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Assessment of Current Garment Industry in the Lao PDR: Based on a Field Survey in Vientiane City

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Ⅰ. Introduction

Lao People's Democratic Republic (the Lao PDR) is one of the poorest and least developed countries in the East Asian region. In 2003, its per capita income was estimated at US$340, with an estimated thirty-three percent of its 236,800 population living on less than US$2 per day. This low income is despite the fact that the country has significant natural resources, such as forestry, minerals, and hydro-electric power. Agriculture remains the major sector of the economy, with a contribution of approximately 48% of its GDP (World Bank, 2005).

In recent years, Lao PDR's garment industry has flourished under a new government's reform policy known as the New Economic Mechanism (NEM). This reform policy, which was first developed in 1986, aims to transform the economy from a centrally planned to a market-oriented system through a series of reforms, such as the decontrol of prices, and the liberalization of trade and investment. With only two garment factories in 1990, the garment industry in Lao PDR has expanded to encompass 55 export-oriented companies and 43 subcontracting companies throughout the country in 2003. The industry as a whole creates almost 30,000 jobs and produces about US$ 100 million goods for export annually. In the fiscal year 2003-2004, the garment industry contributed approximately 27% of the total industrial exports of the country. The garment industry is considered to be young; however, due to its capacity to pull foreign currency into the country through clothing exports, it has become a key contributor to the government's prime objective of economic development, poverty alleviation, and job creation.

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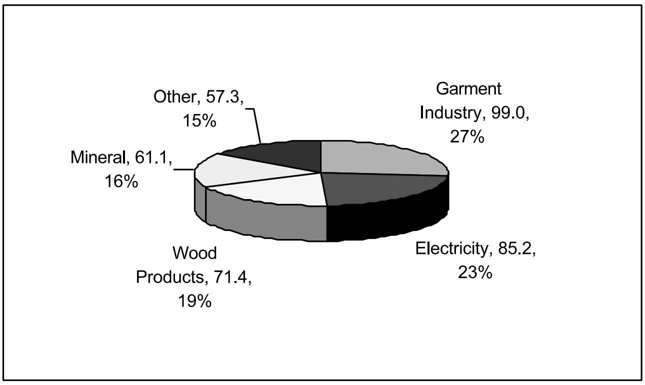
Chart 1: Industrial Exports of the Lao PDR in Fiscal Year 2003-2004 (US$ million)



Source: Vientiane Times (2005)

In Lao PDR's clothing imports sector, the EU and the US markets represent 75%, or US $199 billion, of the world's clothing imports in 2000. The Japanese market represents a further 10% of US$20 billion (UNIDO, 2002). Under such market conditions, Lao PDR's clothing exports to the global market has grown about ten times between 1990 and 2000 (Table 1). However, the amount of US$0.22 billion in exports is a small share compared to other neighboring countries, such as China (US$36 billion), Thailand (US$4 billion), and Cambodia (US$1 billion).

Table 1: Clothing Exports to Global Market (billion US$)

	Laos	China	Thailand	Cambodia
1990	0.02	9.67	2.82	N.A.
2000	0.22	36.07	3.76	0.99

Source: WTO (2002)

The phenomenal growth of the Laotian garment industry has occurred by taking advantage of its low labor costs under a favorable international business environment, including imposing country-wide quotas under the Multi-Fibre Arrangement (MFA). However, in January 2005, the MFA was abolished, which meant that limiting quotas on total exports of garment to WTO member countries was abolished and subsequently, export quota allocations for individual developing countries would also be abolished. This could present opportunities for increasing exports, but at the same time serious challenges to survive in a new competitive environment could arise.

Regarding the future of the garment industry in Laos, a pessimistic outlook has been expressed by donor agencies. For instance, UNIDO (2002) argues that many Laotian garment companies are in the" losers 'category "in a post-MFA period. This is based on the fact that most Laotian garment companies are manufacturing-oriented companies, mainly receiving orders from buyers 'agents and providing them with manufacturing orders from their sewing capacities. Without transforming the industry from manufacturing to marketing-oriented, the Laotian garment industry can not successfully survive in the new environment. A JICA report (1998) also questions the fact that the garment industry in Laos could not retain competitive power in a global market with strong competitors such as China and Vietnam in a post MFA period.

There is also concern that the manufacturing industry in Laos, including the garment industry, faces constraints such as a small domestic market, lack of raw materials and production capacity of intermediate goods in the country, lack of basic education, scattered population and small labor population, relatively higher wages regardless of insufficient education compared to other competitors such as China and Vietnam, and high cost transportation due to land-locked location of the country (JICA, 1998). In the 15th year of its history, the garment industry in Laos stands at a key turning point for future development.

The purpose of this study is to review the current situation of the garment industry in the Lao PDR, which is in its fifteenth year of existence and is facing new challenges in a competitive global market. Considering the aforementioned situation of the Laotian garment industry, this study investigates the numerous challenges for the future development of this sector. Finally, the study assesses whether the Laotian government has provided adequate support for this sector and the additional support the government can provide by asking the question, " What kind of government investment is most necessary to increase labor productivity in this industry? " This is because the industry could provide not only economic benefits to the country but also social improvements, such as providing job opportunities to rural females.

