

Study Tour to Laos and Thailand by Shimada sonjuku

Haruo Shimada

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We, members of Shimada sonjuku visited Laos, formally, Lao PDR(People's Democratic Republic), and Thailand, formally, Kingdom of Thailand, for 6 days from November 19 to 24.

I . Why Laos?

Why Laos? We have been interesting in visiting some country in Southeast Asia. Currently southeast Asia is the object of keen interest of Japanese businesses. There are many reasons. One is that Japanese business began to realize the importance of having some plural targets in Asia side by side with China. From the beginning of 2016, ASEAN countries finally jointly embark the new arrangement of Asian Economic Community by reducing cross border custom duties to eventually hoping to create a greater regional free economic zone. The particular focus is concentrated in the area called GMS(Greater Mekong Sub-region).

GMS entails 5 countries and one area such as Thailand, Vietnam, Myanmar, Cambodia, Laos and Yunnan province of China. Japanese industries have been investing in countries of this area earnestly in recent years. In Thailand, Japanese industry, particularly, auto and auto related industries have made a huge amount of investing which is large enough to produce annually a quarter of million cars by altogether some 7000 large and small companies. In Vietnam, Japan has been investing eagerly to help Vietnam's effort for economic growth. Myanmar has been regarded as the last sanctuary to be tapped in this area until several years ago. Once the economy has been liberated for foreign investors, Japanese investors side by side with many other countries rushed to invest to create a kind of "economic fever." Among them, relatively left untouched is Laos.

Possibilities and Prospects of Laos

Laos PDR is a country with population of 6.6 millions, and the land is of about 240000 km², about 2/3 of Japanese archipelago. GDP is 85 trillion Kip or approx, 10 billion USD as of 2014. Income per capita is about 1700 USD a year as of 2014.

Laos has been achieving appreciable growth of around 8% a year for the last several years according to official statistics. This is one of the highest growth enjoyed by a country in the world. In Laos, income per capita still remains around the level of 1700

USD, which is lowest in the region, and among the lowest income stratum of the world. However, it seems to have good opportunities for possible growth and prosperity for the future. For one thing, Laos population is very young. Its average age is still mid-20s. 2/3 of population is younger than 30. This means that Laos has a great “population bonus” for years to come. Taking advantage of land configuration, Laos produces much more electric power by hydro generation than it consumes at home. Indeed, it sells 90% of its power to outside, mostly to Thailand.

It has still great potentials for agriculture and forestry industry, industrial parts manufacturing and kraft production taking advantage of diligence and dexterity of Lao workforce. It is also gifted by nice natural environment which can be exploited to make Laos Asian center of tourism, health and relaxation. It is in view of such potentials, Mr.Yamada, Yu, a young, ambitious and resourceful entrepreneur, recommended me strongly for Sonjuku to visit Laos for their study trip.

Planning of our visit to Laos

An important question is when to visit Laos. In terms of the comfort of the climate, the dry season of winter is better than other hot and humid seasons. We chose to visit Laos sometime in November. Then we tried to find the possible dates we can leave Japan for absence. My time constraint is perhaps the tightest because of my many official obligations including the duties at my university. The possible period to be spared turned out to be from Nov. 19 to Nov.25. A problem is that there is a weekend in the midst of the period. Also, we need to choose the route of visiting Laos. We chose the route via Bangkok rather than Vietnam.

Under these constraints, we tried to find out the best possible way to use our time effectively and productively. We decided to visit Bangkok first, stay over a night there. Then enter Laos, spend a weekend and two working days, Monday and Tuesday, visiting relevant offices and institutes of Government and other organizations to meet important people and informants.

Okaya Group

In Thailand, we decided to visit Mr. Tsubouchi, Akihito of Okaya plants. Okaya group manages steel trading and many other related businesses around the world. Okaya Koki Co.Ltd, the principal Hq of the group, has a long history of some several hundred years starting from manufacturing and selling iron farming tools. Currently it manages many businesses including iron, electronics, housing, etc, having more than 20 plants and offices around the world. It has been running auto parts manufacturing plants in Bangkok since 40 years ago.

In fact, I have been serving Okaya Hq as an independent auditor and then a board member for the last 20 years. Taking advantage of this opportunity of dropping by Thailand, I thought to bring young sonjuku members to visit Bangkok to see operation of Okaya outfit. I asked president of Okaya group, Mr. Okaya, Tokuichi. He gladly accepted my request and promised up most care in Bangkok by Mr. Tsubouchi, member of the board of Okaya Koki and his staff.

The main objective of our tour this time is to learn the status quo of Laos and its policies for development. The best way to pursue this objective is to visit relevant government officials and experts to plan policies. For this purpose, we will have only a day and a half, namely, Monday, November 23 and morning of Tuesday, Nov. 24. We need to find out an expert of Laos who can teach and guide us about Laos economy and industry.

Dr. Suzuki, Motoyoshi

Hoping to find out such an expert, I made a brief survey of Laos studies done by Japanese researchers and found that Dr. Suzuki, Motoyoshi, executive officer of JICA (Japan International Cooperation Agency) has an outstanding contribution in this area not only in research but also policy advising to Laos government. Luckily, Dr. Miyamoto, Hiroaki, professor of Tokyo University, knew Mr. Suzuki, Motoyoshi in person and introduced him to me. Incidentally, professor Miyamoto used to be my student at Keio University a long time ago, and taught at International University in Niigata after returning from US where he obtained Ph.D. at University of Wisconsin, the same school I received Ph.D. nearly half a century ago.

Professor Miyamoto, Hiroaki

Mr. Miyamoto, me and Mr. Yamada, Yu met Dr. Suzuki, Motoyoshi, in Tokyo in July. We enjoyed dinner together and talked about our plan of visit of Laos. Dr. Suzuki committed to help and guide us to learn about Laos economy, industry and its relations with Japan. Dr. Suzuki kindly visited Shimada sonjuku bi-week workshop in October and gave us a comprehensive briefing on Laos economy with special respect to its special economic zones, the policy projects which Dr. Suzuki is advising intensively Laos policy planners and Japanese actual and potential business investors. His detailed explanation of international division of labor by foreign investors using various patterns of choice of investments across borders.

Another issue is how to use the weekend of Nov. 21 and 22, effectively and productively for our objective of studying Laos economy and its policies. Mr. Yamada

and I consulted Mr. Miyamoto for his advice and help. Professor Miyamoto taught many excellent students from Lao PDR when he was teaching at International University in Niigata. These students are now playing important roles at various branches of Lao government. We discussed about possibility of meeting with them when sonjuku members visit Laos. Mr.Miyamoto kindly consulted with them by e-mail and obtained their warm agreement to meet with us.

A few weeks before our visit to Laos, I had an opportunity to meet with Mr.Sivay Vilaihan of Lao Ministry of Finance, Deputy Director, Fiscal Policy Department and his colleague in Tokyo with Professor Miyamoto. We discussed the gist of our expected seminar on November 21, Saturday, in Vientiane. With the help of these people, our plan of visiting Laos seems to have a good content.

Ms. Serizawa, Yu

And one day, I just happened to have talked to Ms. Serizawa, Yu, (henceforth, I take liberty to call her Ms.Yu)my respectful friend and renowned organizer of international conferences and events, about our project of visiting Laos. Almost unexpectedly, she showed a keen interest to our plan and offered many advices including introduction of a young official of Lao government, Mr.Syviengxay Oraboune, Deputy Director General, Ministry of Planning and Investment. Mr. Oraboune and I exchanged mails first. Impressive was that his response has been always very quick and giving me sensible and articulate advice with beautiful English. A few weeks before our departure, Yu invited two of us to breakfast meeting. Mr.Oraboune is a nice, thoughtful young gentleman.

During the breakfast, Ms.Yu told us her unique and moving story about Laos for the first time to me. Due to her father's job as an high official of ministry of finance particularly in charge of foreign relations, she was brought up in an environment to use French. There she found good and close Lao friends. The one she had the closest friendship was a girl named Nana. However, since around 40 years ago, Yu lost communication with her. And 20 years afterwards. Ms.Yu almost miraculously was able to contact Nana again, who was then living in Australia. What happened to Nana was that she and her family was caught in a cruel hardship at the time of Lao revolution. She herself lost touch with her family and lost some of them.

