



Policy Brief

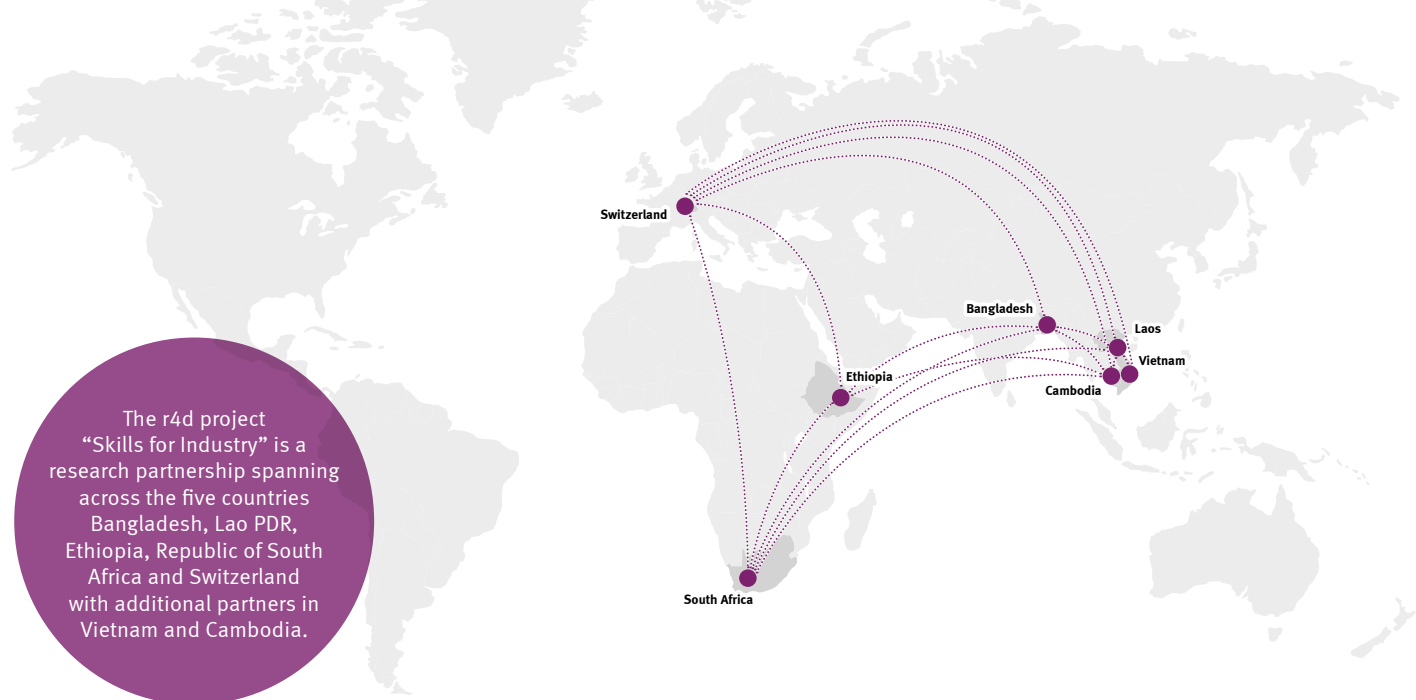
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Boosting Growth and Transformation in Laos' Industry

Two thirds of Laos' manufacturing industry has experienced growth and transformation over the last half decade. There are noteworthy differences between small and large companies: whilst both grew quickly, larger ones have achieved more rapid change in products, technology and organisation. However, a dimension of growth and transformation where large companies in Laos are lagging behind is labour productivity.

KEY MESSAGES

- Supporting knowledge transfer could reduce the differences between leader and laggard companies.
- Further assessing the slow rates of transformation in small companies as well as the overall decline in productivity is worthwhile because both entail risks and foregone opportunities
- Given that not all Vocational Skills Development (VSD) programmes contribute to meeting skills needs, greater input from employers, in both design and implementation of such programmes, are needed.



Growth and transformation matter

The natural resource sector has played a dominant role in the Laotian economy over the last decade. There are various indicators that this role is changing, given the depletion of some of the largest mines and the current halt on new hydroelectric plants.

In order to provide employment opportunities for the growing Laotian population, industry and services will have to step up. Strengthening this role will also be crucial in terms of the integration with the South East Asian and Chinese market.

Laos' industry reports transformation

In 2018, the industrial sector of Laos comprised 213 active companies that had 25 employees or more. As our dataset shows, most of the 144 interviewed manufacturing companies (including 24 with less than 25 employees) report positive growth rates and transformation in the last 5 years.