Ⅱ. Methodologies of the Study

A field survey was conducted in Vientiane, the Lao PDR from March 12 to March 25, 2005. The field survey is composed of the following two parts: i) Visiting and interviewing 21 garment factory executives, which include 17 export-oriented companies and 4 sub-contractors, in Vientiane City; and ii) Conducting a questionnaire to 11,000 employees of the 21 garment factories in Vientiane City. In the selection of the 21 garment companies, factors such as size and ownership of the company were considered. However, there is a scale bias among the 17 export-oriented companies since 58.8% of the companies fall under the category of having more than 500 employees. In contrast, 60.0% of the export-oriented companies are relatively smaller-scale companies with 100 to 499 employees. Companies with over 500 employees are only 25.5% of the total companies in Laos (see Table 2). Furthermore, due to time limitations, only garment companies located in Vientiane City are targeted, even though garment companies are concentrated both in Vientiane City and Savannakhet.

Table 2: Comparison in Number of Employees between all the Companies and Selected 17 Companies.

	Number of Interviewing companies		Total Number of Export-oriented Garment Companies		
	A		B		A/B
Over 1000 employees	2	11.8%	3	5.5%	66.7%
500～999 employees	8	47.1%	11	20.0%	72.7%
300～499 employees	3	17.6%	14	25.5%	21.4%
100～299 employees	3	17.6%	19	34.5%	15.8%
Less than 100 employees	1	5.9%	8	14.5%	12.5%
	17	100.0%	55	100.0%	

Source: Lao Textile and Garment Industry Group (2005)

Although the study has the aforementioned scale bias regarding the selection of sample companies, the result is 4,931 questionnaires collected from 19 companies, which accounts for 60% of total employees in the 19 companies that the study has surveyed.

III. Assessment of Garment Industry in the Lao PDR

III. 1. Industry Structure by Ownership

With only 2 companies in 1990, the garment industry in the Lao PDR has increased today to encompass 55 export-oriented companies[1] and 43 sub-contracting companies. The Laotian garment industry has developed primarily by attracting foreign direct investment (FDI). Among the 55 export-oriented companies, 46% are FDI companies, followed by 36% of Laotian companies and 18% of JV companies. Thailand is a major investor in the garment industry. Due to similarity in language and geographical location, Thai investors have advantages when operating in Laos. Recently, Japanese companies that have a long history in Thailand are coming to Laos to seek further lower labor costs and by sending Thai managers who have accumulated experiences in Thai factories[2].

FDI companies clearly have a dominant presence in volume since they create 11,837 jobs (43.1%), purchase 6,902 machines (51.5%) and produce 24,754 pieces of garments per year (57.9%) in the export-oriented garment sector.

Table 3: Distribution of Total Employees, Machines and Production Capacity of Export Oriented Companies in the Lao PDR (N=55)

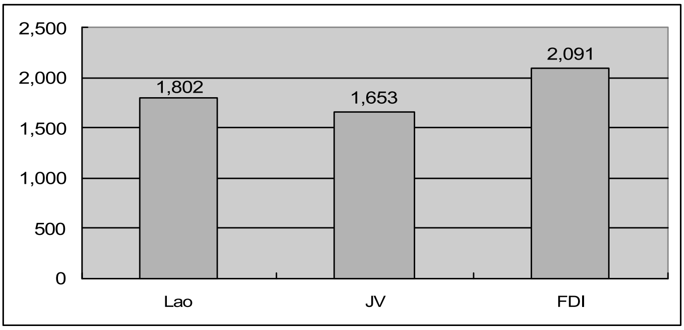
Ownership	Number of company	Number of employee	Number of machine	Production capacity (piece/year)
FDI	25 (46%)	11,837 (53%)	6,902 (52%)	24,754 (58%)
JV	10 (18%)	5,220 (23%)	3,511 (26%)	8,594 (20%)
Laos	20 (36%)	5,224 (24%)	2,978 (22%)	9,414 (22%)
TOTAL	55 (100%)	22,261 (100%)	13,391 (100%)	42,762 (100%)

Source: Lao Textile & Garment Industry Group Directory (2005)

Even though the volume scale of companies is relatively small, Laotian companies play an important role in the Laotian manufacturing because they create more than 5,000 jobs. Even among sub-contracting companies, 67% hire more than 30 workers, which is considered to be an enormous number when nearly 97% of manufacturing units have less than 10 employees (World Bank, 2004).

