

# Unlocking the Potential of Lao Handicraft “Sozai” through Inter-Sectoral Collaborations<sup>1</sup>

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## Synopsis

- The “Sozai” business model is based on producer-designer-customer collaborations to develop new uses of the unique handicraft materials and techniques for existing and new customers in the domestic and international markets.
- This research (Ishida 2019, 2021) transferred the novel concept of the Sozai business from Japan to Lao handicraft small and medium-sized enterprises (SMEs). Moreover, this research team assessed its commercial potential in new markets, targeting the hotel room interior decoration market.
- The results of the study showed handicraft SMEs’ interest in the Sozai business and the potential of Sozai as interior decoration material recognized by the three interviewed Lao experts (i.e., an architect, a designer, a hotel consultant) and surveyed hotels.
- The remedial measures for the business model and policy include encouraging private-sector initiatives and entrepreneurship, building marketing capability, and promoting cross-industry collaborations.

From the Japanese fiscal years (April–March) 2001–2018, the Japan External Trade Organization (JETRO) cooperated with the Lao Handicraft Association (LHA) for the development of Lao handicraft small and medium-sized enterprises (SMEs). JETRO initiated technical assistance to transfer knowledge on how and what to produce to sell handicraft products to Japanese consumers. However, the continuing shrinkage of the Japanese traditional craft market questions the focus of the Japanese market. Westernization of the Japanese lifestyle and Japan’s craft industry promotion policy developed in the 1950s to protect the industry as cultural property are considered the causes of the market shrinkage. The same problem will arise in the development of handicraft SMEs in Lao People’s Democratic Republic (Lao PDR). Therefore, the Lao handicraft industry introduced innovative ideas on “how to sell to whom” to enhance their business sustainability.

The SOZAI Project (FY2018–FY2020) was an attempt to provide the Lao handicraft industry a greater potential by transferring Japan’s novel concept of Sozai business. “Sozai” is a Japanese word meaning material. The Japanese traditional craft industry developed this concept to utilize Japanese craft materials and traditional techniques to develop new products suitable for Western lifestyles and markets. The success of the Sozai business depends first on identifying handicraft producers, designers, and corporate customers who intend to promote

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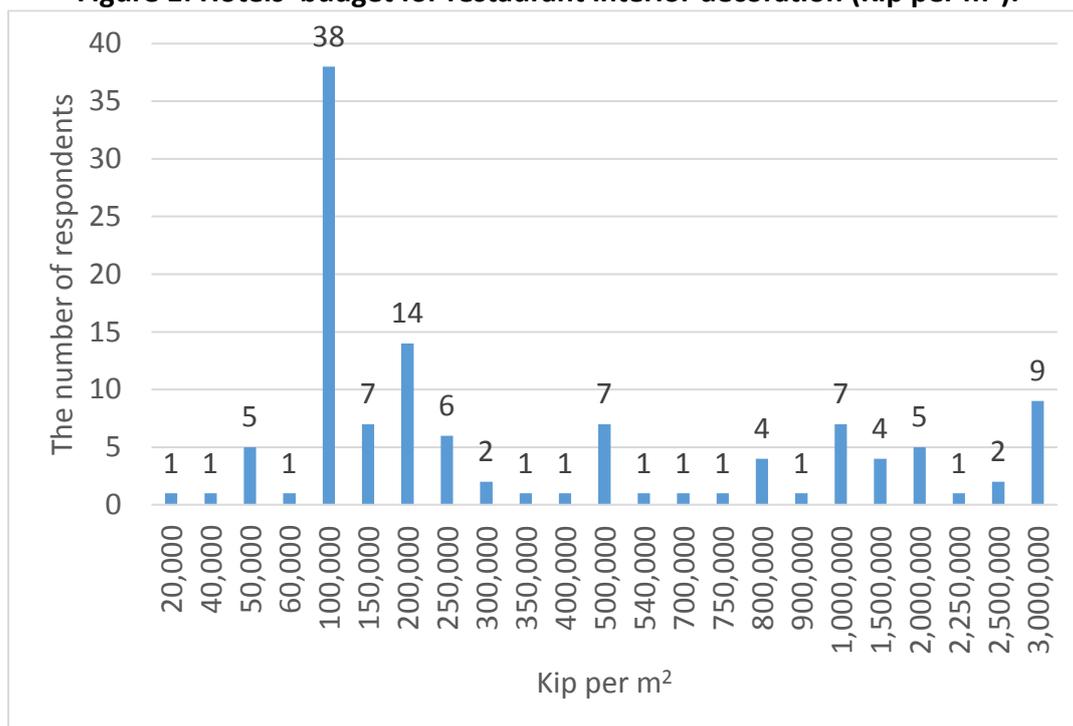
<sup>1</sup> This article is based on the papers (Ishida 2019, 2021) compiled in the ERIA Support Research Report. The contributors to these papers were Masami Ishida (Leader: IDE/JETRO, currently Nihon University), Katsuichi Iwagami (JETRO), Yuki Kamiesu (JETRO), Junya Kitagawara (Interior and Lifestyle Producer), Yasushi Ueki (IDE/JETRO), and Kenichiro Yamada (JETRO). I would like to thank the Lao Handicraft Association and Economic Research Institute for Industry and Trade (Ministry of Industry and Commerce, Government of Lao PDR) for their help and participation in the research projects. The views and opinions expressed in this article are those of the author and do not necessarily reflect those of the other contributors to the research projects and the organizations.

intersectoral collaborations for design-oriented product development. The Kyoto traditional craft industry has been participating in the world's top interior and design-oriented trade fairs like Maison et Objet in Paris to seek Western designers looking for new materials and techniques.

