

# Laos



An investment guide  
to the Lao People's Democratic Republic  
Opportunities and Conditions  
2010



United Nations



UNITED NATIONS

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AN INVESTMENT GUIDE TO THE LAO PEOPLE'S DEMOCRATIC REPUBLIC

Opportunities and Conditions  
2010



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### **Three good reasons to invest in the Lao People's Democratic Republic**

- **A stable and investment-friendly Government**

Private sector development and the attraction of foreign direct investment (FDI) are among the Lao People's Democratic Republic Government's top priorities. The new Law on Investment Promotion, recently approved by the legislature, levels the playing field for local and foreign investors, including on access to land, eliminates local content-related investment requirements and provides generous tax incentives for foreign investors. While issues of governance and transparency, as well as inadequate basic infrastructure, remain among the key challenges, investors appreciate the Government's efforts in improving the business environment, its opening-up and greater integration into the multilateral trading system with accession to the World Trade Organization (WTO) in sight, and the country's relatively stable political environment.

- **Opportunities in mining, hydropower and tourism abound**

The Lao People's Democratic Republic is rich in mineral resources with discovered and exploited deposits of copper, gold, silver, zinc, gypsum, coal and sapphire. At present, there are about 170 ongoing mining projects in the country, a number that is likely to rise in the near future given that only 30 per cent of the Lao People's Democratic Republic's territory has been explored. Another 650 locations have been identified to be containing metal ores.

With its considerable water resources, the Lao People's Democratic Republic can be the "battery" of South-east Asia. Large and long-term foreign investment has started to pour in, including the \$1.2 billion Nam Theun II hydroelectric project – the largest in the country. Investment in this sector alone could reach \$5.2 billion over the next five years and is expected to raise around \$2 billion in revenue over a 25-year period.

The Lao People's Democratic Republic also boasts large tracts of beautiful wild landscape and isolated villages of traditional ethnic communities and two United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage Sites – the ancient capital of Luang Prabang and the Angkor-era temple complex of Wat Phu. With sustainable tourism now an integral part of the Government's strategy, it is not surprising that the country was among WTO's top emerging tourism destinations and named by the New York Times as its number one holiday destination for 2008.

- **A landlink connecting the most dynamic Asian markets**

With the Lao People's Democratic Republic being part of the Greater Mekong Subregion (GMS) – comprising Cambodia, China, the Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam – the country could be a launching pad for any investors' activities in the dynamic markets of South-east Asia and China. Investors in the Lao People's Democratic Republic benefit from the GMS' comprehensive cross-border transport facilitation programme, which not only aims at improving key infrastructure services, but also facilitating the freer flow of goods through instituting single-stop window customs inspection and common transit traffic regimes and easing cross-border movement of persons, among others.

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**Note to the reader**

This document is published as part of the UNCTAD–International Chamber of Commerce (ICC) series of investment guides. The publications in this series are intended for the use of foreign investors who are largely unfamiliar with the countries covered.

They are thus designed to offer overviews of potential locations for investment, rather than constitute exhaustive works of reference or provide detailed practical instruction. They do, however, offer pointers to sources of further information in the private as well as the public sector.

There are two other features of these publications that the reader will find worth noting. One is that they are third-party documents, intended to offer a balanced and objective account of investment conditions. Their principal advantage in drawing the attention of investors to the countries they cover is credibility. The other feature is that both their general structure and some of their specific content are the result of consultations with the private sector.

The executive summary is followed by a brief introductory chapter. Then come the three chapters that account for the bulk of the contents. "The operating environment" describes the general conditions in which investors must operate: macroeconomic conditions, infrastructure, human resources, etc. "Areas of opportunity" offers a description of areas of potential interest to foreign investors. "The regulatory framework" focuses on regulations governing investment and foreign direct investment in particular. The fifth and final chapter provides a summary of the perceptions of the private sector in the country, both foreign and domestic.

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**Abbreviations**

<b>ACIA</b>	ASEAN Comprehensive Investment Agreement	<b>MPDF</b>	Mekong Private Sector Development Facility
<b>ADB</b>	Asian Development Bank	<b>MPWT</b>	Ministry of Public Works and Transport
<b>AFTA</b>	ASEAN Free Trade Area	<b>MoF</b>	Ministry of Finance of the Lao People's Democratic Republic
<b>AFD</b>	Aide française au développement	<b>Mw</b>	megawatt
<b>AGF</b>	Assurances Générales de France	<b>NAFRI</b>	National Agriculture and Forestry Research Institute
<b>AGL</b>	Assurances Générales du Laos	<b>NEM</b>	new economic mechanism
<b>APB</b>	Agriculture Promotion Bank	<b>NLMA</b>	National Land Management Authority
<b>ASEAN</b>	Association of Southeast Asian Nations	<b>NSEDP</b>	National Socio-Economic Development Plan
<b>BCEL</b>	Banque pour le Commerce Extérieur Lao	<b>NTA</b>	National Tourism Administration
<b>BoL</b>	Bank of the Lao People's Democratic Republic	<b>NUoL</b>	National University of the Lao People's Democratic Republic
<b>DDFI</b>	Department for Promotion and Management of Domestic and Foreign Investment	<b>OEEDR</b>	Office of Economic Dispute Resolution
<b>DPWT</b>	Department of Public Works and Transport	<b>PEI</b>	Poverty Environment Initiative
<b>DWT</b>	dead weight tons	<b>SOEs</b>	State-owned enterprises
<b>EBA</b>	Everything But Arms	<b>SOCB</b>	State-owned commercial banks
<b>EDI</b>	Education for All Development Index	<b>STA</b>	Science and Technology Authority
<b>EdL</b>	Electricité du Laos	<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>EFA</b>	Education for All	<b>UNESCO</b>	United Nations Educational, Scientific and Cultural Organization
<b>EGAT</b>	Electricity Generating Authority of Thailand	<b>UNDP</b>	United Nations Development Programme
<b>ERO</b>	Enterprise Registration Office	<b>UNWTO</b>	United Nations World Tourism Organization
<b>ETL</b>	Enterprise of Telecom Lao	<b>VAT</b>	value added tax
<b>EU</b>	European Union	<b>VNCMI</b>	Viet Nam National Coal–Mineral Industries
<b>EWC</b>	East–West Corridor	<b>WB</b>	World Bank
<b>FDI</b>	foreign direct investment	<b>WHO</b>	World Health Organization
<b>GDP</b>	gross domestic product	<b>WIPO</b>	World Intellectual Property Organization
<b>GMS</b>	Greater Mekong Subregion	<b>WREA</b>	Water Resources and Environmental Agency
<b>GSP</b>	Generalized System of Preferences	<b>WTO</b>	World Trade Organization
<b>GTZ</b>	German Technical Cooperation Agency	<b>\$</b>	United States dollar(s)
<b>ha</b>	hectare		
<b>JBIC</b>	Japan Bank for International Cooperation		
<b>ICC</b>	International Chamber of Commerce		
<b>IFC</b>	International Finance Corporation		
<b>IMF</b>	International Monetary Fund		
<b>IPD</b>	Investment Promotion Department		
<b>IPP</b>	Independent Power Plant		
<b>LBF</b>	Lao Business Forum		
<b>LDB</b>	Lao Development Bank		
<b>Kw</b>	kilowatt		
<b>LFTU</b>	Lao Federation of Trade Unions		
<b>LLC</b>	Limited Liability Company		
<b>LANIC</b>	Lao National Internet Committee		
<b>LNCCI</b>	Lao National Chamber of Commerce and Industry		
<b>LPRP</b>	Lao People's Revolutionary Party		

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## Preface

Foreign direct investment (FDI) has come to be widely recognized over the past decade as a major potential contributor to growth and development. It can bring capital, technology, management know-how and access to new markets. In comparison with other forms of capital flows, it is also more stable, with a longer-term commitment to the host economy.

An Investment Guide to the Lao People's Democratic Republic is the concrete product of a collaborative venture by UNCTAD and the International Chamber of Commerce (ICC). The objective of this project is to bring together two parties with complementary interests: companies that seek new opportunities and countries that seek new investors. This is not always a straightforward exercise, for firms are driven by their global strategies as much as lured by specific opportunities, and countries have economic and social objectives that transcend attracting foreign investment.

The UNCTAD–ICC investment guides are thus properly seen as parts of a process, a long-term process at the heart of which is an ongoing dialogue between investors and governments. The guides themselves are the product of a dialogue, including that occurring among and between the representatives of business and government during the workshops that precede the completion of the guides. It is our hope that the guides will in turn contribute to the dialogue, helping to strengthen and sustain it. We are convinced that in the long run it is this alone that will create conditions increasingly conducive to greater flows of investment..



Supachai Panitchpakdi  
Secrétaire général  
CNUCED



Jean Rozwadowski  
Secrétaire général  
CCI



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**The UNCTAD-ICC Series of Investment Guides**

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- *Guide de l'investissement au Mali, 2000*; revised edition in new format, 2004
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- *An Investment Guide to Cambodia, 2003*
- *Guide de l'investissement en Mauritanie, 2004*
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- *An Investment Guide to Rwanda, 2006, reprinted 2008*
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## Investors are welcome

With the introduction of the “new economic mechanism” (NEM) in 1986, the Lao People’s Democratic Republic has opened itself to the rest of the world and has since consistently embarked on improving its business environment to make the country more investor-friendly. The inclusion of provisions that favour investors and facilitate their business undertakings in the more recently revised laws such as the Enterprise Law, the Law on Commercial Banks, and the Law on Investment Promotion is a demonstration of the country’s resolve to put its house in order. In particular, the 2009 Law on Investment Promotion, which merges the laws on domestic and foreign investors, is heralded as leveling the playing field for all investors as it provides for the streamlining, standardization and harmonization of business requirements, procedures and incentives for both foreign and domestic investors. Of utmost interest to foreign investors is the possibility to purchase land, a right that in the past was afforded only to local businesses.

These regulatory and institutional improvements are complemented by the Government’s efforts, with support from international donors and bilateral and subregional partners, at improving and modernizing the country’s basic infrastructure services and human resources.



## Why the Lao People’s Democratic Republic?

The Lao People’s Democratic Republic is a natural magnet to investors given its abundant and mostly unexploited natural endowments and its rich cultural heritage. With these assets and the government’s positive endeavours at attracting and welcoming willing partners to boost not only the country’s economic prospects but likewise to improve the social and development conditions of its people, this natural landlink between South-east Asia and East Asia is well-poised to become one of emerging Asia’s attractive destinations.

International donors assisting the country have made positive evaluation of the country’s prospects, noting in particular that the Lao Government’s open-mindedness and the cooperation it has demonstrated with investors, neighbours, donors and other stakeholders bodes a promising future for the country. Its partners in the region and beyond have likewise intensified their involvement in the country, not only through increased trade or investments but also through more generous aid and grants to the country, in consideration of their positive experiences working with the Lao People’s Democratic Republic, as well as the prospects that the country has to offer to them.

The country is in the process of acceding to the World Trade Organization (WTO) – a process which is providing an additional push to reform the country, including in the area of regulatory and institutional reform and privatization. Already, the country has significantly scaled down the number of State-owned enterprises (SOEs), which is increasing private sector participation and encouraging more efficiency.

## Opportunities

The majority of investments are currently concentrated in hydropower and mining, with close to three quarters of total FDI into the Lao People’s Democratic Republic directed to these two sectors. Increasingly, however, investments are also pouring into agro-business, tourism and other services industries and will likely increase with the attractive incentive packages provided in the new Law on Investment Promotion.

The Lao People's Democratic Republic's rich mineral resources include copper, gold, silver, zinc, tin, barite, gypsum, coal and sapphires. With only 30 per cent of its territory explored so far, activity in the mining sector is expected to rise in the near future, with at least 650 locations identified to be containing metal ores.

With its potential in hydropower generation, the Lao People's Democratic Republic's aspiration to be the "battery" of South-east Asia could well see realization in the near future with large and long-term foreign investment continually pouring in. Investment in this sector alone could reach \$5.2 billion over the next five years, averaging the equivalent of around 14 per cent of gross domestic product (GDP) a year. It is expected to raise around \$2 billion in revenue over a 25-year period.

The Lao People's Democratic Republic's large tracts of beautiful wild landscape and isolated villages of traditional ethnic communities, and its two UNESCO world heritage sites – the ancient capital of Luang Prabang and the Angkor-era temple complex of Wat Phu – have placed the country in the list of top emerging tourism destinations. With its pristine natural beauty and many other unique attractions, the Government has included sustainable tourism development, and rightly so, among its strategic priorities. The Lao People's Democratic Republic has likewise signed a tripartite agreement with Viet Nam and Cambodia to promote regional tourism. An encouraging signal for the hospitality industry, investments in hotels and resorts have surged in 2008–2009.

Foreign agricultural investors are not only attracted by low land prices and rents, but also lower tariffs and duties on Lao exports, given the country's status as a least developed country. Though only opened to foreign investors in 2005, the Government, in 2006 alone, approved 30 agriculture projects worth a total of \$458 million. Concessions were granted to Lao firms as well as Chinese, Vietnamese and Thai investors. More recently, investors from the Republic of Korea, Japan, India and Scandinavia have likewise become active players in the sector, with a strong presence in the central provinces.

Not to forget that the Lao People's Democratic Republic is a landlink between the dynamic

South-east Asian market and the big market of China. With the Greater Mekong Subregion programme boosting infrastructure development, in particular roads and railways, investors in the Lao People's Democratic Republic could also benefit from better transport services, a more integrated market and the freer flow of goods and people within the subregion.

### **Difficulties facing investors**

A country in transition, although making big strides in many respects, would unavoidably be still wanting in some areas of key concern for investors. Among the most-often cited constraints when it comes to doing business in the Lao People's Democratic Republic include skills shortage, inadequate (or sometimes non-existent) and high-cost basic infrastructure services, and persistent administrative bottlenecks which breed corrupt practices.