She luckily was able to survive later in Australia. Ms.Yu rushed to her to celebrate and enjoy their reunion. Since then Ms.Yu kept visiting Nana in Laos. To Yu, therefore, Laos is her very special motherland in mind. Ms.Yu loves Laos particularly with this special experience. Yu promised me to ask Nana to join us in one of the dinners in Vientiane. Nana is currently an active and successful business person. Unfortunately, however, she had to be out of country during our visit of Vientiane. However, she kindly solicited her

good business friends to join us instead. They were Keovisouk dalasane and Aditta Kittikhoun. We learned a lot from our conversation with them, which I will report in detail later.

With the help of all these people, our trip to Lao PDR and Thailand was made possible. I am very thankful to all these people for their warm support and invaluable advices.

II . Brief History of Laos and Lao PDR

Now, let me introduce briefly the history of Laos. History of Laos goes as far back as some 1000 years ago, when some tribes of Nanzhao Kingdom which existed in the area of current Yunnan province of China went south as Han nationals of China extended their territory to this area. Those tribes who were obliged to move south walked along the up stream of Mekong River among the wild forests down south, and they settled in somewhat flat areas along the river to build their village communities. As Nanzhao Kingdom collapsed, these people consisting largely of Lao tribes established Lane Xang Kingdom in mid 14th century. The name Lane Xam implied one million elephants. In those years, elephants were used as important means of transportation and powerful weapons. The Kingdom was much feared by neighbors.

However, in 18th century, the kingdom was split into three: Vientiane Kingdom, Luang prabang Kingdom and Champasak Kingdom. These kingdoms became unfortunately under control of Thai and Cambodian kingdoms, and suffered from repeated wars in these areas.

When France began to extend its power over Indochina peninsula in mid-19th century, the tree kingdoms of Laos area were under control of Thai Kingdom. Laos royal families sought to counteract against Thai Kingdom making use of the power of France, which triggered France-Thailand war in 1983. As a result of this war, Laos got out of control of Thailand and now protected by France as a part of French controlled Indochina Federation.

When Germany led by Adolf Hitler occupied Paris in 1940, Japan occupied the area of Laos by agreement with Vichy government which was created under German control. With the support of Japanese military, Laos declared "independence" on April 8, 1945. After the surrender of Japan to the United Nations, Lao leaders led by Phet Sarath Rattanavongsa, who grabbed an opportunity of independence organized their own government named Lao Itsara and asked United Nations to keep recognizing the independence.

However, France wanted to re-colonize the area and started major offense since 1946. Facing the military attacks, Lao Itsara collapsed. Leaders exiled to Thailand. International community approved French occupation. France proposed the Lao leaders to establish Lao Kingdom under the control of France. This proposal triggered the split of the leaders between those who accept this offer as Phet Sarath Rattnavongsa, and those who wanted full-fledged independence as Souphanouvong, younger brother of Phet Sarath Rattnavongsa. Souphanouvong, who spent some years in Vietnam and became a firm believer of Ho Chi Minh strategy of winning independence by power.

The confrontation and conflict between these two camps of Lao leaders continued nearly two decades. Souphanouvong fostered guerilla in areas near the border of Vietnam, who later developed to "Pathet · Lao" an influential military and political force. During the period, Laos mountain areas along the border of Vietnam was bombed severely by US bombers who suspected the area was used as transportation route to carry weapons and Vietnam communist troops. However, "Pathet · Lao" increasingly gained power and finally in 1975 succeeded to change the regime from Lao Kingdom to the communist government.

This government, however, was led by Kaysone Phomvihane, who largely controlled the military and budget of the party. Kaysone constructed fundamentals and led for a long time the newly established Lao Peoples' Democratic Republic. December 2, 2015 was the 40th anniversary of independence of Lao PDR.

III. Daily Report of out Trip

Day 1: November 19(Thursday)

On November 19, we left Haneda AP at 10:45 am by the Thai air plane for Bangkok. We gained two hours on the way by the time difference and arrived at Bangkok AP at 15:30. It was hot. Since the temperature in Tokyo was 10°C when I left this morning, Bangkok is 25 degree higher!

Bangkok, Thailand

At the airport, we were welcomed by Mr. Tsubouchi, Akihito board member of Okaya koki Co Ltd, and his staff of Okaka Koki Co.Ltd. which runs Union Auto Parts Manufacturing Co.Ltd. I have been serving Okaya Koki Co.Ltd as an independent board member for more than 20 years. Okaya Koki is a major steel trading company based on Nagoya and has 3 plants in Bangkok area. I asked Mr.Okaya,Tokuichi president of the group, to provide guidance and an opportunity to take a look at a plant of the company

to study a case of Japanese manufacturing business operating in Thai industrial zone. Thanks to Mr.Okaya's advice Mr.Tsubouchi and his team warmly received us.

We got on a bus and headed toward the hotel in the mid-town of Bangkok. The streets were extremely crowded. This is perhaps of the timing which is near evening. At many points though cars were obliged to hardly moving. Mr. Tsubouchi said that the situation is very rare even for the notoriously congested Bangkok.

Taking advantage of the expected long time we were locked in the bus, I tried to ask questions to Mr.Tsubouchi about the political and economic situation of Thailand and also auto industry. He told us that the current Thai military government promised to hold general election in summer next year under the newly revised constitution. Indeed, Thai has been changing constitution almost always the government changed. The rumor, he said, that if election is held now, Takshin camp will win because there still prevails high popularity of Mr.Takshin. Economic condition is not good.

From the viewpoint of auto industry, domestic sales dropped down to 700 000 units relative to the normal pace of 1.2 million, while export has not been reduced and maintains the normal pace of 1.2 million. He also talked about Thai's skillful diplomacy during its history. Thailand is an exceptional country which maintained independence while most of Asian countries have been colonized during the era of imperialism.

During the world war II, Thailand has been an ally of Japan but has escaped from being regarded as a member of the defeated at the end of the war. He also talked about the openness of Thailand in terms of accepting people of different backgrounds as far as they had useful skills and quality for Thailand. He implied that the fact that many Japanese companies can operate using Thai workers reflect the openness of the country.

While we were talking, the bus was moving only very sluggishly. At many times, the bus did not move at all for sometime. Mr. Tsubouchi pointed to the fact that many traffic lights were controlled manually by the police, and the police often keeps red lights for a long time. Since the time passed much, we decided not to go to our hotel first to unload, but rather go to the restaurant directly to save time. Eventually it took 2.5 hours for us to arrive at the restaurant from the airport. We know that the traffic congestion in Bangkok is one of the worst in the world, but this time it was beyond our expectation.

The restaurant was cozy, and the food was good. We enjoyed Thai cuisine and enjoyed talking with Mr.Tsubouchi, Mr. Inoguchi, Hiroyuki, president of Union Auto Parts Manufacturing, and some of the Japanese officers of the company till late in the evening.

Day 2: November 20(Friday), Bangkok

On November 20, we planned to spend much of the day visiting tourist points and also one of the three plants of Union Auto Parts Manufacturing of Okaya Group. In the morning we visited a palace and also plan to visit Wat Pho, a temple nearby the palace, in midst of Bangkok.

The palace was extremely crowded with a mass of tourists, many of them were Chinese. Many buses filled with tourists arriving one after another which arrayed in a long chain along the street much ahead of the targeted palace. It was a hot day. Temperature must have been around 35 degree Centigrade. We walked about a mile along the street to approach the palace, which was already tiring. Buildings of palace and temples were with bright colors of red and gold, which distinguish Thai buildings from Japanese religious buildings with much modest colors.

Within the campus of the palace there were even more crowds of tourists. Mr.Tsubouchi went to buy tickets. We tried not to miss with each other among the crowds. Mr.Tsubouchi said that when he examined the place a few days ago, it was not like this at all. This was Friday, and not the holiday. We wondered why there were so many tourists. No idea, but there were great many tourists.

