-Nongkhai is an important crossing point for border trade and transit trade to other provinces of Laos as well as to Vietnam and China. More than 50 percent of border trade and more than 80 percent of transit trade are operating through this checkpoint.

The volume of Lao-Thai border trade through Vientiane-Nong Khai border checkpoint is the highest among the Lao-Thai border checkpoints. The value of trade also continues to increase as seen in table 6.

Table 2.6 The value of Border trade between Laos and Thailand through Vientiane-Nong Khai Checkpoint, 2003 – 2008 (January-October)

Value: million baht

Description	2003	2004	2005	2006	2007	2008 (January- October)
Total Trade	12,252.83	14,822.24	21,258.76	23,564.16	30,666.95	30,48.05
Changing rate (%)	+ 12.56	+ 20.97	+ 43.42	+ 10.84	+ 30.14	
Imports	971.73	1,270.97	1,406.04	1,930.07	2,136.39	2,137.49
Changing rate (%)	+ 20.0	+ 30.79	+ 10.63	+ 37.27	+ 10.69	
Exports	11,281.10	13,551.27	19,852.72	21,634.09	28,530.56	28,210.52
Changing rate (%)	+ 11.96	+ 20.12	+ 46.50	+ 8.97	+ 31.88	
Deficit	10,309.37	12,280.30	18,446.68	19,704.02	26,394.17	26,073.03
Changing rate (%)	+ 11.26	+ 19.12	+ 50.21	+ 6.82	+ 33.95	

Source: <http://www.dft.moc.go.th/nongkhai/border.asp>

The figures from the Table 6 showed that the value of Lao-Thai border trade through Vientiane – Nong Khai checkpoint has been increasing annually. The main import products from Thailand to Laos through Nong Khai checkpoint are vehicles and spare parts, industrial and agricultural machines, chemicals, electrical and electronic goods, fuel and gas, construction material and consumer goods, medicine, garment raw materials, capital goods. Export products from Laos to Thailand are coffee beans, electricity, garment products, timber and wood products, forest products, gypsum, gold, tin, handicraft and agricultural products (MOC, 2007).

2.8. Border Crossing Points

There are 4 main border crossing points that people often use to travel between Vientiane and Nong Khai. They are:

1. Friendship Bridge, International checkpoint, is located at Ban Tha Naleng, Hadxaifong District, Vientiane municipality of Laos opposite to Ban Chommani, Amphoe Mueang Nong Khai of Thailand. It opens the service everyday starting from 6.00 am to 22.00 pm.
2. Tha Deua-Tha Sadet, local checkpoint, is located at Ban Tha Deua, Hadxaifong district, Vientiane opposite to Tha Sadet of Nong Khai, Thailand. It opens the service everyday starting from 8.00 am to 18.00 pm.
3. Pak Ngum–Phon Phisai, traditional checkpoint, is located at Ban pak Ngum, pak Ngum district, Vientiane opposite to Ban Chumphon, Phon Phisai district, Nong Khai, opening service everyday from 8.00 am to 18.00 pm.
4. Sikhottabong-Si Chiang Mai, traditional checkpoint, is located at Sikhottabong district, Vientiane opposites with Si Chiang Mai district, Nong Khai, opening service everyday from 8.00 am to 17.00 pm.

2.9. Conclusion

Lao and Thai people have relationship for a long time, especially trade relation. The two countries are very close to each other in culture, language, customs and religion. The two governments have improved their relationship and the border issues between the two countries have been resolved. The situation has led to the expansion of Lao-Thai trade, including border trade.

Border trade is becoming increasingly important for the Lao national economic development. Border trade is an important sector that has contributed to socio-economic development of the country. In the future, border trade between Laos and Thailand will undoubtedly grow through formal and informal channels. Informal

border trade can play a significant role in creating jobs and better income distribution in order to improve the living standard of the people and poverty reduction.

Responding effectively to the new opportunities associated with the trade liberalization and investment, the Lao government is necessary to implement the relevant trade policies in which all the traders can participate in. Because the trade policies can influence economic growth along border areas, the government needs to diminish obstacles on border trade, including the application of non-tariff barriers and the standard customs procedures. With successful implementation of those trade policies, border trade can speed up to gain economic growth in the border region of Laos and Thailand.

Therefore, the growth of border trade depends on the sound policies of the two governments. It also needs cooperation from both public and private sectors in each border state by effectively working together in order to promote the growth of a stable border economy.

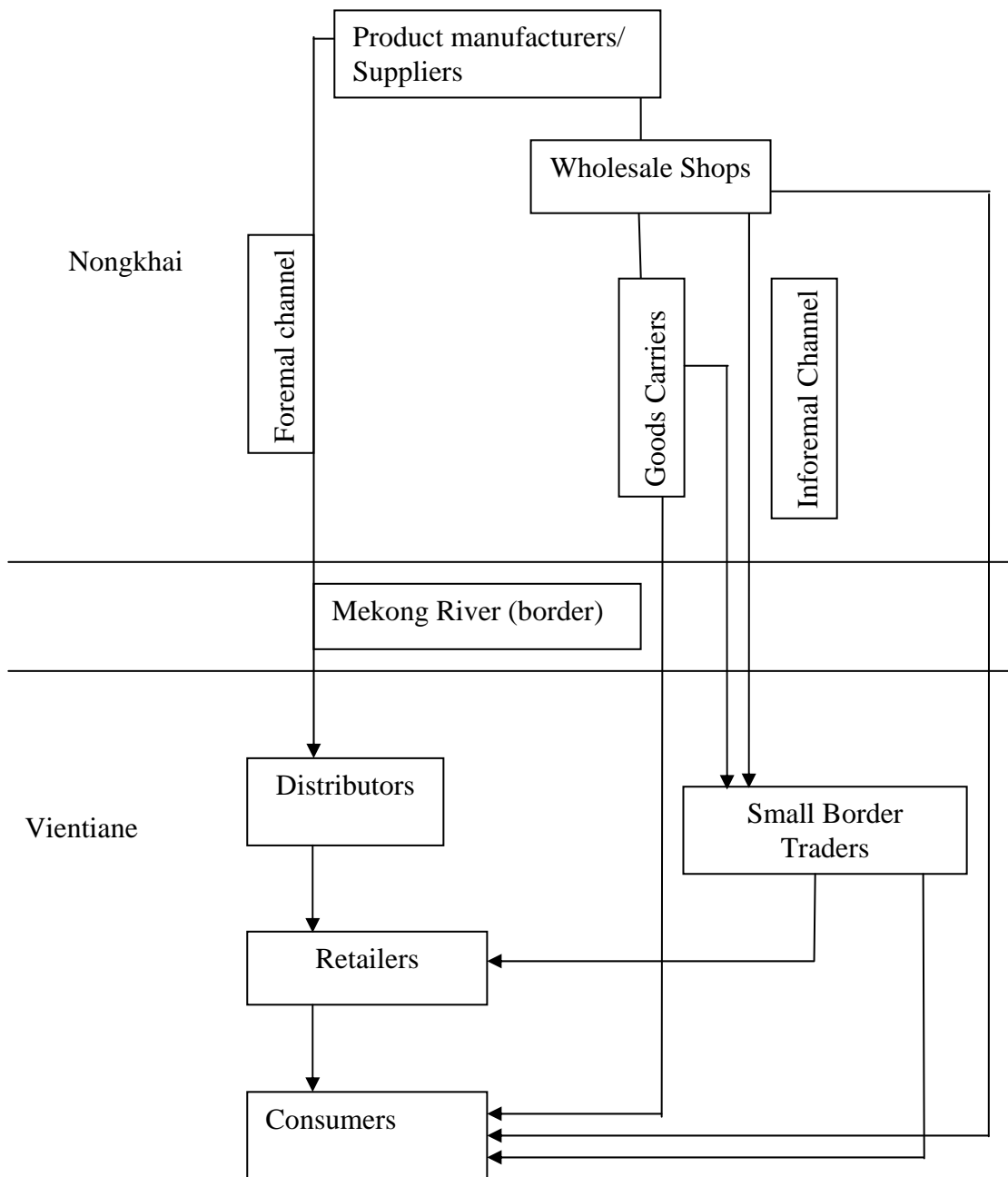


Figure 2.1 The flows of goods from suppliers in Thailand to consumers in Vientiane, Laos through Informal Channel.

CHAPTER III

INFORMAL TRADE NETWORKS

If the opportunities of border trade include in the policy discussions, the positive opportunities of the informal channel are often being neglected or not identified. In reality, informal border trade can open up even more opportunities for middle class and poor people than the formal one do. Particularly, people who are living in border areas can seek substantial profits that are hard to earn in the formal channel today in Laos. However, the research also recognized that there are many challenges associated with the opportunities for the business firms and traders engaging in the border informal economy. Thus, networking has become a strategy that all businessmen have been utilizing to overcome problems and risks in the informal border trading.

This chapter will study the characteristics of border traders and their informal trading networks in order to understand how informal border traders are operating their business and to observe the link between the informal and formal trading. The field research was conducted in Vientiane, the capital city of Laos and Nong Khai province of Thailand where the biggest border trade is operating.

The data and information for analyzing characteristics of border traders and their networks was collected through interviews and participant observations of about 20 Laotian border traders who are engaging in the informal border trading between Lao and Thailand. Based on the interviews with the border traders, the researcher could conclude that there were some commons and differences among them. In the following sections, I will present eight case studies of the informal traders.

3.1 Case Studies

3.1.1. Case Study 1: Mrs. Somephone

Mrs. Somephone is 39-years-old border traders living at Thanaleng village, Hadsaifong district, Vientiane. She has been engaging in this informal business more than 10 years. She married a custom officer working at the Lao-Thai Friendship Bridge checkpoint and has a son. She left school after finishing her study in the 2nd year of the secondary school.

