CHAPTER 6: INTERNATIONAL FREIGHT TRANSPORT PRACTICES AND ATTITUDES TOWARDS THE SELECTION OF TRANSPORT MODES IN LAO PDR

6.1 INTRODUCTION

The purpose of this chapter is to study international freight transport usage and practices of Laotian exporters, importers, and transport/logistics service providers. First, a general background is provided. Secondly, the sampling procedure is presented with the research methodology. Thirdly, the research findings presented stem from an analysis of the transport usage and attitudes towards the selection of transport modes in Lao PDR. Lastly, external constraints to Lao PDR international freight transport are identified and developed.

6.2 BACKGROUND

Lao PDR is the sole land-locked country in South East Asia. The country is surrounded by five states: The Peoples' Republic of China, The Socialist Republic of Vietnam, The Kingdom of Thailand and the Union of Myanmar. This group of countries is also referred to as the Greater Mekong Sub-region (GMS). The provision of logistical systems and infrastructure, along with macroeconomics stability, and long-term development strategy is one of the necessary conditions to sustain economic development.

One of the world's poorest nations with a GNP per capita of around USD 350[1] in 1999, Lao PDR has a centrally planned economy with government ownership and control of productive enterprises of any size. In recent years, however, the government has been decentralising control and encouraging private enterprise. The country has primitive infrastructure; that is, no railroads, a rudimentary road system, limited external and internal telecommunications, and electricity available in only limited areas.

The lack of available funds and the country's low level of development make it especially important for Lao PDR to have access to efficient logistics channels for goods distribution. These logistics channels must be efficient within the country as well as when using third countries' logistics channels for the transit of internationally traded goods. The selection of transport mode is closely related to the choice of logistics channels and routes. Depending on the infrastructure configuration, a certain mode of transport will be preferred.

6.3 SAMPLING & RESEARCH METHODOLOGY

In order to collect data, interviews with exporters, importers and logistics/transport service providers were undertaken. To give these interviews some structure, and therefore to enable them to form a valid part of the research, a questionnaire was developed. This questionnaire was designed to examine thoroughly the business activity, usage of transport modes and attitudes towards modal choice.

The sample of respondents was primarily taken from members of the Lao National Chamber of Commerce and Industry (LNCCI). The LNCCI is the only Chamber of Commerce and Industry that is officially recognised by the Lao Government. The sample was carefully selected to represent the main foreign income earners of the country (i.e., wood and garments) for exporters, foodstuff importers, and the biggest logistics service providers operating in the country. All the respondents that were interviewed are involved in the international trade of Lao PDR. In all, 21 structured interviews were conducted during the month of April and November 1999.

6.4. RESEARCH FINDINGS

There were 11 garment exporters (out of 36 garment exporters in the LNCCI directory), 4 wood product exporters (out of 23 wood product exporters in the LNCCI directory), 4 foodstuff importers (out of 17 foodstuff importer in the LNCCI directory) and 2 logistics/transport service providers (out of 8 logistics/transport

[1] www.adb.org

service providers in the LNCCI directory). In total there was 21 respondents. The garment exporters surveyed represented around one third of all the garment exporters in Lao PDR and they accounted for more than 60% of the total garment export market. The wood product exporters were chosen among the four biggest in terms of annual turnover (in US Dollars, USD). The foodstuff importers were selected randomly from the Vientiane[2] municipality among the 17 members in the LNCCI directory and the two logistics service providers are estimated to hold more than 40% of the transport market in Lao PDR[3]. All of the respondents were in high positions in their respective companies. Table 6.1 illustrates the types of position held. Around 85% of these firms operate just one establishment in Lao PDR; with two of them being state run companies. Nonetheless, 24% of the firms belong to a group of foreign companies or a conglomerate. In fact, firms with Thai headquarters represented more than 40% of all the firms belonging to foreign investors (see Table 6.2). There are 7 companies under foreign control among the respondents.

Table 6.1: Respondents' position held in their respective companies

	No.	%
Chairman	2	10%
President	1	5%
Managing Director	11	52%
Company Director	4	19%
General Manager	3	14%
TOTAL	21	100%

Source: The Author

[2] The capital of Lao PDR
[3] According to industry sources.

Table 6.2: Ratio of foreign held companies among the respondents

	No.	%
Thailand[4]	3	43%
Hong Kong SAR	2	27%
France	1	15%
Italy	1	15%
TOTAL	7	100%

Source: The Author

More than half (57%) of the respondents' companies have a yearly total turnover of more than one million USD, of that sum, the proportion of logistics cost is estimated at between 20 to 40% of their yearly total turnover. Only the logistics service providers have a higher proportion of logistics cost at more than 80% of their yearly turnover.

Even though all the respondents agreed that logistics was an important activity within the firm only 14% of them have more than 5 people who are purely involved with logistics and distribution. The majority of the respondents (71.5%) viewed logistics as an integral part of the firm's operation while the rest considered logistics to be a clearly defined task. Almost all of the decisions related to logistics are made within the firm in Lao PDR. There seems to be a contradiction in the answers as only 10% of the firms continually review their logistics strategy while more than half of them never review or review their logistic strategy on an irregular basis, according to the situation. It is possible that "what is said might not be what is practised" (Fowkes, 1998). Follow-up discussion with the respondents relating to the concept of logistics revealed that the term 'logistics' was known but that the exact nature of logistics is not understood. According to the respondents, logistics is considered to be a new terminology for transport and distribution that is used in the rest of the world. Many interviewees pay lip-service to the concept of logistics. Most of the respondents' (66%) product requires special treatment before packaging such as fumigation for wood products or pressing or hanging requirements for garment exports.

[4] Thailand is the top investor in Lao PDR, with 243 projects worth USD 2.5 billion.

It is noteworthy that the majority of the respondents never had any experience with logistics related issues. A few of them had some experience in the shipping industry but for most of them, logistics is dealt with by on the job training. Only one respondent actually held a degree in transport management (rail) from the ex-Soviet Union. Around 15% of them did take short courses relating to import and export procedures.

6.4.1 Transport Usage

Table 6.3 shows the usage of transport modes by the establishments surveyed. All the firms surveyed are using or have used public hauliers, even those who operate their own fleet of trucks. Sea transport is seen as the dominant main mode for transport to and from Lao PDR even though it is a land-locked country. The destination or origins of the goods transported are mainly Thailand (road), Europe (sea) and North America (sea). The main purpose of Lao PDR international road haulage is to complete the inland leg to seaports in Thailand or Vietnam. More than 80% of the goods transported, in transit, are done through Bangkok port.

Air transport is also used at 14% but it is, according to the garment exporters, seen more as an emergency mode of transport, especially when a delay in production causes the goods to miss shipping connections. Rail usage is non existent, even though there is a railway connection less than 20 km away in Nongkhai (Thailand) that can be used for transit to Bangkok port, Laem Chabang port in Thailand or even Port Klang in Malaysia (Banomyong, 1999c). The use of inland waterways is minimal even though the Mekong River is an international waterway and offers a lot of potential.