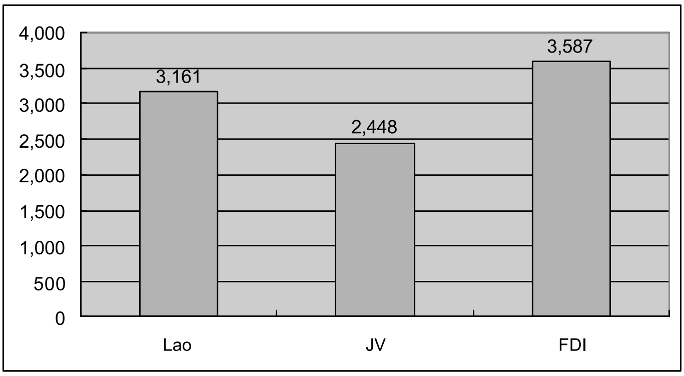
In addition, Laotian companies have better productivity per worker than JV companies. The productivity per worker of Laotian national companies is 1,802 pieces/ year/ worker compared with 1,653 pieces/ year/ worker in JV companies. The same thing can also be said in terms of productivity per machines (capacity production divided by number of machines). Productivity per machine in Laotian companies is 3,161 pieces/ year/ machine compared with 2,448 pieces/ year/ machine in JV companies.

Chart 2: Per Employee Productivity in Garment Companies in the Lao PDR (N=55)



Source: This data was based on Lao Textile & Garment Industry Group Directory (2005)

Chart 3: Per Machine Productivity in Garment Companies in the Lao PDR (N=55)



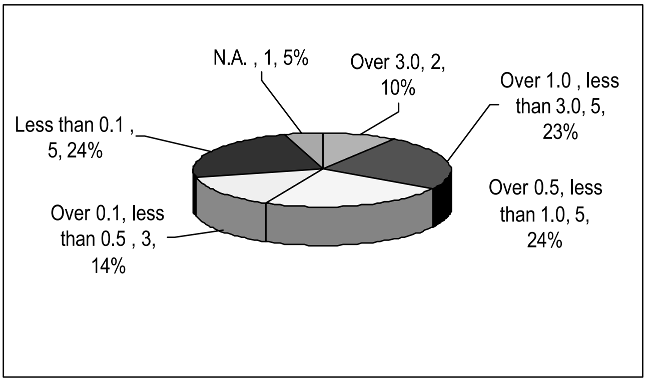
Source: This data was based on Lao Textile & Garment Industry Group Directory (2005)

Ⅲ. 2. Company Profiles of Selected 21 Companies

Of the 21 companies in which the field survey was conducted, seventeen are export-oriented and 4 are sub-contractors. Ten are Laotian companies, five are JV companies and 6 are FDI companies. There are more Laotian and JV companies and fewer FDI companies compared to the real ratio of companies in the industry. Twenty-one companies hire 9,436 employees, which accounts for 39% of the whole industry. Twenty-one companies own 7,279 machines in total which accounts for 49% of the whole industry.

Out of 21 companies, 47% make more than US$ 0.5 million in capital investment. Only 1 company is Laotian among the companies that earn over US$ 1 million in capital investment.

Chart 4: Capital Investment of 21 Garment Companies in the Lao PDR (N=21) (US$ million)

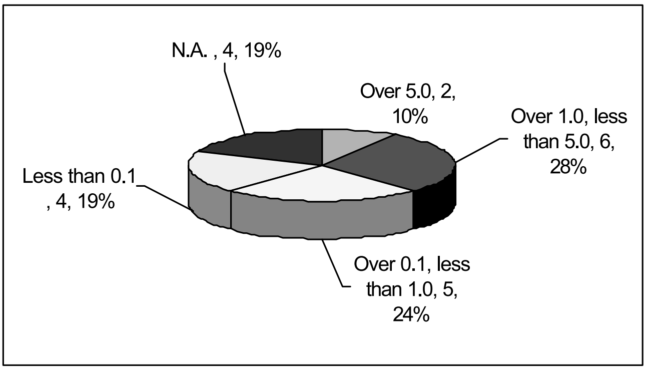


Source: This data was collected by authors

Over US$ 35 million gross sales were recorded in 2004 with 17 of the companies. Among the 17 companies, 8 companies made more than US$ 1 million gross sales last year. These 8 companies include 2 Laotian companies.

Fifteen out of 21 companies gained profit, four incurred losses in 2004, and two did not provide any response. Even though more than 70% of the companies recorded a profit in 2004, one company owner admitted that the profit margin has fallen in recent years because of a price war among ASEAN countries and China, which resulted in a

Chart 5: Annual Gross Sales of 21 Garment Factories in Laos (N=21) (US$ million)



Source: This data was collected by authors

50% price decline compared to the situation several years ago. Heavy dependence on exports to France has also affected the profit margin. Out of 17 export-oriented companies, 12 companies export to France. One company owner, whose company exports only to the French market, mentioned that the decrease in its order quantity in 2004 was due mainly to fewer orders from France.