The Lao People's Democratic Republic lags behind in UNESCO's Education for All Development Index (EDI), which means that the country suffers from low education participation, widespread adult illiteracy, gender disparities and inequalities, and poor education quality. With only one third of students entering first grade estimated to complete all five grades of primary schooling and with a very low secondary education participation (35 per cent, compared to Japan's 99 per cent), the problem of skill shortage is expected to persist in the coming years.

Poor quality of roads and rail, the absence of seaport, poor electricity transmission lines, and inadequate and costly telecommunications services make costs to business higher. Although conscious efforts are being undertaken by the Government to improve these infrastructure services – with most large-scale projects involving the participation of subregional partners (e.g. the Greater Mekong Subregion cross-border transport initiative and the Association of Southeast Asian Nations (ASEAN)–Mekong Basin Development Cooperation's Singapore–Kunming Rail Link project) and other donor institutions such as the World Bank, the International Financial Corporation, the Asian Development Bank, among others, much still needs to be done. The government's national plan has taken these concerns into consideration and

has made bold targets such as embarking on a maintenance programme for existing roads and bridges and constructing new roads, railway networks and airports and the electrification of 90 per cent of households by 2020, among others.

Persistent administrative bottlenecks including unpredictable length of time to register a business coupled with unnecessary fees and unclear procedures and the lack of coherence in laws and regulations, has earned the Lao People's Democratic Republic a very low rank relative to other countries in the region in World Bank's Doing Business index. The recent amendments with respect to registration procedures introduced in the new Enterprise Law, backed by positive changes to the new Law on Investment Promotion seek to remedy these problems and hopefully improve the country's overall business attractiveness.

#### **Investment trends**

FDI is playing an increasing and very important role in the Lao People's Democratic Republic's economy. The year 2005 onwards has seen a significant increase in FDI inflows, driven mainly by investment in hydropower and mining. In 2008, registered FDI inflows of \$228 million were eight times higher than that registered in 2005 (\$28 million). A significant percentage of foreign investments – close to 80 per cent – is concentrated in the power-generation and the mining sectors but these sectors remain largely untapped, thus, considerable opportunities remain to be explored. In addition, tourism and agribusiness are among the areas of future growth.

With an economy growing by 7.1 per cent in the first half of 2009, officials are optimistic that the growth target of 7.5 per cent will be met and that FDI for the year is on track to meet the projected \$500 million flows.

#### **Prospects and challenges**

The Lao People's Democratic Republic's location, its largely untapped natural resources and rich cultural heritage, the Government's steady strides in reforming its laws and regulations to make them consistent with the expectations of the international community and its plans and projects with respect to improving the basic physical infrastructure and addressing the issue of skills shortage, are steps in the right direction. Likewise, its bid for WTO membership and its greater integration into the ASEAN are very constructive and are effective driving forces to push the country to enact much-clamoured reforms.

A key challenge is how to ensure that the letter of laws and regulations are respected and implemented as envisioned. There are concerns raised with respect to the pace of drafting implementing decrees to give effect to laws, as well as ensuring coherence of these different laws. Moreover, despite the very ambitious changes in current business registration and investment laws, there remain institutional and administrative bottlenecks which are clearly not welcoming of investors. Additional concerns for investors, and rightly so, are the inadequacy of (and by extension, costly) physical infrastructure, together with inadequate in-country skills.

On the whole, what holds for the country's investment prospects? Investment trends in the recent years have been very positive and prospects remain promising as the Lao People's Democratic Republic's potentials still attract foreign investors from various parts of the globe eager to explore the opportunities that await them in the country.

### The Lao People's Democratic Republic at a Glance

<b>Name</b>	Lao People's Democratic Republic
<b>Political system</b>	Socialist republic
<b>Head of State</b>	Gen. Choummaly Saignasone
<b>Prime Minister</b>	Bouasone Bouphavanh
<b>Political Parties</b>	Lao People's Revolutionary Party or LPRP [Choummali Saignasone]
<b>Surface Area</b>	total: 236,800 sq km land: 230,800 sq km water: 6,000 sq km
<b>Population</b>	2009 estimate: 6.3 million 2008: 6.2 million
<b>Density</b>	25 people per sq. km
<b>Land Boundaries</b>	total: 5,083 km
<b>Borders</b>	Myanmar 235 km, Cambodia 541 km, China 423km, Thailand 1,754 km, Viet Nam 2,130 km
<b>Languages</b>	Lao (official), French, English, and various ethnic languages
<b>Climate</b>	Tropical monsoon; rainy season (May to November); dry season (December to April)
<b>Religion</b>	Buddhist 65%, Animist 32.9%, Christian 1.3%, other and unspecified 0.8% (1995 census)
<b>Time Zone</b>	UTC+7
<b>Administration</b>	16 provinces (khoueng, singular and plural) and 1 capital city* (nakhon luang, singular and plural); Attapu, Bokeo, Bolikhamxai, Champasak, Houaphan, Khammouan, Louangnamtha, Louangphrabang, Oudomxai, Phongsali, Salavan, Savannakhet, Vientiane*, Viangchan Province, Xaignabouli, Xekong, Xiangkhoang
<b>Currency</b>	Kip (LAK)
<b>Exchange Rates</b>	As of 1 January 2010 1 Dollar: 8,480 Kips 1 Euro: 12,213 Kips 100 Yen: 9,171 Kips 1 Chinese Yuan: 1,242 Kips
<b>GDP per Capita (at current prices)</b>	\$917 (ASEAN Merchandise Trade Statistics Database, 2008)

**Disclaimer:** The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.



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<sup>1</sup> The Economist Intelligence Unit, Country Report, June 2008.

## Geography and people

The Lao People's Democratic Republic is a landlocked country in South-east Asia, centrally located in the Mekong subregion. The country occupies about 237,000 square kilometres and almost half the length of the Mekong River that flows through it. It is bordered by China to the north, Myanmar and Thailand to the west, Cambodia to the south and Viet Nam to the east. Mountains and dense forests make up most of the Lao People's Democratic Republic's surface area and its population density is among the lowest in Asia. The Lao people number about 6.7 million, comprising 47 ethnic groups based on official census data. Close to 70 per cent of the country's people belongs to the Lao Loum or lowland Lao group. The predominant religion is Theravada Buddhism, with 65 per cent of the population affiliated to it. The growing urbanization rate currently stands at 27 per cent, but Lao society as a whole remains overwhelmingly rural. In the United Nations Development Programme (UNDP) Human Development Report of 2009, the Lao People's Democratic Republic ranked 133 out of 182 countries with data.

The country has a tropical monsoon climate with a rainy season from May to October. Temperatures range from highs of 40°C along the Mekong River in March–April to lows of 5°C in the high mountains in January.

## General history and politics

The Lao People's Democratic Republic traces its history to the kingdom of Lan Xang, or the Land of a Million Elephants, founded in the fourteenth century by King Fa Ngum, who also introduced Theravada Buddhism to the country. In the late eighteenth century, the Lan Xang kingdom was divided into three principalities under Siamese rule. Laos was incorporated into French Indochina in the nineteenth century and later came under a brief Japanese occupation during World War II. The country gained full independence as a constitutional monarchy in 1954.

The war between the United States and Viet Nam spilled into Lao territory in 1959 and led to much destruction and political instability. The Lao monarchy ended in 1975 with the foundation of the Lao People's Democratic Republic. In 1986, the ruling Lao People's Revolutionary Party introduced comprehensive economic liberalization policies which subsequently ushered in the country's admission to ASEAN in 1997.

In international relations, the Lao People's Democratic Republic is opening up to the rest of the world with efforts to normalize and strengthen ties with its immediate neighbours a priority. Economic relations with Thailand, after normalization of relations in the 1980s, continue to be strong, with Thailand consistently remaining among the Lao People's Democratic Republic's largest import partner as well as export destination. The two countries have recently signed an agreement to repatriate 7,700 Lao Hmong refugees from a camp in Thailand, which is likely to further improve bilateral relations.

Economic exchange with Viet Nam, now one of the Lao People's Democratic Republic's major investors, has intensified through the years, with the country also benefiting from aid packages such as civil service training in return for Vietnamese preferential access to Lao natural resource markets. Relations with China, which were normalized in 1989, are becoming more and more important as China intensifies its trade relations with the country and pours in more investments in key sectors. The Lao People's Democratic Republic likewise expects to be a primary beneficiary of a \$10 billion investment fund and a \$15 billion credit line announced by China as a stimulus to needy ASEAN countries.<sup>1</sup>

Relations with the United States were officially normalized in 1992 and the United States granted Normal Trade Relations in 2004. Relations with the European Union (EU) (especially France, the United Kingdom and Germany), Australia, Japan and the Republic of Korea are peaking up, particularly with increased interest in exploring investment opportunities in the country. Recent years saw efforts to extend relations to countries in Eastern Europe, especially the Russian Federation.



2 Information provided by Lao authorities. A list of SOEs is provided in the appendix (latest official data available was for 2002).

### Moving towards a market economy

With the introduction of the “new economic mechanism” (NEM) in 1986, the Lao People’s Democratic Republic put an end to central planning and gradually opened its economy to trade and investment. Farmers were permitted to own land and freely sell crops, and almost all Government-fixed prices were eliminated. State-owned enterprises (SOEs) were given a higher degree of management independence, while they lost their monopoly status along with most subsidies. Moreover, the Lao Government set the exchange rate close to real market levels, reduced trade barriers and gave private sector firms direct access to imports and credit. Originally modest, the NEM was expanded throughout the following decade to encourage private sector growth, increasing employment and accelerating development.

In 1989, the Lao Government reached an agreement with the World Bank and the International Monetary Fund (IMF) on additional reforms, agreeing to expand fiscal and monetary reform, promote private enterprise and foreign investment, privatize or shut down non-performing SOEs, and strengthen the banking system. In addition, it agreed to maintain a flexible exchange rate, reduce tariffs, and eliminate superfluous trade regulation. These reforms improved local market conditions and boosted growth potential.

They were given further impetus in 1997, when the country joined the Association of Southeast Asian Nations (ASEAN). It later applied for WTO membership and is at the last stages of the accession process, which it hopes to complete by next year. The Asian financial crisis caused a short-lived slowdown, while the consequent sharp increase in inflation lasted three years. The Government addressed the crisis by tightening monetary and financial policies and eventually succeeded in stabilizing the economy by 2001 as inflation returned to single digits.

The Lao People’s Democratic Republic’s privatization programme, which commenced in 1988, has played a major role in the country’s development. In 1988, SOEs accounted for virtually the entire industrial sector, employing 16,000 workers or roughly 10 per cent of the total non-agricultural labour force. With privatization, the role of the State had been scaled down with the economic significance of State-owned enterprises reduced and their number dropping from 800 in 1990 to 37.<sup>2</sup> Privatization had occurred in services sectors such as telecommunications, transportation, insurance, real estate and tourism. The preferred method of privatization was a joint venture model in which the State retained 51 per cent ownership initially, and then reduced its share at subsequent stages.

#### **Box II.1. The Lao People’s Democratic Republic’s policy improvements – in line with the 2006–2010 National Socio-Economic Development Plan**

Overall, the Government has been lauded by international donors for its policy initiatives, particularly its 2006–2010 National Socio-Economic Development Plan (NSED 2006–2010), and the remarkable improvement in the investment environment. The NSED 2006–2010 outlines, as its overall strategy for private sector development, the creation of a more favourable environment to promote the private sector and to attract foreign direct investment (FDI). The plan recognizes that existing regulations, laws and procedures will have to be changed to accelerate the process of setting up a business. Likewise, recognizing that the country lacks domestic workforce with technical capacity, human resource development remains a priority. An interim solution to bridge the skill gap is to allow for greater flexibility in importing international labour necessary to support projects receiving foreign direct investments. Enterprises are required to train the local work force to enhance their skills and enable them to meet the needs of foreign companies.

With respect to SOEs, the 2006–2010 plan states that the Government will continue the restructuring, reform and development of the SOEs with a view to improving their performance and effectiveness.

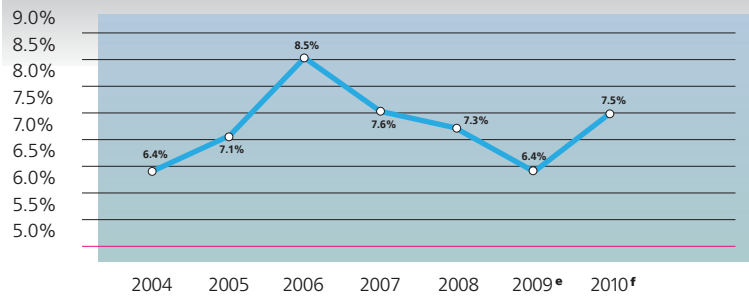
Given the Government’s strong economic record, the World Bank has expressed its belief that the Lao People’s Democratic Republic is on track to be removed from the United Nations’ list of least developed countries by 2020.

**Source:** National Socio-Economic Development Plan 2006–2010.

As an investment destination, the Lao People's Democratic Republic's economic prospects remain good. In 2008, real economic growth settled at 7.2 per cent, benefiting from stable macroeconomic conditions and an expanding natural resource sector. Growth estimates for 2009 (6.4 per cent) are lower but remain nevertheless positive, with a rebound in growth forecast for 2010 (see figure 1).

With the entry of FDI, the economic structure of the Lao economy has seen a gradual increase in the contribution of industry and services to GDP with their combined contribution accounting for a mere 48 per cent in 2000 compared to close to 70 per cent in 2008.

**FIGURE II.1. THE LAO PEOPLE'S DEMOCRATIC REPUBLIC'S REAL GDP GROWTH**



**Note:** 2009\* is an estimate, 2010† is a forecast.

**Source:** "Transforming the Rebound into Recovery", East Asia Pacific Update, World Bank, November 2009.

**FIGURE II.2. GDP BY SECTOR**



**Note:** 2008\* figures are estimates.

**Source:** IMF Lao People's Democratic Republic: Selected Issues and Statistical Appendix, September 2009.

3 World Bank (2009).  
Transforming the Rebound into  
Recovery. East Asia Pacific Update.  
November.

### Macroeconomic conditions

Reinforcing its credentials as a stable investment destination, the Lao People's Democratic Republic has made an impressive effort to ensure macroeconomic stability since the Asian financial crisis. Inflation peaked at 159 per cent in April 1999, but dropped to single digits in 2005 and had settled at 7.6 per cent in 2008 – representing a four-year high mainly due to a rise in global commodities prices.