Before she became a trader, she was an employee in a pharmacy shop in *Talat Leng* market (Evening market) for 10 years. Her salary was 400-500 baht (100,000-125,000 kip)² per month. After she got married, she stopped working in order to look after her child until at the age of schooling. When the Lao-Thai Friendship Bridge connecting Vientiane and Nong Khai opened in 1994, she saw an opportunity to start her own business as a trader to earn extra income to support for her family's daily expenses.

She first started her business with a small investment of about 2,000 baht (500,000 kip) per trip. Every day she crossed border to Nong Khai to buy the goods and returned to sell them in the market in Vientiane. She got a profit of about 100-200 baht (25,000-50,00 kip) per trip. Most of her goods were consumption products such as fish sauce, soybean sauce, seasoning powder and rice. However, she often has to change a variety of goods, depending on her customers' orders.

At present, her investment in trade has been expanded up to 5,000 – 6,000 baht (1,250,000-1,500,000 kip) per trip and the profit has also increased up to about 500-600 baht (125,000-150,000 kip) per each trip. It can be translated that her income is about 15,000-18,000 baht (3,750,000 -4,500,000 kip) per month. She has 2-3 regular wholesalers in Nong Khai to purchase goods and 4-5 regular customers in

² Exchange rate of Lao currency to Thai Currency is 2,500 Kip = 1 Baht at the time of the interview.

Laos who order goods from her. Now, her business network has been developed well so that she doesn't need to travel to Nong Khai everyday anymore and can order her goods through the phone. She is also able to give carrier jobs to her relatives or hire other people to carry goods from Nong Khai to the border. After that, she goes to pick them up at the friendship bridge checkpoint and hire a tuk-tuk (a tricycle) for a whole day to deliver the goods to customer shops in her Tha Naleng village and collect money in cash.

When she traveled to Nong Khai, She needed to spend a transportation cost of about 100-150 baht (50,000-75,000 kip) per trip. After gaining profits increasingly and becoming able to hire carriers, she can spend about 180-200 baht (40,000-50,000 kip) for a carrier. Apart from paying for transportation and hiring goods carriers, she doesn't have to pay taxes because her husband is a customs officer at the friendship bridge checkpoint, so she know all customs officers and other officers at the checkpoint. Therefore, nobody checks her goods. However, she has to spend two-third of the profits she gains from the informal border trading buying food for her family

Figure 3.1 Retail shops in Tha Naleng village where Mrs. Someone deliveries goods



Source: Viengxay Thammavong

3.1.2. Case Study 2: Mrs. Pheng

Mrs. Pheng is 42-years-old divorced woman living with her 3 children, two daughters and a son. She lives in Thalard district of Vientiane Province about 83 kilometers away from Vientiane municipality. She finished her primary education.

Before she started her business as a border trader, she had a shop in *Tha Lard* market selling goods that are necessary for daily living such as shampoo, soap, washing powder (detergence powder), fish sauce, seasoning powder and so on. She usually invests around 1,200-1,800 baht (300,000-500,000 kip) per day and gets a profit of about 80-120 baht (20,000-30,000 kip). Most of the goods in her shop were bought from the markets such as Kuadin, That Luang and Morning market in Vientiane city where the goods were quite expensive and she can get only a little margin of profit. Therefore, she and her friend discussed with each other and got an idea of why they can't cross to Nong Khai by themselves to buy the goods for their own shops. After that, she became engaging in the informal border trade.

At the beginning, she traveled together with her friend to Nong Khai only to buy goods for her own shop. She invested about 2,000-3,000 baht (500,000-750,000 kip) per trip and was able to go to Nong Khai only once or twice a month and got a profit of about 300-400 baht (75,000-100,000) per trip after taking off all expenses. After a year, she started getting orders from other shop owners in *Tha Lard* market. Starting to receive orders from one shop, now, she has 4-5 regular customers ordering goods for their shops. And she also has to travel to Thailand more often than at the beginning of her business from 1-2 times per month to once a week. Later, her 19-year-old daughter has come to engaging in her business. Her investment has increased up to 3,000 – 5,000 baht (750,000-1,250,000 kip) and she gets a net profit of about 400 – 600 baht (100,000-125,000 kip) per trip. Her monthly income, both from her shop and border trade, has also increased about 3,200-4,800 baht (800,000-1,200,000 kip). She has been doing this business for more than five years.

At the beginning of business, she had to travel to Nong Khai to buy the goods by herself and she had to spend a whole day to buy her goods from shop to shop and returned back to Vientiane in the evening where she had to stay over night before going back to Tha Lard where she lives. But now she doesn't need to stay over night in Vientiane any more, she can travel to Nong Khai and return back to her home in one day because she can call to the shops to check if the shops have the goods that she need and if they have, she just order them through the phone. Therefore, she just need to spend only 2-3 hours in Nong Khai for picking up her goods and returning to Vientiane in afternoon. She purchases the goods in cash as the volume of goods are small. It is more convenient for her to pay in cash and the shop owners also prefers that way.

Although she earned more income from her business, she didn't save money. Rather, she reinvested those profits for expanding the business and bought new goods for her shop. She is also able to spend some of her profit for her family daily expenditure such as buying foods, paying for her children education, attending social events and so on.

Figure 3.2 Mrs. Pheng's Shop in Thalard Market



Source: Viengxay Thammavong

3.1.3. Case Study 3: Miss Noy

Ms. Noy, 30, is living at Ban Phonxay, Syseththa district, Vientiane. She is single and living with her mother and younger brother. She graduated from the University of Laos. She works for the government and her salary is about 600,000 kip (about 2,400 baht) per month.

She has ever engaged in this informal business as a 16-years-old teenager because of her mother who was a border merchant. She retired 5 years ago due to her health. When she was young, she helped her mother in the business when she had free times from her study. She went with her mother to Nong Khai to purchase goods. After her mother retired, she took over her mother business and has become a part time border trader for the last 5 years.

She is a civil servant and her salary is so low that it is not enough for her family's expenses. Thus, she has been involved in the family business as a part-time trader and has maintained the family's income sources. The income that she gains from the informal trading business can provide for the payments of electricity, water and telephone bills, food, her mother health care and other expenses.

Now, she invested about 5,000-10,000 baht (1,250,000 – 2,500,000 kip) per trip and she crossed border to Thailand at the weekend to buy the goods by herself once per week. She got a net profit of about 600 – 1,000 baht (150,000 – 250,000 kip) per trip. She earned about 2,400 – 4,000 baht (600,000 – 1,000,000 kip) a month. Therefore, her total income, including her monthly government salary, is about 6,400 baht (1,600,000 kip) per month.

Most of the goods she is selling are fish sauce, soybean sauce, seasoning powder, soaps, toothpaste and shampoo. She bought different types of goods for each trip depending on customers' order. She has about 10 regular customers in Vientiane

and about 2-3 regular wholesalers in Nong Khai and in Udorn Thani, where she buys goods.

She travels alone and has to spend about 100-150 baht (25,000-37,500 kip) per trip for traveling to Nong Khai. Also, he has to spend about 200-300 bath (50,000-75,000 kip) per trip for hiring carriers to carry the goods back to Laos in order to avoid customs. She hires one or two carriers, depending on the value and volume of her goods. If it is not more than 6,000 baht, she hires only one carrier and if it is more than 6,000 baht (1,500,000 kip), she needs to hire two persons. When they declare the goods to customs, they do them separately as for their personal use, so that they don't have to pay for taxes. And she waits for the carriers at the bus station near the checkpoint to collect the goods together and hire a car to delivery them to the bus station in Morning market. As for her, she drives her own motorbike to the bus station in the Morning market and again picks up her goods there. She delivers the goods to her customers in the morning of the next day and she collects the money in two or three days later to start another round trip.

3.1.4. Case Study 4: Mrs. Kham

Mrs. Kham, 27, is living at Ban Dongmeng, Chanthabouly district, Vientiane. After she finished her high school, she got married and had a daughter. She opens a small shop at her house selling goods that are necessary for daily living such as noodle, sugar, seasoning powder, cooking oil, washing powder, shampoo, soaps, sweets, etc. She earns about 600-1,000 baht (150,000 -250,000 kip) per day and got a net profit of about 120-160 baht (30,000-40,000 kip).

Before she started this business, she was a housewife and her husband was a tuk-tuk driver. She opened a shop because she wanted to help her husband by finding extra income to support her family. The income that she gets from selling goods is now providing for the expenses of food and other family needs.

A year ago, she started to travel to Nong Khai once or twice a month for buying goods for her shop. She purchased goods worth of about 2,000-3,000 baht (500,000-750,000 kip) per trip and got a net profit of about 400-600 baht (100,000-150,000 kip), meaning that she got a net profit of about 800-1,200 baht (150,000-300,000 kip) per month. She also has another income from her own shop. Therefore, Mrs. Kham had a double income of about 4,400-6,000 baht (1,100,000-1,500,000 kip) a month. She travels to Nong Khai in the same way and transportation as the others. She doesn't need to pay taxes for her goods. According to the customs at the Friendship Bridge if the value of goods is not over 2,000 baht (500,000 kip), it doesn't need to pay taxes. And in practice, customs officers are not so strict and sometimes they are exemptions for the goods that their value over 2,000 baht (500,000 kip) but not more than 3,000 baht (750,000 kip).

Now, her double incomes by earning both from her shop and border trading has reached about 4,400-6,000 baht (1,100,00-3,500,00 kip) per month and her family has been more comfortable in life than in the past.

Figure 3.3 Mrs. Kham's shop



Source: Viengxay Thammavong

3.1.5. Case Study 5: Miss Souk

Ms. Souk, 30, is a single living with her parents at Dong Meng village, Vientiane. She completed her secondary school. Before she became a trader, she was an employee in the cloth selling shop in Thong Khan Kham market for 5 years. Her salary was about 1,600 baht (400,000 kip) per month.