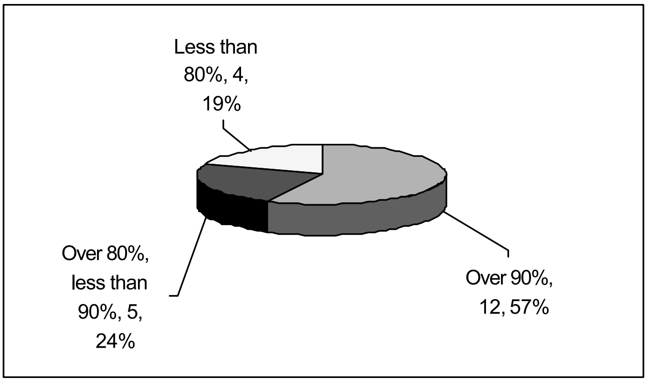
Ⅲ. 3. Employment

Based on our field survey conducted in 21 selected garment companies in Vientiane city, out of the grand total of 9,436 workers in these factories, on average, 85% are females. Twelve out of 21 companies have more than 90% female workers at the factories. Female workers are primarily working at the sewing section while the majority of male workers are working at the cutting, washing, and packing sections.

On average, fifty-six percent of workers come from provinces to work at the 21 garment factories in Vientiane City. Sub-contracting companies tend to hire fewer than 30% of workers from provinces because sub-contractors prefer to hire neighboring residents.

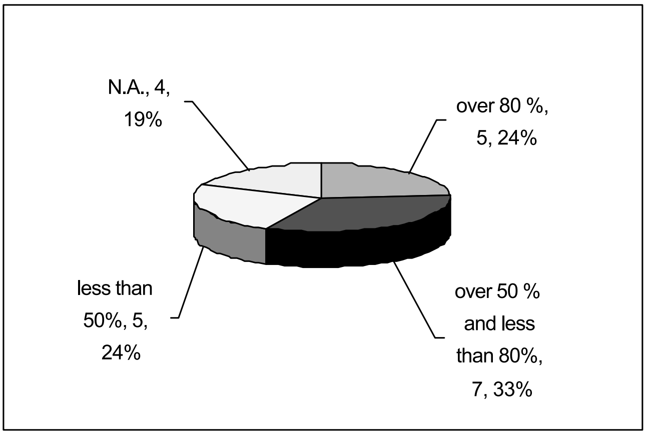
Word of mouth recruitment is the most popular and cost-effective way of recruitment compared with methods of recruitment, such as advertisement on newspapers and banners. Sixteen out of the 21 companies use word of mouth communication for recruitment. Word of mouth communication takes place in various

Chart 6: Percentage of Female Workers in 21 Garment Companies in the Lao PDR (%)



Source: This data was collected by authors

Chart 7: Percentage of Workers from Provinces in 21 Garment Companies in the Lao PDR (%)



Source: This data was collected by authors

forms, including asking village chiefs to introduce available workers, and announcing employment opportunities to current workers so as to encourage them to bring their family and friends.

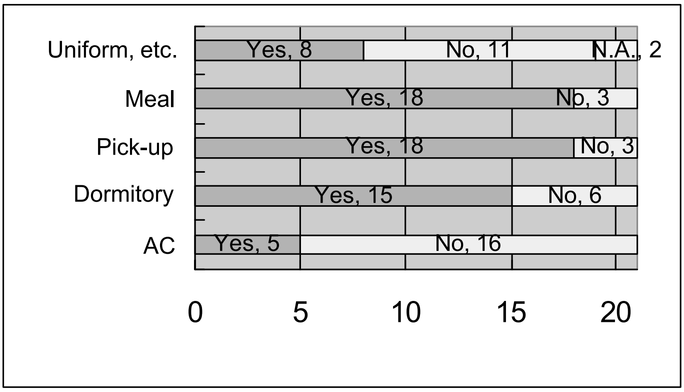
Ⅲ. 4. Employees 'Working Conditions

Among the 21 companies, the average wage per month is US$46, which is composed of a base salary and performance salary, including overtime work. Performance salary is calculated by the number of pieces produced. Among 9 companies that responded to providing overtime payment, the hourly charge is 1.5 to 2 times more than regular working hours. Some companies pay annual bonuses at the end of a year when companies make profits, and monthly bonuses when workers attain 100% attendance.

In addition to salaries, companies provide meals, dormitories, and transportation service for workers as benefits. Transportation services and meals are common benefits for workers in 18 companies. Companies provide either meals (lunch and overtime dinner), cooked rice, or subsidies for meals. Generally, meals are provided for workers living in dormitories. Fifteen companies have dormitories for workers from provinces.

In addition to benefits, factory working conditions were also assessed. Air-conditioning is not yet popular in the factories. Only 6 companies have air-conditioned sewing rooms. There are more factories with partial air-conditioning in administrative offices and computerized rooms. Uniforms are not required in all the factories. Only 8 companies provide uniforms for workers. Uniforms are used for identifying the roles of key workers, such as supervisors, line managers, and quality controllers. A few companies provide masks and caps for workers; however, it is not obligatory to wear them. Some companies have clinics at factories. One FDI company implements HIV/AIDS prevention programs for workers in collaboration with a NGO. At some factories, workers are working while listening to music or radio.