Table 6.3: Transport Usage in Lao PDR*

Mode of transport used			Proportion of all firms surveyed
Road Haulage			100%
	Own Account	14%	
	Public Haulier	100%**	
Inland Waterways			5%
Rail***			0%
Sea Transport			95%
Air Transport			14%

* These percentages are not mutually exclusive and therefore need not add up to 100%.
**All the respondents, even those who operate their own truck fleet, have used public hauliers.
***Rail is not available in Lao PDR.
Source: The Author

6.4.2 Road Transport

14% of the respondents operate their own fleet of trucks. The main advantage that these respondents see in having their own trucks is quick response time, flexibility and cost control. Having their own truck offers these respondents access to transportation services without being subjected to the availability constraints from public road hauliers. Flexibility and cost control come in as distant second and third in this ranking. Control over the firm's logistics function seems to be the main driving force. The majority of them (75%) feel sufficiently confident that they have enough capacity in case of fluctuations in transport demand. In the case of large fluctuations, sub-contractors may be brought in to help remedy the situation.

Managing directors primarily do decision-making concerning the purchase, maintenance or disposal of trucks. When asked what the factors taken into consideration for purchasing vehicles were, these executives ranked reliability and fuel consumption as the most important ones. Price is also important but it is not the most important factor. It is crucial to understand that in Lao PDR, road infrastructure is not in good condition, and seasonal rains make road transport impossible during

certain periods of the year, especially during the rainy season[5]. Vehicles that are purchased need to be easy to maintain, as there are very few garages or manufacturers' dealerships to service them. Fuel prices are also very high and refuelling stations are sparse. The majority of trucks registered in Lao PDR is Chinese made and is of very old models; they are mostly used for internal transport. Some of the trucks that are imported today are Japanese brands but assembled in Thailand. These newer trucks are mostly used for carrying international cargo to and from Thailand. Own account operators, on average, will invest on average USD 100,000[6] each year in the purchase or the maintenance of their trucking fleet.

Most of the respondents usually employed the same public road haulier. Some respondents explained that there is no real choice when selecting road hauliers. Presently, only a handful of trucking companies is licensed[7] to transport goods coming in or going to ports in Thailand and Vietnam. These licensed companies have the franchise in transporting all international transit goods. This franchise situation is reflected by the proportion of respondents (71%) who felt that there were deficiencies in the road haulage service offered in Lao PDR. The biggest complaint is related to the fact that there is no real competition among the road hauliers thus making freight rates relatively high in relation to the distance (Banomyong *et al.*, 1999). The bad road conditions and transit time are also cited among the deficiencies of public road haulage services even though hauliers do not control road conditions. A minority of respondents felt that there was no deficiency and that they were quite pleased in the services offered by public road hauliers. One respondent complained about pilferage during road transport. Almost all the respondents do not have any formal arrangements with road hauliers as they feel that there is enough capacity to cater for their needs. Since there is a limited choice of service providers, personal connection is considered the most important factor in selecting a particular haulier. This is especially true when freight rates are similar. Only one respondent always used the

[5] From June to October
[6] This depends on the fleet's size and age.
[7] 10 licences are available but only 5 licensed companies are operating. They are the Express Transport Organisation (ETO), Ubonsahatham, Regional Container Lao (RCL), Transit Lao (TL) Enterprises and the State Railway of Thailand (SRT).

same haulier but this can be explained by the fact that the respondent is state-owned and has been 'advised' to use a particular state-run haulage company.

More than half of the respondents felt that, in the future, they were expecting to maintain their level of use for road hauliers. Some (28%) were more optimistic because they expected their business to grow thus increasing their demand for road transport services. A minority of respondent (15%), mainly from the garment industry, foresaw a drop in their transport usage due to the economic crisis that has affected Asia since 1997. They hope that demands for their goods will increase by the year 2000.

6.4.3 Inland Waterways

Only one respondent made use of inland waterways. River transportation in Lao PDR is done along the Mekong River. The Mekong River runs through Yunnan province in China, Myanmar, Lao PDR, Thailand, Cambodia and Vietnam. The River run through Lao PDR with a total length of 1, 970 km out of which 1, 865 km is presently navigable.

Even this respondent said he expects to reduce his use of the Mekong River in the future, as during the dry season[8], most of the river cannot be used for navigation purposes. During the rainy season, the river is used as an alternative to road transport as many of the land routes are flooded. During the dry season, road transport becomes the predominant mode of transport. There are a few river ports that sometime handles cargo coming from Yunnan province but the majority of river use is for internal transportation or for ferry crossing between Thailand and Lao PDR.

Before the completion of the Australian-built Friendship Bridge between Nongkhai in Thailand and the capital of Lao PDR Vientiane in 1994, all cargo transiting through Thailand had to be transported across the Mekong on barges. Most of the exporters,

[8] From November to May

at that time, had their manufacturing facilities along the bank of the river so, that barges could come and collect the goods directly.

Even though river transportation is more environmentally friendly and fuel efficient, it is faced in Lao PDR with seasonal fluctuations that renders it non-practical during certain periods of the year[9]. This is not acceptable if the Mekong River is going to be developed into an international waterway for transporting goods. The Mekong River Commission (MRC), which is based in Phnom Penh in Cambodia, is currently looking at how to enhance the role of the river in international transportation of goods. Inland waterway transportation is definitely not the first choice of transport mode in Lao PDR.

A plan for the freer flow of goods along the Mekong River has been endorsed at a meeting of officials in Yangon with Thailand, Myanmar, China and Lao PDR[10] on March 6-7, 2000. The agreement is designed to facilitate navigation on the upper part of the river to boost trade in the four countries. It includes navigation aids, river ports improvements and a land network link to promote the integration of the logistical chain.

[9] "Wheeling and dealing along the Nam Gnouang River, in: *Vientiane Times*, 18 July 2000, Internet Edition.
[10] The Bangkok Post, Perspective, 12-03-2000, Internet Edition.

6.4.4 Sea transport

The majority of respondents (52%) expect to make more or less the same use of sea transport in the near future. They acknowledge that sea transport is a very important segment of the transport chain but it is a segment that is out of their control. This is represented in the way international sales contracts are negotiated with the foreign seller or buyer.

When a Laotian firm exports its product, the INCOTERM[11] that is the most regularly used is FOB (Free on Board) Bangkok. CIF (Cost Insurance & Freight) or EXW (Ex-works[12]) is rarely used (see Table 6.4). When selling under the term FOB, the seller does not have control over the main transport leg. He is only responsible for the risk and the cost up to the ship's rail. When the goods have passed the ship's rail, the cost and the risk will fall on the buyer. In this case, when FOB Bangkok or Laem Chabang is quoted, the Laotian exporter must arrange the transport and bear the risk for the goods up to the point when the goods are loaded upon the ship at Bangkok Port or Laem Chabang Port. Only in the case of CIF does the Laotian exporter control the sea leg, as he will be the one selecting and paying for the sea freight up to the port of destination. When the term EXW is used, the Laotian exporters bear no responsibility towards the transport cost. His only duty is to make the goods available within his premises for the buyer to collect them. This is reflected in the respondents' responses relating to relating to modal choice decisions. 85% of the respondents said that they were the decision-makers for the mode of transport but only up to the port of departure.

[11] INCOTERM: International Commercial Terms as specified by the International Chamber of Commerce (ICC).
[12] EXW used to be known as Ex-factory.