The main famous hall is the one which contains a Buddha sculpture decorated with emeralds. We tried to reach the hall. But there were so many people waiting in long lines that we gave up to get into the hall. We were able to see, however, through the half opened door under construction part of the Buddha from far away. Mr.Tsubouchi asked if we would visit the neighboring temple. I recommended not to go there and rather go to the restaurant we reserved for lunch.

We waited our bus to come. But there were so many buses and our bus had to wait in line. We walked down to the bus and got on it. It was cool and we felt we were saved. We drove for nearly an hour and finally arrived at a humble restaurant, Savoy River View, at the side of Mekong river. The restaurant was cooled by air conditioning. Typical Thai dishes were brought to our table one after another which were recommended by Mr.Tsubouch. Mr.Tsubouchi has had a long experience working in Thailand as a staff of Okaya group amounting altogether more than 20 years. He knew well about how to do business and how to live in Thailand. We enjoyed the food and conversation.

In the afternoon we visited the plant of Union Auto Parts Manufacturing Co.Ltd. This is one of the three plants of the company. The plant tour started with the briefing by Mr. Tsubouchi using a power point exposition entitled "Thailand economy and Okaya Group activities."

On Thailand economy, annual income per capita is USD 5498. The country is of width

513 000km², which is 1.7 times of Japan, population is 6797, minimum wage is 300 baht a month, which is equivalent of 30 to 40 thousands yen.

On Japanese invested industrial activity, there are 1615 companies registered as members of Japan Chamber of Commerce in Thailand. There are altogether 7000 Japanese companies including non-registered companies as members. Registered Japanese living and working in Thailand are 64284. Including non-registered as members, there must be some 90000. This is a huge concentration of Japanese companies and workers in Thailand.

This may reflect the historical openness of Thailand to make use of capable people and resources whichever their nationality may be. In recent years, the role of BOI, the Board of Investment, has been critical in introducing and allocating foreign resources to desired industrial sectors of the country.

Okaya Auto Manufacturing Plants in Bangkok

On Okaya production activity, the Union Auto Manufacturing has three plants: plant 1, employs 400 workers, producing auto bicycle rims, plant 2, 100 workers, pipe type parts and systems, plant 3, 800 workers, spokes. Okaya group started production in Thailand in 1982 by succeeding a company which already existed. The name "union" was taken from that company.

Mr. Tsubouchi emphasized the importance of labor management. Thai workers' mobility is quite high. It is important to keep them at the workshop and make them good productive workers. In contrast, white collar workers tend to stay on the job more stably. For white collar workers, educational background is regarded critical. Those who have MA, masters' degree, are paid much higher than BA, bachelor degree, holders. Among BA holders, engineering degree holders are paid higher than social sciences degrees, say, 2000 vs 1500 baht a month.

In Thai labor market, employers are also stratified. the highest echelon consists of such Thai leading companies like Siam cement, Bangkok banks etc, followed by European and US companies in financial, security and consulting businesses, which is followed by Japanese companies, and local Thai companies, and Chinese and Korean companies. At the workshop of Okaya plant, rank and file workers are paid 9000 baht a year while supervisory workers are paid 17000 to 18000 baht a year.

Okaya management emphasizes the importance of communication at the workshop in order to foster good production teams. Thai workers tend not to communicate well so that they fail to build good coordination and team work. The management tries to enhance the incentives of supervisory workers and team leaders so that they lead

their teams well. The size of the team vary from a dozen to a few dozens of workers. Since Okaya Japanese officers are only several, it is critical that Thai supervisors and supervisory workers play leading roles to run the good production activities.

While walking through the plant, we passed by a few times meeting rooms where workers were discussing or leaning seriously. Impressive was that there were no Japanese officers. They seem to be discussing production related issues. These scenes suggest that Okaya production is well executed by Thai managers and workers.

We spent sometime walking and watching different stages of production flows led by and guided by Mr. Nakajima, Shinichi. The basic flow is to bend the cut steel plate to the shape of rim. Grind the circle shape of plate with pressure to be the shape of the rim. Grind the rim to policy so that it can be plated. Grid to shine it. At each stage, the product is carefully examined and inspected. There are quite a few workers for inspection. This is all done by hands and human eyes. Female workers are better suited for careful examination and inspection. Some of the products are to be delivered to famous high grade British and Italian motor bicycle companies whose requirements for quality are extremely high.

Even though many more workers are working along the production lines relative to comparable production site in Japan, the profit rate of this plant is much higher than Japan. The major reason is the labor cost. Wage level is roughly 1/10 of Japan.

Some time ago, a well known Japanese expert of production control watched this production and commented that there are too many workers particularly at the examination stations. In fact, this is the problem to be improved. To reduce inspection workers, production flows need to be improved to conduct preventive maintenance. To do so, workers' awareness and self improving actions needs to be enhanced. Unfortunately, this is quite difficult so far for Thai workers to acquire and equip themselves with such mindsets and attitude.

Recently, many neighboring countries in Southeast Asia build special economic zones to invite foreign companies. In terms of wage levels along, such countries as Myanmar and Laos are much more advantageous than Thailand, say, for example, for Okaya to build a plant. However, the conditions for investing production facilities is not only wages, but also availability of production materials, transportation, electricity and water supply and other infra-structure and services are important. Judging all these conditions, auto parts plant areas in Thailand still have competitive advantages relative to neighboring countries.

After having a good plant tour of Okaya auto parts manufacturing, Mr. Tsubouchi took us to Suwannapoom airport. He escorted us to the final spot and saw us off. We were very thankful for his warm and careful care for us.

We took off Suwanapoom AP at 19:35 for Lao PDR, We arrived at Wattay International AP at 20:45. This is a small and humble airport. It looks as though one of modest airports in far out regions in Japan. Officers are all cordial and gentle. Even though we had to wait nearly an hour before we got on our bus, we were somehow eased by an unique familiar atmosphere of the airport. It took about half an hour before we arrive at our hotel, Lao Plaza Hotel.

On the way to go into town, we were impressed by the darkness of the town. There were only few street lights. The whole town and streets looked much darker than Bangkok, where streets and buildings were lit up by lots of lights. We have learned before coming to Lao that this country exports much of the electric power they generate by hydro power plants. We wondered why they did not light the town much despite the fact that they export much of the power they produce. We wondered if they minimize the domestic use in order to sell as much as possible outside.

Lao Plaza hotel is considered the best hotel in Lao PDR. Highest echelon visitors such as presidents and prime ministers of various countries who visit Lao PDR stay in this hotel. Although we arrived here fairly late at night, we wanted to have some drinks to relax before going to bed. We took seats at the bar near the entrance and ordered wines. The hotel attendants were quite kind and cordial. We, the ten members, took wines and asked the attendant to charge the cost to each of us. It took some time to prepare bills separately but they finally did it marvelously. In Buddhist countries such as Thailand and Lao, people put two palms together and bow when they greet. We were impressed that Lao people's greetings have their genuine spirits of hospitality in their gesture.

Day 3: November 21 (Saturday), Vientiane

November 21, Saturday, is the day we planned to have intensive discussion seminars all day with young Lao government and central bank officers. I got up early. The sky was becoming blue with the increasing sun shines. I looked down outside from my room. There I found an outdoor swimming pool a few floors down. It looks nice, particularly, the water which looked purely clear. Since I like swimming, I was tempted to jump in the water. But I refrained myself because we have to receive important guest speakers and discussants from the morning.

I went down to dining room. Ample foods were prepared. Foods consist of Lao, Chinese, Korean, Japanese in addition to ordinary "western" foods. Lao foods were very good. They taste modest, gentle and yet highly tasty. I became a fun of Lao meals.

I went up to the conference room which the hotel prepared. There already a few of Lao friends and our team members were gathering. We greeted each other. By 10:00 am, all of the participants got together. We started the morning session.