Chart 8: Benefits for Workers in 21 Garment Companies in the Lao PDR



Source: This data was collected by authors

Ⅲ. 5. Production and Sales

Out of 21 companies, 13 companies implement FOB (free-on-board) business or both FOB and CMT (cutting, making and trimming) business. Four companies implement CMT business only, while 4 sub-contracting companies implement only MT (making and trimming) business. FOB manufacturers procure materials for production by themselves, so that prices are charged for their product. On the other hand, only the cost of labor in assembling is paid to CMT manufacturers. For instance, assembling one T-shirt costs about US$10, and a pair of jeans costs around 80 cents. Limited financial resources constrain them to transform themselves from only CMT manufacturers to FOB business. There are strong requests from the Laotian company owners for access to governmental financial support to increase the companys 'capital investments.

Companies produce various products, such as T-shirts, polo-shirts, trousers, female lingerie, jeans, sportswear, bedding clothes, and baby garments. What a company can produce depends on the available equipment and the workers 'skill level. The simplest products are cotton T-shirts. Companies import all the materials mainly from Thailand and cut, sew, and trim to assemble T-shirts, which already have 70% discount tags and no "made in Laos" tags. These products are observed mainly at Laotian companies and sub-contractors. On the other hand, big brand name products, such as Puma, Champion, Diesel, and Benetton are also made at large and automated factories in Vientiane City. Baby garments are only produced at companies that have skilled labor. A Japanese FDI company that produces baby garments made the following statement, "Japanese customers require very high quality for detailed work. Although it takes much more time for detailed work, the price of each product is more expensive than the price of mass production."

Four out of the 21 companies have direct sales channels. The rest of the companies either hire agents to promote their sales and marketing or have their parent companies in charge of marketing. The majority of these companies want the government to help increase their orders abroad.

High transportation cost to carry products from factories to Thailand for exports is a serious problem especially for the Laotian companies, which produce smaller volume of products and need to carry products by truck to the border of Thailand, where the products are reloaded to a container. The chairman of the Lao Textile & Garment Industry Group pointed (2005) out that expensive transportation costs to Thailand has been an unresolved issue for over 40 years between Thailand and the Lao PDR[3]. He also made the following statement:“ Even though negotiations between two governments have been continued and both governments agreed the situation of high transportation cost is not changed so far. A price for one container is currently about US$1,000. If the price is decreased by US$500-US$600 per container, competitiveness of Laotian products might be increased. ”

Ⅲ. 6． Entrepreneurships in the Laotian Garment Industry

In addition to asking questions about their business during the interviews, the background information of 11 Laotian owners and managers was obtained from the questionnaires. The responses indicate that entrepreneurs were born into the Laotian garment industry[4]. One's previous experience in the government seems to be advantageous in doing business in the Lao PDR. Eight managers switched their career from being government officials to working in the garment business. Two out of 8 managers used to serve in the military. Moreover, family connection plays a key role in this business. For instance, a Laotian partner of a JV company has a brother-in-law, who is a manager in The Lao Brewery Company Ltd. (Beerlao), and the brother helped her to find a Thai business partner. The other Laotian owner is a spouse of a Chairman of Textile and Garment Industry Association in Laos. She obtained a former government-owned factory building and property when she started the business. Another young entrepreneur has a father who works as a Director in the Customs Office in Vientiane City. Two young factory owners graduated from the National University of Laos. Finally, a Laotian family whose father used to run a logging company owns a Laotian garment company.

Ⅳ. Indications to Improve Labor Productivity in Garment Industry in the Lao PDR

A comparative advantage of the Laotian manufacturing is its low labor cost (average monthly wage is US$45). Despite very low labor costs per year in the Lao PDR, value added per employee (US$1,900 /year) and output per employee

(US$5,000 /year) are at a lowest group among countries, including Indonesia, India, Pakistan, Thailand, Philippines, and Malaysia (Table 4). In the Lao PDR, all the materials and intermediate goods for the garment industry have to be imported since there are no suppliers of these materials within the country. This results in limited value added creation in the Lao PDR. Even though Lao's export sales volumes have increased, the unit value earned per garment has declined. Prices paid to the Laotian workers have been cut as much as 30% in 2001 (UNIDO, 2002).

Table 4: Labor Costs, Gross Output and Value Added per Employee in the Lao PDR and Selected Countries in 1999

Country	Labor cost (LC)	Gross output (GO)	Value Added (VA)	LC/GO(%)
	(Per employee)(in thousands of USD per year)			
Lao PDR	0.4	5.0	1.9	7.6
Nepal	0.4	5.2	2.1	7.4
Sri Lanka	0.8	9.3	4.1	8.4
Indonesia	0.9	14.7	5.8	6.2
India	11.3	23.1	4.3	5.8
Pakistan	2.1	34.4	10.5	6.0
Thailand	2.4	46.1	8.2	6.7
Phillipines	3.0	43.1	17.7	6.9
Poland	4.0	34.1	10.4	11.7
Malaysia	4.8	72.8	19.1	6.6
Mexico	7.4	114.3	44.1	6.5

Source: UNIDO (2003)

During the interview, one FDI company owner made the following statement: "Efficiency of Laotian workers is about 70% of Thai workers. Improving Laotian efficiency is a key to respond to larger volume of orders. The other FDI company manager also mentioned that Laotian workers efficiency is 80% of Thai workers." This indicates that overcoming low labor productivity is key to keeping these FDI companies in the country.