Table 6.4: Main INCOTERM used for export*

FOB Bangkok or Laem Chabang (Thailand)	100%
FOB Danang (Vietnam)	6%
CIF port of destination	13%
EXW	13%

* These percentages are not mutually exclusive

Source: The Author

When a Laotian importer agrees on an INCOTERM, the most common term that is used is CIF. Importing goods under the term CIF is somewhat easier than importing under a FOB or EXW term. With CIF, the importer is only responsible for the customs clearance at the port of arrival, and he only has to arrange for the inland transport up to his warehouse or retail outlet. The most used INCOTERM for import is CIF[13] Thanaleng in Lao PDR (see Table 6.5). Technically speaking this INCOTERM is not correct, as there is no seaport in Lao PDR. Thanaleng is the main border post opposite Nongkhai province in Thailand. The majority of goods that are imported into Lao PDR have to come from seaports either in Thailand or in Vietnam. Some of the importers in the garment industry do not use any INCOTERM in their transactions. This is due to the fact that they import raw materials for assembly from their head offices. They consider the importation of raw materials or semi-finished products into Lao PDR as an internal transaction within their group. There is no international sale of goods; thus there is no need for INCOTERM.

[13] Another reason why CIF is used is because Customs valuations are based on CIF prices.

Table 6.5: Main INCOTERM used for import*

CIF Bangkok or Laem Chabang (Thailand)	37.5%
CIF Thanaleng	50%
Within Group	25%

* These percentages are not mutually exclusive

Source: The Author

Relating to the future use of sea transport, half of the respondents felt optimistic. Among those that envisage possible future increases in their use of sea transportation use are the wood product exporters while those who feel more pessimistic are from the garment industry[14].

6.4.5 Air Transport

Only 14% of the respondents were using air transport for their goods. Half of the respondents, mostly importers, expected an increase in their level of use of air transport[15]. Reasons that were provided were an increase in the amount of perishable products imported[16], and an increase in personal effects. This may be because there is a growing expatriate community working on the economic and infrastructure rehabilitation of the country. Their purchasing power is much higher than the local population and their consumption patterns demand that certain foodstuff be made available. This can only be achieved if the perishable products are air freighted into Vientiane.

[14] It is probable that since the Certificate of Origin (C/O) cannot be issued for garment assembled in Lao PDR many foreign investors are deciding to close their Laotian operations.
[15] The average shipment is between 200 to 700 kg.
[16] During the third week of November each year, one of the respondent actually imports "Beaujolais Nouveau" to be opened and consumed at the same time as in the major metropolis.

The other half of respondents, mostly garment exporters, are expected to lower their use of air transport. Some of them blame the economic situation while others feel that they are more confident in handling their logistics channels. Air transport has been used traditionally in the garment industry as an emergency channel. When a Lao manufacturer was unable to complete his production schedule on time, he was forced to airfreight his goods to the buyer in Europe in order to meet the retail deadline. This led to a different type of problem with the goods arriving before the agreed-upon date. The airfreight capacity is not a big problem due to the low volume of freight involved. Today, Laotian exporters can rely on greater frequency and faster transit time from transport service providers. If pure sea freight is too slow, then a sea-air[17] combination can also be considered. Sea-air usually offers half the transit time of ocean freight at roughly half the cost of airfreight. Nonetheless, if a consignment is required more urgently than usual, for the majority of Laotian exporters (57%), the choice of mode will be different from that under normal circumstances.

Sea-air is a possibility but air-sea is used more often; according to some of the respondents, when delays in production occur, these garment exporters will allocate the finished goods to their own trucks or to the logistics service providers to transport to the sea port (usually Bangkok Port). The rest of the shipment that is completed later will be transported to Udorn[18] Airport where the goods will be air freighted to Bangkok. There are three flights operating daily from this regional airport to Bangkok. When the goods arrive in Bangkok, they can then rejoin the main consignment in a warehouse prior to loading for re-consolidation. The reason why Vientiane airport is not often used for export is because of the very high airfreight rates involved. Vientiane to Bangkok is considered an international route, while Udorn to Bangkok is a domestic route with domestic airfreight rates.

[17] Containerisation International, July 1999, pp. 52-55.
[18] Regional airport in Thailand, situated 60 km from Vientiane.

6.4.6 Linkage patterns

According to a large majority (71%) of respondents, no major change in their choices for modal selection is foreseen. This is probably due to the fact that there is a very limited number of licensed road hauliers for international transit and that almost all of their customers (95%) do not specify a particular mode of transport[19]. The major changes that occurred for Laotian exporters, importers and logistics service providers were the completion of the Friendship Bridge across the Mekong River in 1994 and the harmonisation of border checkpoint opening times in 1999. The Nongkhai-Vientiane border checkpoint is now open from 6 a.m. to 8 p.m.[20]. This has had the effect of consolidating the dominant position of road haulage.

More than 76% of the respondents consider that the road-sea combination is the only choice that is available. Among those respondents that are aware of other modes, only three respondents are actually planning or have tried to assess the possibilities of rail transport for transit cargo. The State Railway of Thailand recently extended its track from Nongkhai to the middle of the bridge linking the two countries in order to prepare for the link-up by rail with Lao PDR. A joint venture has been agreed upon with a Thai firm called Pacific Transportation Co. to link Vientiane with Nongkhai[21]. But, the economic crisis in Thailand has forced the Thai Government to back out of its pledge to fund the project[22]. Nonetheless, one of the respondents has already organised the successful transportation of wood product by rail from Nongkhai to Bangkok port.

River transportation along the Mekong is utilised by only one respondent but two other respondents expressed interest in moving their goods by river, at a potentially lower cost, for internal transport. Ferry crossing along the Mekong is now concentrated in Southern Lao PDR for cross border trade between Muang

[19] Only one respondent said that due to safety reasons, the customer chose the mode of transport.
[20] "Thai-Laos agreement on border access", in: *The Bangkok Post*, 18 February 1999, Internet Edition.
[21] "Ultimatum for firm on stalled railway", in: *The Bangkok Post*, 26 October 1999, pp. 3.
[22] "Thailand financial woes sink Laos railway plans", in: *The Straits Times Interactive*, 10 February 1998, Internet Edition.

Khammouan (Lao PDR) and Nakhon Phanom (Thailand), and Savannakhet (Lao PDR) and Mukdahan (Thailand). Cross border trade in those regions generates more than USD 10 million per month. The Savannakhet-Mukdahan link[23] with its extension to the port of Danang in Vietnam has been designated by the Asian Development Bank (ADB) as the East-West economic corridor. This corridor has been designed to help improve sea access to traders in Eastern Thailand and Southern Lao PDR. The ADB has facilitated the signing of an agreement between Thailand, Lao PDR and Vietnam aimed at easing cross-border traffic flows and boosting trade between the three countries on the 22nd of November 1999[24]. A major aim of the agreement is to open up container traffic, which is presently minimal. Commodities moving between the three countries since the early 1990s are mainly construction materials, fuel, timber and wood products, machinery and equipment, foodstuff, textiles, marble and livestock.

6.5 ATTITUDES TOWARDS MODAL CHOICE

The respondents were asked to consider the importance of various factors relating to the transport of their products on a five-point Likert type scale: (1) = Very Unimportant; (2) = Fairly Unimportant; (3) = Neither Important nor Unimportant; (4) = Fairly Important; (5) = Very Important. McKinnon (1989) provided a framework of factors affecting modal choices. He categorised these factors into three main groups, namely: traffic-related; consignors-related and service related. These categories have been adapted for the purpose of this survey into: product-related; decision maker-related and service-related. A ranking of the most important factors in each category is also presented (see Table 6.6, 6.7, 6.9).