Transferring knowledge on Sozai business to Lao handicraft SMEs was conducted intensively in FY2018. JETRO hired a Japanese expert and held a workshop in September 2018 at the Lao National Chamber of Commerce and Industry (LNCCI) to introduce the Sozai concept and Sozai Contest plan. JETRO, in cooperation with the LHA, organized the Sozai Contest as part of the Lao Handicraft Festival in October 2018. Eight of the ten winners of the Sozai Contest traveled to Tokyo to participate in the LIFE × DESIGN Exhibition in February 2019. The research team observed learning progress through the workshop and consultations in Vientiane and business promotion in Tokyo to derive managerial and policy implications. Then, the research team shared these efforts in Sozai business development with their Lao counterparts as a private initiative. Furthermore, the team shifted the research focus to assessing the potential of Sozai business from the perspective of a handicrafts user. The study team interviewed Lao interior designer, architect, and hotel consultant to confirm their interest in using Lao materials for interior decorations. Additionally, these participants in this research discussed necessary actions to promote the novel concept. Along with these qualitative assessments, the research project conducted two questionnaire surveys of Lao firms. In line with the shift in the research focus, the research team selected handicraft SMEs and hotels as the target industries for the survey conducted in FY2018 and FY2020, respectively. This approach enabled us to consider the possibility of Sozai business and the necessary actions to turn the Lao material potential into reality from both producer and customer perspectives.

The findings of this study showed the potential of the Sozai business market in Lao PDR. From the handicraft supplier perspective, the FY2018 survey of Lao handicraft firms showed that 11% of the respondents strongly agreed, and 45% agreed with the potential of the Sozai business in interior material and fashion clothing markets. From the handicrafts user perspective, the FY2020 survey of hotels in Lao PDR showed that 27% of the respondents had already used Lao handicraft materials and products for wall decoration, whereas 18% and 23% were extremely and very interested in their use, respectively. The hotel survey also identified a significant variance in the size of interior decoration budget among the hotels (Figure 1), showing that some hotels allocated a budget sufficient for using handicraft materials. This finding indicating the possible presence of a niche, high-end market was consistent with the opinions of the interviewed Lao interior designer, architect, and hotel consultant. Some Lao handicraft SMEs exhibited their works at a Thai lifestyle exhibition in 2019 after this research project.

**Figure 1: Hotels' budget for restaurant interior decoration (Kip per m<sup>2</sup>).**



Source: IDE ERIIT FY2020 Hotel Survey (Chapter 3 by Ueki in Ishida ed., 2021).

However, the coronavirus pandemic introduced obstacles in promoting the Sozai business. The pandemic deprived Lao handicraft SMEs of opportunities to seek potential customers with the support of non-Japanese donors at international trade fairs, which include the postponement of Expo 2020 Dubai. Moreover, these SMEs lost opportunities for in-person training from foreign or international agencies and a study tour to Europe. However, some training programs could be conducted online.

The inability to discuss business in person creates difficulties for handicraft SMEs trying to develop the Sozai business. Potential customers cannot gauge the high quality of Lao handicraft materials without inspecting and feeling them and conversing with producers and experts. Developing their own overseas sales office or agents will be of great help in promoting their materials and techniques and realizing the Sozai business even if SMEs can send samples to their foreign customers. However, this strategy will not be viable for most Lao handicraft suppliers. The domestic market is still untapped by the Sozai business and is thus an attractive target market for SMEs seeking Sozai business opportunities. The interviewed Lao interior designer and architect suggested opening a showroom to demonstrate the use of Lao handicraft materials for interior decoration purposes. These experts considered that this idea could be realized as a private project in cooperation with handicraft firms, and support from the government of Lao PDR could facilitate project development and business promotion.

All the findings suggested several challenges in developing the Sozai business in Lao PDR. More efforts to improve industrial marketing and promote producer-designer-customer collaborations will be necessary, along with improvements in production and delivery controls. The increasing importance of marketing issues suggests the necessity of encouraging private sector initiatives and entrepreneurship. The LHA can support such private efforts by promoting cooperation with business organizations in other sectors in Lao PDR. However, associated policy support should also be provided as most of these challenges are new to Lao handicraft SMEs and the Lao government. In addition, special attention to particular policy

issues became paramount due to the COVID-19 pandemic. Tourism promotion was one such policy area. The government can stimulate demand for Lao materials and products by normalizing travel for handicraft promotion internationally and domestically. The other challenge, which is not new but can be worsened by the COVID-19 pandemic, is narrowing the gap between the opportunities for SMEs in Vientiane and other provinces to receive the necessary assistance. Although the shift of offline capability-building activities to online can help mitigate the opportunity gap, the government, foreign, and international agencies should continue to focus on this issue.

### **References**

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