Average inflation is expected to decline to 1 per cent in 2009<sup>3</sup>. In addition to tighter monetary policy and sustained fiscal discipline, the Government has taken action to address the source of inflation by promoting food production and improving agricultural productivity. The current economic climate will, however, most likely pose challenges for the Government, as earnings from mineral exports and tourism revenues are reduced.

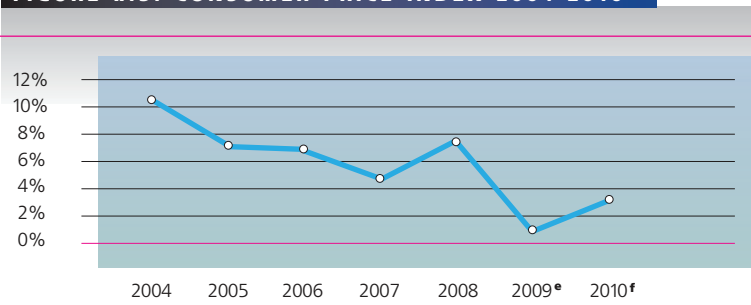
**TABLE II.1. MAIN ECONOMIC INDICATORS: 2003–2008**

	2003	2004	2005	2006	2007	2008
<b>GDP in (\$ millions, current market price)</b>	2,149	2,509	2,761	3,577	4,170	5,374
<b>GDP per capita, \$</b>	388	451	507	605	710	859*
<b>Inflation (CPI)</b>	15.5	10.5	7.2	6.8	4.5	7.6
<b>Exchange rate (kip per \$) end of period</b>	10,434	10,357	10,767	9,655	9,341	8,466
<b>Real interest rate</b>	9.37	9.87	11.41	11.54	14.24	
<b>Share of GDP by sector (%)</b>						
Agriculture, forestry, fishing	38.70	36.68	34.38	30.34	31.19	30.05*
Industry	20.11	19.28	22.04	27.90	26.50	25.87*
Services	35.52	38.03	37.26	35.28	35.80	37.39*
<b>Growth by sector (%)</b>						
Agriculture, forestry, fishing	2.5	3.4	0.7	2.5	8.6	3.7*
Industry	19.4	3.7	10.6	14.2	4.4	10.4*
Services	3.8	12.0	9.9	9.7	9.1	9.7*

**Note:** \* indicates estimates.

**Source:** IMF Lao People's Democratic Republic: Selected Issues and Statistical Appendix, September 2009; IMF Lao People's Democratic Republic: Selected Issues and Statistical Appendix, November 2007.

**FIGURE II.3. CONSUMER PRICE INDEX 2004-2010**



**Note:** 2009\* is an estimate, 2010† is a forecast.

**Source:** "Transforming the Rebound into Recovery", East Asia Pacific Update, World Bank, November 2009.

### Fiscal policy

In order to ensure a stable economic environment, management of the Government budget has been cautious in recent years. The Government has been running a moderate and decreasing deficit from 5.7 per cent in 2003 to 2.0 per cent in 2008. This has been driven mainly by an increase in resource and non-resource revenues. In addition to higher mineral and hydroelectric output, the Government has made efforts to widen its tax base by improving revenue collection and management, reforming the tax law, and centralizing tax collection from the provinces. The re-introduction of the value added tax (VAT) in 2010 is likely

to increase revenues from taxes, royalties and dividends from the export of electricity from the Nam Theun II hydropower project and other large mining and hydropower projects.<sup>4</sup>

This should more than compensate for the possible reduction in customs revenue as the country fulfils its tariff-reduction obligations to the ASEAN Free-Trade Area (AFTA). Total multilateral debt amounts to \$2.985 billion, of which 73 per cent is concessional, and therefore does not constitute a significant burden on Government finances. The Lao People's Democratic Republic's interest payments have consistently remained below the 1 per cent of GDP level since 2000.

**TABLE II.2. GOVERNMENT FINANCES**

	2003	2004	2005	2006	2007	2008
<b>In billions of kip</b>						
Total revenue	2,822	3,387	4,266	5,460	6,436	7,313
Total expenditure	3,857	5,203	5,989	7,251	7,952	9,783
Grants	283	499	696	674	599	752
Balance including grants	-753	-1,317	-1,027	-1,117	-917	-1,718
<b>As % of GDP</b>						
Revenue	10.9	11.0	11.8	12.4	14.0	14.3
Expenditure	18.6	15.1	18.2	17.4	18.6	17.7
Balance (including grants)	-5.7	-2.9	-4.6	-3.0	-2.9	-2.0

Source: IMF, Lao People's Democratic Republic: Statistical Appendix, September 2009.



5 ASEAN Website.  
<http://www.aseansec.org/14292.htm>, September 2008.

## Trade and Investment

### Trade

Reduction of trade barriers has been one of the Lao People's Democratic Republic's most effective policies in fuelling growth, and has facilitated its integration into the ASEAN region. ASEAN countries account for more than 69 per cent of the Lao People's Democratic Republic's total exports and 55 per cent of its imports. This is likely to boost FDI from ASEAN countries in the coming years.

In addition to being part of AFTA, the country has signed bilateral trade agreements with 18 countries and been granted Generalized System of

Preferences (GSP) status in 36 countries. It is likewise at the final stages of its accession process to the WTO. As part of its AFTA–Common Effective Preferential Tariff commitment, the country has reduced more than 98 per cent of its tariffs to between 0 and 5 per cent.

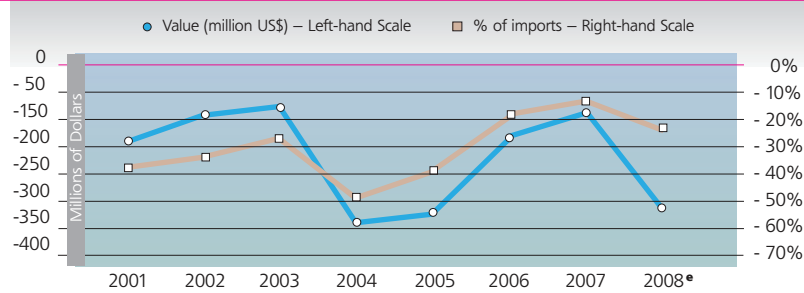
Raw materials and essential consumer goods benefit from 5 per cent tariffs. Raw materials imported for further processing or for foreign-financed private sector projects are exempt from tariffs. However, import duties remained high on luxury products (30 per cent), and processed wood and cars (40 per cent). Finished goods may be freely exported. However, timber and other non-processed natural products are subject to export duties.<sup>5</sup>

**TABLE II.3. THE LAO PEOPLE'S DEMOCRATIC REPUBLIC TRADE FLOW**

	2006	2007	2008
Exports (\$ million)	403	382	828
Imports (\$ million)	588	711	1,803
Total trade (\$ million)	990	1,093	2,631
Growth of total trade (%)	13.04	10.38	140.71

**Source:** ASEAN Merchandise Trade Statistics Database, accessed through the ASEAN Website. (<http://www.aseansec.org/14292.htm>. Access date: December 2009).

**FIGURE II.4. LAO MERCHANDISE TRADE BALANCE**



**Note:** 2008\* figures are estimates.

**Source:** GlobStat, UNCTAD intranet portal statistics. Accessed on January 2010.

Yet, overall, the Lao People's Democratic Republic's exports face a weighted average applied tariff of only 1.4 per cent.

Reflecting the significant FDI in the mining sector in recent years, copper has become the Lao People's Democratic Republic's main export. In 2008, copper exports were recorded at \$620 million compared to \$23 million in 2004. Another fast-growing export has been electricity – a clear result of the Government's strategy of attracting FDI into the hydropower sector. Imports have been dominated by the machinery and equipment used in the mining and hydropower sectors. Chemicals and electricity necessary for the mines have also been important imports.

Thailand enjoys the advantage of being the Lao People's Democratic Republic's first export and import partner. China is an emerging trade partner, which now ranks as the Lao People's Democratic Republics second import partner and its third export destination. Reflecting the country's stronger position within ASEAN, the share of exports to Europe declined from 32 per cent of total export value in 2003 to 11 per cent in 2008.

**TABLE II.4. MERCHANDISE TRADE BY MAJOR COMMODITY, 2003-2009**

(IN \$ MILLIONS)	2003	2004	2005	2006	2007	2008
<b>Merchandise exports</b>	<b>471.9</b>	<b>535.4</b>	<b>696.6</b>	<b>1,132.6</b>	<b>1,320.7</b>	<b>1,638.6</b>
Gold	60.1	57.8	90.7	117.9	93.2	118.9
Copper	0.0	22.9	112.1	409.3	446.0	620.3
Electricity	114.5	117.1	125.0	122.6	114.1	118.3
Timber	128.2	144.9	156.2	195.6	179.0	131.4
Garments	129.9	154.7	114.9	151.2	152.8	189.7
Coffee	11.2	14.4	7.5	9.8	28.9	18.5
Other	28.1	23.7	90.3	126.2	306.8	441.5
<b>Merchandise imports</b>	<b>786.1</b>	<b>1,055.8</b>	<b>1,270.2</b>	<b>1,589.3</b>	<b>2,156.1</b>	<b>2,816.1</b>
Petroleum	89.6	116.9	159.5	208.7	311.0	421.8
Capital goods	258.3	463.7	506.4	728.1	1,084.8	1,171.8
Electricity	8.4	20.1	26.2	28.0	37.4	43.3
Garments materials	86.6	115.5	69.9	98.7	80.3	143.7
Other	343.1	339.6	508.1	525.8	642.7	1,035.5
<b>Memorandum items:</b>						
Export volume (% change)	-2.6	2.7	13.9	15.5	9.3	18.2
Import volume (% change)	2.4	33.1	12.9	16.4	27.1	18.8
Terms of trade (% change)	10.1	9.1	5.2	28.2	0.5	-2.6
Electricity exports (GW hours)	2,695	2,767	2,988	2,807	2,528	2,652
Electricity imports (GW hours)	146	211	199	229	263	

Source: IMF, Lao People's Democratic Republic: Statistical Appendix, September 2009.

**TABLE II.5. TOP TRADING PARTNERS, 2008**

Main destination of exports	% of total	Main origin of imports	% of total
Thailand	49.0	Thailand	68.6
Viet Nam	18.6	China	11.3
China	12.1	Viet Nam	4.7
Republic of Korea	6.3	Republic of Korea	2.5
United Kingdom	3.3	Japan	2.5

Source: The Economist Intelligence Unit, Country Report, December 2009.



6 UNCTAD FDI/TNC database, [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics).

7 Bank of the Lao People's Democratic Republic.

8 The Economist Intelligence Unit, Country Report, June 2008.

### Box II.2. Neighbouring Thailand, Viet Nam and China, among the top investors

Since 2001, the Lao People's Democratic Republic has attracted 1,173 projects valued at nearly \$7.1 billion from 36 countries and territories. Thai and Vietnamese investors are among the largest foreign investors in the Lao People's Democratic Republic. From 2000 to 2006, Thai investments amounted to \$1.27 billion, which was estimated to account for 26.5 per cent of gross total investment over that period. Vietnamese investors invested \$746 million over the same period, or 15.6 per cent of total inward Lao investment. For fiscal year 2007/08, Viet Nam was the biggest investor in the Lao People's Democratic Republic, with investments amounting to \$1 billion on 32 projects. Recently however, China, with its increasing investments mainly in mining, hydropower, rubber plantations, telecommunications and tourism, has become a major investor as well, with investments amounting to \$1.1 billion from 2001 to 2007. In addition, the Lao People's Democratic Republic expects to be a beneficiary of a \$10 billion investment fund and a \$15 billion credit line announced by China as a stimulus to "needy" ASEAN countries. The Lao People's Democratic Republic naturally attracts Thailand, China and Viet Nam due to their geographic proximity and the inherent interest in exploring a relatively untapped market. It should be added, however, that language (especially with respect to Thailand) and cultural affinity also play a role in solidifying these relations.

Republic of Korea investment in the Lao People's Democratic Republic is expected to grow with the signing in May 2009 of a formal agreement to strengthen cooperation in mining, electricity and renewable energy. Seeking access to mineral resources, the Republic of Korea has offered technical assistance in inspection and development of mining projects. The Lao People's Democratic Republic has likewise requested Republic of Korea financing for the construction of electricity transmission lines from southern Lao People's Democratic Republic to the Thai border.

**Sources:** UNCTAD; Department for Promotion and Management of Domestic and Foreign Investment (DDFI), Committee for Planning and Investment; Investment Climate Report, United States embassy at Vientiane; The Economist Intelligence Unit, Country Report, June 2008; [www.aseanaffairs.com](http://www.aseanaffairs.com)

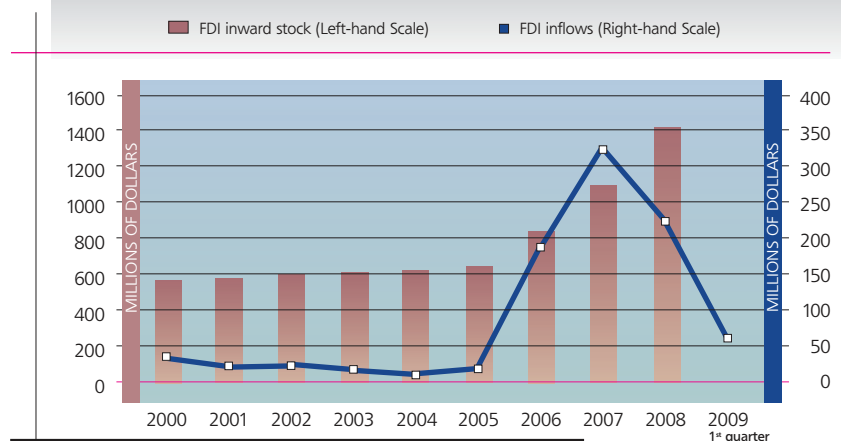
## Foreign direct investment

FDI is playing an increasing and very important role in the Lao People's Democratic Republic's economy. The year 2005 onwards saw a significant increase in FDI inflows, driven mainly by investment in hydropower and mining. In 2008, registered FDI inflows of \$228 million were eight times higher than that registered in 2005 (\$28 million).<sup>6</sup>

The Sixth National Socio-Economic Development Plan forecasts strong and growing FDI flows that will boost private sector investment from 14 per cent of GDP in 2005 to 21 per cent of GDP by 2010.<sup>7</sup> In 2007, we saw some of the largest FDI-financed projects in the Lao People's Democratic Republic such as a new copper plant by Phu Bia Mining and ongoing construction of three large hydropower projects, namely Nam Theum 2, Nam Ngum 2 and Xekaman 3.<sup>8</sup> Investments are expected to increase further in the coming years with the surge of large projects in hotels and resorts, telecommunications, power generation and mining, among others. Increased China-ASEAN and intra-ASEAN economic integration is also expected to provide a further boost in FDI inflows.