[23] Plan to construct a second Thai-Lao Bridge would start by the end of 2000. The Japan International Co-operation Agency (JICA) will fund the bridge. The project is expected to be completed in three years.
[24] http://www.adb.org/Documents/News/1999/nr1999116.asp

6.5.1 Product-related factors

Table 6.6: Product-related

	Rank	Mean
Length of haul	1	4.14
Dimensions	2	3.95
Value	2	3.95
Value density (value: weight ratio)	4	3.61
Fragility	5	3.52
Types of packaging	5	3.52
Consignments weight	7	3.47
Special handling characteristics	8	3.09
Perishability	9	2.33
Toxicity	10	2.28

Source: The Author

When the respondents considered product-related attributes, they ranked 'length of haul' as the most important attribute that will affect their modal choice but this ranking is subject to caution as road transport is the dominant mode of transport for transit to sea ports. As presented earlier, all the respondents are involved in the international trade of Lao PDR and they understand that sea transport is the main transport leg, but long distance trucking to seaports in Thailand or Vietnam is the only mode of transport they are really familiar with. All the respondents have acknowledged that transport infrastructure in Lao PDR is a major constraint on the selection of modal choice. The basic transport infrastructure that is in place in Lao PDR and neighbouring countries is more adapted for road transport, and therefore making competition with other modes is almost impossible. Even when rail transport is a possible option, trucking will be preferred. According to Cunningham (1982), evidence of long haul truck traffic where rail service is available is a misallocation of traffic and a departure from the optimal cost-minimising allocation of resources in transport. This is probably true in developed countries where rail transport can be more competitive over shorter distance than in the developing world. In the case of Lao PDR, rail transport is only available across the border in Thailand where the service is seen as unreliable. 'Dimensions' and 'value' are ranked on an equal basis as the second most important attribute that is taken into consideration by Laotian

respondents. This is especially true for wood product exporters. Scores for the top three attributes are quite high, with a mean of 4.14 for 'length of haul' and a mean of 3.95 for 'dimensions' and 'value' respectively.

'Perishability' and 'toxicity' are considered the least important attributes related to product with means of 2.33 and 2.28, from the respondents. This probably due to the fact that most of the respondents are either garment or wood product exporters. These respondents do not feel that 'perishability' or 'toxicity' is an important issue. Perishability, special handling characteristics and types of packaging emerge as more important factors for foodstuff importers, especially with one respondent involved in the French cheese and wine trade. Interestingly enough, the same importer has also been asked to provide a "certificate of purity"[25] for his products as some government officials had concern about its possible toxic nature. If all the respondents were foodstuff importers some of the results would have probably been different. 'Perishability' would have been considered as one of the most important attribute that would affect modal choice. Nonetheless, the findings relating to perishability appears to be consistent with the majority of the literature on variables that affect modal choice. Perishability is not recognised as a factor affecting modal choice (McGinnis, 1989). But for Gilmour (1976) and Hayuth (1985), perishability is an important factor that affects freight transportation choice. The effect of 'perishability' on modal choice will depend on the types of commodity transported.

The logistics and transport service providers are the most concerned with product-related attributes as they are usually in charge of the packaging, handling and the transportation of goods. D'Este and Meyrick in their 1992 study discovered the same concerns relating to cargo handling by Australian logistics and transport service providers. They must always be knowledgeable about the nature of the product in their care. The nature of the product will determine the type of packaging[26], the type of handling techniques and also the choice of transport mode that will be used. Some

[25] This certificate is supposed to certify that the wine and cheese is "pure".

[26] For the export of garments, these logistics service providers are able to provide special containers with racks where the garment is hung. This avoids the need for processing the garments if they had been stuffed in a normal dry container and permits the direct transfer to stores for display.

logistics service providers may not be directly responsible for packaging or for marking but they can offer guidelines on the most appropriate types of packing and handling required, as well as on the most appropriate combination of transport modes. It is the logistics service providers' duty to make sure that the goods will arrive at destination on time, safely and at the right price. They are expected to take reasonable care of the goods entrusted to them and comply with clients' instructions in matters relating to the transportation of their goods.

In the transport of medium to lower value products such as wood and garments, shippers are willing to accept a lower quality of transport service and mode than for the higher value or perishable goods if transport cost can be reduced. This behaviour is consistent with some of the findings by Fowkes *et al* (1989) relating to the value of goods and their modal choice.

6.5.2 Decision-maker-related factors

Table 6.7: Decision maker-related

	Rank	Mean
Marketing strategy	1	3.66
Stockholding policy	2	3.33
System of modal evaluation	3	3.14
Investment priorities	4	3.04
Management structure	4	3.04
Size of firm	6	2.23

Source: The Author

For decision-makers in Lao PDR, the marketing strategy is seen as the most important factor with a mean of 3.66. These results are also consistent with the literature, Manheim (1994) discussed that firms today face increasingly severe competitive pressure, and having a good marketing strategy through the efficient use of the logistics function can provide opportunities for competitive advantage on the global market. All the respondents are aware or have heard that logistics can be or is a leading function, especially when global co-ordination of production and distribution

has emerged as a major issue and opportunity. In the early stages of marketing policy development, one of the foremost issues that need to be resolved is the method of product distribution or channel distribution, which will be made (Fawcett *et al.*, 1992). During logistics channels selection, the firms will be trying to achieve six aims: (1) maximisation of sales opportunities; (2) achieving high levels of product availability; (3) achieving high levels of customer service; (4) minimising costs; (5) gaining timely, accurate market intelligence and (6) ensuring smooth integration of both commercial and physical aspects of the distribution chain. The respondents know that if they want succeed they need a very precise marketing strategy that will help sustain their competitive advantage.

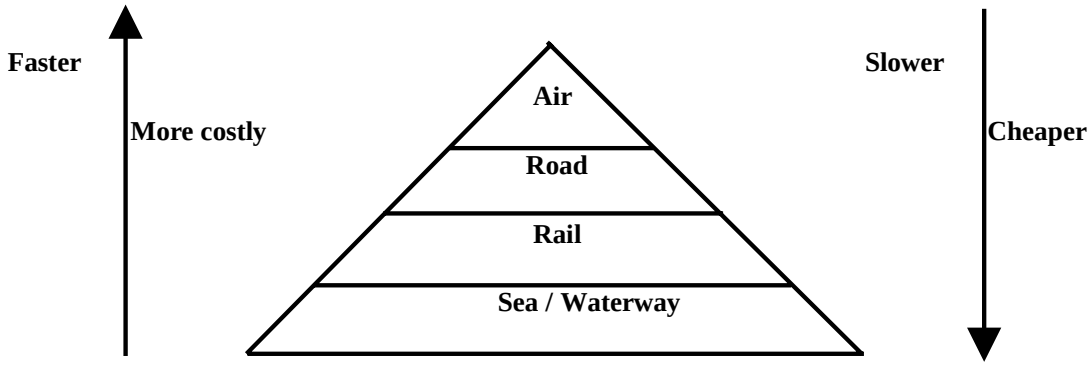
Even though 'system of modal evaluation' was ranked third by the respondents, this factor is closely related to the marketing strategy. The logistics decision maker is confronted with a logistical system where there exist a number of alternative sub-systems or solutions to a particular logistics problem. An assessment of the qualities of the various modes of transport is therefore needed to determine the best possible solution available that is compatible with local conditions (see Table 6.8 and Figure 6.1).