Before we came to Lao, professor Miyamoto carefully planned the seminar with the leader of the Lao groups, particularly with Mr. Sivay Vilaihan, Ministry of Finance. Professor Miyamoto introduced him to me in person when he and his colleague visited Japan several weeks before our visit of Laos. Having dinner together we discussed what we should discuss in Laos, then. The idea of discussion at that time was still vague. Subsequently, professor Miyamoto and Mr. Sivay and his friends prepared a well designed agenda for today. Through the morning and afternoon sessions, we were supposed to cover hopefully such topics as agriculture and forestry, power industry, Japan's investment and technological assistance, Laos SMEs, education, and development strategy and planning.

Mr. Sivay took the role of coordinator. He began the session by greeting of welcoming us. There were 6 participants from Lao side and 10 participants from our Japan side, who sat around the U shaped tables of the conference room which was well prepared by the hotel. Mr. Sivay nominated Ms. Oulaphone Pheuangsavanh, Junior researcher of Ministry of Planning and Investment to give an overview of Lao economy and the themes we picked up as agenda for today.

She introduce birds' eye view of Lao macro economy and proceeded to discuss sectoral issues as agriculture, forestry, foreign direct investments in general, Japan's investment and technological assistant in particular, and education. Her presentation was well prepared, systematic, informative and excellent.

Given this overview, we discussed many topics. On the issue of electric power, it is known that almost 90% of the power generated in Lao PDR is exported mainly to Thailand. It was pointed out in our discussion that at the same time large amount of power is also imported from Thailand at a much higher price than Lao export price. This seems to be an important issue to be resolved.

On the issue of SME, I pointed to the fact that Japan's postwar economic growth relied critically on contributions of SMEs. Strength of Japan's SMEs has been particularly of the mindset of the workers who think just as though they were CEOs. They think corporate growth first because they believe the growth of the company is the source to improve their wages and their lives. To achieve this goal, they concentrate their effort to improve productivity and quality of products to win competition and thereby let the company grow.

Another strength of Japanese business, particularly of manufacturing, is found in workers keen attention towards “preventive maintenance.” Preventive maintenance is critical to improve productivity and quality together to win competition.

Challenge is whether and how Lao workers can be motivated to think like CEOs and concentrate their attention for preventive maintenance. This question is deeply related to the method and quality of education and training of Lao workers as well as social structure in which workers can share same values with management.

We moved on to lunch. We took lunch at the restaurant in the hotel. Lao friends pointed to “lucky dish.” This dish consists of sticky rice and tasty meat and leaf. We pick up a small lump of sticky rice by hand and wrap it by leaf with meat. They say that Lao people eat it whenever they celebrate something. This is a typical traditional Lao food. This was tasty and good for me.

In the afternoon, we continued discussion on various other topics. We discussed investment environment. Lao government has been eager to prepare SEZ, special economic zones, in recent years to invite foreign direct investments. Broader conditions have been becoming increasingly favorable to invite foreign investments into broader areas of Southeast Asia as exemplified by GMS, greater Mekong sub-region.

In Laos, SEZ has been promoted by Investment Promotion Law which was enacted in July 2009. Currently 10 SEZ have been set up and still one more is under preparation. To facilitate investment into SEZ, the system has been established entailing three major ministerial administration to investors obtain license, concession rights, and initiate operation.

SEZ is considered as an important step to materialize the long term development strategy of Lao PDR by which the government claims that Lao PDR graduate from the stage of low income developing countries by 2020, and by 2030 join the middle income countries of the world.

Mr.Kaneko, Hirofumi asked a question as to what kind of vehicles, legal forms, of corporations are defined to promote foreign direct investment into SEZ. There were not clear answers from Lao side on this question. Later, we found a picture on the wall of the building of Ministry of Planning and Investment which clearly shows us the different forms of corporations ranging from national corporations to private corporations fully financed by private sources of funds. That the question was not given clear cut answer in this session may reflect the fact that foreign investments have not yet been much introduced into Laos yet and such legal discussions have not been well pursued.

We moved on to the topic of monetary policies. Mr.Chittakone Chittaphong of central bank presented a briefing of the role of central bank. Mr.Chittakone explained that the roles of the bank are: to provide money to private banks, to control inflation, and to help maintain stable growth of the economy.

Mr. Kaneko questioned if such roles can be measured by KPI, key performance indicators. Mr. Chittakone responded by saying that the KPI of inflation control is to keep inflation rate lower than economic growth rate. He also went on to explain various policy measures to attain the mandate such as exchange rate policy which is conducted within the framework of managed floating, and policies to control and promote investments.

With respect of monetary policy to support SEZ, Mr.Chittakone explained that there are financial institutions geared to help particularly SMEs. We talked about the importance of credit guarantee system of Japan. Mr. Mitani, Takaya, commented that the system is not particularly well working in Japan. We discussed, however, it is important to have a financial safety net to support and encourage investment activity of SMEs. Lao PDR may get good policy ideas by learning from a rather well structured Japan's credit guarantee system geared to SMEs.

Finally as a reporter, Mr. Vilyna Sisa-ad, Deputy chief of the expenditure and saving policy division, fiscal policy department gave a briefing on fiscal situation and fiscal policy of Lao PDR. He pointed to the fact that during fiscal years 2012 and 2013, government deficit increased considerably due largely to the massive increase of expenditure as much as 20 to 30%. On the other hand, tax revenue has maintained the ratio of 80% of total budget. After all, fiscal deficit remained at the level of 5% of GDP. I commented that the fiscal balance is maintained well to keep healthy condition. He remarked that the government should make the use of expenditure more efficient, which is quite important.

Lao friends asked me during the lunch what program we will have in the evening. I answered that we will invite them to our dinner. Some of them offered that they would like to bring us around the town particularly the town is now enjoying one of the major festivals, which may be interesting for visitors like us to see. I agreed then to finish afternoon session somewhat earlier than originally planned to enjoy the brief town tour.

Since time came close to 4 o'clock in the afternoon, I proposed to wrap up the seminar today by providing my own summary of the major thrusts of our discussion of the day.

In my concluding remark, based on our preceding discussions, I pointed to five policy suggestions.

- (1) Agriculture and forestry. Lao PDR is now attempting to increase the forest which is currently 45% of the land to 70%. This is a good policy objective. I introduced Japan's experience of increasing the forest for several decades of postwar period. In Japan, while increasing the forest coverage which was highly successful, due to increases of the value of yen, Japan began importing foreign cheap lumber while not cutting Japanese trees and consequently Japan now suffers from excessive trees and the forest is being damaged with only poor maintenance. My advice to Lao PDR is to keep close eyes to maintain healthy conditions of forest in the future.
- (2) Power industry. The fact that import price of power is much higher than export price is a serious problem. My advice is to analyze the problem closely and try wise policy to improve the terms of contract, and to improve the infra-structure to deliver power.
- (3) Japan's investment and technological assistance. Low wage is certainly the competitive advantage of Lao economy. But there are also other important conditions to encourage Japanese investors such as availability of materials, infra-structure of water supply, transportation, legal system, tax preference etc. It is important to prepare comprehensive conditions such as these to encourage Japanese or any other foreign investors as well as domestic investors to invest.
- (4) SMEs. Since Lao market is small, it is difficult to foster industries which enjoy economies of scale such as automobiles and consumer electronics. On the other hand, Lao has excellent craftsmanship. Lao can develop good handcraft industry if they successfully match the craft production with good design and branding.
- (5) Education and training. Challenge is how to educate Lao workers to have management mentality and foster awareness for preventive maintenance.

Finally, Mr. Sivay Vilaihan concluded the session by thanking us to choose Laos as an objective of our visit, and sharing knowledge and experience with Lao friends, and closed by saying that he hopes to develop network with us.

After the program was over, Lao friends took us for a brief tour of the town. They offered their own cars for us to ride. I was invited one of the Lao participants. He was driving a luxurious Toyota land cruiser of V8, which is very expensive even in Japan. It is not only for him but also many of his friends have such luxurious cars.

Indeed, when we look around the streets of the city, many cars are of rather full-size expensive type. Since Lao government imposes more than 100% of custom duties on such imported products, many people who drive such luxurious cars should pay much more than their normal or official income. It makes an interesting contrast with Japan. In

Japanese towns, increasing proportion of cars are of small contact type which is cheap and energy efficient.