Under the ASEAN Comprehensive Investment Agreement (ACIA), the Lao People's Democratic Republic will allow the free flow of ASEAN investments in manufacturing as early as 2009 and in the primary sector by 2015. These agreements aim at further boosting intra-regional investment by removing geographical barriers to the free flow of capital and skilled labour among the signatory countries.

**FIGURE II.5. FOREIGN DIRECT INVESTMENTS IN THE LAO PEOPLE'S DEMOCRATIC REPUBLIC**



**Source:** UNCTAD FDI/TNC database: [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)

**TABLE II.6. ASEAN FDI FLOWS, 2003–2007**

(IN \$ MILLIONS)	2003	2004	2005	2006	2007
ASEAN	24,235	35,117	39,184	51,414	63,260
Brunei Darussalam	3,123	212	289	434	260
Cambodia	84	131	381	483	867
Indonesia	596	1,895	8,336	4,914	6,928
Lao People's Democratic Republic	20	17	28	187	324
Malaysia	2,473	4,624	4,064	6,060	8,401
Myanmar	291	251	236	428	258
Philippines	491	688	1,854	2,345	2,928
Singapore	11,664	19,827	13,929	24,744	25,317
Thailand	5,235	5,862	8,048	9,460	11,238
Viet Nam	1,450	1,610	2,021	2,360	6,739

Source: ASEAN Investment Report 2008, Jakarta: ASEAN Secretariat.

**TABLE II.7. FDI BY SECTOR BY NUMBER OF PROJECTS AND AMOUNT OF CAPITAL, 1989–2008**

SECTORS	PROJECTS	CAPITAL	
		MILLION \$	%
Energy and hydropower	38	5,184.39	54.42
Mining	135	1,747.35	18.34
Agricultural	257	523.3	5.49
Industry and handcraft	291	501.76	5.27
Services	269	486.86	5.11
Construction	53	286.54	3.01
Telecommunications	17	263.4	2.77
Hotels and restaurants	115	172.51	1.81
Banking	16	133.8	1.4
Wood industry	60	101.39	1.06
Trade	160	63.88	0.67
Garment	67	50.15	0.53
Consultants	69	10.47	0.11

Source: Data from the Ministry of Planning and Investments, adapted by Phouphet Kyophilvong, "Mining Sector in Laos", in Major Industries and Business Chance in CLVM countries, edited by Shuji Uchikawa. Bangkok Research Center, IDE-JETRO, Bangkok, Thailand (2009).

**TABLE II.8. FDI BY SOURCE COUNTRY, 1989–2008**

RANK	COUNTRY	PROJECTS	CAPITAL	
			MILLION \$	%
1	Thailand	333	2525.5	25.6
2	France	125	1730.0	18.2
3	Viet Nam	169	8396	8.8
4	Italy	6	501.7	5.3
5	China	325	428.7	4.5
6	Republic of Korea	159	3586	3.8
7	United States	45	1676	1.8
8	Malaysia	47	1064	1.1
9	Singapore	36	880	0.9
10	Australia	49	576	0.6

Source: Data from the Ministry of Planning and Investments, adapted by Phouphet Kyophilvong, "Mining Sector in Laos", in Major Industries and Business Chance in CLVM countries, edited by Shuji Uchikawa. Bangkok Research Center, IDE-JETRO, Bangkok, Thailand (2009)

## Infrastructure and utilities

### Power supply

Access to electricity, though low compared with the ratio in most other countries in the region, has been increasing, with access across the nation tripling in the past 10 years and set to rise further, as new hydropower projects and transmission lines are constructed. Lacking a national grid, 90 per cent of the electricity produced in the Lao People's Democratic Republic (700 MW in 2007) is currently exported either to Thailand or Viet Nam. Thus, while the country is estimated to have 26,500 MW of hydropower generation potential, only 60 per cent of the country's households have access to electricity. The Government announced a goal of electrification of 70 per cent of households by 2010 and 90 per cent of households by 2020.

## Transportation

As a landlocked country strategically located between China, Thailand and Viet Nam, the Government has placed a strong emphasis on improving regional transport links in order to expand trade and investment opportunities. The Lao People's Democratic Republic depends primarily on road transport and, to a much lesser extent, water and air transport.

### Road transport

The NSEDP 2006–2010 has set as a Government priority the development of the transportation system by embarking on a maintenance programme for existing roads and bridges and constructing new roads, a railway network and airports.<sup>9</sup>

**TABLE II.9. ELECTRICITY COSTS IN THE LAO PEOPLE'S DEMOCRATIC REPUBLIC IN 2008**

CATEGORY	POWER USAGE	TARIFF (Kip/kWh)	TARIFF (\$/kWh)
<b>Residential</b>			
	0 – 25 Kwh	133	0.014
	26 – 150 Kwh	276	0.032
	>150 Kwh 133	773	0.091
<b>Business/Industrial</b>			
	Commercial	835	0.098
	Entertainment	1,106	0.130
	Government Office	703	
	Irrigation, agriculture	313	
	Industry	634	

**Source:** Electricité du Laos.



According to Lao government data, of the 37,270 km of roads, only 4,739 km are tarred. Around 41 per cent of the population lives more than 6 km from a main road. Many dirt roads and river crossings become impassable during the rainy season.

In support of trade and investment integration within the subregion, progress has been made on key national axes, namely the East–West GMS economic corridor, connecting Thailand to Viet Nam through the Lao People’s Democratic Republic, including the construction of a bridge over the Mekong River, and the North–South Route 3 highway from China’s Yunnan province to Thailand through the Lao People’s Democratic Republic. The latter project, concluded in 2008, will ensure year-long service, unlike the former road, which had to be closed four months a year due to mudslides.

#### Waterways and ports

The Mekong River and its tributaries, Nam Ou and Se Kong, are the second most important transportation routes after roads. Although they flow for over 2,000 km through the country, extreme weather conditions reduce the navigable

length to 1,300 km. Vessels up to 400 dead weight tons (DWT) that can carry industrial and agricultural products (e.g. sand, rock, grain, steel and logs) operate year-round on the northern section, while navigation elsewhere is limited to barges of 200 DWT or less. In the dry season, most of the river is navigable only by small, shallow-draft, narrow-beam passenger vessels. Although inland river traffic doubled in the 1990s due to economic growth and the inexistence of alternative routes, the completion of several road improvement projects and the growing concern of the financial and environmental cost of improving river access have abated this phenomenon. Currently, 4.7 per cent of passenger traffic and 15.4 per cent of goods are transported via inland waterways. In December 2007, plans to establish a Lao cargo port on Viet Nam’s coast were announced. A new port complex is to be built at Vung Ang port in Viet Nam’s Ha Tinh province by 2010. The estimated cost is \$200 million, of which 80 per cent is to be financed by Viet Nam’s Bank for Investment and Development, PetroVietnam and Viet Nam Property Development and Investment, and the remaining 20 per cent by Lao entities.

#### Box II.3. The Greater Mekong Subregion Programme

The GMS, formed in 1992, is a programme for subregional economic cooperation involving five ASEAN member countries – Cambodia, the Lao People’s Democratic Republic, Myanmar, Thailand, and Viet Nam – and the provinces of Yunnan and Guangxi in the People’s Republic of China. Its major goal is integration, and its main functional areas are trade and infrastructure, with a focus on improving connectivity in the subregion by improving transport, energy, and telecommunications. Cooperation in the energy and telecommunications sector began in 1992 with power transmission lines linking the Lao People’s Democratic Republic and Thailand. In 2005, the adopted Kunming Declaration emphasized the importance of a “GMS Strategic Framework for Action on Trade Facilitation and Investment (SFA-TFI) that commits to time-bound, specific measures to reduce trade and business transaction costs in the subregion”. It likewise endorsed the importance of the private sector as the “engine of growth” in the Mekong region.

In 2008, the GMS cross-border transport agreement was signed and ratified. The agreement is a compact and comprehensive multilateral instrument that covers all the relevant aspects of cross-border facilitation, including single-stop/single-window customs inspection; cross-border movement of people; transit traffic regimes; requirements for vehicles making cross-border trips; exchange of commercial traffic rights, among others.

Of particular interest to the Lao People’s Democratic Republic is the East–West economic corridor, one of the several economic corridors that were established through the GMS. The East–West Corridor (EWC) crosses the Indo–China peninsula and forms a land bridge between the South China Sea and the Andaman Sea. Under the EWC, the Lao People’s Democratic Republic benefited and would continue to benefit from infrastructure improvements, including the construction of bridges connecting Thailand and the Lao People’s Democratic Republic over the Mekong River, known as Lao–Thai friendship bridges. This, together with the development of road network, is of utmost interest to the Government and a vital element of its transport policy, as it will allow the domestic market to become more integrated and will encourage subsistence farmers to increase production to a commercial scale.

**Source:** UNCTAD Survey; The Economist Intelligence Unit, Country Report, June 2008; Asian Development Bank.

## Railways

The Lao People's Democratic Republic is placing greater importance on rail transport to move freight. It now has a rail connection into Thailand over the friendship bridge from Vientiane. This project, financed by Thai and French Governments, is expected to reduce the high road freight rates from Vientiane to Bangkok and will improve flows of goods and people between the two countries. Work began in 2007 on the railway in Lao People's Democratic Republic as part of the Singapore-Kunming Rail Link – a flagship project of the ASEAN–Mekong Basin Development Cooperation. The regional railway, spanning some 5,000 km from Singapore to the Chinese city of Kunming (Yunnan province) and passing through various South-east Asian countries, including the Lao People's Democratic Republic, will not only ease travel but could likewise prove to be the most economical mode of cross border cargo transportation between these countries.

Feasibility studies of a 150 km railway line from the Lao city of Thakhek in Khammouan province to Viet Nam's central Quang Binh province are likewise ongoing.

## Air transport

The Lao People's Democratic Republic has nine airports with paved surfaces, of which four serve international traffic (Vientiane–Wattay, Pakse, Luang Prabang and Savannakhet). International flights reach Bangkok and Chang Mai in Thailand, Hanoi in Viet Nam, Siem Reap and Phnom Penh in Cambodia and Kunming in China. Domestic traffic connects Xieng Khouang, Oudomxai, Luang Namtha, Houeisai, Xam Nua, Sayaburi, as well as Savannakhet and Pakse. Domestic aviation is provided by the national airline, Lao Airlines, while international service is provided by, in addition to Lao Airlines, AirAsia of Malaysia, Bangkok Airways, China Eastern Airlines, China Southern Airlines, Eva Air of Taiwan, Thai Airways, and Viet Nam Airlines.

Business and tourism traffic between the Lao People's Democratic Republic, Viet Nam, Cambodia and Thailand is expected to continue its rapid growth. For this reason, the Government intends to improve Lao Airlines' competitiveness

by attracting private investments. The national company was relaunched in 2003 following financial and safety problems. The company also recently replaced its administrative price-setting mechanism by an independent commercial mechanism with no Government supervision. Moreover, in February 2008, a single uniform system of airfares was introduced for both domestic and international travellers. The improvement of airport infrastructure is proceeding well under the GMS coordination and the Sixth NSEDP.

## Telecommunications

Driven by foreign investment, telecommunication services have shown strong growth, expanding into both urban centres and rural areas, with GSM coverage now available in most of the country. By 2007, landline telephone subscribers reached 90,067 while mobile telephone users were 638,200, representing a mobile phone penetration rate of 10 per cent. These figures are low relative to both regional standards and the Government's 2005 National Plan targets, providing plenty of opportunity for expansion. By early 2009, while fixed-line teledensity has remained less than 2 telephones per 100 people (same as 2007 figures) the mobile market has been surging, with mobile penetration around 32 per cent, an annual growth rate running at 25 per cent.

The Government is actively involved in the market as a shareholder in most Lao telephone operators. State-controlled LaoTel, a former State monopoly in which Thailand's Shin Satellite owns a 49 per cent stake, and the State-owned Enterprise of Telecom Lao (ETL) are leaders in the mobile market. Other operators include Tigo (a joint venture between Millicom International Cellular and the Lao Government), and Lao Asia Telecom. Mobile phone rates decreased sharply after the entry of Tigo in 2007 and seem to have bottomed out as they have become almost identical across operators. Whereas mobile rates are competitive, the Government is set to increase land-line tariffs to more cost-sustainable levels.

Internet penetration remains low but is widely available in urban centres. The country has an estimated market of 25,000 Internet users (0.4 per cent of the population), 935 Internet hosts and 3 gateways. Laotel is the dominant market player.