She started this border trading business two years ago because she saw her friend and other traders who supplied goods to the shop where she worked were able to earn a lot of money from this job. Therefore, she asked her friend to help her to start the business. First, she went to Nong Khai with her friend for observing where and how she can purchase goods for a few times until she knew how to operate the business and then she started to build up her own business.

At the beginning, when she started her business with a capital of about 2,000 baht (500,000 kip) which she borrowed from her friend. She crossed border to Nong Khai with her friend for purchasing the goods everyday and she got profit about 200-300 baht (50,000-75,000 kip) per trip. Most of her goods were consumption products such as fish sauce, soybean sauce, seasoning powder, sugar and other items, depending on her customers' order.

After 2 years, her investment in the border trade has increased up to 4,000 – 5,000 baht (1,000,000-1,250,000 kip) per trip and she gets a net profit of about 500-600 baht (125,000-150,000 kip) per trip after covering all her travel expenses. She earns about 15,000-18,000 baht (3,750,000-4,500,000 kip) a month. In the beginning of her business, she had only a few customers. Now, she has more customers ordering goods from her. She has 2-3 regular wholesalers in Nong Khai.

Figure 3.4 Ms. Souk at her customer's cloth shop in Vientiane market



Source: Viengxay Thammavong

3.1.6. Case Study 6: Mrs. Tou, 6 years experience

Mrs. Tou is 45-years-old widow living with 2 children, a boy and a girl. She lives in Thong Khankham village, Chanthabuly, Vientiane. She completed secondary education.

Before she became a trader, she was an employee in the cloth selling shop in Morning market for 3 years. Her salary was about 1,200 baht (300,000 kip) per month. Like Miss Souk, she started this business after seeing that other traders got a good profit from the informal border trading. Therefore, with the help of her friend, she went to Nong Khai as a observation trip for several times until she knew how to operate the business, and then she started her own business.

She started the trading business by borrowing about 5,000 baht (1,250,000 kip) from her relatives and she crossed border to Udorn Thani with her friend every two weeks. She got a profit of about 400-600 baht (100,000-150,000 kip) per trip. Most of her goods were clothes. She purchased her goods at Talard Har Yek (five junctions market) in Udorn Thani. After six years, she has increased her investment

up to 10,000-15,000 baht (2,500,000-3,750,000 kip) per trip and got a net profit of about 1,200-2,000 baht (300,000-500,000 kip) for each trip after covering all her travel expenses and earned about 2,400-4,000 baht (600,000-1,000,000 kip) per month.

She and her friend travel to Udorn by public bus to purchase the goods from the market and return in the same way. They share the transportation cost. She and her friend usually spend the hold morning for buying goods in Udorn before return to Laos in late afternoon and she will delivery the goods to her customers in the next day.

Figure 3.5 Cloth selling Shops where Mrs. Tou deliveries clothes to in Vientiane market.



Source: Viengxay Thammavong

3.1.7. Case Study 7: Mrs. Khamla

Mrs. Khamla, 32, is living at Phone Phanao village, Sayseththa district, Vientiane. She married with a general worker and got a daughter. She finished 1st year of high school. She has engaged in the business for 5 years.

Before she became a trader, she was an employee in a garment factory for a while. Her salary was about 1,000-1,200 baht (250,000-300,000 kip) per month. Her

salary and her husband salary were not enough for their family's expenses. Therefore, she looked for other jobs to earn extra income for supporting the family. Her final job before she became a trader was an employee at a shop selling clothes in That Luang market and she got a salary of about 1,800 baht (450,000 kip) per month. After she worked at the shop for about two years, she realized that trading goods from Thailand to Laos is better than her current work as she can get more money from trading by seeing some traders supplying clothes to the shop she is working.

At the beginning, she started her business with a small capital of only 2,000 baht (500,000 kip) per trip and she crossed border to Udorn Thani to purchase the goods once or twice a month and she got a profit of about 200-300 baht (50,000-75,000 kip) per trip. Most of her goods were clothes. After doing a business for a year, she changed her purchasing place from Udorn Thani to Bangkok where there are a variety of fashion clothes and the prices are also cheaper than in Udorn. She has to increase her investment to 10,000 – 15,000 baht (2,500,000-3,750,000 kip) per trip and she travel to purchase goods in Bangkok twice a month. She gets a net profit of about 1,500-2,000 baht (350,000-500,000 kip) for each trip after other expenses. She has about 5 regular customers in Laos.

She travels to Bangkok by train from Nong Khai station which it leaves Nong Khai at 6.20 pm everyday and reach Bangkok in the next morning. She always travels with her friends who also a trader because she feels that travelling with a friend is safer than travelling alone. Also, they can also save money by sharing transportation cost. After she and her friends arrive at Bangkok, they will take a public bus from railway station at Hua Lamphong station to Phatu Nam, where they spend the whole day to purchase their goods and after they finish buying goods, they will take a taxi or tuk-tuk to drive them back to the train station at Hua Lamphong and take a train back to Laos in the evening of the same day. The train leaves at 8.00 pm and arrive at Nong Khai in the next morning. Her monthly income is about 3,000-4,000 baht (750,000-1,000,000 kip). From her business she can earn enough money for her family's

expenses and she also can save some of her profit for emergency cases such as health care and other expenses.

Figure 3.6 Cloth selling shops where Mrs. Khamla direveries goods to in market



Source: Viengxay Thammavong

3.1.8. Case Study 8: Mr. Nouk, 4 years experience

Mr. Nouk, 37, is living at That Luang village, Sayseththa district, Vientiane. He married and doesn't have a child. He finished vocational training school in computer repairing. He has been engaging in the border trading business for 4 years.

Before he started the business, he was an employee in a computer shop for 5 years. His salary was about 2,400 baht (600,000 kip) per month. After he got some experiences from at work, he wanted to set up his own shop of computer repair. Therefore, he borrowed some money from his parents and relative to open his own business. At the beginning of his business, it didn't run smoothly. He got only a small amount of profit from the shop because he had to buy computer's spare parts from other shops in Vientiane which were so expensive that the margin for the profit is narrow and he had no profits at all in some months. Therefore, he started to travel to Thailand to purchase computer and electronic equipments in Bangkok, particularly at a high-tech mall, Phan Tip Plaza.

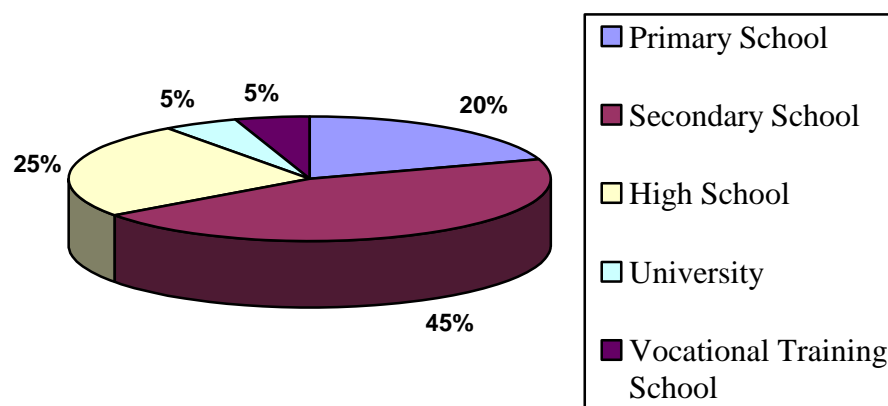
At the beginning he travel to Bangkok every one to two months for purchasing the goods worth of about 10,000 baht (2,500,000 kip) per trip and he got a profit of 1,000–1,200 baht (250,000-300,000 kip) per trip. Currently, he purchases goods worth of 10,000 – 20,000 baht (2,500,000-5,000,000 kip) per trip and gets a net profit of 1,300-3,000 baht (225,000-750,000 kip) per trip after other expenses.

After getting higher profits from his business, he expanded his business and has been able to hire an employee to help him take care of the shop. Now, his shop is not only providing service for repairing computers, but it also sells spare parts. Now, he has an income of 2,600-6,000 baht (650,000-1,500,000 kip) per month.

3.2. Characteristics of Informal Border traders

Informal border traders refer to traders who involve in trade activities along the border areas where they operate business through informal channel. One of the main characteristics of informal traders is that most of the traders doing business in informal channel are small-scale traders who cross the borders to purchase or sell products in neighbouring countries and return back to their own country to re-sell the products in the local markets or in the border areas without paying taxes to customs. Another characteristic is that the majority of traders in informal sector are women who have to use several techniques to avoid legal border trade regulations to conduct trade activities in the border area. Almost all the women interviewees in this research are between 25-45 years old. Significantly, 45 percent of the traders interviewed had reached their secondary education. Only one out of 20 interviewees received a university degree. Generally, they have low education background which is quite difficult for them to find a good job that can sufficiently support their family. (see figure 3.1).

Figure 3.7 Education Levels of Informal Border Traders



Source: Interviews with traders on August and October 2008 in Vientiane, Laos and Nong Khai, Thailand.

Based on the information collected during the field research, the researcher found out that there were no official statistics of the number of border traders and general travelers separately recorded by the Lao immigration office at the friendship bridge checkpoint. Therefore, it was very difficult to indicate how many people are being involved in border trade. During the interviews, the researcher asked both border traders and the wholesalers from Nong Khai to estimate the number which are much less than a hundred. They said the number can be 50 or 60 traders. The wholesale shop owners in Nong Khai estimated that about 50 percent of total 100 customers of the shops were Lao customers. The wholesaler shops told that some of them were the old customers with which they have been doing business more than 10 years and some of them were a recent newcomers working just a few months in this trade.