Surviving in the new environment of free competition, only having low wage as a comparative advantage is not sufficient. The garment industry now urgently needs to improve its productivity. There are several approaches to increase labor productivity, such as increasing volume of production per worker, shifting more value-added products to increase per unit price of products, improving production management in a factory, and introducing advanced machineries. Among several approaches, this report focuses on an aspect of human capital development considering the fact that the garment industry could continue to provide employment opportunities to rural female workers. These working opportunities did not exist in Laos before the garment industry was born in 1989, which shows one of the benefits of the Laotian shift to a market-oriented economy.

From 21 company interviews, three main issues affecting the low productivity of Laotian workers were revealed: i) lack of skilled labors; ii) high absenteeism; and iii) low retention rate of workers. These issues were constantly pointed out regardless of the company's form of ownership. The reason these three issues are the foci of this study is because we will try to explain the reasons for low labor productivity and identify a solution to improve labor productivity.

Ⅳ. 1. Lack of Skilled Labors

In our interview, one Laotian owner mentioned (2005) that "it is extremely difficult to meet customer's request if pattern designs are totally (and frequently) changed". A manager of a FDI company mentioned that "Even though there are enough factory spaces to expand business here, there are not enough skilled workers to be able to produce the complicated designs of baby garments". This lack of skilled labors becomes a bottleneck when the Laotian garment industry increases production and shifts itself to produce more value-added and complex products.

In the Lao PDR, there are several vocational training courses offered, for instance, at the Vocational Education Development Centre (VEDC) under the Lao-German Vocational Education and Training System Advisory Project (VETSA), the Centre for Skills Development under Ministry of Labor and Social Welfare (UNIDO, 2002). However, these programs are not designed to match the needs of the growing industry.

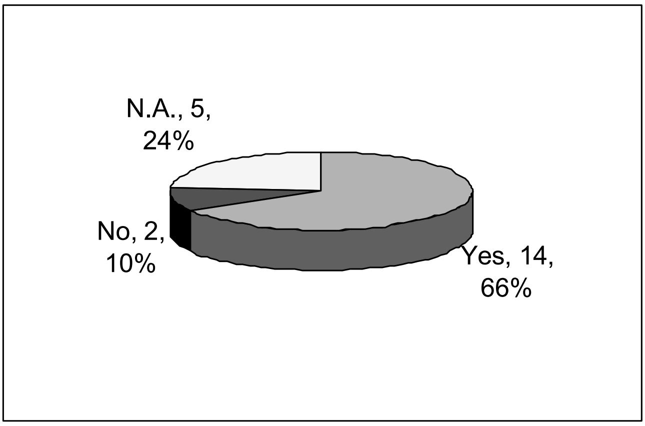
Since appropriate public training programs are not available, companies need to foster skilled workers by themselves. Companies hire unskilled labor and train them to master the use of machines and equipment. In our study of the 21 companies, 95% provide training for unskilled beginners from 1 week to 3 months at a training section in the factory with minimum level salary during the training period. Even among companies providing training for beginners, there is no special training to improve experienced workers' skills. Instead, fourteen companies (67%) hire or used to hire foreign experts to supervise production lines and training of Laotian workers. These foreign experts provide on-the-job training to workers in operation lines. However, sub-contractors have no access to foreign experts to upgrade their workers' skills.

Ⅳ. 2. High Absent Rate of Workers

Garment factories in Laos regularly operate for 8 hours from 8 am to 5 pm (1 hour for lunch) and for 6 days a week from Monday to Saturday. However, many workers do not come to work everyday due to sickness, festivals in their home village and family matters, and sometimes leave factories during rice planting and harvesting seasons to help their family, and return when the harvest seasons have gone. As a result, many managers are frustrated with the high absenteeism of workers. Managers are concerned about high worker absenteeism and there are companies that record 20-30% absent ratio per day. Non-absent bonuses are commonly paid as one incentive for workers to come to work everyday. Fourteen companies actually pay the bonuses, ranging from a minimum sum of US$2 to a maximum sum of US$10 per month.

Some Laotian managers admitted that it is inevitable for the Laotians, but another FDI company manager said that high absenteeism is a great loss for businesses. She said, "If there are absent workers, operation lines are needed to rearrange their formation to fill the absent worker's task." The company produces baby garments exporting to Japan, which requires each worker to be responsible for a specific task. For the company producing value-added products, high absenteeism hinders efficient production. For companies producing simple products, absent workers are easily replaced by others. High absenteeism should be overcome to increase workers' productivity if the company shifts from producing simple products to producing complex goods.