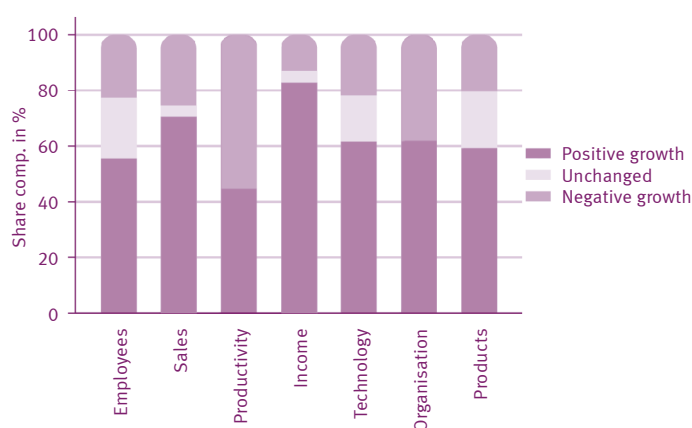


Fig. 1: Productivity lags

Among the growth dimensions, the largest changes relate to income and sales. There are also noticeable alterations to the number of employees. Regarding productivity, however, the picture is less positive: there are far more companies experiencing negative rather than positive change.

Regarding transformation, the complexity of products, technology and organisation changed at similar speeds: around 60% of companies report a trend towards more complexity and sophistication.

Some of these shifts go hand in hand. Companies whose products have become more complex often have increased the level of technology and organisation. And companies with positive productivity growth tend to increase salary levels, reflecting common economic wisdom. Other factors hardly correlate. It is surprising, for example, that changes in product complexity and sales only correlate weakly. This could be due, inter alia, to a fall in consumer purchase power over the last three years.

Large companies ahead in transformation

The most notable distinction between companies of different sizes is that in small companies there are almost no changes in the complexity of products, technology or organisation and management, whereas in large companies there is significant transformation.

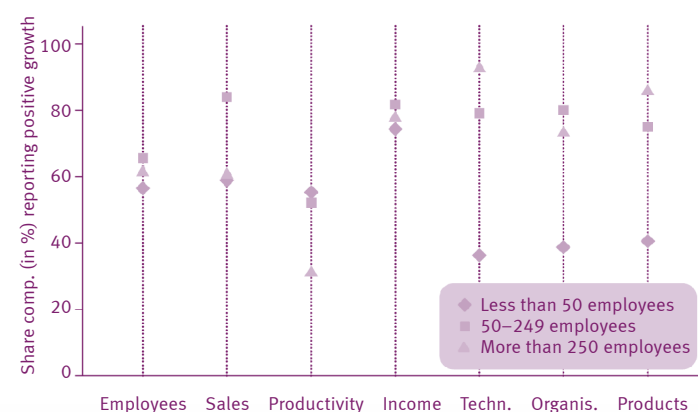


Fig. 2: Large companies ahead

One reason for these differences could be the fact that changes need investments, which can be better shouldered by larger companies with better access to finance. At the same time, complex products and technologies deployed in some large companies require employees to be continuously and effectively re-trained. Since medium and small companies use simpler technologies with fewer upgrades, such training challenges are less pressing.

Most employment growth in Champasak and Luang Prabang

Interestingly, the companies report quite different employment growth rates in the seven provinces covered in the research in Laos. Companies in the two provinces Champasak and Luang Prabang report growth rates between 40% and 60%, while those in the provinces of Savannakhet and Vientiane even experience negative rates.

Champasak and Luang Prabang are both tourist hot spots, which might have triggered positive changes also in the supplier industries. Even though Savannakhet has the largest and most dense population in Laos, not many jobs have been offered by companies doing business outside the Special Economic Zone (SEZ). Finally, there has been some labour movement between sectors and regions in the last five year.

Skills shortage correlates with growth and transformation

The difficulty of finding employees varied for different types of employee: 18% of companies reported that it was somewhat or significantly difficult to find general workers, whilst 61% reported difficulties in finding skilled operators.

A comparative analysis shows that companies which experienced skills shortages were much more likely to have increased their productivity than companies without shortage. In all other categories of growth and transformation, companies with skills shortage were only slightly ahead. The causes are likely to be complex and multidimensional, such as: 1) Higher productivity could be a result of selecting top performers among job-seekers, who are more difficult to recruit; 2) High productivity could lead to higher employment growth, and skills shortage; 3) The fact that skill is on short supply might also lead a company to find other solutions to improve sales, therefore boosting productivity.