The six other Internet service providers are Lane Xang Internet, Planet Internet, ETL, Champalao Internet, KPL Internet and the Lao National Internet Committee (LANIC). The construction of two fibre optic networks is expected to provide an improved service and better choice for clients. The first phase of a \$100 million nationwide, underground fibre-optic cable network funded by

a low-interest loan from China is already 50 per cent complete. In 2009, EDL signed an agreement with a Thai company, Connectsia, to install its own fibre optic system within a regional network. Connectsia plans to lay the cables from China through Lao People's Democratic Republic and then on to Thailand, Malaysia and Singapore.<sup>10</sup>

#### Box II.4. Tigo in the Lao People's Democratic Republic's telecommunications market

Since starting operations in the Lao People's Democratic Republic in 2003, Tigo, owned by Millicom International Cellular S.A. of Luxemburg, has acquired an active subscriber base of approximately 250,000 or one-fifth of the national market, which is currently dominated by the Government/Temasek joint-venture Lao Telecom with 55 per cent market share and the Government-owned Enterprise of Telecom Lao (ETL) with 22 per cent market share.

Based on its master agreement signed in 2002, Millicom has also acquired an international voice gateway, allowing it to route international calls directly to foreign countries instead of passing through the national operator, and is establishing itself as an Internet service provider. Plans to establish 3G services are pending on the basis of the granting of spectrum.

When interviewed, Tigo's management was positive about its experience in the country. It was also mindful of the need to recruit as much as possible from the Lao labour pool and seek the most technically competent staff. The company therefore offers full scholarships to students at the national telecommunications school and provides interns with equipment on which to experiment and develop new ideas.

Source: UNCTAD survey 2008.

TABLE II.10. KEY TELECOMMUNICATIONS DATA

INDICATORS	LAO PEOPLE'S DEMOCRATIC REPUBLIC		LOW-INCOME GROUP	EAST ASIA & PACIFIC REGION
	2000	2007	2007	2007
Telephone lines (per 100 people)	0.8	1.6	4.0	23.1
Mobile cellular subscriptions (per 100 people)	0.2	25.2	21.5	43.7
Internet subscribers (per 100 people)	0.0	0.1	0.8	9.3
Personal computers (per 100 people)	0.3	1.8	1.5	5.6
International voice traffic (minutes/person/month) – outgoing and incoming	0.4	0.6	—	0.8
Internet users (per 100 people)	0.	1.7	5.2	14.6
International internet bandwidth (bits/second/person)	0.	32	26	24.7
Price for call to United States (\$ for 3 minutes)	9.20	1.11	2.00	1.16
Telecommunications revenue (% of GDP)	1.5	1.7	3.3	3.0
Telecommunications investment (% of revenue)	31.3	63.0	—	—

Source: World Bank, Information and Communication for Development, 2009.



**11** EDI values averaging 0.95 or above means that the country has achieved or is close to achieving most of the quantifiable EFA goals (e.g. UPE, adult literacy, gender parity and equality, and quality) while EDI values ranging from 0.80 to 0.94 means they are midway to achieving EFA as a whole. Below 0.80 means the country is lagging behind in achieving the EFA goals.

**12** Education for all Global Monitoring Report, Regional overview: East Asia and the Pacific, 2009.

## Human capital

### Education

The Lao People's Democratic Republic's problem of skill shortages is one of the prominent factors that concern business and investors. Thus improving education outcomes is one area which requires utmost attention from and prioritization by the government.

The Lao People's Democratic Republic lags behind in UNESCO's Education for All, or EFA development Index (EDI) with EDI values below 0.80.<sup>11</sup> For the Lao People's Democratic Republic, this meant low education participation, widespread adult illiteracy, gender disparities and inequalities, and poor education quality.<sup>12</sup>

In 2005/06, the net enrolment rate in primary schools was 83.9 per cent, which lagged slightly behind neighbouring Cambodia (86.2 per cent) or Myanmar (85 per cent). Only one third of students who enter first grade are estimated to complete all five grades of primary schooling.

Although education spending as a share of total Government spending has been increasing and was approximately 14 per cent in 2005 compared to 11 per cent in 2004, this remains below the Asia-Pacific average which stands above 16 per cent. Similarly, the education budget, which represented about 3.4 per cent of GDP, compares unfavourably with other developing Asian countries which, on average, spend 4.7 per cent of GDP on education.

Participation levels in secondary education are among the lowest at 35 per cent, the lowest being Cambodia and the highest Japan with 99 per cent. In 2000–2006, the adult literacy rate was 72 per cent.

Under the 2006–2015 National Education System Reform Strategy, the Government plans to increase the length of schooling from 11 to 12 years by extending lower secondary education to include Grade 9 and adding one year of schooling, Grade 12, in upper secondary education for children of ages 15–17. This reform will bring the Lao People's Democratic Republic's general education system in line with the prevailing 12-year international standard.

**TABLE II.11. EAST ASIA AND PACIFIC, SELECTED EDUCATION DATA**

Country or territory	Compulsory education	EFA Development Index (EDI)	Adult literacy rate (15 and over)				Total public expenditure on education as % of GNP	
			1985-1994		2000-2006		1999	2006
			Total (%)	GPI (F/M)	Total (%)	GPI (F/M)		
		2006						
Cambodia	—	0.778	—	—	76	0.78	1.0	1.8
China	6-14	—	78.0	78	93	0.93	1.9	—
<b>Lao People's Democratic Republic</b>	<b>6-10</b>	<b>0.753</b>	<b>—</b>	<b>—</b>	<b>72</b>	<b>0.83</b>	<b>1.0</b>	<b>3.4</b>
Myanmar	5-9	0.895	—	—	90	0.92	0.6	—
Thailand	6-14	—	—	—	94	0.96	5.1	4.3
Viet Nam	6-14	—	88	0.89	90	0.93	—	—
East Asia	—	—	82	0.84	93	0.94	3.6	3.6

**Source:** Education for all Global Monitoring Report, Regional overview: East Asia and the Pacific, 2009.

13 Investment in the Lao People's Democratic Republic, KPMG, March 2008.

Higher education in the Lao People's Democratic Republic is provided by the National University of the Lao People's Democratic Republic (NUoL) – the only provider of a comprehensive set of undergraduate and graduate degree programmes, the Medical University, five teacher training colleges and 31 private institutions. In 2005, the student population at NUoL stood at 22,984, marking a 10 per cent increase in enrolment since 2000, while students enrolled in private institutions more than tripled in the same period, reaching 14,371, showing some potential for the participation by the private sector in the country's education sector.

Enrolment at technical schools has increased significantly from 2000 to 2005, but still represents between 1 and 5 per cent of students in the corresponding age group. Moreover, funds allocated to Technical and Vocational Education and Training are relatively limited, and therefore, technical school graduates' skills are generally not sufficient for labour market requirements, providing opportunities for private operators.

## Labour

The Lao People's Democratic Republic has a relatively young workforce of about 2.8 million, with 80 per cent involved in agriculture and 20 per cent in industry and services.<sup>13</sup>

The 1994 Labour Law provides information on the following: formation of trade unions, working hours and compensation standards, benefits such as workers' compensation, retirement and maternity benefits, and procedures for labour dispute resolution.

In 2008, the official minimum wage was set at 405,000 kip per month (about \$48). Wages for unskilled labour at garment factories, including bonuses now run about 290,000 kip or about \$34 monthly. Disputes are settled by a workplace committee of employers, local labour representatives and representatives of the national federation of labour unions, with final authority residing in the Ministry of Labour and Social Welfare. Labour Unions can be formed in private enterprises, but they must operate within the framework of the Lao Federation of Trade Unions. The federation represents all workers and the salaries of its senior officers are paid by the Government.

The Foreign Investment Law and Labour law require foreign investors to give priority to Lao citizens when hiring staff and are obliged to train and upgrade the skills of their local employees. Foreign enterprises are allowed to take in skilled and high-level personnel when necessary with the approval of relevant authorities.

**TABLE II.12. LABOUR STATISTICS, 2008**

<b>Labour force (millions)</b>	<b>2.96</b>
Male	1.49
Female	1.46
<b>Labour force participation rate (% ages 15 and older)</b>	
Male	80
Female	79

**Source:** GlobStat, UNCTAD Statistics (For Labour force data); World Development Indicators, 2009, The World Bank: Washington (For Labour force participation rate – latest data available was for 2007).



## Health

Health standards in the Lao People's Democratic Republic are low compared to global averages but are improving and are relatively better in general terms than in other low-income countries, as the table on selected core health indicators below demonstrates. Life expectancy at birth, which was 58 years in 2000, improved to 61 years in 2007. Infant mortality rate significantly went down from 77 (per 1000 live births) to 61 in 2007. Likewise, the percentage of vaccinated children has increased strongly while the HIV-infection rate is far lower than those of neighbouring countries. Access to essential drugs has also improved substantially reaching 80 per cent nationwide. Health workforce and infrastructure remain below the global average and could be partly explained by the meager percentage of the budget allocated to health expenditures. General

Government expenditure on health as a percentage of total Government expenditure was only 3.7 per cent compared to 5.9 per cent for other low-income countries and 14.3 per cent global average.

The Government's 2020 Health Sector Strategy aims at improving the country's health systems and broadening the reach of health services. In this regard, priority areas for intervention have been identified, including improved community-based health promotion and disease prevention in an effort to make the primary healthcare system more efficient and the promotion of quality and safe food and drugs as well as their rational use. Furthermore, it has set targets for reducing infant and maternal mortality and has a national strategy to deal with HIV/AIDS. To this end, \$322 million has been budgeted for 2006–2010 by the Ministry of Health.

**TABLE II.13. SELECTED CORE HEALTH INDICATORS**

INDICATORS	DATA	LAO PEOPLE'S DEMOCRATIC REPUBLIC	LOW-INCOME COUNTRIES	GLOBAL
Life expectancy at birth (years)	(2007)	61	57	68
Infant mortality rate (per 1,000 births)	(2007)	56	80	46
Prevalence of HIV among adults aged ≥ 15 years (per 100,000 population)	(2007)	149	1,842	644
Immunization coverage among 1-year-olds (%)	(2007)	40	75	82
Anti-retroviral therapy coverage on people with advanced HIV infection (%)	(2007)	>95	27	31
Physicians (per 10,000 population)	(2000-2007)	4	4	13
Nursing and midwifery personnel (per 10,000 population)	(2000-2007)	10	10	28
Hospital beds (per 10,000 population)	(2000-2008)	12	12	25
General government expenditure on health as % of total government expenditure	(2006)	3.7	5.9	14.3
Per capita Government expenditure on health (PPP int. \$)	(2006)	15	21	455

**Source:** World Health Statistics 2009, World Health Organization, Geneva 2009.



## The financial system

The Lao People's Democratic Republic's macroeconomic stability over the past few years, coupled with cautious policies have substantially improved the financial system. The Advisory Technical Assistance projects of the Asian Development Bank have helped promote prudent regulation and good corporate governance.

The Banque pour le Commerce Extérieur Lao (BCEL), the largest State-owned bank, is the main domestic financial institution in the country. It was established in 1975 and has undergone a major transformation into a regionally-competitive commercial bank in 1989. BCEL, which is particularly active in supporting the growth of the tourism

sector, accounted for 35.8 per cent of total assets and 40.1 per cent of total deposits in 2006. Lao Development Bank (LDB) is the country's second largest bank by deposits and assets. It accounts for 17 per cent of all domestic loans and has the widest network of branches throughout the country.

The Lao People's Democratic Republic has several insurance companies, including Assurances Générales du Laos (AGL), Insee, Lao-Viet Insurance (Viet Nam), and Toko Jaya Insurance (Malaysia). AGL was the first insurance company to be established in the country and started in 1990 as a joint venture between the Ministry of Finance of the Lao People's Democratic Republic (MoF) and Assurances Générales de France (AGF). In 1998, Allianz Group bought the majority holding in AGF.

### Box II.5. Banking sector reforms: Leveling the playing field

Two most recent reforms, which have impacted positively on the Lao People's Democratic Republic's banking sector and have contributed to leveling the playing field for private and foreign banks and encouraged their entry, are the following: the Lao People's Democratic Republic's restructuring of the State-owned commercial bank (SOCB) sector and the promulgation of the Law on Commercial Banks in early 2007.

The urgency to undertake a restructuring of the SOCBs, which accounted for 54 per cent of total system assets as of the first quarter of 2008, was due to, among others, a deterioration in the quality of SOCBs' balance sheets as a result of poor risk management and large directed lending. The SOCB restructuring, as well as other reforms in the banking sector, has resulted in significantly reducing the non-performing loans at the SOCBs and initiating some improvements in SOCBs' capital positions. While each SOCB remains insolvent, the government has, since 2006, issued recapitalization bonds to further strengthen SOCBs' capital base. Oversight of all banks has also been strengthened. Some problems remain, however, including the fact that the Bank of Laos (BoL) continues as both SOCB regulator and owner, which could create potential conflicts and that the government continues to pressure SOCBs to lend to certain sectors, which could then compromise their financial recovery.

The Law on Commercial Banks, approved in 2007 was a welcome development and was regarded as key to leveling the playing field for all commercial banks – whether private, foreign or State-owned. The new legislation has already attracted new players in the market (e.g. Australia and New Zealand Bank forming a joint venture with Vientiane Commercial Bank and the International Finance Corporation (IFC) putting in a 10 per cent stake in the bank). Such increased competition (see the table on Banks in the Lao People's Democratic Republic) is expected to improve the quality of service as well as ultimately, increase access to finance for Lao businesses – one of the major constraints identified by the Lao national Chamber of Commerce and Industry in furthering private sector investment in the country.

Some of the specific improvements ushered in through this law include:

- Equal conditions for locally-owned, State-owned and foreign-owned banks regarding the minimum capital requirement and branch network establishment;
- Prompt corrective action for seriously undercapitalized banks;
- A clear and comprehensive two-stage licensing process;
- Comprehensive provisions to prevent conflicts of interest; and
- Provisions for resolving bank insolvency.

While the Law's provisions seem very encouraging, the challenge remains in ensuring that these provisions are effectively implemented through transparent and enforceable decrees and regulations.

**Source:** Business Issues Bulletin, the Lao People's Democratic Republic, Lao National Chamber of Commerce and Industry, July 2007; Staff Report for the 2008 Article IV consultation, prepared by IMF staff representatives, July 2008.