Chart 9: Provision of Non-absent Bonus in 21 Garment Companies in the Lao PDR



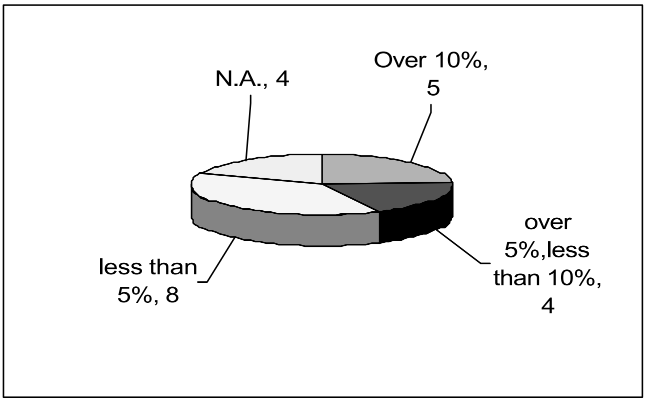
Source: This data was collected by authors

Ⅳ. ３. High Turnover of Workers

Alongside workers' low attendance rate, companies are frustrated with workers' high turnover rate. Among 17 companies, the average turnover ratio per month is 6.1%. There are 5 companies that have a turnover rate of more than 10% per month. In particular, turnover of skilled workers can cause serious damage to the companies. One company executive lamented that "once workers become skilled, they move to Thailand." Even though some companies denied the fact, headhunting does occur in the sector. One manager from a new company mentioned that his factory hired skilled workers from other factories when the company started its business. An owner of a sub-contracting company made the following statement: "Our company requests workers to sign a contract that they could not quit for the first two years. Otherwise, we do not train them. Once they continue to work for the first year and the second year, we give them a bonus each time." This annual bonus system is common among sub-contractors. All four sub-contractors the study team visited adopt the annual bonus system. Job-hopping is observed from sub-contractors to export-oriented factories and from factories in Laos to ones in Thailand.

Further analyses were reformed to find solutions for companies to decrease their employee turnover. To verify any relations between the turnover ratio and working conditions in the factories, the analyses were made by comparing average turnover

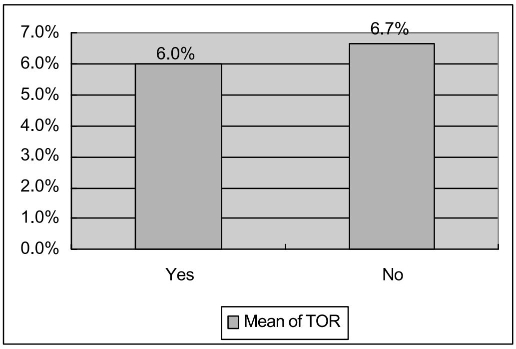
Chart 10: Employees' Turnover Ratio (per month) in 21 Garment Companies in Laos (N=21)



Source: This data was collected by authors

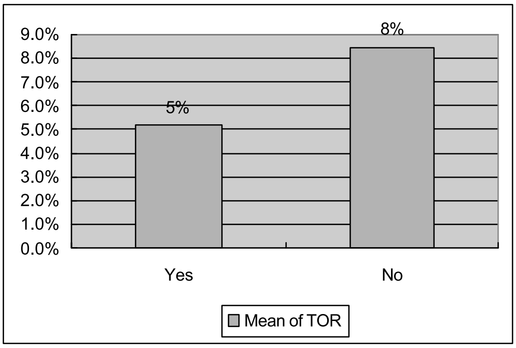
ratios of each of the two company groups with different working condition for respective indexes. The following charts 11 to 15 indicate that there are definite relations between the turnover rate and working conditions. Companies, offering air-conditioned rooms, pick-up services, dormitories, annual bonuses, or uniforms, have lower turnover ratios than companies which do not provide such benefits. In particular, having more than half the workers coming from provinces as well as providing dormitory services have helped to improve workers' retention rate. Providing meal services in kind is more effective to decrease turnover ratio than providing reimbursement for meals. Therefore, our finding is that improving working conditions and providing incentives could help to decrease employees' turnover ratio.