Table 6.8: Generic assessment of the qualities of different modes of transport

	Road	**Rail**	**Waterway or sea way**	**Air**
Speed	high	Low	low	Very high
Door-to-door capability	very high	Low	very low	Low
Reliability	very high	High	high	Very high
Security	very high	High	high	Very high
Safety	high	very high	very high	very high
Flexibility	very high	low	low	Low
Availability	very high	low	very low	Low
Energy Efficiency	low	very high	very high	very low

Source: Adapted from Adjadjihoue (1995)

Figure 6.1: Multi-strata pyramid for modal evaluation



Source: Adapted from Adjadjihoue (1995)

'Stockholding policy' is the second most important attribute for the Laotian decision-maker. According to Sterman (1989), one of the most common logistics decision-making is stock management. These Laotian firms do not want to be burdened with the cost of carrying too much inventory while at the same time they cannot take the risk of being out of stock. This is particularly true because of the long distances

involved for the transportation of their products; it becomes very difficult to control the supply chain.

'Investment priorities ' and 'management structure' are ranked equally in fourth place with a very neutral score of 3.04. As more than three-quarters of the respondents do not own or operate their own vehicles, investment priorities are not geared towards means of transport but more towards the expansion of the respondents' businesses. Management structure is also not felt to be an important factor as most decision related to modal choice are taken by the respondents themselves as they have full authority. The 'size of firm' variable is seen as the least important factor by the respondent who feels that this attribute does not have an impact on modal choice. Katsikeas (1994) suggested that it was reasonable for larger firms to be more pro-active in searching for export or import markets than smaller firms. But from the respondents, it can be said that in Lao PDR, the size of firm does not affect its export or import activities.

The decision making process is not really based on the firm's size but more on decision-maker skills, knowledge and information. Decisions are mostly based on a combination of formal information sources and informal sources in South East Asia (Phelps & Krabuanrat, 1999). The firm's size may be used as a condition to negotiate better freight rates with the promise of increase traffic. It was also suggested during the survey that there is a relationship between the size of the respondents' firm and the use of third party logistics/transport service providers. The smaller the firm, the more likely it is going to outsource its logistics/transport function. This is very similar to the finding in a study done by Pedersen and Gray (1999) on the transport selection criteria of Norwegian exporters.

6.5.3 Service-related factors

Table 6.9: Service-related

	Rank	Mean
Speed (transit time)	1	4.9
Reliability	2	4.61
Cost	3	4.52
Accuracy of documentation	4	4.33
Customer relations	5	4.28
Regularity of shipment	6	4.23
Product care	7	4.09
Availability of handling equipment	8	4
Urgency	9	3.9
Monitoring goods in transit	9	3.9
Provision of ancillary services	11	3.61
Geographical coverage	12	3.52
Unitisation	13	3.47
Accessibility	13	3.47
Multimodal transport services	15	2.28
EDI	16	2.19

Source: The Author

The three most important attributes in Lao PDR, relating to service are speed (transit time); reliability and cost respectively. The findings appears to be consistent, up to a certain extent, with the main body of literature as influences over modal choice decisions are likely to vary (at least in the weight attached to the different attributes). In identifying influential attributes in freight route/mode choice, Cullinane and Toy (2000) summarised the literature relevant to the subject of modal choice decisions, and discovered that cost/price/rate was ranked first with service-level and transit time reliability closely behind.

Speed or transit time is considered the most important attribute in Lao PDR because of the existence of many physical and non-physical impediments when exporting or importing. The frequency of transport services has also been quite low in response to marginal freight flows and due to the nature of the country; shipments must transit through third countries. This increases the bureaucratic process, thus increasing delays in delivery. This fear of delays is reflected in the survey result with 'speed' or transit time in service being the most important factor in the modal choice selection.

This finding is consistent, with the result of Jeffs and Hills (1990) study on the determinants of modal choice in freight transport where transit time is considered the most important aspect of 'service'. Brooks (1990) also has found transit time to be a key attribute. As an example it is possible, in theory, to physically transit via Vietnam within 24 hours but in reality it takes between three to four days for goods to transit due to numerous administrative delays[27]. Guaranteed transit time and delivery, especially by road haulage to and from seaports, seems to be the most important attribute.

It has usually been assumed that 'cost' was the most determinant factor in the selection of modal choice. The main body of the literature acknowledges that 'cost' is a very important factor but it is not the most important. The shipper's decision as where to ship and by what mode of transport will depend not only on direct transport charges, but also on the indirect and service-induced costs (Mwase, 1986). According to Whyte (1993), services such as guaranteed transit time and reliability will always be more important than cost. But cost must also be competitive, as one of the respondents' main objectives is to minimise transport cost while maintaining quality of service.

Kent and Parker (1999) deduced that 'reliability' was the most important factor for international container-ship carrier-selection criteria. Reliability can be defined as the variance in transit time. In the same study 'Cost' is only ranked twelve out of eighteen while 'Transit time' was ranked sixth. The importance of 'reliability' has been demonstrated in the literature where many authors (Pedersen & Gray, 1999; Matear & Gray, 1993; McGinnis, 1989; Jeffs, 1985) agreed that 'reliability' in service seems to be the overall most important factor, in contrast Hayuth (1985) ranked 'reliability' last in his list of factors that may affect freight modal choice. It is believed that reliability of transit time is the most important variable influencing freight transport according to shippers' surveys (Allen *et al*., 1985).

[27] Delays of up to two weeks are not uncommon

It was also discovered in these studies was that ‘transit time’ has been frequently found to be more important than ‘cost’. The finding in this study that transit time is the most important factor is consistent with Hayuth (1985) findings in relation to freight modal split analysis of air and sea transportation.

‘Accuracy of documentation’ is considered to be of importance along with ‘customer relations’. This may be explained by international trade procedures. If, there are discrepancies within the documents, the exporter will not be able to receive payment for their goods, the importer may not be able to clear customs and the logistics service provider may not be able to handle the goods for its clients. In Lao PDR, customer relation also plays a very important role in the selection process of modal choice, as there is no real competition among modes or carriers. Personal connection must be maintained in order to secure logistics and transport related services.

‘Multimodal transport services’ (e.g. door-to-door transport; through transport) and ‘EDI’ are seen to be the least important attributes. This can be partly explained by the lack of knowledge relating to multimodal transport and the types of services it can offer. Almost all of the respondents had a unimodal framework when it came to transport services and most of them were satisfied with road transport as the only mode of transport available. For the logistics service providers, multimodal transport services are important, as they need to be able to efficiently combine the various modes of transport in order to provide a seamless logistics flow of goods while at the same time being liable for the goods from origin to destination.

EDI is the last ranked service-related attribute. Currently, 95% of the respondents are not using computers or EDI to facilitate their logistics strategy. This is not because they are not interested in new technology, but more because of the lack of awareness of benefits that EDI may bring to their logistics strategy (see Table 6.10). It must also not be forgotten that Lao PDR is faced with very poor electrical and telecommunication infrastructure and the cost of setting up an EDI system will be very expensive. At this moment in time, EDI services are not feasible in Lao PDR.

The implementation of EDI can only be done through financial and technical aid of donor country[28].