<sup>14</sup> World Bank (2008). Lao Economic Monitor, April.

<sup>15</sup> The Economist Intelligence Unit, Country Report, June 2009.

<sup>16</sup> Asian Development Bank, www.adb.org.

Capital adequacy requirement is set at 8 per cent, in line with Basel principles. With regard to risk performance, Lao banks have learned a great deal in terms of lending practices. The average level of non-performing loans dropped considerably from 49 per cent to 21 per cent between 2005 and 2006, with the BCEL and the LDB succeeding in reducing the figure to 1.6 per cent only. Moreover, loans by State-owned commercial banks to their top 20 borrowers declined from 56 per cent of total loans to 34.5 per cent between 2006 and 2007, implying improving portfolio diversification.<sup>14</sup>

Following the 2007 signing of a memorandum of understanding between the Central Bank of the Lao People's Democratic Republic and the Republic of Korea Exchange Inc., a national stock exchange is scheduled to be in operation by October 2010, further facilitating investment in the country. The cooperation agreement also involves training programmes on securities regulation, building market expertise and assistance for listing the major Lao companies. The BCEL has said that it will list on the

exchange and that it will aim to use funds generated to extend operation across the country.<sup>15</sup> The Government will continue to own a majority shareholding in all state enterprises listed on the exchange.

Microfinance occupies an increasingly important role in the Lao economy. As 90 per cent of Laotians have no access to banking services due to the fact that banks are concentrated in the capital, microfinance has a great potential in rural areas.<sup>16</sup> With assistance and funding from UNDCF-UNDP, AFD and the Asian Development Bank (ADB), the Government has developed six microfinance initiatives through the Agriculture Promotion Bank (APB). After an initial assessment in 2003, APB supported the establishment of three pilot member-owned Savings and Credit Unions. Moreover, a fund will be established by ADB to support small and growing microfinance institutions. Being the only non-bank financing source in the country, microfinance loans more than doubled between 2003 and 2006, reaching 3.8 per cent of total lending.

**TABLE II.14 BANKS IN THE LAO PEOPLE'S DEMOCRATIC REPUBLIC**

<b>State-owned commercial banks</b>	Banque pour le Commerce Exterieur Lao Lao Development Bank Agriculture Development Bank
<b>Joint ventures</b>	Lao Viet Bank (Lao People's Democratic Republic, Viet Nam) Lao Construction Bank (Lao People's Democratic Republic, China) Joint Development Bank (Lao People's Democratic Republic, Thailand) ANZ Vientiane Commercial Bank (Australia, New Zealand, the Lao People's Democratic Republic, International Finance Corporation)
<b>Private Bank</b>	Phongsang Bank
<b>Foreign banks</b>	Public Bank (Malaysia) Bangkok Bank (Thailand) Bank of Ayudhya (Thailand) Krung Thai Bank (Thailand) The Siam Commercial Bank (Thailand) Thai Military Bank (Thailand) Indochina Bank (Republic of Korea) Sacombank (Viet Nam) ACLEDA Bank (Cambodia)
<b>Non-profit bank</b>	Nayobi Bank (designed by the Government to provide low-interest loans in the poorest regions of the country)

Source: UNCTAD.

**17** Investment in the Lao People's Democratic Republic, KPMG, March 2008.

**18** Currently being defined; will form part of the implementing decree to the new Law on Investment Promotion.

## Taxation

The fiscal system of the Lao People's Democratic Republic is considered among the most liberal in South-east Asia.<sup>17</sup> Foreign-owned enterprises are taxed only on their income earned in the Lao People's Democratic Republic. Lao-owned firms are taxed on their worldwide income, subject to double taxation agreements.

The main features of the fiscal system are:

- Profit tax of 35 per cent; exemptions as well as incentive rates of between 0 and 20 per cent apply to promoted sectors and regions;
- A minimum tax of between a quarter of 1 per cent of turnover, offset against profit tax liability;
- A flat personal income tax for foreigners of 10 per cent;
- A progressive personal income tax for Lao personnel of between 0 and 25 per cent; and
- No inheritance or gift tax.

For all other investments not falling under the Government's promoted sector<sup>18</sup>, the detailed rates are presented in the table below.

**TABLE II.15 DUE TAX ON NET INCOME OF SOLE-TRADERS AND SMALL BUSINESSES**

TAXABLE PROFITS BY LEVEL	BASIS OF CALCULATION	TAX RATE	TAX AT EACH LEVEL	TOTAL DUE TAX
Up to 2,400,000 Kips	2,400,000	0 %	0	0
2,400,001 – 5,000,000 Kips	2,600,000	10 %	260,000	260,000
5,000,001 – 10,000,000 Kips	5,000,000	15 %	750,000	1,010,000
10,000,001 – 30,000,000 Kips	20,000,000	20 %	4,000,000	5,010,000
30,000,001 – 60,000,000 Kips	30,000,000	30 %	9,000,000	14,010,000
Above 60,000,000 Kips	–	35 %	–	–

Source: Tax Law (2005), the Lao People's Democratic Republic.

**TABLE II.16. DEDUCTIONS AND EXPENSES**

Allowable deductions	(1) General expenses	Salaries, lease costs, insurance, advertising, utility costs and 40% of travel costs
	(2) Depreciation	
	<b>Nature</b>	<b>Rate</b>
	Business formation	50%
	Land transportation, machineries and other equipment	20%
	Sea transport equipment, office improvement, supplies, temporary premises	10%
	Industrial premises used for less than 20 years, permanent trade premises, air transport	5%
	Industrial premises used up to 40 years	2.5%
Not allowable expenses	(1) Profit tax, income tax and salaries and salaries paid to partners in partnerships (2) Luxury expenses and other expenses considered unreasonable	

Source: Tax Law (2005), the Lao People's Democratic Republic.

### Fiscal administration and calendar

The fiscal year is from 1 January to 31 December. The company's balance sheet must be presented to the Ministry of Finance before March of the following business year. Profit taxes are payable in advance, with payments due on 10 April, 10 July and 10 October, and the last payment in March of the following year. Payments made in advance are based on the profits of the previous business year. Residual or excessive payments once profits in the current period are known can be carried forward for deduction against future payments.

### Withholding tax on foreign payments

Foreign companies contracting with Lao entities and generating an income are subject to taxation even if no activity has physically taken place in the Lao People's Democratic Republic. The buyer or domestic company must withhold the due tax generated by the contract from the total payment it owes to the foreign company. The collected money must then be transferred to tax authorities by the domestic company itself.

No withholding tax rate is made explicit. Instead, a deemed profit percentage to the contract price being paid by the Lao company is applied. The rate varies by industry and is between 10 and 36 per cent.



### The private sector in the Lao People's Democratic Republic

The Lao People's Democratic Republic Government supports and fosters regular and sustained dialogue with the private, both at the national and the provincial levels. At the national level, the Lao Business Forum (LBF) serves as a venue for identifying key constraints to private enterprise and resolving these in a transparent and collaborative dialogue with government. The International Finance Corporation's Mekong Private Sector Development Facility (IFC-MPDF), which helped establish the bi-annual forum in 2005 (and also serves as its secretariat), has particularly highlighted that the Lao government's open-mindedness and the positive cooperation it has demonstrated with the private sector bodes a promising future for the Lao People's Democratic Republic.

The LBF is complemented at the provincial level by the Provincial Public-Private Dialogue – an initiative supported by the German Technical Cooperation Agency (GTZ) and aims to tackle the bottlenecks for sustainable development of the private sector development through a systematic and regular dialogue between the private and the public sector at the provincial level.

Actively participating and regularly represented in the LBF is the Lao National Chamber of Commerce and Industry (LNCCI). Established in 1989, it serves as the link between the state organization and the business enterprises and represents the employers and other associations established under the laws of the Lao People's Democratic Republic. The Chamber also seeks to eliminate impediments that hinder the competitiveness of Lao enterprises in international markets. To date, there are 14 local Chambers of Commerce and Industry, 15 Associations and 10 Business Groups.<sup>19</sup>

## Investment climate: Key factors for foreign investors

### Strengths:

- Commitment to reforming and rationalizing the business regulatory environment;
- Poised for economic liberalization – ASEAN and WTO membership;
- Provides a convenient access to the dynamic markets of Southeast Asia and China;
- Substantial yet-to-be explored investment opportunities in hydropower, mining, and tourism.

### Opportunities:

- Hydropower;
- Mining;
- Tourism;
- Agriculture (including, agro-processing).

### Weaknesses:

- Scarcity of skilled human resource complement;
- Remains wanting in key infrastructure such as transport, electricity and telecommunications, but improvements are being implemented progressively;
- Certain administrative bottlenecks such as lengthy, unnecessary and unclear procedures remain, breeding corrupt practices;
- Ensuring coherence in laws and regulations remains a challenge.

### Threats:

- Initiating and instituting reforms are heavily contingent upon assistance from donors and its neighbours due to scarcity in the country's technical skills and financial resources.

### Box II.6. The Lao Business Forum (LBF): Objectives and Achievements

The Lao Business Forum identifies, among its objectives the following: facilitate dialogue between the Government of the Lao People's Democratic Republic and the private sector; promote consistent enforcement and non-discretionary interpretation of laws and regulations; remove the barriers that businesses face with regard to entry and exit; provide feedback on various Government policies affecting the private sector; provide feedback on draft Government laws and regulations that could affect the private sector; and assist the Lao Government in developing the private sector.

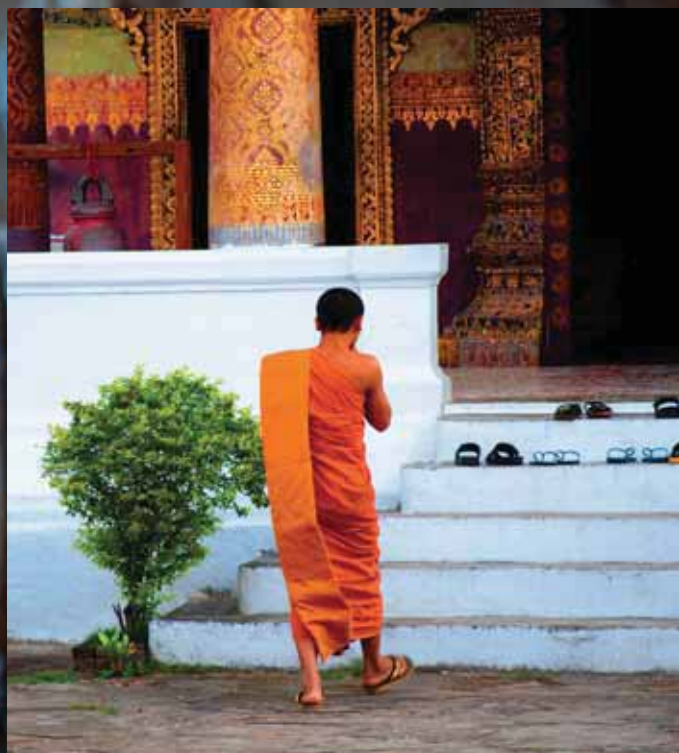
Since its first meeting in 2006, the Forum has played a valuable role in drafting key laws and has been actively involved in issues of utmost concern to the private sector both at the regulatory/policy and implementation aspects.

Among the key issues discussed in the most recent Forum – held in June 2008 and attended by 300 business, government and donor representatives – included regulation on registration of land title deeds, implementation of secured transaction law, new regulations on wood processing industry, inconsistent tax policy for the private education sector, inconsistent tax treatment for various textile and garment enterprises, poor enforcement of third party insurance, preparation of the implementing decree for the Tourism Law and preparation of the Mining Law.

Public–private forums have, in countries where they are present (e.g. Viet Nam and Cambodia), led to improvements in the investment climate and contributed to building trust between the government and the private sector.

**Source:** IFC-MPDF Media release, 26 June 2008; the Lao People's Democratic Republic Economic Monitor, World Bank, November 2008, IFC website: [www.ifc.org](http://www.ifc.org).







Rich in natural resources, most of which are unexploited and yet to be explored, the Lao People's Democratic Republic, which nestles in a strategic location bordering the most dynamic economies in Southeast Asia is welcoming of investors.

The energy sector, especially hydropower and coal, where foreign firms are already present, remains largely untapped. Estimates indicate that the country has a potential to generate about 26,500 MW from hydro sources but only 2 per cent of which has been developed. The Lao People's Democratic Republic is likewise abundant in mineral wealth with discovered and exploited deposits of copper, gold, silver, zinc, tin, barite, gypsum, coal and sapphires. Foreign firms are among the major players in the 170 ongoing mining projects. As only 30 per cent of territory has been explored, there are promising opportunities awaiting future investors. The Lao Government has likewise identified tourism, especially ecotourism, as a major area of future growth as well as agribusiness, including plantation agriculture (e.g., rubber, coffee, timber and corn), which have attracted foreign investments in recent years.

The Lao People's Democratic Republic has been steadfast in its commitment to improve its investment environment and the conditions for foreign investors with the enactment and or amendment of laws and regulations affecting foreign investments such as the most recent amendment of the Law on Investment Promotion (2009) and the Enterprise Law (2007). These positive developments are complemented with on-going improvements in key infrastructure services such as transport, telecommunication and power supply.

## Priority sectors

The priority sectors for investments are hydropower, mining, tourism and agriculture. Incentives for foreign investment are provided in certain promoted sectors (please refer to chapter IV for details on the incentives).

## Energy

With its vast hydropower potential, the Lao People's Democratic Republic has made power generation a development priority. Its aim is to become the "battery" of South East Asia and to this end, is continually seeking to attract large and long-term foreign investment in the hydropower sector. The Lao government banks on investments in this sector to boost local economies, create employment, improve local infrastructure and upgrade skills of the local workforce.

Lacking a national grid, 90 per cent of the electricity produced in the Lao People's Democratic Republic (700 MW in 2007) is currently exported either to Thailand or Viet Nam. Thus, while the country is estimated to have 26,500 MW of exploitable hydropower generation, only 60 per cent of the country's households has access to electricity. The Government is thus seeking significant foreign investment in this sector.