Figure 3.8 Wholesale shops in Nong Khai, Thailand



Wholesale shops in Nong Khai, Thailand



Tuk-tuk drivers are waiting for their customers while traders are purchasing goods



A shop's employee is packing goods while a trader is waiting for her goods packing

Source: Viengxay Thammavong.

The items of the goods trading from Nong Khai to Vientiane vary so much that they include small things like toothpastes and chopsticks and valuable items such as televisions, computers and vehicle spare parts. Also, there include a variety of basic household items such as fish sauce, oyster sauce, seasoning powder, sugar, pepper and vegetable oil as well as personal care products such as soap, shampoo, toothpaste and lotion.

3.3. Informal Trade Network

Informal trade network is an important factor that the traders rely on operating their businesses successfully. In order to be a successful trader in a border business, the traders need to have good relationship and connection with people in and around the same business that can provide necessary information through their networks. For example, if traders want to be able to get access to a market, they need to know a situation of the market and to find a network through which they will be able to do business in the market. The traders need to know basic information about a market; that is, they must have information on what kind of products the market need, the different prices of the same products which came from formal and informal channels. It is because some products coming through formal channel are cheaper than through informal channel. Mrs. Someone shared her experience as follows:

I have to be careful with buying products from shops in Nong Khai, because the price of some products there is more expensive than that in Laos. For example, M-150 (energy drink), Sponsor (sport drink), Feb (detergent powder) and U.H.T. milk are cheaper in Laos than in Thailand.³

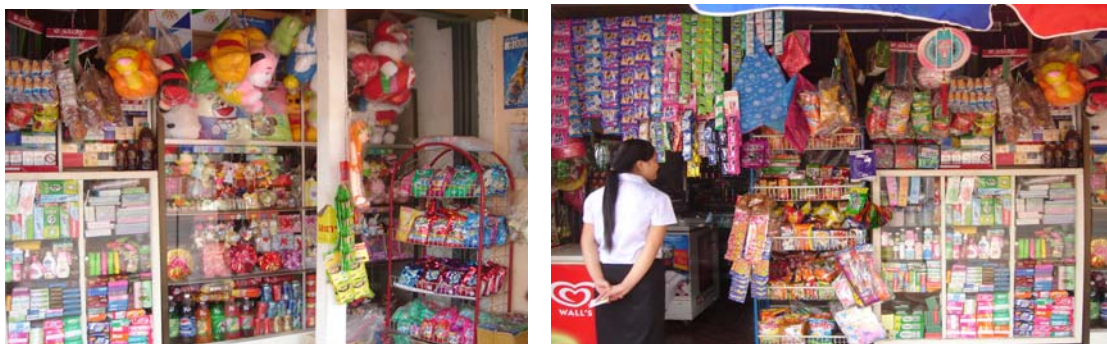
According to the information collected in the field research, the way people begin engaging in the informal border trade are so interesting that they entered into

³ Interview with Mrs. Someone, a border trader on 1 August 2008 at Vientiane-Nong Kai border checkpoint, Vientiane.

this trade because one of their family members or friends have already been involved in this field. This kind of network based on family relation was seen even in some cases in this research; the parents brought their children to the border trading since they were teenagers. When they retired from the business, they handed over the business to their children (See Miss Noy case).

Some traders began to engage in the business based on their own experiences and observation as shop owners. They started with opening a shop and traveled to Nong Khai for buying goods for their own shops. After they did the business for some period of time, they knew about the trading markets and networks from which learnt the nature of transactions in the border trading and became engaging in this field as well (See Mrs Pheng case).

Figure 3.9 A retail shop in Vientiane, Laos



Source: Viengxay Thammavong

Another characteristic of the informal network is the relation between the traders and the porters or carriers in the border trade. As they are working at the friendship bridge for so long that they all are known by the border customs and immigration officials. The traders who bring large amount of goods have to hire them to carry the goods through the customs checkpoint in order to avoid tax payment. The researcher also witnessed how the informal border traders and the porters deal with each other at the friendship border checkpoint to avoid paying tax for the goods they carry from Thailand to Laos. It does happen what the interviewee said in the following:

Sometimes, when I buy lots of goods, I have to repack them into small bags and hire a porter at the checkpoint to carry them. If there are too many bags, I need to hire two porters because if a carrier is carrying many bags, it can draw the attention of the customs officer. I can save some money from paying taxes. Other traders also use this technique to avoid the customs, because if we have to pay for taxes, we only get a very little profit from selling the goods.⁴

I have a good relation with some porters who work at the friendship bridge checkpoint, because I often use their services to carry the goods to pass the customs' checkpoint. So, I do not have to pay for the taxes.⁵

Bus and tuk-tuk drivers are another group engaging in the informal border trade network. As the smooth of transportation is an integral part of the informal border trade, the border traders must have a good relationship with these drivers. In time of growing competition in border trade, smooth delivery of goods to the customers is also a key to become a successful trader.

Figure 3.10 Border Checkpoint at the Lao-Thai Friendship Bridge, Vientiane, Laos



People are getting in line for check in to Laos at Vientiane border checkpoint

⁴ Interview with Ms. Noy, a trader on 9 August 2008, Vientiane-Nong Kai border checkpoint, Vientiane.

⁵ Interview with a border trader on August 2008, Vientiane-Nong Kai border checkpoint, Vientiane.



Van drivers are waiting for clients



Porters are waiting around for traders to come back from Thailand

Source: Viengxay Thammavong

Unofficial money exchange is another key actor involved in the informal trade network. The traders in the informal sector can't use banks in Laos for money exchange. The banks will not allow large amounts of Lao kip to be converted into Thai Baht. Therefore, the border traders rely on unofficial money exchange for Thai Baht, the main currency used in the informal border trading in Lao-Thai border trade.

The research found out that the trade network is not limited only between Vientiane and Nong Khai. In fact, the trade network stretches across other provinces of Laos and Thailand. Lao traders go not only to Nong Khai but also to Udon Thani and Bangkok for purchasing products such as clothes and computer's spare parts.

There are two transport options that the traders use to travel to Thailand: train and air condition bus. The study found out that 75% of Lao traders travel to Bangkok by train while 35% of them prefer to travel by air condition bus. The traders usually travel in group of two or three who may be relative or friends. The reasons why they prefer to travel with a group are that it makes them feel safer than traveling a lone and additionally they can share travel expense:

Although we will feel safer when we travel with a group, the major reason is that when we travel together, we can save some money because we share the cost of transport and accommodation if we have to stay over night.⁶

Mostly Lao traders purchase their goods at wholesale markets in Bangkok such as water gate (Phatu Nam), Bo Be and Phan Tip. The traders purchase clothes from Phatu Nam and Bo Be market and computer spare parts from high-tech mall, Phan Tip Plaza. They said that they choose these three markets because it is cheaper than other markets and they also have products with many brands and styles.

Figure 3.11 Cloth Wholesale Shops at Phatu Nam in Bangkok, Thailand

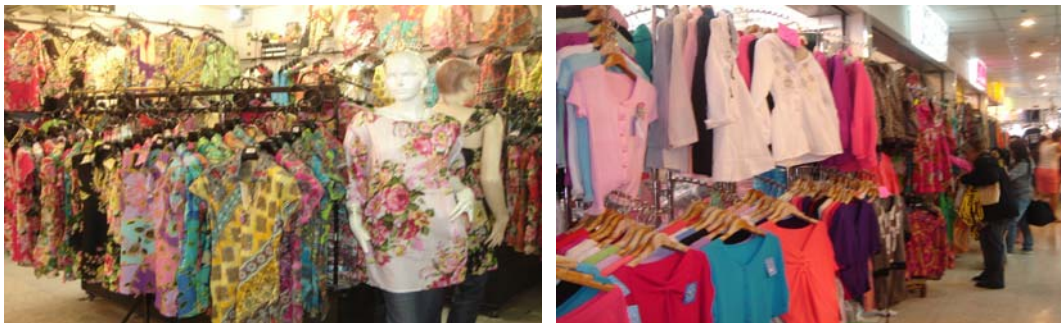


Customers are looking and purchasing goods at Phatu Nam

⁶ Interviews with Mrs. Tou, Mrs Khamla, Ms. , traders on 5 October, 10 October and 25 October 2008 at Train station in Nong Khai, Thailand.



Traders are sitting around and waiting for their friends after they finished purchasing goods



Wholesale Shops of clothes at Phatu Nam, Bangkok, Thailand

Source: Viengxay Thammavong

After the traders return to Vientiane from purchasing their goods in Bangkok, they deliver goods to their customers in the markets in and around Vientiane municipality. The customers of those traders are not limited only in Vientiane; it stretch across other provinces such as Vang Vieng and Karsy.

Figure 3.12 Cloth Selling Shops in Vientiane, Laos



A shop owner is arranging clothes in his shop, Vientiane.



Boutique Shops in Vientiane

Source: Viengxay Thammavong

In short, based on the analysis of the information collected, the research found out that most of new informal border traders who want to engage in the business usually rely on the assistance and guidance of the experienced traders who include family's members and friends or other people from the same business, in order to start and operate the business as a border trader.

3.4. The Linkage between Formal and Informal Sector

This section attempts to understand the relationship between formal and informal channel in border trade while both channels are supply products to consumers in Vientiane. Although it has distinctions between the informal and formal sectors, they also have the linkage between them. According to information collection during the research found out that some of informal border traders, in particular those who purchase a large volume of goods, use the services from formal channel such as shipping agencies to transport their goods to Vientiane. These shipping agencies, located in Nong Khai, will shipping goods to Vientiane by combined those goods from informal traders with the products that have correct document from formal sector:

When I purchase a large amount of goods, I use a service from shipping agencies in Nonh Khai locating near the bridge to transport my goods to Vientiane

*for me, because if I bring goods myself, I have to pay a lot of duties. But if combining goods with bigger traders is cheaper, I pay only for their shipping services.*⁷

Additional, informal channel provides an important market function, in bringing buyers and sellers together across the border. Formal sector such as manufacturers and distributors can gain benefit from informal trade in term of introducing new products to markets, thus, they gain profits as the sales of their products are increased. Informal channel is minimizes the risk of launching new products for the formal distributors in Laos. Informal channel can be used to identify new and expanse market opportunities as well as finding initial customers and testing new products in the market that increase sales for formal channel.