Table 6.10: EDI benefits and barriers

EDI benefits	**EDI barriers**
• Quick access to information • Better customer service • Reduced paperwork • Better communications • Increased productivity • Improved tracing and expediting • Cost efficiency • Staying ahead of competitors • Accuracy • Improved billing	• High set-up costs • Incompatibility of hardware/software • Lack of standard formats • Lack of customer sophistication • Lack of awareness of EDI benefits • Customer education/training • Customer resistance • Corporate culture

Source: Adapted from Murphy & Daley (1998)

The ranking of factors affecting the modal choice in Lao PDR may have provided a useful insight on how Laotian exporters, importers and logistics service providers select their mode of transport but this selection is ultimately based on the available transport infrastructure and services in Lao PDR and neighbouring countries. The main problem with this list of Likert rating criteria for modal choice is that it gives no indication of the trade-offs that managers are prepared to make between all the variables. A Stated Preference analysis would have explicitly model these trade-offs.

The real answer towards the selection modal choice may have been provided by one respondent who said that there are just not enough volumes of goods exported or imported into Lao PDR to justify competition among the various modes. Road transport provides sufficient capacity and service at a marginally higher freight rate when compared to the main sea leg and most of the respondents have no knowledge or information relating to possible alternative of modal choice for the transportation of their products.

[28] In Less Developed Countries (LDC) such as Fiji, Samoa and Vanuatu an EDI related project is being implemented with Australian funding.

This feeling of no 'real choice' in transport modes is said by all the respondents to be the biggest constraint. Some respondents (15%) even complained that there was no information provided on alternative modes of transport. Many believed there were laws that made the international transit of goods by roads mandatory. Two respondents concluded that since Lao PDR is a land-locked country, there aren't any alternatives for modal choices. Only road transport is possible.

6.6 EXTERNAL CONSTRAINTS AFFECTING LAO PDR INTERNATIONAL FREIGHT TRANSPORT

The respondents were also asked open-ended questions relating to the improvement of transport and logistics operations in Lao PDR. Many issues were discussed but the three most cited external constraints were human resource development, infrastructure and regulations, and tea-money[29].

6.6.1 Human Resource Development

Lao PDR, as a Less-Developed Country (LDC), is faced with shortages in skilled labour. Most of the labour is comprised of low-skilled and low-cost workforce. The respondents have many difficulties in finding a suitable workforce for their activities. It is usual for the respondents to train their staff in the handling of export/import and transport procedures. On the job training is the most common form of skill development done by the respondents (66%). Human resource development is considered to be the most important issue by all the respondents. One respondent, Mr. Prachith Sayavong[30], stated that human resource development policies in Lao PDR were probably adequate for the country but that they were not good enough compared to the rest of the world. This is a big problem when his staffs have to deal with international trade and transportation issues. Increasing staff capability through formal training is a priority, which has been recognised by all those involved in the country's international trade, for the sustainable economic development of Lao PDR.

[29] Originated from China, it is a bribe used to facilitate business dealing.

Human resource development must be focused not only on the private sector but also on government officials. Shortages of skilled and management personnel can hamper foreign investment as well as cause delays in technology transfer due to a lack of absorption capability (ESCAP, 1995d).

The opening of the Lao economy to market forces and Lao PDR membership to ASEAN has created strains on the Laotian bureaucracy. There are not enough staff fluent in English, the common language of ASEAN and the main trading language, some high-ranking government officials also feel that their country's human resource is not yet ready and that they do not have enough funds to increase the skill level of civil servants and the workforce in general. Request for technical assistance, exchange of information with developed countries and foreign study tours, are seen as the most appropriate options in improving the competency of Lao civil servants.

Many multilateral organisations and donor countries have invested money in programmes to increase the level of human resource development in Lao PDR. In the field of trade and transport, organisations such as, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP), the Asian Development Bank (ADB), and donor countries such as Australia, China, France, Thailand, etc., have introduced short courses on inland waterway management, freight forwarding activities, multimodal transport, logistics management, import and export practices. These programmes have been very well accepted and contribute to a certain extent in increasing local skills. All of these programmes are provided free of charge and demand for places are high. One possible drawback of these programmes is that there are usually more government officials attending than people actually involved in international trade and transport[31]. The reason might be because government officials must have the same understanding as the private sector people on the international trade and transport environment. Having the same understanding of international business practice is supposed to facilitate co-operation among state agencies and the private sector.

[30] Managing Director of Societe Mixte de Transport (SMT), a Lao logistics/transport service provider.

Presently, Lao PDR is very much dependent on foreign help for the development of the country's human resources. Membership to ASEAN has accelerated the need to put Lao human resources on par with the rest of the region. According to the Lao national statistical centre, in 1998, there was only one university and four vocational institutes for the whole country. In Lao PDR, there is no vocational or degree course in international trade and transport management but some respondents plan to send their employees to study abroad with Thailand and Vietnam being the two major destination.

6.6.2 Infrastructure and Regulations

- ***Infrastructure***

All respondents acknowledge infrastructure as a major impediment to the facilitation of Lao PDR international trade. Road quality is poor and only 43% of roads are paved[32]. During the 'wet season' some roads are rendered non-usable thus diverting traffic to inland waterways. Inland waterway infrastructure along the Mekong and its tributaries is insufficient as it is still mostly in its natural state without improvement. According to ESCAP (1998), only 604,000 tonnes of goods and 1.6 million passengers were transported by inland waterway in Lao PDR in 1997. The majority of these goods and passengers were ferried across the Mekong River from Thailand to Lao PDR and vice-versa.

Lao PDR, as a land-locked country, is also dependent on the quality of infrastructure available in neighbouring countries for fast and efficient sea access. Vietnam's road infrastructure is considered poor while Thai infrastructure is felt as adequate by some of the respondents (21%) though traffic congestion, poor road maintenance and the condition of some up-country roads are known to be persistent weaknesses in the Thai network. Lao PDR infrastructure limitations in seen by almost a third of the

[31] All these programmes must be co-hosted by a Lao governmental agency.
[32] www.adb.org

respondents (28%) as a major constraint to the economic development of the country, and as a bottleneck for trade expansion and transport facilitation.

- ***Regulations***

All the respondents felt that there was no consistency in governmental rules and regulations relating to foreign investment, international trade and transit practices, and that all the existing procedures were cumbersome. More than 40% of the respondents involved in exports, felt that they were losing their competitive edge in export markets due to administrative bureaucracy. The two logistics and transport operators complained about customs procedures relating to transit traffic from Vietnam to Thailand and vice-versa. They stated that Lao Customs are imposing a 'transit tax' on transit goods but are not willing to issue receipts for the 'transit tax'. According to a high ranking official in the Lao Customs this practice is viewed more as a 'toll' or a 'right of passage' to use Lao roads than a transit tax.

Lao provinces also have their own 'transit service fees' when goods are moved through. The transit goods service fee is set at 10%, 7% and 5% of the CIF price depending on the commodity[33]. Savannakhet, one of the four largest cities in the country, is now regarded as a model for transit traffic[34]. In 1997, Savannakhet took full control of its transit trade and by 1999 managed to raise over USD 2.5 million in transit service fee. Goods taken from Thailand to Vietnam were worth over USD 76 million and from Vietnam to Thailand over USD 8.5 million. This income has made Savannakhet province self-sufficient in terms of funding. Importers are also faced with difficulties when opening letters of credit (L/C) as many governmental agencies are involved (i.e. Ministry of Finance, Ministry of Commerce, Ministry of Justice, Bank of Lao PDR, local council, etc.). The import procedures are also very complicated and an import license is needed each time goods are imported from the Ministry of Commerce. The example of goods imported via Bangkok Port (Thailand) with the help of a Lao logistics service provider, is used to illustrate the complexity (see Table 6.11).