Construction of the \$1.25 billion Nam Theun 2 (NT 2) power project – the largest hydropower project in the country, commenced in late 2005. The Nam Theun 2 Power Company Limited (NTPC), established under Lao law, is the owner of the Project whose major shareholders include Lao Holding State Enterprise (25 per cent), Electricity Generating Public Company Limited (25 per cent), Electricité de France International (35 per cent) and Italian–Thai Development Public Company Limited (15 per cent). 27 international banks including international financial institutions such as the World Bank, the Asian Development Bank, the European Investment Bank and Agence Française de Développement, are involved in the financing of the project.



With an estimated capacity of 1,088 MW, 95 per cent of the plant's output will be exported to Electricity Generating Authority of Thailand (EGAT), with the remaining 5 per cent going to the domestic market. The project is likely to generate \$2bn in revenue over a 25-year period. At the end of the 25-year concession, the project will be transferred to the Government free of charge with all revenues thereafter accruing to the Government.

Private companies from a wide range of countries including Republic of Korea, Japan, Malaysia, China, Thailand, France, Belgium, Thailand, the United States and Norway, among others, have participated in developing the Lao hydropower sector.

**TABLE III.1. POWER PROJECTS IN THE LAO PEOPLE'S DEMOCRATIC REPUBLIC: OPERATIONAL AND UNDER CONSTRUCTION**

NAME OF PROJECT	LOCATION   PROVINCE	CAPACITY	INVESTORS (SPONSORS)	PLANNED MARKET
<b>POWER PROJECTS – OPERATIONAL</b>				
Houay Ho (IPP)	Champasak/Attapeu	150 MW	<ul style="list-style-type: none"> <li>•Electricité du Laos (EdL) (Lao People's Democratic Republic) 20%</li> <li>• Suez Energy (Belgium) 60%</li> <li>• HHTC(Thailand) 20%</li> </ul>	Thailand
Nam Dong Hydropower	Luangprabang	1 MW	• EdL	Lao People's Democratic Republic
Nam Ko	Oudomxay	1.5 MW	• EdL	Lao People's Democratic Republic
Nam Leuk Hydropower	Vientiane	60 MW	• EdL	Lao People's Democratic Republic/Thailand
Nam Mang 3 Hydropower	Vientiane	40 MW	• EdL	Lao People's Democratic Republic/Thailand
Nam Hgum 1 Hydropower	Vientiane	155 MW	• EdL	Lao People's Democratic Republic/Thailand
Nam Phao	Bolikhamxay	1.6 MW	• Provincial authority	Lao People's Democratic Republic
Selabam Hydropower	Champasak/Attapeu	5 MW	• EdL	Lao People's Democratic Republic
Se Xet 1	Saravane	45 MW	• EdL	Lao People's Democratic Republic/Thailand
Theun-Hinboun (IPP)	Bolikhamxay	210 MW	<ul style="list-style-type: none"> <li>• EdL 60%</li> <li>• Nordic 20%</li> <li>• GMS 20%</li> </ul>	Lao People's Democratic Republic/Thailand
<b>POWER PROJECTS – UNDER CONSTRUCTION (UPDATE 30 MARCH 2009)</b>				
Nam Lik 1-2 Hydropower (IPP)	Vientiane	100 MW	<ul style="list-style-type: none"> <li>• EdL 20%</li> <li>• CWE (China) 80%</li> </ul>	Lao People's Democratic Republic
Nam Ngum 2 Hydropower (IPP)	Vientiane	615 MW	<ul style="list-style-type: none"> <li>• EdL 25%</li> <li>• CH. Kanchang (Thailand) 28.5%</li> <li>• PT Construction &amp; Irrigation Co., (Lao People's Democratic Republic) 4%</li> <li>• Ratchaburi (Thailand) 25%</li> <li>• Bangkok Expressway PCL (Thailand) 12.5%</li> <li>• TEAM Consulting Engineering 1%</li> <li>• Shalapak Group (United States) 4%</li> </ul>	Thailand
Nam Nhone	Bokeo/Luangnamtha	2.4 MW	• Nam Nhone Power Company 100%	Lao People's Democratic Republic
Nam Ngum 5 Hydropower (IPP)	Luangprabang and Xiengkhouang	120 MW	<ul style="list-style-type: none"> <li>• EdL 15%</li> <li>• Sinohydro (China) 85%</li> </ul>	Lao People's Democratic Republic
Nam Theun 2 Hydropower (IPP)	Khammouane	1080MW	<ul style="list-style-type: none"> <li>• LHSE (Lao People's Democratic Republic) 25%</li> <li>• EDF (France) 35%</li> <li>• EGCO (Thailand) 25%</li> <li>• ITD (Thailand) 15%</li> </ul>	Lao People's Democratic Republic/Thailand
Se Xet 2 Hydropower	Saravane	76MW	• EdL	Lao People's Democratic Republic/Thailand
Tad Salen	Savannakhet	3.2MW	• SIC Manufacturer (Thailand) 100%	Lao People's Democratic Republic
Theun-Hinboun Hydropower Expansion (IPP)	Bolikhamxay	220+60MW	<ul style="list-style-type: none"> <li>• EdL 60%</li> <li>• Nordic Group (Norway) 20%</li> <li>• MDX (Thailand) 20%</li> </ul>	Lao People's Democratic Republic/Thailand
Xekaman 3 Hydropower (IPP)	Sekong	250MW	<ul style="list-style-type: none"> <li>• EdL 15%</li> <li>• VLP (Viet Nam) 85%</li> </ul>	Lao People's Democratic Republic/Viet Nam

**Source:** Department of Energy and Promotion Development, the Lao People's Democratic Republic. For more details, visit the website: <http://www.poweringprogress.org/>.

### Box III.1. Government plans for hydropower development

The ultimate aim of the Lao People's Democratic Republic's plans with respect to the use and the development of its hydropower potential are to:

- Expand generation, transmission, distribution and off-grid development to increase the domestic electrification ratio from the current level of 60 per cent to a target of above 90 per cent by 2020;
- Increase Government revenues from Independent Power Plant (IPP) export investments and honoring power export commitments with neighboring countries by promoting a producer development carried out by private sector;
- Promote 500kV grid development with the Greater Mekong Subregion (GMS) to integrate the power systems of the Lao People's Democratic Republic and its neighbours.

Memoranda of Understanding (MOUs) have been signed with its neighboring countries, namely: with the Government of Thailand for the supply of 7,000MW of energy from the Lao People's Democratic Republic to the country until 2015; with the Government of Viet Nam for the supply of 3,000MW of electricity to the country until 2020; and finally with Cambodia for the supply of 2000MW to the country by 2020. The Government has also announced its intention to finance small- and medium-size hydropower plants and to study off-grid electrification through renewable energy sources.

**Source:** Department of Energy Promotion and Development, Ministry of Mines. [www.poweringprogress.org](http://www.poweringprogress.org)

### Box III.2. Investments in other energy sources in the Lao People's Democratic Republic

#### Lignite.

The Lao People's Democratic Republic has sufficient lignite reserves for about 2,000 MW installed capacity. The construction of the \$3 billion Hongsa lignite-fired plant in central the Lao People's Democratic Republic should begin towards end of 2010 through three different partners: Electricity Generating Authority of Thailand (EGAT), Banpu Power, a coal-mining group, and Ratchabury Electricity Generating Holding. Hongsa which will be the country's largest thermal power plant, will generate 1,800 MW of power and is expected to bring in \$2.5bn of dividends and taxes to the Lao state over the first 25 years of operation. Another \$375 million would be needed to develop a lignite mine to supply the plant.

#### Coal.

Vinacomin, a Vietnamese company, is looking to mine coal and build a power station in the northern province of Luang Namtha.

#### Oil and Gas.

The Vietnamese State oil and gas company, PetroViet Nam, signed a deal with the Lao Government in January 2008 to explore 14,000-sqkm in the southern provinces of Champasak and Salavan. The Lao treasury is reportedly entitled to 45 per cent of oil profits and 39 per cent from gas.

**Source:** UNCTAD.



**20** Department of Mines, the Lao People's Democratic Republic.

**21** World Bank the Lao People's Democratic Republic, Final Report for Mining, Infrastructure and Environment, November 2006.

**22** Final Report, Sector Plan for Sustainable Development of the Mining Sector in the Lao People's Democratic Republic, a study commissioned by the World Bank to the Mitsui Mineral Development Engineering Co. Ltd. (MINDECO), November 2006.

**23** Reuters, 22 January 2008.

## Mining

The mining sector has become the country's fastest-growing and most profitable sector in recent years. Contributing 20 per cent to the country's GDP and with an export share of 54 per cent to total exports, it is not surprising why the sector was named as a key sector for private investment with its potential to boost economic and social development. The opening of the two biggest mines in the country, Sepon in 2002 and Phu Bia in 2005, marked a new era of scale and efficiency for the Lao mining sector. As of October 2008, there are 127 companies (42 domestic and 85 foreign) involved in 213 mining projects at different stages of development. These figures are expected to further rise in the near future given that only 30 per cent of Lao territory has been explored, with another 650 locations identified to be containing metal ores.<sup>20</sup> Investors are mainly from China, Viet Nam, Thailand, Australia, the Russian Federation and the Republic of Korea.

It is estimated that the cumulative revenues of the mining sector will total \$2 billion by 2025.<sup>21</sup> A large portion of the Government's revenue from mining is allocated to the Trust Fund for Community Development.

According to the Department of Geology of the Lao People's Democratic Republic, the country has a total of 572 mining deposits and prospects, 47 per cent of these were found to contain gold, copper, lead and/or zinc. The potential for gold is about 500 to 600 tons; for copper 8 to ten million tons, and zinc 2 million to 3 million tons. Based on these estimates, production of the mining sector in 2025 is expected to be three times as high as the current level with the development of more than five mines with the same scale as the Sepon Mine (which has an annual production of 300,000 tons of copper and two tons of gold), not to mention the increasing activities of small mines and artisanal gold mining. With these estimates, mineral revenues in 2025 are expected to reach \$1.0 billion-1.5 billion and employ about 15,000 workers. This would roughly account for 25 per cent of GDP.<sup>22</sup>

The contribution of copper extraction to the national economy since 2000 has been especially significant. In 2008, copper production was recorded at 1.1 million tons, a very considerable jump from production figures of 62,621 recorded for 2007. Exports earnings of \$620 million for 2008 were likewise a significant increase compared to \$23 million in 2004. Earnings from copper exports are, however, unstable due to fluctuations in copper prices.

### Box III.3 Sepon Mines

Sepon was the Lao People's Democratic Republic's first large-scale mining project. Originally established by Rio Tinto in 1999, and later bought by Australia's Oxiana (OZ) one year later for \$26 million, it has, since June 2009 been acquired by Minmetals, a Chinese State-owned mining company. The new management has announced that the change in ownership would not affect the company's commitments to the Lao Government, workers and communities around the mining sites, and that there will be no lowering of environmental or safety standards.

With proven reserves of 48.8 tons of gold and 812 tons of copper, it remains the country's largest mine with an annual output of 102,390 oz in gold and 62,541 tons in copper in 2007. Copper and gold from Sepon currently account for 50 per cent of Lao People's Democratic Republic total merchandise exports. The mine's cathode copper-making plant is to be upgraded in 2010, with an expected costing of \$178 million, which will lift annual output to 80,000 tons while cutting production costs by 10 per cent 23.

Under OZ, with most of its local staff (numbering 2,000 in 2008 compared to 300 expatriates) initially lacking many required skills, staff annual training formed part of the company's commitment. In the past years, workers were sent on exchange programmes to OZ's mines in Australia and professors from leading Australian universities were invited to the Lao People's Democratic Republic to conduct training courses. The company had likewise invested \$500,000 in local community development, mainly in schools, small surgeries and clean water projects. In addition, the company accommodated its staff and provided social facilities within the mine compound. Finally, in order to reduce the impact of the mine on the local community and environment, OZ had also taken extensive measures to contain leech ponds, control river sediments, and plant trees to prevent erosion.

**Source:** UNCTAD Survey, August 2008.

For centuries, sapphires have been an important source of revenue for the Lao People's Democratic Republic, particularly in the North-western regions near Ban Houeixay. Sapphires are still mined by small artisan firms, thus contributing to the development of the remote areas. Demand has shown strong growth over the last few years, specifically in jewelry and computer chips industries. In a sign of continued interest in this market segment, a recent re-examination of the non-operational Bokeo sapphire mine by a joint venture of the Lao International Trade and Service Enterprise and Sino-Resource Mining Corporation revealed a high probability of finding deposits. Both sapphires and gold

have the great advantage of high unit value and small bulk, allowing for relatively cheap and flexible transportation, which is important for a landlocked country like the Lao People's Democratic Republic.

Tin reserves have also been exploited in the country since French colonization. Today, tin mining is concentrated in Khammouan province while explorations are currently carried out in the eastern Vientiane region. The Russian Federation's Bo Baikol Company and the Lao–Republic of Korea Company are the main players in this market segment, with a combined output of more than 11,000 tons of concentrate.

**TABLE III.2. FOREIGN MINING COMPANIES, 2008**

COUNTRY	NUMBER OF COMPANIES	SHARE (IN %)
China	48	56.5
Viet Nam	19	22.4
Thailand	6	7.1
Australia	4	4.7
Russian Federation	2	2.4
Democratic People's Republic of Korea	2	2.4
Republic of Korea	1	1.2
Canada	1	1.2
England	1	1.2
Poland	1	1.2
TOTAL:	85	100

Source: Department of Mines, the Lao People's Democratic Republic.

**TABLE III.4. MAIN MINERAL OUTPUTS IN 2008**

		PRODUCTION (TONS)	DEVELOPER
<b>Gold</b>	Sakay	4.2	Lao People's Democratic Republic
	Sepon	2.6	OZ Minerals (Australia)
	Phu Bia	0.7	Pan Australian Resources (Australia)
	Phapon	2.1	Huajing Mining (China)
	Total potential reserves	500-600	
<b>Copper</b>	Sepon	64,000	OZ Minerals (Australia)
	Phu Bia	25,000	Pan Australian Resources (Australia)
	Total potential reserves	8 million–10 million	

Source: World Bank, IMF.