The businesses of these cross border traders are themselves combine a formal and informal characteristic. On the shop itself, in order to open a shop, a shop owner has to apply for licence from authority concerned and pay taxes to customs. Some of goods in their shop buy from wholesale shops in Vientiane and some of them buy through informal channel in order to reduce their capital and gain maximize profit, diversity goods in the shop of merchants in these small shops. Therefore, formal and informal trades are overlapping in this border trade area.

3.5 Conclusion

This chapter studied the characteristics of informal border traders and their networks. How the border traders developed their relationships with the suppliers in Nong Khai of Thailand and the customers in Vientiane of Laos. The research found out that almost all informal border traders are women who had low education level. The border traders have developed strong trade networks in informal sector and with a number of stakeholders are engaging in the business such as products suppliers in Thailand, traders in Laos, porters or carriers, customs and immigration officials, bus and tuk-tuk drivers.

⁷ Interview with Mrs. Khamla on 5 October 2008, Nong Khai.

The study also examined the linkage between formal and informal channels which both channels supplied the products to consumers in Vientiane, Laos. From the research found that informal channel performs as a second market function by supplying products not offered by formal channel to consumers in Vientiane. Additional, the formal sector also gains benefit from informal trade by minimizing the risk from launching new products into the market and find customers in Laos.

The research also found that the informal border traders have varieties methods for minimizing customs payments. For example, small traders enlisted the help from other traders who carry large volume of goods with correct documents by combining their shipments. This information shows that although formal and informal channel have distinctions between them, they also have linkage to each other.

Table 3.1 Profile of traders and their incomes.

Name	Age	Family Status	Children	Education	Monthly Earning (Baht)		Purchase Per trip (Baht)	Profit Per trip (Baht)
					Past	Present		
1. Mrs. Somephone	39	Married	1	Secondary	400-500	15,000-18,000	5,000-6,000	500 – 600
2. Mrs. Pheng	42	Divorced	3	Primary	2,400-3,600	3,200-4,800	3,000-5,000	400 – 600
3. Ms. Noy	30	Single	-	University	2,400	4,800-6,400	5,000-10,000	600-1,000
4. Mrs. Kham	27	Married	1	High	3,600-4,800	4,400-6,000	2,000-3,000	400-600
5. Ms. Souk	30	Single	-	Secondary	3,600-4,800	4,400-6,000	4,000-5,000	500-600
6. Mrs. Tou	45	Widow	2	Secondary	1,600	15,000-18,000	10,000-15,000	1,200-2,000
7. Mrs. Khamla	32	Married	1	High	1,000-1,200	3,000-4,000	10,000-15,000	1,500-2,000
8. Mr. Nouk	37	Married	-	Vocational Training	2,400	2,600-6,000	10,000-20,000	1,300-3,000
9. Mrs. Manichanh	35	Married	3	Secondary	1,500	2,400-3,200	4,000-6,000	600-800
10. Ms. Nid	25	Single	-	Secondary	2,000	4,800-5,600	5,000-6,000	600-700

11. Mrs. Khamphet	33	Married	3	Primary	1,800	9,000-12,000	2,000-3,000	300-400
12. Mrs. Da	29	Married	1	Secondary	2,000-2,400	12,000-15,000	3,500-4,000	400-500
13. Mrs. Tu	43	Married	2	Primary	1,200	4,500-6,000	3,000-4,000	300-400
14. Mrs. Phai	31	Married	2	High	1,500-2,000	3,500-4,600	10,000	1,000-1,200
15. Mrs. Chansouk	37	Divorced	2	Secondary	2,500	2,800-4,000	10,000	800-1,000
16. Mrs. Vanna	40	Married	2	Secondary	1,000	2,000-2,200	2,000-3,000	250-300
17. Mrs. Champa	39	Married	1	Secondary	1,500	3,500-4,500	15,000	1,000-1,500
18. Mrs. Mala	28	Married	1	Secondary	1,000-1,200	3,000-2,400	4,000-5,000	500-600
19. Mrs. Noy	42	Married	4	Primary	1,300	4,000-4,800	5,000-6,000	500-600
20. Mrs. Ta	25	Married	-	High	3,000	4,000-5,000	15,000-20,000	1,500-2,000

Source: Interviews with traders on August and October 2008 at Vientiane of Laos and Nong Khai of Thailand.

CHAPTER IV

SOCIO-ECONOMIC IMPACTS OF INFORMAL BORDER TRADE

Border trade can create opportunities for new businesses as well as jobs for the local people in the border areas. The benefits of border trade have accrued not only to border areas but even to the national economy as well. However, who actually benefit from the trade and what impact border trade have on the livelihood of people in the border areas remain a question. Although Laos has expanded its economy in the last decade, it does not ensure that the poor will benefit from the economic development. Thus, further study is needed for a better understanding of the link between economic growth and poverty reduction, particular in border trade. Therefore, this chapter will study the impact of informal border trade on the livelihoods of the people who are engaging in the border trade activities in the border area between Vientiane and Nong Khai. Based on the information from 8 case studies above and some additional information from the interviews with other border traders, the researcher found out that there are some positive impacts of informal trade on the living condition of the people who are engaging in this business and this chapter will discuss these factors in the next section.

4.1 The Impact on Job Opportunities

Asked what work they had done before they started informal border trade, 40 percent of the interviewees who has not previously been involved in this sector engaged in a wide range of activities in formal sector. These respondents included one civil servant, four sellers working in shops such as drug store, boutique and clothing shops, and three in other self-employed jobs.

Some of interviewees said that the job market is so limited that they can't find any job due to their low education levels. A trader said that she first looked for a job in the formal sector, but ended up in trading in informal sector because she could not

find a job said: *“As a person who has not finished primary education, I can’t get a job in the formal employment sector.”*

A large number of interviewees said that they entered into informal border trading as they wanted to be self-employed. They wanted to have their own business and became the boss of their own business. Formal employment sector cannot offer them those opportunities. Reflecting his working life, a trader stated as follows:

“I enjoy doing this job as I become owner of the business where I can decide what I want to do. I can set the working hours in a flexible way, for example, when I should go to work or stay at home when I get tired from work” and “I don’t want to work as an employee in clothing shop because the income isn’t good and I don’t want to work like that all my life. Therefore, I started my own business as trader selling clothes to boutique shops and other clothes shops in Vientiane”⁹

Based on the study by observing border trade activities, I found out that border trade was not only job and income opportunities for the traders, but also contributed to other service sectors such as transportation, exchange shops,¹⁰ duty free shops,¹¹ restaurants and services to unload and carry goods across the borders. Hence, demand and supply of goods and services generated income and employment for many people who are engaging in the border trade activities. Since cross-border trade generates employment, it also generates incomes for households that are living in poverty.

⁹ Interviews with Mrs. Somephone and Ms. Tou, traders on 1 August 2008, Vientiane and 15 October 2008 at Train Station in Nong Khai, respectively.

¹⁰ As banks in Laos don’t allow people to convert a large amount of money from Lao kip to Thai baht currency, informal traders have to rely on black markets to exchange money for their business. Consequently, those exchangers get benefit from currency exchange rate because the exchange rate in black markets is usually higher than that in the bank, particularly from kip to baht.

¹¹ In Lao side, there are many duty free shops at the Friendship Bridge border checkpoint. They sell variety of goods such as Lao coffee, alcohol liquid (wine, whiskey, beer), mobile phone from china, clothes etc, which is cheaper than those in other markets. Therefore, some of border traders, both Lao and Thai, buy products from those duty free shops, particularly mobile phones, and sell them in Thailand with good price.

Asked to observe the cost-benefit ratio of the traders after trading goods between Thailand and Laos, the respondents said that they were satisfied with the benefits that they got from their trading business. The motivation of the traders to do this business showed that the informal border trade is providing a reasonable profit for improving their living standard.

Information finding shows that informal border trade has positive impact on people's livelihood by increasing the number of the traders in informal trade. However, since there hadn't had any statistics evidence regarding the number of traders who were involved in the informal border trade from the previous studies, thus it is quite difficult to point out if the number of participants in this business has increased or not. However, according to the interview with Somephone, who is doing the business more than 10 years, she said that *compared with the past, especially before the Friendship Bridge opening, there are more people now entering into the border trade activities and it becomes more and more difficult to do the business because of more competitions in this business.* From this information, it can be concluded that the informal border trade business provided a good benefit for the traders, resulting in increasing their number in this business.

4.2 The Impact on People's Livelihoods

Border transaction, particularly informal sector, can provide jobs for people living in the border areas or beyond. Such kind of trade has a positive impact on livelihood of people who are involved in the economic activities. Due to the growth of the border trade between Laos and Thailand in the last decade, the thriving border economy also opened up opportunities for setting up new businesses, thereby creating new jobs which have brought the local people to a better life.

The majority of the traders interviewed are in their age between 25 and 45 years. The study indicated that 14 people out of 20 respondents are married with children, 3 people are single and 3 people are divorce or widow. The 95 percent of the interviewees also have the dependants who are relying on their income. The number

of dependants the interviewees has to support will be between one to four people. Most dependants are not spouses or children, but parents and siblings.