I understand that the young officials of the government are paid around 200 USD a month. Some of them may have good family businesses from which they can obtain good incomes in addition to reward from official job. However, It is hard to understand for those who do not have such family businesses to have such expensive cars, particularly it seems quite contradictory to our knowledge that income per capita of Lao economy is perhaps the lowest in Southeast Asia and also belongs to the lowest income group of the world. It makes us feel that official economic statistics may not be capturing the entire structure of Lao economy.

Many of those who experienced businesses or life in Laos say that there exist a large “under ground” economy in Laos. Money transactions which do not go through banks, or commodity transactions which are not correctly reported to the government consist of what may be called “under ground” or “unreported” economy. Although the existence of such an unreported economy may provide some leeways to people and business, it must better be captured well transparently by the government for it to be able to execute policies effectively and secure fair distribution of incomes for the Lao population.

Having driven for 10 to 15 minutes, we arrived at a wide space in front of the Grand Palace. It was lucky that we arrived Laos in the midst of a major national festival of the year when people visit the palace and temples to celebrate. We parked our car in the large parking area and strolled to the palace. Increasing number of people were leisurely gathering to the area. There were many temporary shops. Balloons and gay sounds of music and else. We bought incense sticks and some flowers and got into the campus of the palace. While strolling, we stepped up the staircases and served the incense sticks and worshipped.

When we stopped to take picture of ourselves, immediately “professional” camera men get together in front of us and take picture of us at the best position. After a while they come to us and ask us if we would buy such pictures. They were amazingly not aggressive. I bought one of them for our memory.

On the way back, we stopped by Patuxay, Victory Gate. This is just like the victory gate in Paris. Indeed this was built in 1956 by Laos businessman who studied in France and learned architecture. We took a picture in front of the gate which is already swamped by the darkness of the evening. Again professional cameramen took the best position to take pictures of us without our request.

At the side of Patuxay, there exists a gorgeous building of prime minister’s office. Our friend, Mr.Vien Nakuhone, deputy director of Bank of Laos and has been a main

participant to the sessions of today said that the building is “my future office.” His comment was impressive to me because it sounded like more than a joke.

After the town tour, we together came back to our hotel to have dinner together. There is a good restaurant of Japanese cuisine in the basement, “Kiku Restaurant.” All the 8 participants of Lao side finally determined to join us. While having Sashimi(raw fish) dishes in the landlocked country, we enjoyed conversation. Lao friends asked us to sing songs. We responded that after listening Lao national anthem we will sing the Japanese counterpart. Starting from national anthems, we kept singing songs in turn. It was a wonderful dinner party.

After the dinner, Lao friends solicited Japanese friends to go out to enjoy the night of Vientiane. Since it was late, I went to bed. In the next morning, I heard that Lao friends guided Japanese friends to a gorgeous night club where live musics were played actively and gayly. Some of Lao friends told that they come to the night club fairly often. It is interesting to know that young Laos elites enjoy this kind of life.

Day 3: November 22(Sunday), 2015

November 22, Sunday, is the day for Town tour and evening dinner with young Lao businessmen who were introduced by Ms. Serizawa, Yu.

In the morning, I got up early because I wanted to swim in the nice swimming pool which I saw from my room yesterday. After the breakfast, I went downstairs to the pool side. The water is incredibly clear, temperature is modest and perfect, and the entire pool was kept beautifully clean. I have had many experiences to swim in hotel pools in many countries. The swimming pool in this hotel is kept perhaps in the best condition of all. The sky was also pure blue. It was a wonderful moment for me. This trip, I unfortunately forgot to bring goggles and tried to swim without the goggles. Water was so clean that I was able to swim opening my eyes in the water.

When we got together at the lobby of the hotel prior to 9:00 am to wait for our bus, quite a few military officers with dark green uniform and people with dark suits gathered at the entrance hall. Our member, Mr. Osano, Sho, who is extremely knowledgeable and interested in politico military affairs particularly of Communist countries told us that they were North Korean military officers and probably government officials. This reminded us of the fact that Lao PDR is formally governed by the communist regime.

For sight seeing, we visited first Lao National Museum. Prior to visiting Lao PDR, I requested to our travel agency to plan visiting Kaysone Museum which is supposed to exhibit the great achievements of Mr. Kaysone Phomvihane, the first prime minister after

the communist revolution who started the current political regime of Lao PDR. This morning, I was told by our tour guide that this museum is unfortunately closed, and he recommended us to visit Lao National Museum instead. He added that in Lao National Museum we can see and learn many more historical matters. The museum was in the next block from the hotel. Many important offices and buildings are concentrated in a relatively narrow central area.

Lao National Museum was exhibiting many things with explanations from ancient times to the present. I was particularly impressed by the fact that during the time of Vietnam war, Laos area was severely bombed by the US bombers. They did it because they thought that Vietnam communists used mountains of Laos as their route to carry weapons and war materials. As the result of harsh American bombing, the shapes of the mountains were changed considerably. And there still remain huge numbers of blind shells of bombs. This reminded of the fact that Laos has suffered painfully by the cruel impacts of the cold war.

We next visited an old temple where a famous king Anouvong was hiding himself from the attacks of Thai powers in the medieval era. The King was finally found by Thai soldiers, brought to Thailand and was killed. In this era, Lao kingdom lost a large part of its land taken by Thai Kingdom. The temple was quiet in the dry heat of the day.

We took lunch at a French style restaurant, "Le Silapa." The restaurant was along the street of many small shops. Inside the restaurant, it was quite roomy and comfortable. From our table on the second floor, we were able to appreciate tree leaves from the window which also added some elements of elegance of the dining room. We took white and red French wines, pasta and fish. Wines and meals were quite good. We relaxed there leisurely.

After the lunch, we went somewhat far away to visit Xiengkhuane Buddha Park. We drove the bus for nearly an hour to arrive there. This park exhibits many concrete Buddha statues. Some of them were huge. All these statues were built by a successful and rich Lao businessman in the mid 1950s. He maintained these statues of the park with the help of some temples, but now the park is taken care of by the tourist bureau of the city of Vientiane.

The park is at the side of Mekong River. Across the river, we were able to see Thailand on the other side of the river which is only a few miles away. Winds mildly caress our skins, but otherwise the park was extremely hot. We spent an hour or so there and headed back to Vientiane. The guide asked me if we would visit still other tourists site. I told him that we would like to drive back directly to the hotel so that we can have some time for relaxation before the dinner meeting.

Taking advantage of a recess for an hour or so, I again enjoyed swimming at the

hotel swimming pool. Some of our members enjoyed massaging in massage shops nearby the hotel.

At 18:00, we arrived at a luxurious restaurant of Chinese cuisine, Fu Man Lou, We sat around the round shape table and waited for two Lao businessmen to join us. Prior to our trip, Mr.Serizawa, Yu, told us that she will ask her very close Lao friends by the name of Nana to join us. It turned out eventually that she herself would not be able to join us this Sunday evening. Ms.Serizawa sent a mail to us that Ms.Nana will ask some of her friends to join us in place of her. I received a mail from Ms.Serizawa this morning that Mr. Keo, a Nana's friend, will join us with his another friend.

Mr. Keo, formally Mr. Keovisouk Dalasane, 108-1009 Group Co.,Ltd and managing director of KnowAge Sole Co, and his friend Adita, formally Aditta Kittikhoun, Deputy managing director of Sengdara , arrived shortly after 18:00. Ms.Serizawa, Yu introduced me by her mail that Mr.Keo attended Waseda university while he was in Japan and speaks both Japanese and English in addition to his mother tongue. Adita impressed me of his astonishingly smooth American accent. I asked him why he speaks such a typically American English. He replied that he spent 13 years in NY when he was young.

Mr.Keo was born 1943. He spent some years in Waseda University, Asia Pacific Research Institute, and in Policy Research Graduate School when he was staying in Japan. He then joined Market Research Institute run by Rakuten co. which was later became AIT. In 2009, he returned back to Laos. He started a consulting business company with his five high school class mates, which did not work well. And he built his own company which provides various services for corporate clients such as problem solving, executive search, information and communication services.