[33] "Savannakhet's success in transit goods service", in: *Vientiane Times*, 7 July 2000, Internet Edition.

Table 6.11: Import working procedures

1. Documents needed for import clearance:		
Document required	**Logistics operator in Vientiane**	**Logistics operator's representative in Bangkok**
Ocean B/L	1 copy	1 original
House B/L (if any)	1 original	1 copy
Commercial Invoice	1 original + copy	1 copy
Packing List	1 original + copy	1 copy
Insurance Policy	1 copy	1 copy
Others (consular invoice, certificate of origin, etc.)	1 copy	1 copy
2. The Lao logistics operator prepares the Laotian import formalities, tax-exemption permit (if applicable) in co-ordination with the owner of the goods and all related Governmental Authorities. These procedures takes approximately 10 to 15 days to be completed, but can be prepared in advance with a copy of the commercial invoice and packing list for the goods.		
3. The Lao logistics operator Bangkok representative receives notice from the shipping line regarding the estimated time of arrival (ETA) of the ship and prepares the Thai Customs formalities and transit formalities.		
4. When the vessel arrives, the Bangkok representative will exchange the delivery order (D/O) with the shipping line, arrange for suitable trucks and/or trailers, pay for the port and terminal charges, and advise the Lao logistics operator of trucking details.		
5. Bangkok representative arranges for Thai Customs officer to convoy the trucking up to Nongkhai-Thanaleng border post.		
6. Upon arrival of trucks at the border post, the Lao logistics operator will proceed with customs clearance, pay for warehousing fees, transload goods from Thai truck to Lao truck and re-forward to the importer's designated destination (the Thai truck can also be sent directly to the final destination without transloading).		

Source: Compiled from Industry Sources & Field Research

Exporters are put in a similar position, as they need to provide a large number of documents in order to receive an export license from the Ministry of Commerce. This license is needed each time there is a shipment. The documents needed are: one copy of the purchase order, one copy of the sales contract, seven copies of the quotation and packing list, seven copies of the certificate of goods quality, and last but not least seven copies of the certificate of origins for the goods. In the case of wood products, a pass permit must also be issued by the Ministry of Agriculture and Forestry.

[34] See Appendix B3 for map of Lao PDR and location of Savannakhet.

Currently, some wood product exporters bypass this cumbersome procedure when they export furniture by disguising their export as “moving” of furniture. This scheme allows them to avoid payment of export tax and completion of export paperwork (with the help of some governmental officers).

Inconsistency in governmental rules and regulations in Lao PDR is partly due to the overlapping authority of the various ministries and bureaucracy, but it is also due to the discrepancy between policies, interpretation and actual practice. Lao PDR, as a member of ASEAN and part of the ASEAN Free Trade Agreement, is faced with the pressure to open its market to outside competitive forces even though some high ranking officials feels that the country’s economic foundation is not strong enough to support free trade with neighbouring countries. This has resulted in an increase in paperwork and complicated procedures for import, export and transit of goods to and from Lao PDR.

6.6.3 Tea-money

Tea-money is considered by all respondents as an integral part of running their business activities. The respondents are subject to this practice not only in Lao PDR but also in countries where Lao cargo transit (i.e., Thailand and Vietnam). This practice also exists in other countries of the region. If tea money is not paid to the relevant officials then there is a great chance that the goods will be delayed, lost or even pilfered. Tea money is paid for Customs valuation in order to benefit from cheaper duty rates, it is paid to stevedores for the efficient movement of cargo within freight terminals. Tea money is paid not only for the cargo but also for the approval of import and export related documents.

Tea-money, bribes, and corruption are a great enemy of economic development. Tea-money invariably increases transaction costs and uncertainty in an economy by lowering its efficiency. Bribe reduces the transparency of economic transactions by

both state-owned and private sector firms while undercutting the state's ability to raise revenues. Corruption weakens the state and its ability to promote development and social justice (Banomyong, 1999d). If regulations, administrative processes and operational systems are unnecessarily complicated or ineffective then there is a very strong possibility that payment of tea-money or favours will be required.

The causes of corruption are usually complex and rooted in a country's policies, bureaucratic traditions, political development and social history. In the region, the motivation to remain honest is weakened by low civil service salaries, promotion of staff not connected to performance, the setting of bad examples by senior officials or political leaders, or long established patron-client relationships, in which the sharing of bribes and the exchange of favours has become entrenched.

Corruption tends to flourish when standards are lax or poorly defined, and regulatory institutions and enforcement practices are weak. Small-scale corruption, when tolerated or condoned by society, creates uncertainty and often leads to big corruption. The cost of this uncertainty, and bribes actually paid can undermine the competitiveness and business confidence of enterprises. The respondents have often designated customs as a major culprit. Customs corruption often occurs in developing countries with high tariffs and manual processes for clearing cargo. Low pay for customs officials creates fertile ground for bribery[35].

The Thai Customs Department is notorious for its under-the-table practices, which are well documented in the Thai press. It even earned the dubious honour of being the most corrupt agency in the Thai bureaucratic system[36]. Thai Customs procedures are now being brought in line with international standards to help traders cut costs and eliminate bribes[37]. For example: since May 1998, Customs officers are on duty 24 hours a day at Bangkok Port, Bangkok International Airport and other ports[38]. Even

[35] "Customs group declares war on bribes", in: *American Shipper*, March 1999, p. 48.
[36] "Customs and police star in graft", in: *Bangkok Post*, 25 September 1999, Internet Edition.
[37] "Delays and bribes may be history", in: *Bangkok Post*, 22 April 1998, Internet Edition.
[38] "Upgrade of airport customs promised", in: *Bangkok Post*, 28 May 1998, Internet Edition.

one of the world's biggest express cargo firms, Federal Express (FedEx) was still urging the Thai Customs department to simplify its procedures as quickly as possible at the end of 1999[39]. Customs departments in the region are all trying to upgrade and standardised their procedures to eliminate graft but discussions on corruption practices is still regarded as taboo and information is scarce.

As more than 80% of Laotian goods transit to and from Bangkok Port, the Laotian respondents are very much affected by tea-money practices occurring there. Since the 5 of January 1999, the Port Authority of Thailand (PAT) has implemented a 'no tea-money' policy to eradicate bribes paid to stevedores[40] to hasten cargo handling at Bangkok Port. The new policy, with the slogan "***transparency, swiftness, no tea-money***", was meant to familiarise the PAT, shippers, exporters, among others with the Electronic data Interchange (EDI) system due to come into force on March 1, 1999[41]. This policy has backfired as stevedores protested by staging a 'go-slow' attitude to cargo handling. Instead of handling 20 to 25 TEU per hour, some stevedores reduced their handling to 8 TEU per hour[42]. These periodic slowdowns by stevedores have hastened the return of tea-money[43]. Ship agents were held to ransom and many feeder ships missed their main line connection in Singapore[44]. NYK was the first victim of the slowdown when stevedores spent six hours to lift 85 containers on board the NYK ship while using two gantry cranes. By comparison, workers loaded 200 containers within four hours using only one crane on a COSCO vessel berthed on the same quay[45].