Border trader is another sector that opens up new opportunities for the local people whose education is too limited to engage in other sectors such as services in the border areas. However, due to the growth of the border trade, the interviewees in this research agreed that their living standards have improved in many ways in terms of income, health and education compared to their living condition in the past. One interviewee claimed that:

I am a government civil servant and my salary is so low that it isn't enough to cover family expanses. So, I work as a border trader as my part time job. I earn extra money which can cover the expenses of food, medicines, and the electricity, water and telephone bills.¹²

From an analysis of this data, it indicated that the living condition of the people who are engaging in border trade became better than the people who are not. Also, the traders seem to be able to built better houses, own vehicles such as motorbikes and utilize expensive household items and electronic devices such as television, DVD players, Cassette, Washing Machine, Refrigerator and Mobile Phone (see table 4.2.). This reflects that informal border trade provides good profit to the traders and helps them to have better living condition. The traders view their lives through a more positive perception due to the improvement in their living standards.

¹² Interview with Ms. Noy, a trader on 9 August 2008, Vientiane.

Table 4.1 The Ownership of Expensive Items

Name	Motor cycle	Colour TV	VCD/DVD Player	Cassette Player/ Radio	Washing Machine	Refrigerator	Mobile Phone
1. Mrs. Somephone	✓	✓	✓	-	✓	✓	✓
2. Mrs. Pheng	✓	✓	✓	✓	-	✓	✓
3. Ms. Noy	✓	✓	✓	✓	-	✓	✓
4. Mrs. Kham	✓	✓	✓	-	-	✓	✓
5. Ms. Souk	✓	✓	✓	-	-	✓	✓
6. Mrs. Tou	✓	✓	✓	-	-	✓	✓
7. Mrs. Khamla	✓	✓	✓	✓	✓	✓	✓
8. Mr. Nouk	✓	✓	✓	-	✓	✓	✓

Source: Interviews with traders in August and October 2008, Vientiane.

Asked why they started to engage in the border trading, 14 out of 20 interviewees replied that they engaged in it for their survival or their families. The reasons they engaged in the small-scale trading also vary as follows: *'I need to survive'*, *'my mother needed help'*, *'to earn a living'*, *'to earn extra money to support my family'*. However, the other four people said that they became traders because they enjoyed self-employment or the income gaining from the border trade attracted them.

According to the interviews with the informal border traders and the researcher's observation during their transactions, the informants indicated that the profits they gained from the informal border trade are not only able to provide for their family's expenses but also to send their children to school. Another trader mention said:

“This business gives me a good profit from which I can earn more money than my previous job. I have enough money to raise my children and send them to school, so that they will be able to find a good job in the future.”¹³

The result of the interviews showed that there are positive changes among the informal border traders regarding to their living conditions. After the establishment of businesses, the traders are more secure about their occupations which maintain their daily lives. That is because the business provides good profit for their household income. In addition, the data collecting from the research also indicated that the income earning from informal border trade of the traders is much higher than those from their previous jobs (see table 3.1 in Chapter III). Therefore, the informal border trade is a real source of income for people who involve in the business and it can be considered as their main job. As the result, their living condition has been improved better.

5.3 Barriers of Informal Border Traders

When operating the business through informal channel, border traders face many struggles and barriers such as currency exchange and transportation during the transaction between suppliers and customers in both sides of Thailand and Laos.

Firstly, due to the informality in trade, border traders can't get access to the banks to seek financial support for operating their business and the official currency exchange system is so rigid that the traders can't get access to this service particularly to exchange from *kip* to *bath* for purchasing goods. Another obstacle is that the banks in Laos don't allow people to convert a large amount of money from Lao kip to Thai baht currency, due to the government regulations. Therefore, informal traders have relied on the black market. Money exchange can be done in the shops in any markets in Vientiane. In fact, to exchange foreign currency in the markets is illegal in Laos,

¹³ Interview with Mrs. Pheng, a trader on 5 August 2008, Vientiane.

but this service has been flourishing today in Vientiane and elsewhere and even the authorities and their family members are involved in the money market.

Secondly, informal border traders faced transportation barrier as most of them are low-income people with limited capital. They do not have their own vehicles. Even though there are direct public transportation buses between Vientiane and Nong Khai, they leave only two times in the morning and two times in the afternoon. Therefore, the only option for the traders is to use small public buses or tuk-tuk which is inconvenient for them because they have to change three steps to get to Nong Khai. By contrast, big traders in formal sector and distributors are able to use their own vehicles or hire the service of the transportation companies to transport their goods more conveniently between Laos and Thailand. In the interviews with the border traders, they shared their experiences as follows:

*I don't have my own car, so when I go to Nong Khai for buying goods, I take a bus or a tuk-tuk from Talard Sao[known as Morning market] to the friendship bridge. Buses are leaving here for the friendship bridge every 20 or 30 minutes, but it takes about one hour to get there even though it is a short distance. However, if I go there by tuk-tuk, it is quite faster than the bus and takes about 40 minutes. However, tuk-tuk is more expensive than the bus.*¹⁴

*I use public buses from Talard Sao for traveling to Nong Khai. The bus's destination ends in the friendship bridge. After I declare my travel document to immigration booth, again, I take a bus at the bridge to the bus station in Nong Khai. Again, I have to hire a tuk-tuk to drive me to the market to purchase goods. In the same way, I have to carry back the goods I purchased from Nong Khai to Vientiane.*¹⁵

¹⁴ Interview with Ms. Da, a trader on 7 August 2008, Nong Khai.

¹⁵ Interview with Ms. Souk, a trader on 10 October 2008, Vientiane.

5.4 The Opportunities and Challenges of Informal Border Trade

The informal sector can significantly contribute to the poverty alleviation policy of Lao government as well as a better distribution of benefits from trade in the local community. It can generate new jobs and income generations for many people who are small traders, porters, and bus and tuk-tuk drivers etc. However, Challenges are also associated with these opportunities in this informal border trade.

Based on the observation and data analysis, the research found out that the informal border traders faced many obstacles to get financial supports from banks because their businesses are considered to be high risk.¹⁶ Monetary policies of the banks need to facilitate the traders to easily convert their currencies into the currency of the country which they require to trade with. However, the banks in Laos practice a strict policy in money exchange and it is partly because the shortage of foreign currency (Thai baht currency) in the country. However, according to the bank regulations, only the traders who have a license to operate a business can use the money exchange service of the banks.

However, as border trade develops more into a formal way and the volume of trading becomes larger, it creates more competition in the trading, leading to the losses of the small-scale traders or individual operators in the border trade. One of the characteristics of the informal border traders is that most of them are low in education and other vocational skills. They become engaging in this sector which demands no particular education qualification. But what happens to them if they lose their small capital remains a question. One possible solution for them is to migrate into Thailand to find a greener pasture.

One example that the informal border traders are competing with their big brothers in the market is that due to their heavy investment in the border trade, they can take advantage of setting the prices of the commodities in the market. They also

¹⁶ Informal border trade is considered to be high risk because it doesn't have license or any official documents that help to quarantine for business operation and it does through informal channel.

have an access to manufacturing factories in Thailand, thereby capable to sell the same products cheaper than the ones from the small-scale traders who have to purchase them just in Nong Khai. In an interview with Mrs. Somephone, he said:

“I don’t supply the same products as the big traders and distributors do in Vientian, because I cannot sell them with the price they set for the same goods.”¹⁷

Therefore, the informal border traders can not compete with the distributors on the price. They have to use other strategies to overcome the challenges by providing more frequent deliveries than those distributors in Vientiane, who can deliver only 1 or 2 times per week. The informal border traders can deliver goods to customers faster and more often than the big distributors.

The informal channel provided many advantages to customers in Vientiane. It supplied the products on a daily basis and the customers can purchase the products in small quantities which they cannot buy from distributors. The distributors required customers to buy the products in large quantities of goods (wholesale deal) and the distributors can deliver goods only 1 or 2 times per week. Another opportunity is that the informal channel can supply new products from Thailand to customers in Vientiane faster than formal channel.

5.5 Conclusion

This chapter has tried to study the socio-economic consequences of informal border trade on the livelihoods of the people and poverty reduction. The data on occupation, livelihoods, activities, earnings, incomes, property, expenditures and access to services were collected from the different border points along the Vientiane-Nong Khai border.

¹⁷ Interview with Mrs. Somephone on 1 August 2008, Vientiane-Nong Khai Border Crossing Point, Vientiane.

Informal border trade is becoming increasingly important in Lao's national economic development. It is also an important sector that has been contributing to the socio-economic development of the border area by creating jobs and improving the living standards for local people living along border area between Vientiane and Nong Khai. Border trade in Vientiane has many positive impacts on Lao people.

The improvement in living conditions and the increase in wealth in the families of the local people have also encouraged them to invest in education for their children. The local people's accessibility to information made them realize how important education is for their children. The Lao government has also been strongly promoting the people's greater participation in education.

CHAPTER V

CONCLUSION

The motivation of this research was to try to understand the characteristics of the informal trade networks in the border area and its links with the formal one, and to study the impacts of informal border trade on the livelihood of local people who are engaging in activities which mainly focused on Lao traders at Vientiane-Nong Khai border area.

Among Lao's border trades, the trade activities in the Vientiane-Nong Khai border area have become very active because Vientiane is a capital city as well as the center of Lao economy. The foreign trade policy of the Lao government promoted border trade with its neighbouring countries to integrate its economy into regional and global economies. The purpose of border trade development is to promote economy growth and to reduce poverty. Therefore, Lao government improved its economic policies, particular tax reductions, to promote a smooth flow of goods and people in the border trade and to attract both domestic and foreign investments to the border areas.

In order to understand the relationship of border trade between Laos and Thailand, it was necessary to review the history of Lao-Thai relation. From the literature review, the researcher found out that during the Cold War period, both countries used border trade as a political tool aiming at pressuring the other nation. However, after the end of the Cold War, the two governments have changed their economic policies to promote more cooperation in trade regardless of political differences.