Mr. Adita is managing ADK group. He was born 1983. His company provides highly knowledge intensive services such as event management, marketing, contract assistance, translation of not only languages but also business practices between Laos and foreign clients. He has many clients of foreign companies including Japan, US, and many international organizations such as World Bank, UNDP. His father was a diplomat stationed in NY. Unlike ordinary diplomats, his father's contract with the foreign service ministry was renewed 3 to 4 times. This is the main reason why he spent 13 years in the US when he was young. Mr.Adita joined Laos foreign service but he was unsatisfied and quickly resigned foreign service office and established his own company having been helped by his good friends.

While taking dinner together, I first explained about Shimada sonjuku, what it is all about, and its objectives and why we are visiting Laos. Listening what I said, Mr.Keo commented that it is a unique attempt, and much different from many of visitors of Japanese business people who visit Laos to study the local situation.

I introduced Mr. Mitani's suggestion to make Laos Switzerland of Asia. Responding to this proposal, Mr. Adita commented that the difficulty of land ownership for foreigners would be a major obstacle. I said that there is not necessarily a need for foreigners to own the land. It is possible that joint ventures of Laos businessmen and foreigners develop such businesses. Mr. Adita pointed to that it is not easy for Lao businesses to assemble such many necessary resources to create internationally competitive resort facilities as relevant infra-structure, medical facilities, transportation, communication network etc.

Mr. Adita added an interesting and important point that the most difficult issue for any projects which bring about major changes of this country to be proceeded is to get approval of "big 11, and big 55." Big 11 means the 11 members of "politi buro" and big 55 means 55 members of central committee of communist party. The problem is that their management and decisions are heavily influenced and constrained by the directions of Chinese and Vietnam counterparts. Because of this structure, Lao PDR cannot really choose the major strategy entirely freely.

Mr.Kaneko raised a question as to if a foreign businessman marry a Lao lady, whether they can run together old age nursing business in this coutry. Mr.Keo advised that in Lao community, it is the norm that old age people are cared by the extended family so that the business of old age care homes would not seem to be able to grow in this country.

Mr. Osano asked about inheritance. Mr. Adita commented that the inheritance in this country is also to provide priority to immediate offsprings, but with fare shares to all relevant offsprings.

On the question of electric power problem, Mr.Adita explained why there are dual prices of cheaper export price and more expensive import price. He pointed to three important factors: (1) long term contract with such countries like Thailand which import large volume of Lao power, (2) development of local power supply infra structure from remote power generating place to the place of power consumption within Laos, and (3) influences of investors to the power generating company, which is established for each of hydro power generation, whose large shares are occupied by foreign investors such as EGAT(Electricity generating authority of Thailand). The third factor may probably the most important and influential to keep priority of supplying large volumes of electric power to Thailand much cheaper than domestic price of power in Laos PDR.

It was pointed out in the related discussion that the power generating capacity of Lao Mekong is almost satiated at the current capacity. Currently, some 5000MW can be generated and the government plans to increase the capacity up to 8000MW by 2020. But there already emerge much complaints from downstream countries as Cambodia and Vietnam not to exploit Mekong River capacity Laos which is at the up stream.

On the question of SEZ, Mr.Keo commented that wage data of Laos do not necessarily reflect the reality. Many foreign investors are solicited to make investment into Lao SEZ attracted primarily by cheap Lao wages which are often said to be a half of Thai wages. However, when including many allowances, paid holidays and special payments, Lao wages are in fact not that cheap. If Lao wages are cheap, the difference would be only marginal.

I asked about the prospect of developing handicraft industry such as wooden products or silk products etc. as strategic export industry. Mr.Keo commented that “shikumi”(the organized social system) is lacking to make such industry as internationally reliable industry. In particular the system to assure quality control of the products. He referred to some attempts such as the case promoted by an American lady who visited Laos as an officer of USDL and now tries to develop such business in NY. He said that there is a long way to go to make Lao handicraft industry as internationally competitive high value added industry.

Discussion among us went further to cover other topics. This was very productive dinner indeed. We are very thankful to Mr. Keo and Mr. Adita.

Day 4: November 23(Monday)

Meeting with Dr.Suzuki, Motoyoshi and Mr. Vannada

For two days from today, we plan to visit relevant government and related offices to learn various activities to understand the current situation of Lao PDR. For 9:00 to 10:00, we visited Dr.Motoyoshi Suzuki at his office of Laos Ministry of Planning and Investment, Bureau of Investment Promotion. Dr.Suzuki welcomed us in his office which was filled with books and piles of document.

He meant to welcome us with the partner of his activity to solicit investment from Japanese SMEs, Mr. Vannada Phommasthit. Mr. Vannada was supposed to arrive at Dr. Suzuki’s office on 9:00 am. However, he did not come on time. We decided to go to conference room anyway and wait for Mr. Vannada to arrive. We waited for several minutes. Dr.Suzuki tried to call him several times by phone but no answer. Dr.Suzuki said to us that in Laos, sometimes, appointments may not work at last minute. After 30 minutes, Mr. Vannada arrived. Prior to the arrival of Mr. Vannada, Dr.Suzuki explained what is going on with this SEZ.

Pakuse SEZ has 600ha, some 50 times of Tokyo Korakuen base ball park. But not all area has been developed so far. Development is planned to proceed step by step. This

area has been designated several years ago as the area for SEZ. However, it was formally approved as SEZ only on August 5, this year.

On the reason why the approval process took this much time, Dr.Suzuki told us that the government initially planned to develop casinos prior to develop industrial zones. But there have been some troubles to materialize casinos which took as much as 4 years to resolve, and therefore the process of approving SEZ took a few years. Since Dr.Suzuki and Mr. Vannada have committed to several Japanese investors, this delay gave them uneasy time. Now, they can work with Japanese investors to build plants. Electric power is fully supplied. Water is obtained from underground.

There are 7 Japanese companies committed to build their plants in this SEZ.

1. "Japan Tech Co" which produces components for Nikon camera. This company is of Thai+1 (having plants in Thailand and build plant in Laos).
2. "Leon World Laos" which produces a wig using human hair imported from country side of China. Wig making is highly labor intensive operation and fits Lao workers dexterity and cheap cost. This is also Thai+1.
3. "Kimono Ando" which produces "obi(Japanese Kimono belt)" clips, or obi fastener. This company imports materials from China and plans to export the completed obi fastener to Japan.
4. "Shin Dengen" which is a large firm listing in the Osaka first tier stock exchange. Dr.Suzuki inited this company to this SEZ on the condition that this company will not raise wages unilaterally so that other SME would not be competed out.This is also Thai+1 type. It produces labor intensive portion of components production.
5. "Nada-ya" is located in Osaka, and produces labor intensive hand made Italian leather products. This company is also Thai+1.

We happened to talk about electric power issue. Dr.Suzuki said that Laos imports from Thailand electric power at a cost of 6 cent per 1 kw. Currently, Laos has 17 hydro power generating plants which are operating and still 14 power plants to be constructed. Using the power generated by these plants, Laos export it to Thailand. For Cambodia, power is exported only 4 hours a day.

6. "Daiwa Wireharness" This is also of Thai+1 type. Since this company joined earlier industrial special zones where large firms are also operating, and suffered from high wage competition. Take a case of large firms such as Toyota and Honda, they pay bonuses equivalent of 10 months regular payment. SME cannot compete with such large firms which pay this much of high wages.

7. "Japan Insurance Co" produces styrofoam insulation materials. It plans to start operation in Vietnam as well.

Having heard preparatory explanation of Dr.Suzuki, Mr.Kaneko asked a question as to what forms of enterprises are recognized in Laos for investment. Dr.Suzuki explained that Laos specified ministerial demarcation in October 2010 of supervision of investing corporations: corporations in general by Ministry of Industry and Commerce, and corporations in hydro power, mining and plantations by Ministry of Planning and Investment.