[39] "Federal Express presses for quick Customs procedures", in: *Bangkok Post*, 16 December 1999, Internet Edition.
[40] Stevedores at Bangkok Port are civil servants under the Port Authority of Thailand.
[41] "Sabotage on the waterfront", in: *Bangkok Post*, 13 January 1999, Internet Edition.
[42] "PAT authorises staff to accept 40 baht per container", in: *Krungthep Turakij Newspaper* (in Thai), 12 January 1999, Internet Edition.
[43] Anecdotal evidence gathered suggests that some port employees, such as forklift operators, take home up to USD 5,000 a month, almost all of it in kickbacks.
[44] Feeder ship can be fined up to a few hundred of thousands of USD a day if it cannot catch up with a mother vessel waiting to carry cargo. This is why for many shipping agents it was worth paying extra to keep cargo moving during that period.
[45] "Stevedores defy kickback purge", in: *Bangkok Post*, 19 January 1999, Internet Edition.

This illegal practice exists not only at the Bangkok Port but also at the Thai Customs Department[46]. Top administrators at these government agencies are always declaring they will stamp out the problem, but no forceful action has ever been taken. These illegal payments increase the cost of production and the shipment costs of exporters, making Lao and Thai goods less competitive on the world market. Importers are no less unfortunates, as they also have to grease the palms of corrupt civil servants as well[47]. Table 6.12 illustrates the going rate for 1999 for tea money at Bangkok Port by both agencies.

The PAT, on the 14th of January 1999, conceded that it could not stop kickbacks at Bangkok Port, but that it was willing to co-operate with ship owners and agents to tackle the problem[48]. At the same time, the Communication and Transport deputy minister, in charge of the PAT, Phadermchai Sasomsab also threatened to sue any shipping company or agent who says publicly that kickbacks are still being paid at Bangkok Port[49]. The Thai Customs department stated that their effort to end tea-money have been less successful because shippers encourage the practice[50]. The department has set up an ad-hoc committee to solve the problem on the 21st of January 1999 but the committee declared that they could not rid the system of kickbacks unless agents were willing to lodge formal complaints[51]. Some brokers did lodge complaints, only to see the officials named in the complaints receiving full protection from their bosses[52].

Table 6.12: The tea-money trail

Under the table payment normally faced by importers/ exporters	Baht*
AT CUSTOMS DEPARTMENT	
• Asking for bill of lading number	40

[46] "Customs clearance a minefield", in: *Bangkok Post*, 25 January 1999, Internet Edition.
[47] "PAT cannot give up", in: *Bangkok Post*, 14 January 1999, Internet Edition.
[48] "PAT wants agents and ship owners to back crackdown", in: *Bangkok Post*, 15 January 1999, Internet Edition.
[49] "Minister attempts to gag agents & shipping firms", in: *Bangkok Post*, 5 February 1999, Internet Edition.
[50] "Tax-dodgers feed corruption", in: *Bangkok Post*, 25 January 1999, Internet Edition.
[51] "Ship agents told to lodge complaints or pay kickbacks", in: *Bangkok Post*, 10 February 1999, Internet Edition.
[52] "Customs kickbacks", in: *Bangkok Post*, 4 February 1999, Internet Edition.

• Price and tax evaluation	100
• Tax payment	20
• Approval of bill of lading	100
AT BANGKOK PORT (Inspection)	
• Bulk cargo	100
• TEU	200
• FEU	300
• Approval by inspector	100
• Sealing (per container)	50
• Cargo guard	20
• Cargo loading (per TEU)	210
• Quick service by Express Transport Organisation of Thailand (ETO)	20-100
• Truck driver	50-100

Source: Compiled from the Bangkok Post (1999)

* USD 1 = 38 Baht (Thai local currency, 1999 average exchange rate)

Shipping brokers when acting on behalf of an importer start paying tea money to customs officials at the first step of clearance procedure. Payment is essential at every step until the goods finally make it onto trucks destined for the final destination. The first step is to request a running number for the bill of lading. After the number is obtained, the next step is the assessment of the imported item's prices and the tax on them. This is followed by the payment of tax, and the approval of the bill of lading.

After bills of lading are approved, shipping brokers take the bills of lading to Bangkok Port, where they must pay customs officials to inspect the goods. They then pay the chief inspector for approving the inspection[53], followed by payments to customs officials to seal containers. After that, the brokers pay port workers to guard the cargo. If they want quick service from the Express Transport Organisation (ETO),

[53] The inspection stage is the most critical, especially if the goods are not the same as those declared in an attempt to reduce taxes.

the state agency that monopolises trucking services at the port, they pay again. More payment will follow to port workers for loading containers onto trucks, and to the truck drivers.

For transit cargo imported to Lao PDR, the shipping broker must also go to the Lao embassy to collect a consular paper certifying that the goods are intended for consumption in Lao PDR. At one point in time, the Lao embassy in Bangkok wanted to certify all the documents related to the importation of goods to Lao PDR but within one week they withdrew this rule when goods were still stranded in Bangkok for more than two weeks.

The goods will then be moved to a dedicated bonded warehouse within the vicinity of Bangkok Port. Inspection also takes place for transit cargo by Thai Customs at Bangkok Port. Officially this is to verify that the goods are what they claim to be on the packing list. This practice contravenes international Customs rules on goods in transit. One wine importer in Lao PDR stated that each time Thai customs officials checked his containers many cases of wines were missing. It takes about 2 to 3 days for the paperwork to be completed in Bangkok before the goods can be moved to Lao PDR.

6.7 CONCLUSIONS

According to the respondents, the selection of modal choice in Lao PDR seems to be flawed, as there is no 'real' choice. There is no rail, inland waterway use is minimal and air transport is usually considered only as an emergency channel. Rail transport is available in Nongkhai (Thailand), just 20 km from Vientiane (Lao PDR) but due to the low freight volume and the unreliability of service, rail cannot compete with road haulage[54]. It is also a result from the lack of interest relating to freight transport on the part of the State Railway of Thailand (SRT) management as well as policy-makers.

The importance of sea transport is acknowledged for the main transport leg. The majority of the respondents clearly felt that there was no choice for the selection of transport modes or carriers as the regulatory framework covering international transit is very restrictive. Physical and non-physical barriers to the smooth flow of goods are present at every level, such as infrastructure constraints and bureaucratic operational and administrative procedure. This has led to a sub-optimum selection of modal choices in the inland leg. A better co-ordination of policies with neighbouring countries will help ease some international transit problems. Nonetheless, the choice of transport mode in a developing country such as Lao PDR is still a very complex one (Ogwude, 1990).

Most of the respondents are not aware of other possible modal alternatives for the transportation of their goods, it would be interesting to illustrate the various modal combinations that may exist within logistics channels for export and import in Lao PDR. The comparison of the various combinations can also be done in order to find the most competitive logistics channel that will benefit traders in Lao PDR. This might help in demonstrating possible alternatives that are available in the modal selection process.

The United Nations classifies Lao PDR as a Less Developed Country (LDC), access to the global market is very important in order to sustain economic development for the country. Sub-optimal modal and route selection is impeding the country's trade capabilities on the international market. To achieve better market access, all alternative transport combinations must be examined in order to select the most efficient and competitive logistics channel in terms of cost, time and reliability.

The survey results largely confirm the findings of previous studies of modal selection (D'Este & Meyrick, 1992; Hayuth, 1985; etc.). However, it must be appreciated that local conditions can affect the relative importance of particular decision factors and that these preferences can also vary for different commodities.

[54] The distance of 650 km that separates Vientiane and Bangkok is considered to be a competitive

distance for rail over road transport in Europe (Marlow & Boerne, 1992).