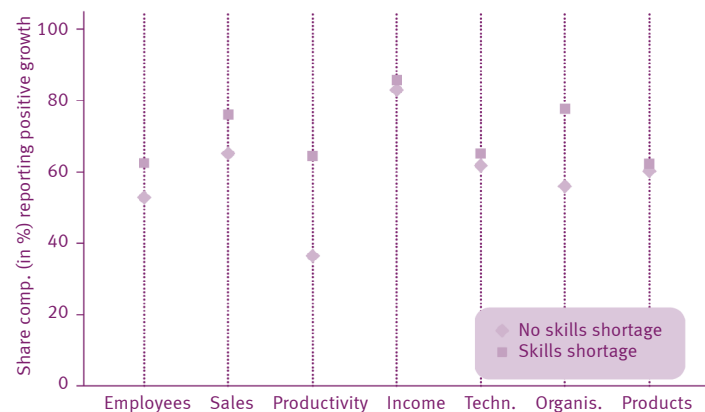


Fig. 4: Implications of skill needs

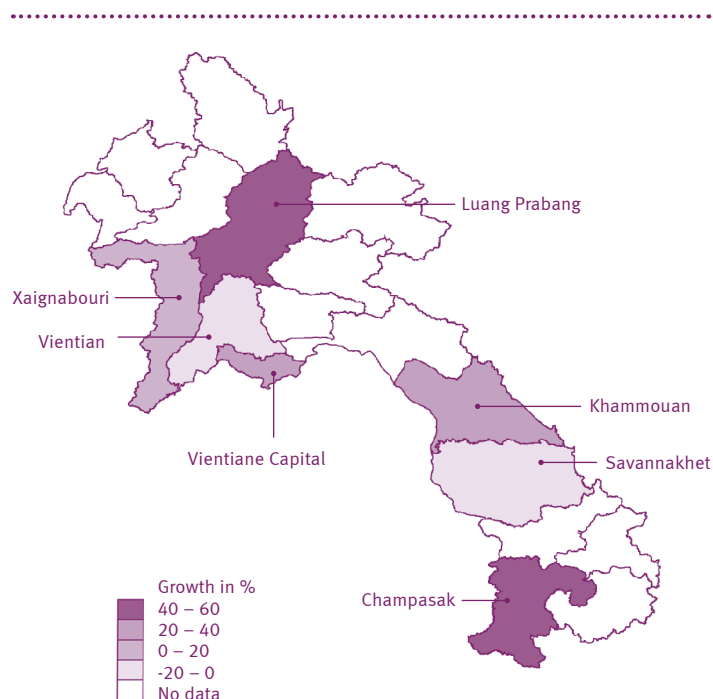


Fig. 3: Regional divergence in employment growth

Characteristics of vocational skills development programmes

Some of the most commonly observed vocational skills development (VSD) programmes in Laos are all inception trainings: 1) Safety and regulation, 2) 5 S, i.e. sort, set in order, shine, standardise, sustain; and 3) fundamentals of using tools. Interestingly, the most common programmes are not those which contribute most to meeting skills needs. This could be because the most common programmes are now so widespread that their contribution is seen as less significant. Another reason could be that skills demand and supply are not adequately aligned. Interesting in this regard is that in-employment programmes are contributing much more to satisfying employers' needs.



Vocational skills training for future workers in Laos.
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Young women chopping ginger at the Vientiane Capital Skill Development Center (VSDC).
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LEARNINGS

The presented survey results are a first step in the “Skills for Industry” project. In the next phase, we will gather information through case studies and attempt to observe the relationships between vocational skills development, skills shortage and growth and transformation more closely.

What can be learned at this stage? First tentative learnings include:

- Growth and transformation are indeed happening in Laotian industry, but in uneven ways: some types of companies, industries and regions are ahead, others lag behind. One possible policy conclusion would be to support the knowledge transfer between leaders and laggards.
- Low productivity is commonplace: growth seems to be happening through expansion in employment rather than improving productivity. This is problematic, given the long-term importance of productivity for both competitiveness and income. This negative trend deserves attention by policy makers and business associations alike.
- Of particular concern is the fact that smaller companies are far behind larger ones when it comes to transformation. One interpretation is that this is due to the investments needed to improve production technology and processes. It seems worthwhile to assess the situation further and explore means to support smaller companies.
- The fact that in-employment programmes are considered much better aligned with employers’ needs than pre-employment programmes could be read as a sign that relevance of pre-employment has to be strengthened, for example by increasing the input of employers in the design and implementation of those programmes.

Source

Own survey among 144 companies in Laos, 2018.

THE AUTHORS

Markus Maurer, Zurich University of Teacher Education, Switzerland
markus.maurer@phzh.ch

Bounseng Khammouty, National University of Laos, Lao PDR
bounseng@fe-nuol.edu.la

Michael Morlok, B, S, S, Volkswirtschaftliche Beratung, Switzerland
michael.morlok@bss-basel.ch

Hannes Teutoburg-Weiss, Zurich University of Teacher Education, Switzerland
hannes.teutoburg@phzh.ch

FURTHER INFORMATION

r4d Skills for Industry Project Page:
<https://phzh.ch/skillsforindustry>

CONTRIBUTING INSTITUTIONS



University of Teacher Education Zurich and
National University of Laos in Zurich (Switzerland) and Vientiane (Laos)

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DISCLAIMER

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