There are many border crossing points along the border between Laos and Thailand. The Lao government is difficult to control the border crossing points. Thus, informal border trade is thriving in Lao's border economy and the trade value is

higher than the formal one. Also, most informal border trade activities carried out by individual small traders and their families have not been reported in Lao's foreign trade statistics. This has a negative effect on losing the government's revenues.

However, the local people in the border areas get benefits from informal border trade because they are small-scale traders engaging in the trade with their limited capital resources. They can only trade a small volume of goods from Nong Khai Province of Thailand to Vientiane of Laos. Many Laotians living in the border area are now engaging in this kind of trade which is effectively providing jobs and income generations particularly to the poor border community in Laos.

For many people, informal border trade has become a means of survival, but it is also a source of employment and income generation for people working and providing services in border trading which allows many households to stay out of poverty. It is also a dynamic sector in which small traders make a profit. Thus, informal border trade plays a key role in poverty alleviation. The study found out that women are more actively involved in informal border trade activities.

The findings of the research show that border trade through informal channel provides several advantages over formal channel. It supplies and opens up a market for new products that are not available in the markets in Vientiane. Despite small in scale, it also supplies the demands of the markets faster than the formal channel. The successful traders in informal border trading are those who have a good network to transport and deliver their goods. The trade network consists of suppliers in Thailand, Laotian traders, carriers, bus drivers and customers.

The research also found out that there is cross-border interaction between informal and formal practices in trade. Although most of the suppliers in Thailand operate their business legally in Thailand, they are engaging in Lao's informal border trade economy. It is really ironical that a product which can be legally distributed in one side of the border is illegal in the other side and those who engage in trading such a product can be punished by law.

The border traders have innovative to compete with the big distributors and to expand their business. They are well adaptive to the business environment and they are also very capable to manage their business even though they are poor. For example, they know how to market in order to please customers and make customers satisfy with their goods and services. They know how to exploit and mobilize financial resources from people surrounding them such as from family's members, relatives or friends. They also have information about market and products resources such as they know where and how to get good quality and cheap merchandises.

These capabilities allow border traders to create value by being the link across the border. The result of the research indicate that border traders rely on learned experiences that they get from their family members or seeing others succeed in the business. Their opportunities come from being able to identify new combinations, minimize risks and maximize profits are the part of border traders business knowledge and judgment that has been built up through experiences and increase the chances of success and profit. For example, border traders' knowledge of their goods resources and market opportunities, where they can purchase cheaper goods but selling high to make profit at the market, and what kinds of goods that can be sell or require by clients in those markets.

The finding of the research shows that the border traders are able to overcome the barriers in their business operations by calling on a number of social network and business skills. Border traders work in a social community which included other border traders, porters and other parties. Social forces within this community, which straddles both sides of the border, help ensure that its members do not take advantage of one another. Meanwhile, social capital is built up between parties who work together regularly and strengthening relationships. The combination of these social linkages gives border traders advantages in minimizing hassles, building trust and increasing the scope of their capabilities. For example, border traders with strong relationships with tuk-tuk drivers and porters find less need to control every aspect of their activities. They can share the burden of traveling and delivery goods with others.

At the same time, they use these social networks to guard against another party taking advantage of them.

Informal border trade plays a key role in poverty alleviation and helps improve living conditions of those people who participate in the business in order to shaping a future of social and economic well-being. Within this context, it is questioned whether informal border trade could help to secure the livelihoods of people? At the same time, can it help people to meet their basic needs? According to the case studies and the data from the fieldwork indicated that the livelihood conditions of them are being secure and the primary security of livelihood is an economic activity that households engage in, in order to meet their basic needs such as food, clothing and shelter. For example, when the households have more income sources, with not depend on only one person to earn a living for supporting the family. Therefore, in case some things happen to their income sources, they don't have to worry about their family expenses in order to meet their basic needs like in the past such as food, water and electric payment, and they also have enough money to improve or expand more rooms in their old houses or even build a new house.

Additional, informal border trade can provide financial security for people involving in the business, which it can help those people reduce financial risk in case of emergencies happening to their family. For example, in case of a head of the family or one of family's members loses a job or can not work anymore. The less of family still has another income source for their survival. Furthermore, the business also help them to secure their children future by sending their children to better schools and higher education in order to guarantee that their children will have better job opportunities and better income for supporting the households.

Therefore, the initiative of informal border trade provides the positive impacts on the local people regarding to capacity building, livelihoods and the social relationship among traders and their social community. The social networks and business skills can help to improve or increase their livelihood assets and to reduce their vulnerability, which provide opportunities for local people to maintain and

expand the business activities that have supported their livelihood in a sustainable way. In side with increasing living conditions, there are increasing more understanding about how to manage, conserve and use the resources such as trading skills, knowledge, experiences, information and abilities, and social, physical and financial capital. Therefore, all these capitals are contributed to the family survival.

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5.1. Recommendation

As this study has shown, the informal trade does not necessary relate to illegal activities. On the contrary, it opens an opportunity for people with little education and financial capital to engage in a this cross border lucrative trade, which in turn created jobs and income among those involved in the business such as bus driver and porters. Moreover, it can be said that the overall economy of Laos, at least in the border area, could benefit from the informal trade as it help increases people spending, stirring up local economy. The findings of this research thus challenge an official perception towards the informal trade that it often involves illegal activities. State agencies are often reluctant to recognize the contribution the informal trade created for local economies and that led to unclear policies towards the informal sector. Therefore, it is important that the government agencies involving the cross-border trade should change their perception towards the informal trade and thus introduce appropriate policies towards the legal informal trade business.

In the future, border trade between Laos and Thailand, through Vientiane-Nong Khai, will grow undoubtedly. In the context of Laos, informal trade is becoming increasingly important in the national economic development as well. The informal sector is estimated to contribute between sixteen and seventy-five percent of the gross domestic product in third world countries.

Informal trade can play a significant role in creating jobs and income generations for local people particularly those who engaged in trade activities. When the ASEAN region has been trying to liberalize trade and investment by forming ASEAN free trade area, Lao and Thailand governments should work together to promote border trade and to implement the relevant trade policies in order to minimize obstacles in the border trade, by reducing tariff barriers and practicing standardized customs procedures. The successful implementation of trade policies will help increase economic growth in the border region of Laos and Thailand.

The research found out that the weakness of the banking system affects informal border traders. They have little access to financial supports and services from banks, including loans and foreign currency exchange. In time of need, traders turn to their family, relatives and friends who provide only a small amount of loans with high interest and a short-term repayment. Therefore, in order to promote foreign trade and investment, including border trade, governments of the two countries need to implement appropriate monetary policies and regulation that can make informal border traders possible to get access to financial services from banks, including loans. Small-scale traders will easily convert from Lao currency to foreign currencies which are required if they would be trading.

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APPENDICES

Appendix A

A Map of Lao PDR



Source: http://www.nationsonline.org/maps/laos_map_600.jpg

Appendix B

Questions for Interview Border Traders:

Name of border trader: _____

Personal information/background:

- 1. How old are you?
.....
- 2. What did your education background?
.....
.....
- 3. What did you do before doing this business? (going to Thailand to buy or sell goods).....
.....
- 4. How much did you earn from your previous job?
.....
.....
- 5. How many people in your family involve in this business?
.....
.....
- 6. How do you use your income? (for education, health care, food and others)
.....
.....

Business information:

- 7. Why did you start doing this job?
.....
.....

8. How long have you been doing it?

.....
.....

9. Where did you get the idea to do this job?

.....
.....

10. How much money did you need to start up the business?

.....
.....

11. How did you get money?

.....
.....

12. What kinds of products do you normally buy or sell? Do you buy the same types of products every time?

.....
.....

13. How many shops do you buy from or sell to on a regular basis?

.....
.....

14. How often do you travel to Thailand to buy or sell goods?

.....
.....

15. How much do you buy or sell each time? (approximately)

.....
.....

16. How much do you earn from this job per month?

.....
.....

17. Is your business growing?

.....
.....

18. Do you go to Thailand alone or with others?

.....
.....

19. How kind of shops do you buy goods from or sell to?

.....
.....

Network:

20. Do you have regular customers/shops that you buy for? (in Laos)

.....
.....

21. Do you have regular customers/shops that you buy from or sell to? (in Thailand)

.....
.....

22. How long have you been buying or selling for those shops/customers?

.....
.....

23. Do the shops in Thailand do or provide any service to encourage you to buy from or sell to them? (credit, additional services, discounts, etc.)

.....
.....

24. How do you travel to Thailand? (By private cars or by public transports)

.....
.....

25. How much do you spend for your travel cost to Thailand? (for entry fee/visa, transport, food and other expenses)

.....
.....

26. How long do you stay in Thailand for each trip?

.....

27. How do you get your goods pass custom offices? Do you have to pay to custom officers for bring your goods into Laos/Thailand? (corruption)

.....
.....

Appendix C

Questions for Shops (wholesale)

Name of shops: _____

1. How many customers (small traders) from Lao do you have in regular basis?

2. How long have you been working with them?

3. How often do they come to buy goods from your shop?

4. How much do they buy goods for each time?

5. What kinds of goods do they buy in regular?

6. Do they come to buy goods by themselves or you delivery to them?

7. What kinds of services do you provide for your customers? (Credit, Discount, delivery services and others)

8. How long have you been doing business?

Appendix D

Lao People's Democratic Republic
Peace Independence Unity Democracy Prosperity

Ministry of Commerce

Ref: 0106/MOC.TFD

Regulation on
the Import and Export licensing procedures of Controlled Goods
from Trade Authorities

- Pursuant to the Decree on the establishment and operation of the Ministry of Commerce and Tourism No. 24/PM, dated 24 March 1999
- Based on the Decree on import and export No. 205/PM, dated 11 October 2001

The Minister of Commerce sets out:

Chapter I
General Principles

Article 1. Licensing

An import or export licensing is a measure to administer import and export of goods in the Lao PDR, with an aim:

- To control the implementation conditions, criteria of the applicants for import or export activities;
- To monitor the conditions and criteria of import or export applicants, and to collect statistics of controlled-good imports or exports;
- To avoid a severe adverse impact on domestic production or national balance of payments;

- To control the import or export of prohibited goods which are occasionally needed for import or export.