Chart 11: Pick-up Services and Employees' Turnover Ratio (TOR) (N=17)



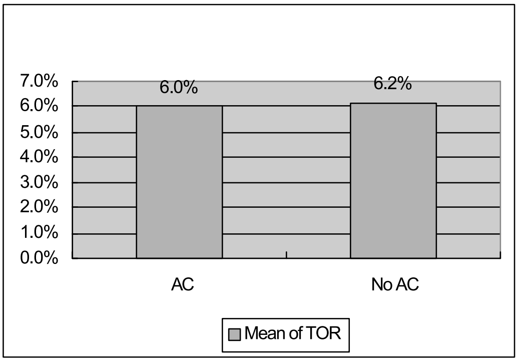
Source: This data was collected by authors

Chart 12: Dormitory and Employees' Turnover Ratio (TOR) (N=17)



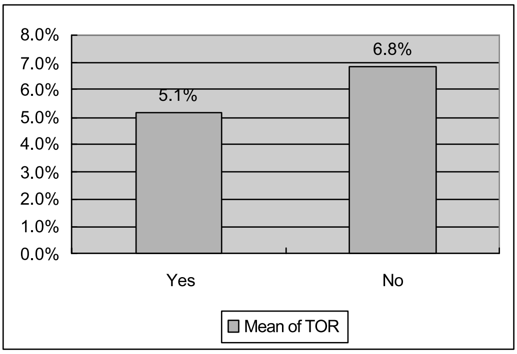
Source: This data was collected by author.

Chart 13: Air-conditioned Factories and Employees' Turnover Ratio (TOR) (N=17)



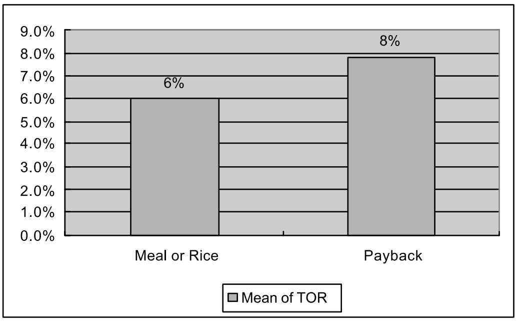
Source: This data was collected by authors

Chart 14: Provision of Uniforms and Employees' Turnover Ratio (TOR) (N=17)



Source: This data was collected by authors

Chart 15: Meal Services and Employees' Turnover Ratio (TOR) (N=17)



Source: This data was collected by authors

Ⅳ. Discussion/Conclusion

This is the first study conducted based on the field survey visiting 21 garment companies in Vientiane City, which account for 21.4% of the total number of garment companies in the entire Lao PDR. As presented above, the Laotian garment industry has developed in the past fifteen years and it has contributed to the national development goal of economic development and poverty alleviation by creating approximately 30,000 jobs, especially for females from rural areas and by earning foreign currency through clothing exports. Facing the new challenges as a result of free competition in the international market environment at the beginning of a post-

MFA period, the garment industry should make further efforts to maintain competitiveness in the international market.

The following points drawn from the assessment in this paper should be considered for the future growth of the industry:

1) Although the Laotian garment industry was at first led by FDI companies, in the past fifteen years Laotian national companies have developed and some of them are competing with FDI companies in the country;
2) Laotian workers at FDI companies are able to produce products that require complex labor and high skills. Laotian workers have the potential to produce such value added products if necessary training and equipment are provided to them;
3) On the other hand, sub-contractors are still facing a vulnerable environment with limited access to capital and resources and unreliable order volumes;
4) Entrepreneurs have been advancing in the garment industry in Laos. Successful Laotian owners have expanded businesses having two or three companies. Although ties with the government and family background are important, there is a success story for the Laotian in the near future. Moreover, young entrepreneurs graduate from university and start businesses in the industry. The garment industry provides an opportunity for young Laotian to run a company; and
5) Three bottlenecks are found to explain a part of lower labor productivities, which are lack of skilled workers, high absence rate, and high turnover rate of workers.

From these findings, we conclude that Laotian workers could improve their labor productivity if appropriate support is provided. In the Laotian garment industry, there are Laotian workers who have the potential to produce high end products as well as Laotian entrepreneurs who have the enthusiasm to seek business opportunities and to compete with FDI companies. Provision of organized training could help to improve employees 'attitudes toward work as well as improve their skills.

Based on the above analyses, it is our recommendation that the Government and the garment industry in Laos should establish industry-wide training programs. It would be desirable to build a one-stop shop training center providing all the requisite skills and knowledge in the industry for people seeking jobs. Since the garment industry is a new manifestation under a market economy, it would be recommended that a new organization be built rather than restructuring existing training programs.

This should be implemented under the public-private partnerships. The government intervention is required since the existence of the garment industry has social impacts such as the creation of jobs for female workers. In addition, ensuring the supply of skilled labor could increasingly attract FDI investments. The private companies could offer trainers who would provide basic skills and techniques that effectively meet the market demands, and in return could acquire skilled workers graduating from the training center. Once workers have the necessary basic skills and knowledge, the companies could invest more resources into higher levels of trainings.

Notes

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1 The number of export oriented companies is variable. 59 companies in 1997 was reduced to 53 in 2002, then increased to 55 in 2005. A Japanese FDI company will be newly operated in 2006.
2 Nikkei Business (April 11, 2005), p.13.
3 Based on an interview note conducted in February 26, 2005 by Dr. Tetsuo Hamauzu, and Dr. Phouphet Kyophilavong in Vientiane City.
4 Existence of Laotian entrepreneurs are studied by Professor Shigeru Matsushima (2004).

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