Mr. Kaneko probed that how much of capital can be invested either privately or by the public. Dr.Suzuki commented that in manufacturing independent company private capital is allowed up to 100 percent. In the case of joint venture with Lao companies, foreign company can have their own capital from 30 to 100 percent. Since Laos still lacks much management resources, the country is quite open for introducing foreign capitals.

Here, Mr. Vannada finally arrived some 30 minutes later than appointed time. He introduced himself. Mr. Vannada is president of Sawati Business Consulting Co. He graduated from Tokyo Agriculture and Industry University and finished its graduate school. He worked for 10 years as an engineer at Laos Electric Power Corporation. He then established his own company as a developer of Pakuse SEZ(Special Economic Zone).

His turning point to establish his own company was the meeting with Mr.Matsumura, president of Midori Anzen Kutsu(Green Security Shoes) Co. which had plants in China and Brazil. Mr.Matsumura was interested to build plants in Southeast Asia like Laos and Cambodia. He made up his mind to invest in Laos. But there was no SEZ at the time. To work with him, Mr. Vannada established a consulting company in 2007. For 8 years since then Mr. Vannada has been working in consulting for Japanese companies which are interested in investing in Laos, particularly SEZs which have been developed up to now.

Mr. Vannada established offices in Pakuse, Sabanakett, and Vientiane. He works only with Japanese companies. This is because he is so much accustomed with Japanese cultures and practices. Pakuse SEZ is solely for Japanese companies. He does not like hard bargaining which is common with US and Chinese companies.

He has been working with Dr.Suzuki closely in recent years. He thinks that Thai+1 model works well perhaps with commonality of language and cultures of Laos and Thailand. Although wages in Thailand are said to be cheap, the minimum wage of

300 bats cannot be reduced. Thai government has been developing special economic zones in areas near the border with Laos. Labor intensive operations fit better for Laos while innovation oriented operation would fit Thailand more. In the era of AEC(Asian Economic Community), we can supplement with each other to recoup better mutual benefits.

50km away from the town of Pakse, there is a high plain of 1000m high where we can develop agriculture. Laos has been growing coffee. However, we can grow many vegetables and fruits which have comparable qualities of Japanese produce with high reputation. We can develop high value added agriculture. Japanese partners are interested in promoting such business in this area, particularly, Boraven heights, where "Japan Flower" is keenly interested.

Meeting with Dr. Kigeo, Vice Minister of Ministry of Planning and Investment

Second appointment in the morning is Dr.Kigeo, vice minister of MPI, ministry of planning and Investment. We arrived at his office shortly before 10:30. Minister Kigeo welcomed us with smile and lively strong voice. The meeting room is arranged in a well known Chinese way, where the host and the main guest sit side by side at the end of the room, and their staff and team members sit in a row in front of them at each side of the room.

Mr.Kigeo opened his remarks by saying that Lao PDR has a medium-term and a long term plan for economic development. The medium term plan proposes that Lao PDR graduates the rank of low income countries, and the long term plan envisages that Lao PDR will join the rank of lower middle income countries of the world.

He is proud that Lao economy maintains more than 7% growth rate for the last decade. Even in the wake of Lehman shock, Lao economy did not suffer much of the negative impacts. More recently, neighboring Thai and Cambodian economies have slowed down, but Lao economy kept much higher growth rate. Laos is advantageous for its hydropower generating industry, and benefits from constructing highways connecting to neighboring countries in a broader framework of Greater Mekong Sub Regions.

He emphasized importance of receiving foreign direct investments. In this regard, he is particularly thankful for Japan's partnership not only in investment but also of human resource development. The role of SMEs is getting ever more important.

Lao PDR is now enjoying with its neighboring countries peace in the area of GMS. Thanks to political stability in recent decades, GMS countries are planning and constructing inter-country highways which will promote the merit of AEC(Asian

Economic Community) which is deemed to start at the beginning of 2016. He thinks that he himself lived in two different world in his life. In his youth, he lived in the world of kingdom, and afterwards, worked in the communist regime. He appreciate the political stability of this region in recent decades very much.

Mr.Kaneko asked a question as to what are the preferred jobs from the view point of Lao youths. Dr.Kigeo commented that many young people wish to work in Thailand. They wish to live and work in large cities, learn English and IT. Lao government tries to enhance the awareness of young people of their career formation.

Mr. Sugimoto asked what are regarded as best businesses by Lao people. Dr.Kigeo responded that people look to knowledge and technology intensive industries. He stresses, however, that people should have a realistic picture where Lao PDR is endowed with good raw materials and good Lao entrepreneurship can take advantage to build profitable industries. In the wake of establishment of AEC at the start of next year, custom duties across borders will be reduced significantly, across the border labor mobility will be accelerated. We need to prepare for such new challenges, particularly in the area of human resource development.

Lunch at an Italian cuisine restaurant

Dr. Suzuki guided us to a cozy small restaurant in the midst of down town which serves Italian style dishes such as pizzas, pasta etc. The restaurant is filled with customers. About a half of them are apparently Europeans. Dr.Suzuki recommended pizzas and pasta. They were surprisingly tasty and excellent. We chose wines. Mr.Osano Sho, who is a sommelier himself, chose appropriate wines which were also very good. Mr.Osano said that the collection of wines of this restaurant is unbelievably well prepared.

Dr.Suzuki was very proud to see that all of us completely satisfied with this restaurant. He said "When it comes to Laos foods and restaurant, count on me!"

National Economic Research Institute

NERI is a think tank which was established in 1997. It drafts long term strategies, monitor macro-economic performance and publish annual and quarterly report of Lao economy. On the way to the meeting room, we unexpectedly met Ms. Oulaphone who made excellent presentation in our seminar on Saturday. She smiled to us.

Dr. Sthabandith Insisenmay gave us briefing. He emphasize that Lao PDR is in the

critical moment to transfer from the land-locked country to land linked country in the center of Greater Mekong Sub-Region. We are in the process of developing inter-country railway connecting southern province of China, Laos and Thailand. Laos is certain the late comer in the wave of developing of South-east Asia, but perhaps because of this, Laos can expect to grow much faster than most of neighboring economies.

Laos growth has been dependent mostly upon services provided by SME and utilization of natural resources such as hydro power generation and mining. Due to export of electric power to Thailand Laos receives 500million equivalent of USD. Fiscal deficit remains at the level of 6 %. During FY 2012 to 2013, government expenditure increased markedly so that the government constrained spending sizeable, and people accepted the austerity policy.

After listening briefing of Dr. Sthabandith, we had free discussion and Q and A. Mr. Osano asked about the system to control exchange rate. The answer was the managed floating system, I asked about net export of electric power after subtracting import. Mr. Kaneko asked why not the demand side composition is made public. Answer was that good statistics is not available. Mr. Kaneko also asked about the reliability official 2 % unemployment rate. The answer was that it is difficult to get reliable unemployment rate in the economy where 80 % of people are in agriculture where workers are not reported as unemployed even though they do not receive the minimum income in the sense of urban labor market.

Dao Huang Group

Later in the afternoon, we visited one of the coffee shops run by Dao Huang Group. Dao Huang Group is the largest enterprise growing coffee beans and supplying coffee products, tea, dry fruits, and organic foods in Laos. The group's sales is said to be currently about 100 million USD. The group has a major plantation of 50ha, plants to process dry foods, 4 shops in Laos | each for Thailand and Vietnam.

Interestingly, this group has been led and developed by a lady, who did not even completed elementary school education. Since she was not in Vientiane the time we visited, an executive of her company, Mr. Sisouphong met us. He described her as an entrepreneur who has a good vision, and loves cooking. The sonjuku members asked several questions about her and the company. We wish we could see her directly. Dr. Suzuki was not with us because he had an important appointment at the same time of our visit of the group.

Dinner

Dr.Suzuki joined us again in the dinner. He guided us to a restaurant in the midst of the town of typical Laos meals. He said this restaurant is quite popular among the local people and those who know Laos food. Several dishes were served like spicy soup of chickens and balls of sticky rice. They were unique but good once accustomed to it. He was again quite confident and proud of his choice of restaurant.