Article 2. Applicant

An applicant comprises of importer, exporter as specified in Article 9 and Article 10 of the Decree on Import and Export No. 205/PM, dated 11 October 2001.

Article 3. Goods subject to licensing

The goods subject to an import or export license are controlled goods by which the Minister of Commerce has specified the criteria for import or export. The importer or exporter must strictly follow every procedure and regulation in this Regulation and in the laws and regulations of relevant sectors.

The detail of goods items subject to import or export licensing will be announced later.

Chapter II

Licensing procedures

Article 4. Licensing authority

Importer or exporter who wishes to import or export goods subject to control is required to submit an application with trade authorities as follows:

- Prohibited goods: approval from the Ministry of Commerce with a permission from the Prime Minister;
- Some controlled goods: approval from the Ministry of Commerce;
- Other controlled goods: approval from trade services in provinces, Vientiane municipality, and special zones.

Article 5. Licensing procedures

A license needs to be acquired prior to the import or export where accompanying documents include:

- Business registration and tax certification;
- Application form;
- Buying or selling contract;
- Technical certification from relevant authorities.

Article 6. Licensing consideration

The consideration of licensing application shall be in time, simple, and transparent for importer or exporter who supplies all required documentation as specified in this regulation.

The delay of licensing process without justification or unjustified reasons is considered in breach of this regulation and penalties shall be applied case by case.

Article 7. Time validity of a license

How long a license is valid depends on types of imports or exports. Related authorities specified in Article 4 of this regulation shall determine the time validity of licensing.

Chapter III

Penalties

Article 8. Breach of licensing regulation

An importer or exporter who does not adhere to this regulation shall not have the right to import or export.

Article 9. Fraud, claim and other breaches

Any act related to fraud, claim, and other breaches to acquire a licensing shall be penalized according to seriousness or is subject civil penalty.

Chapter IV
Final provisions

The Foreign Trade Department acts as a focal point to coordinate with related authorities, including trade services in the provinces, Vientiane Municipality and special zones, to implement in detail and for effectiveness of this regulation. The list of additional or reducing imports or exports subject to licensing shall also be provided to the Ministry of Commerce in subsequent notification.

Article 11. Enforcement

This regulation shall be into force from its date of signatory. Any other provisions and regulations inconsistent with this regulation shall be nullified.

Vientiane Municipality, Date 25 January 2002

Phoumy THIPPAVONE
Minister of Commerce

(Note: Unofficial Translation)

Appendix E

Lao People Democratic Republic
Peace Independence Democracy Unity and Prosperity

Ministry of Commerce

No. 0203/MOC.TFD

Notification

List of prohibited goods for import and export

(for the year 2002-2003)

- According to decree on export and import management no. 205/PMO, dated 11 October 2001;
- According to decree on export and import licensing with trade sectors for control goods, no. 106/MOC.FTD, dated 25 January 2002;
- According to notification on list of goods from related sectors.

Minister of Commerce issues the list of prohibited goods for import-export to notify the trade units, concerned organization and implementing as follow:

A. Prohibited goods for importation:

1. Any kind of explosive, weapons and armament
2. Any kind of drug addict
3. Any kind of products affecting tradition of the nation
4. Industrial disposal and chemical product that dangerous for health and environment
5. Antiques
6. Food, medicine and prohibited doctor equipments from related sectors
7. Wild life, aquatic animals and their parts which are forbidden by domestic law and international subcontract that Lao PDR had signed.

8. All type of right hand side driving vehicles
9. Toys affecting children attitude, growth, safety and peace of the society
10. Literature work, nude publication and other that against Lao PDR
11. Second hand goods that government banned from import
12. Equipment for printing of bank note
13. Dangerous insecticides which prohibited by related sectors
14. All type of log, sawed timber (processed timber), wood and forestry product that banned according to internal regulation

B. List of export prohibition goods

1. Any kind of explosive, weapons and armament
2. Any kind of drug addict
3. Any kind of products affecting tradition of the nation
4. Wild life, aquatic animals and their parts which are forbidden by domestic law and international subcontract that Lao PDR had signed
5. All type of log, sawed timber (processed timber), all type of rattan and unprocessed eaglewood
6. Forestry product such as: Orchids and etc that prohibited according to internal law
7. Sulfur (bat manure)
8. Equipment for printing of bank note

List of prohibited goods for import and export is goods that badly damaged and dangerous to economic and social situation, politic, peace, safety and traditional of the country. All type of goods mentioned above are prohibited to import and export with an exception to Article 8 of decree numbers 205/PMO, dated 10/11/01 on export and import management. The detail of procedures and regulations are requested to follow the regulation numbers 106/MOC.FTD, dated 25/01/2002 on export and import licensing with trade sectors for control goods.

So this notification is prepared to notify organizations, related business units and be strictly implemented.

Vientiane, date 14/02/2003

Minister of Commerce,
Soulivong DARAVONG

(Note: Unofficial translation)

Appendix F

People's Democratic Republic Peace Independence Democracy Unity Prosperity

Ministry of Industry and Commerce

No. 1376/MOIC.DIMEX

Vientiane Capital, 10 October 2006

Notification on List of goods subject to import-export control and prohibition

- According to the Decree on the import-export management, No 205/PMO of 11 October 2006.
- According to the Regulation on the Import-Export Licensing of Controlled goods, No 106/MOC.FTD dated 25/1/2002.
- According to Prime Minister Order on import-export facilitation and distribution of goods throughout country No. 24/PMO,dated 24/09/2004..
- According to the list of goods needed approval from related government agencies.

The Minister of Industry and Commerce issues the notification on the list of goods subject to import-export control and prohibition, as follows:

I. Goods subject to import-export prohibition

Goods subject to import – export prohibition are dangerous and have a severe effect on national security, peace and public safety in order to protect the social/public order; the standard of living; national cultures and traditions; human, animal and plant life or health; national treasures of artistic, historic or archaeological value;

architectural value; and national resource preservation; to comply with the United Nations treaties and national laws and regulations. The list of goods subject to import-export prohibition includes:

A. There are five categories of goods subject to import prohibition

1. Guns, bullets, all kinds of explosives, war weapons and war vehicles
2. Opium seeds, opium flowers, cannabis
3. Dangerous pesticide
4. Game Machines that lead to bad attitudes
5. Pornography and literatures that affect on cultures and national security

B. There are nine categories of goods subject to export prohibition

1. Guns, bullets, explosives, war weapons and war vehicles
2. Opium seeds, opium flowers, cannabis
3. Animals and animal products which are prohibited to export according to the law
4. Log, timber and Akar wood from the forest
5. All kinds of orchids from the forest and Dracaena Loureiri
6. All kinds of rattan
7. Bat manure
8. Antique objects; national treasures of historic or archaeological and cultural value and naturally national historic objects.
9. Old/antique Buddha and angel images; and religiously respectful objects

II. Goods subject to import-export approval or certificate

Goods subject to import-export approval or certificate means that those need to get approval or certification from related government agencies prior to the import – export in order to comply with the national laws and international treaties that Lao

PDR is a party member; to ensure the safety of use; to inspect the quality and standards; and to prevent epidemic disease. The List of goods subject to import – export approval is:

A. There are 25 categories of goods subject to import approval or certificate

1. Live animal, fish and aquatic animals
2. Animal meat and other parts for human consumption; and products from animals and processed products from animal meat.
3. Milk products
4. Rice in the husk (paddy); rice
5. Cereals, products from vegetables, other processing for human consumption
6. Beverage, alcohol and orange juice
7. Food for animals
8. Cements, mortars and concretes
9. Fuel
10. Gas
11. Chemicals that are reacted to Ozone and products contained such chemical substances
12. Bio-chemical products
13. Pharmaceutical products, medicine for human and animal as well as medical equipment
14. Chemical fertilizer
15. Some types of cosmetic
16. Pesticide and toxic products for mouse and germs /microbes / bacteria
17. Sawn wood processed by sawmill company
18. Log and seedling
19. Textbooks and books
20. Rough diamonds
21. Silver and gold

22. Steel (long and round piece of steel and other shapes)
23. All kinds of vehicles and parts (except bicycles and tractors)
24. Game machine
25. Explosive substances

B. There are seven categories of goods subject to export approval or certificate

1. Live animal, fish and aquatic animals
2. Rice in the husk (paddy); rice
3. Resin and forestry products
4. Mining
5. Wood and wooden products
6. Rough diamond
7. Gold and silver

Ministry of Industry and Commerce will regularly improve the notification on the list of goods subject to import – export control and prohibition, where it is appropriate, in order to facilitate the business and to comply with the international treaties that Lao PDR is a party member.

This Notification replaces the notification on List of goods subject to import-export prohibition N. 0284/MOC.FTD date 17/6/2004 and the notification on List of goods subject to import-export approval from trade and other related government agencies.

Minister of Industry and Commerce,

Dr. Nam VIYAKET

(Note: Unofficial translation)

BIOGRAPHY

Viengxay Thammavong was born in Vientiane, capital city of Laos. She graduated from the National University of Laos in Bachelor degree of Education majoring in English in 1997 and graduate diploma in Translation and Interpreting from University of Western Sydney in 2001.

Since she graduated from the University, she had been working at the Ministry of Foreign affairs of Laos and she was posted to work at Lao Embassy to Brunei Darussalam from 2002 to 2006. After she finished her assignment, she returned back to work at Cabinet Department of Ministry of Foreign Affairs and she got promote to be Deputy Chief of Research Division in 2007.