After the dinner, I went back to hotel. Some of the members of sonjuku went to beer shops along the side of Mekong river. Some of them showed me pictures which they took. There were many, many shops crowded with people. Laos is benefited in locating in the east of Mekong river which flows from north to south. The benefit is that Lao people can enjoy drinking beer enjoying the sun set over the Mekong River. Drinking beer at the side of Mekong is said to be a common and important joy and entertainment for many Lao people.

Day 5: November 24(Tuesday): Vientiane

Meeting with Minister and Dr. Vilayong of Youth Union.

In the morning, we left the hotel at 8:00. We left hotel early because the office of Youth union is located somewhat far out in the suburb of Vientiane. At the hotel lobby, we saw quite a few military officers who wore formal military uniform, and apparently government officials wearing dark suits. Again according to Mr.Osano, they were all north Korean military and government people. This scene must be normal for Laos PDR which is a communist country.

The office of Youth Union is located in the residential area. We were impressed by the fact that there were many large residential houses. It is somewhat beyond our expectation of a country with average per capita income is at most 1700USD. This gorgeous residential area may represent a part of large social differentials or a part of an effect of large unreported economy.

Minister Vilayong is apparently a quite influential political figure in this country. He was the minister of Ministry of Planning and Investment prior to his current appointment. Laos Youth Union is an unique organization for Laos, which is not easy to find its counterpart in other countries.

This organization claims to represent "youth." It in fact represent functions of political party, which is Communist, a government brach and business organization. Mr.Vilayong had a charm and energy to attract people. He spoke good English.

He said that this is a special year in the sense that it is the 60th anniversary of establishment of Youth Union, 60 year anniversary of Laos-Japan relations, and the 40th anniversary of independence of Lao PDR. He added that this is the first time for the executives of Youth Union who sat along in one side of the room facing the sonjuku members to meet with young Japanese business executives. He was quite a diplomat as well.

One of the executives of Youth Union explained the organization of Youth Union. Youth Union has business associations comprising of 500 member corporations. Regionally, YU has 17 Lao provinces. Since YU claims the organization representing the youth, it used to have age limit of 35 and younger to become eligible for members. Now, the age limit is lifted to 45, and every business which has the history younger than 40 years. YU covers 8 chapters of Chamber of Commerce. After the briefing we moved on Q & A session.

Mr. Yamada, Yu asked a question as to the current status quo of ICT development. An executive in charge answered that it is coming. Discussion went on in a quite friendly atmosphere. Mr. Vilayong solicited to eat the small cake prepared for each of the participant which was unexpectedly good. The meeting was concluded that both sides agreed that this meeting was a good beginning of the communication and cooperation for the future between us.

Laos Japan Institute

Later in the morning we visited Laos Japan Institute, which is located a bit far away in the suburb of Vientiane. This is built by the economic grant assistance of Japanese government, and currently the institute is annexed to Laos National University. The institute is given a quasi department status in Laos National University so that students who are interested in Japan can take teaching and training program of the institute as part of extra curricular activity of the university.

Mr. Suzuki, chief advisor to Laos Japan center, Yasujiro gave us briefing. He started this job a few months ago, after spending a long time as a senior officer serving Youth Corp in Africa, and Cambodia Japan center. He first gave us his first impression of Laos and then systematically explained in detail the activities of the institute: namely, education and training of business, teaching of Japanese language, and cultural exchanges. Students who completed the business training course can obtain MBA degree.

The briefing was followed by Q&A session. Here, sonjuku members asked many questions. Much of Q&A concentrated on the legal and institutional issues relating investing into Laos and establishing companies in Laos. We are left with an impression that Laos is still at the beginning stage of preparing legal and institutional conditions

by trials and errors to create their own going through the process of graduating from many left overs of the ear of French control and direct foreign influences from Vietnam etc.

IV. Some Observations on Laos

Finally, let me note several points as my conclusive observations.

1. Impression of Lao people

After the trip, I was left with an overwhelming impression of gentle, polite, warm and receptive attitude of Laos people, at least those whom I met, talked and worked with. As like Buddhist Thai people, they always put their palms together to greet, but Lao people's greeting seems to have their souls in it. This built in attitude of Laos people have had and will have many important meanings in geopolitical, economic, and business spheres.

2. Advantage of Geopolitical Peace

Laos PDR is, together with neighboring countries, apparently gifted a great historical opportunity of peace in which they can pursue economic and social development jointly. Only up to a few decades ago, Southeast Asia was suffering painfully and miserably by continuous wars and conflicts both internally and externally such as the cases of Vietnam war, internal massacres in Cambodia, and conflicts for independence in Laos etc.

Since the end of Vietnam war, the area has been enjoying peace and has been enjoying to exploit opportunities for economic growth both within the country and cooperating with each other, as exemplified by the recent development of cooperation among the countries of Greater Mekong Sub-Region and the Asia Economic Community, which will be launched at the turn of year 2016. Laos can and should take advantage of this opportunity to develop the country to graduate from the low income situation to become one of the middle income countries in the world.

3. Population Bonus

Laos is gifted today with a large proportion of young people in the population. Those who younger than age 30 occupy more than 60 percent of population. This means that they have ample supplies of labor force who will keep earning and contributing positively to the economy for the coming few decades. The countries which

demonstrated phenomenal growth have enjoyed and took advantage of population bonus as Japan and China. To make use of population bonus for economic development, however, the young people need to be educated and trained. There are sad examples in the world which failed to make use of massive young population like many of Arab countries. Providing good education and training for young people is perhaps the most important policy agenda for Lao leaders.

4. Potent but Complex Issue of Hydropower Generation

Lao PDR is unique in the sense that it can satisfy its need of energy by hydropower generation making use of flows of great Mekong river. Indeed, it currently exports as much as 90% of the electric power generated within the country. However, it also imports sizable amount of electric power from Thailand at much higher prices than export prices. This means that Laos loses large potential gains accruable from their power generation. To solve this issue, Lao leaders need to face up and solve several issues strategically such as export contracts, foreign investment in power generation companies, timely strategic planning of preparing domestic infra-structure of trafficking electric power to the areas of industrial and civil consumption within the country.

5. Planning of Strategic Industries and Activities.

Laos is at its critical historical phase to choose and develop strategically meaningful and useful industries for its envisaged dream like growth in view of global mobility of resources, value changes and technological development.

Since Laos is a small country, it does not make much sense to try to build industries which need massive markets such as auto and electronic appliances. However, Laos can take advantage of offering facilities for parts production of such industries. To invite parts production effectively, Lao planners will need to provide both hard and soft infrastructures sensitively and speedily for the investors since global investors are extremely sensitive to judge economic merits of wages, availability of resources, access to transportation etc.

Taking advantage of docility and dexterity of Lao people, Laos can develop unique competitiveness in handcraft industries such as sophisticated wooden and textile products. Important, though, is to develop good “branding” of Lao products. Here Laos needs to utilize planners and designers both fostering domestically and working internationally.

On the other hand, Laos is gifted by its beautiful nature and cordial people. The climate is much better in dry season compared to neighboring countries. The government is eager to develop health tourism taking advantage of these attributes.

The country could develop much further to make Laos a nice resort living area as the Switzerland of Asia.

6. Unreported Economy

We have been under an impression that Laos has a huge existence of unreported economy, if not to say, as underground or black economy. Perhaps, the largest sources of unreported economy may be associated with unreported incomes of Lao people working in neighboring economies such as Thailand and Vietnam. If this is indeed the case, it would be much safer for such workers to bring their earnings back home by remittance via formally recognized channels and much better for the government in the sense that they can capture more correct economic situation of the country.

Since ICT is developing rapidly, it would be meaningful for the government to ask some reliable and trustful businesses which have good technological capability to create decent IT systems to intervene and provide services of remittance so that most of workers working outside can safely send their money home and the government can capture the correct economic reality of the country.

(This is an original contribution by Prof. SHIMADA Haruo, Academic Governor of GFJ on 18 January 2016.)