**24** The Economist Intelligence Unit, Country Report, April 2007.

**25** National Report for the Lao People's Democratic Republic", Rapid Trade and Environment Assessment (RTEA), 24 September 2007, published jointly by the International Institute for Sustainable Development, Swedish International Development Agency, and the World Conservation Union.

The potential in iron ore deposits of the Lao People's Democratic Republic's central and northern regions was recognized as far back as colonial times, but processing and transportation costs have always been prohibitive. However, with the current and upcoming infrastructure programmes and positive conditions in international markets, Lao iron ore deposits have attracted more attention. In 2007, two Vietnamese companies, Viet Nam National Coal-Mineral Industries (VNCMI) and Hoa Phat Group, announced their interest in iron and steel production in the Lao People's Democratic Republic. VNCMI outlined a plan to invest \$3 million in exploration of iron mines and \$500 million to build a steel production facility.

Finally, bauxite deposits in the Bolavens Plateau have been explored by various foreign and local developers. It was revealed that the Plateau might contain some of the largest undeveloped bauxite deposits in the world, potentially yielding an estimated 20 million tons a year, or five to seven million tons of alumina.<sup>24</sup> Sino Australian Resource, a joint venture between China's Non-ferrous Metals International Mining and Australia's Ord River Resources announced a \$3.6 billion project in 2007 for a 730 square km concession on the Plateau.

**TABLE III.5. CHARACTERISTICS OF THE LAO MINING INDUSTRY**

ITEM	MEDIUM-LARGE MINES	SMALL MINES	ARTISANAL MINERS
Capital	Australia	Local/neighbouring countries	None
Technology	Modern	Traditional	None
Product(s)	Gold/electric copper	Metal concentrate/ industrial materials	Gold particles
Employees	500–2,500 workers	10–150 workers	Household
Environmental consideration	Existing	None	None
Mining Rights	Existing	Existing	None (partially existing)
Engineers	Distributed into each field	Partially distributed	None
Sales	\$90million/mine	\$10,000–1 million	\$200–800/ household

**Source:** Final Report, Sector Plan for Sustainable Development of the Mining Sector in the Lao People's Democratic Republic, a study commissioned by the World Bank to the Mitsui Mineral Development Engineering Co. Ltd. (MINDECO), November 2006.





#### Box III.4. Towards a more modern regulatory regime for the mining sector

The Government, recognizing the need to improve the legal and regulatory environment governing the mining sector, is currently revising its 1997 Mining Law, a move that would make the country more attractive as an investment destination for foreign mining companies and at the same time better ensure that the country reaps the utmost benefit from investments in the mining sector.

The new draft Mining Law aims to, among others, create a more secure licensing and investment process with a more streamlined and transparent administrative procedure. Some of its salient features include:

- Streamlined licensing for mining investments, including the development of model licensing agreements to better rationalize the number and scope of terms contained in these agreements;
- Establishment of a Mining Registrar with a "front counter" for receiving application, providing compliance information and disseminating information about the mining sector;
- Use of objective criteria in making decisions on applications; providing written justifications when applications are rejected;
- Establishment of an Inter-Ministerial and Provincial Cooperation Committee on Mining to avoid any duplication of functions within different levels of government;
- Establishment of a Steering Committee on Large Mines that will serve as the governing body for large projects; and
- Establishment of an Artisanal Mining Committee to bolster small-scale mining development and deal with health, safety, environmental and underground/informal issues which are prevalent in this segment.

**Source:** Business Issues Bulletin, the Lao People's Democratic Republic, No. 6, March 2008. Lao National Chamber of Commerce and Industry/Mekong Private Sector Development Facility.

#### Box III.5. Large-scale investments in key sectors give rise to environmental concerns

The Lao People's Democratic Republic, which derives a large portion of its revenue from investments in key sectors such as hydropower, mining, agricultural plantation and construction, has to face the unavoidable challenge of environmental management, lest it strip itself of the wealth to sustain the future generation. By their very nature, engaging in the abovementioned activities could be hazardous to the environment owing to their use of and reliance on natural resources. These impact specifically on forest resources (e.g. flooding of forest areas for dams and forest clearance for mining operations); water resources (impacts of dams on natural flows and pollution from mining and processing activities); and biodiversity (e.g. habitat loss, pollution and impact of dams and mining activities on fisheries resources).<sup>2</sup> Mining activities, in particular, may result in severe erosion, loss of vegetation, severe water pollution, massive siltation and toxic metal discharges causing irreparable damage to forest resources and pose a threat to biodiversity. All these negative environmental impacts would have dire consequences to communities and their sources of livelihood, as in some reported cases of hydropower projects devastating fisheries resources as well as undermining the country's tourism attractiveness.

In terms of laws and regulations on environmental protection and management, the Lao People's Democratic Republic is not wanting. In fact, basic legislation and general Government direction favour environmental protection. What is needed is to ensure that the Lao Government and its institutions have the capacity to implement such regulations and monitor their implementation. The National Growth and Poverty Eradication Strategy (NGPES, 2004), the government's over-all policy framework governing the country's strategy on economic growth and poverty eradication, recognizes that solutions for environmental conservations have to be founded in the broader context of national development where each sector integrates environmental principles in its policies, programmes and projects. The National Environment Strategy 2003-2020, which is an integral component of the NGPES lists three main strategies to ensure sustainable development: (a) improving the management of natural resources through increased grassroots participation in environmental projects, including co-management of environmental services and resources; (b) improving the institutional framework and its capacity; and (c) improving the environmental management in industrial and construction sectors.

With respect to the regulatory framework for environmental protection, the Environmental Protection Law (1999) provides for, among others: (a) the conduct of environmental impact assessments; (b) greening production processes; and (c) protecting natural resources, biodiversity and cultural and historic sites. Specific to mining, the Mining Law requires the conduct and submission, along with the feasibility study, of an environmental impact assessment (EIA) which details an estimate of the project's environmental impacts and proposed alternatives and measures to avoid or reduce the adverse impacts on the environment, ecology and communities; and an evaluation of the loss to be incurred and the proposed rehabilitation, including methods proposed to avoid the impact on people, including plans for resettlement and means of livelihood. Environmental governance, however, remains weak. There have been reports of mining companies not conducting effective environmental controls, with no proper environmental mitigation activities and lacking in longer-term rehabilitation and reclamation programme. There is lack of institutional capacity to plan, regulate and monitor these investment activities. Compounding the problem is the inadequacy of skills and capacity to assess EIA documents, the lack of clarity as to regulatory mandates of various ministries and agencies, the absence or lack of legislated penalties for violators of the law, and the absence or lack of independent monitoring system with respect to these sectors activities make it easier (and less costly too) to escape their environmental obligations.

**Source:** National Report for the Lao People's Democratic Republic", *Rapid Trade and Environment Assessment (RTEA)*, 24 September 2007, published jointly by the International Institute for Sustainable Development, Swedish International Development Agency, and the World Conservation Union; the Lao People's Democratic Republic Environment Monitor 2005, World Bank.



### Box III.6. Managing the environment for a more sustainable future

The Lao People's Democratic Republic, with funding and support from international donors and non-governmental institutions, has engaged and continues to engage in processes and projects seeking to address various environmental concerns. Most recent institutional initiatives include: enacting the environmental impact assessment decree, development of a policy to safeguard the environmental and social sustainability of the hydropower sector; creating an Environmental Protection Fund; strengthening the regulation for wildlife trade in endangered species; creating a specialized agency to protect and manage the Nam Theun Watershed; decentralizing environmental functions to provinces; improving water and air quality monitoring; and establishing third-party monitoring protocol to report on environmental impacts of development projects.

Donor-funded projects include the Canadian International Development Agency's, capacity-building project to independently develop and implement proper environmental monitoring programmes for mining projects and the Swedish International Development Agency's capacity building support in developing environmental strategies for the country. More recently, the Poverty Environment Initiative (PEI), a joint project by UNDP and UNEP was introduced in the Lao People's Democratic Republic in 2009. Among the PEI's key outputs include supporting the Investment Promotion Department and provincial authorities to manage investments to maximize social benefits and minimize environmental impacts and providing support to the Water Resources and Environment Agency (WREA) to strengthen Environmental Social Impact Assessment processes. Some of the activities aimed at strengthening the capacities of national and provincial authorities to plan and manage investments for sound environmental management include: (a) supporting the integration of social and environmental considerations into new investment legislation; (b) strengthening institutional arrangements for inter-sector coordination related to investments; (c) strengthen provincial level capacities to realize investment appraisal, location and negotiation; (d) strengthen provincial level authority's capacity to monitor and enforce investment compliance; and (e) support the establishment of community consultation mechanisms to inform investment decisions.

In September 2009, the Inception Workshop for Investments in the Lao People's Democratic Republic: Minimizing the Social and Environmental Impacts was conducted to strengthen capacities of national and provincial authorities to design, negotiate, plan, monitor and enforce appropriate investment contracts that maximizes positive social and environmental outcomes as well as support the government's implementation of the new Law on Investment Promotion.

These initiatives, it is hoped, should help the Lao People's Democratic Republic build its capacities and strengthen its institutional and regulatory preparedness to balance the want and need for short-term economic gains from investments against the sustainability of its valuable natural resources as sources of long-term growth and development for the country.

**Source:** The Lao People's Democratic Republic Environmental Monitor," World Bank, 2005; UNEP/UNDP Poverty Environment Initiative Fact Sheet for the Lao People's Democratic Republic 04/2009, April 2009.



**26** National Tourism Development Strategy for the Lao People's Democratic Republic 2006-2020, Lao National Tourism Authority.

## Tourism

The Lao People's Democratic Republic has seen a boom in the tourism sector in recent years, with close to a five-fold increase in tourist arrivals in 2008 (with 1.7 million visitors) compared to the 1995 figure. Among its many attractions include two UNESCO World Heritage sites – the ancient capital of Luang Prabang and the Wat Phu temple complex in Champasak Province as well as large tracts of beautiful wild landscape and isolated villages of traditional ethnic communities.

The tourism sector accounts for an 8 per cent share in GDP and 3.4 per cent of total employment. According to the National Tourism Administration (NTA), the number of hotels in the country increased by an annual average of 19 per cent since 2001 while that of guesthouses and resorts more than doubled during the same period. The sector's sustained growth (15 per cent, according to latest figures) is expected to continue as the total number of visitors is projected to reach 2 million with \$600 million in revenue by 2010,

which is significant for the Lao People's Democratic Republic in terms of GDP and foreign currency revenue. Considering that the tourism industry gives rise to other opportunities in complementary services such as hotels, transport and telecommunications, banking and insurance and other business services, its real contribution to the economy is more than what the actual figures present.

Realizing the great potential of the sector for the country's economy, the Government has been devoting considerable energy in promoting the country as a destination and is determined to sustain this boom through the implementation of the National Tourism Development Strategy 2006–2020. Under the Government's strategy, three main areas of the country have been identified for development: Luang Prabang, Luangnamtha, Xiengkhuang and Bokeo in the north; Vientiane Capital City, Khammuane, Savannakhet in the central region, and finally, Champasak, Attapue and Salavanh in the south. Luang Prabang province was chosen as pilot experience given its central position within ASEAN.<sup>26</sup>

### Box III.7. The Lao People's Democratic Republic's rich natural and cultural heritage

The Lao People's Democratic Republic's natural and cultural heritage is the main attraction for international visitors. Forty per cent of the country remains forested while natural reserves constitute 12 per cent of its total surface, thus making the Lao People's Democratic Republic one of the most intact natural environments in South-east Asia. Located in the southern end of Si Phan Don, an intricate network of islets where the Mekong fans, Khone Phapheng is considered the largest waterfall (by volume) in the region. Moreover, the Mekong river is navigable from June to February, offering tourists an opportunity for pleasant cruises on luxury teak houseboats.

There are two UNESCO World Heritage sites in the Lao People's Democratic Republic – the ancient capital of Luang Prabang and the Wat Phu temple complex in Champasak Province. Wat Phu is small compared to the monumental Angkor-era sites in Cambodia or Thailand, but the tumble-down pavilions, enigmatic crocodile stone and tall trees that ornate the site give Wat Phu a unique mystical atmosphere. Another landmark is the Plain of Jars, a large area extending around Phonsavan covered with scattered groups of huge jars of unknown origin.

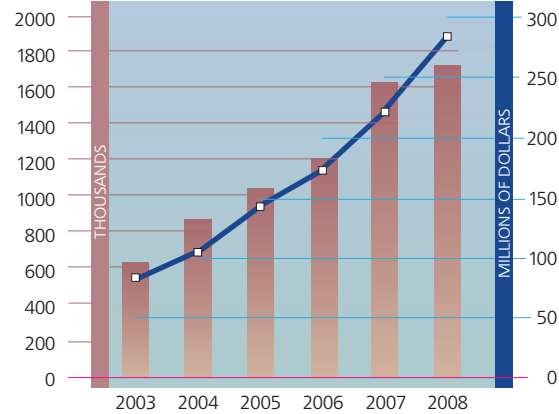
With 47 major ethnic groups and some 200 ethnic subgroups speaking over 230 different languages, it is one of the most ethnically-diverse countries in the world, and thus offers a rich variety of largely unchanged traditions and cultures. Important festivals take place approximately once a month from March to November in different regions of the country and are mostly connected to Buddhist celebrations. The best moment of the year for visiting the Lao People's Democratic Republic is between November and April, where it is dry and the temperature is at its mildest at 19 degrees Celsius.

In a bid to prepare and position the Lao People's Democratic Republic as a world-class eco-tourism destination, the Lao National Tourism Administration endorsed the National Ecotourism Strategy and Action Plan 2005–2010 with the vision to promote sustainable tourism through natural and cultural heritage conservation, environmental protection and local socio-economic development. Action plans (operationalized through specific projects and activities) were then identified to fulfil the following objectives: strengthening institutional capacity for planning and managing ecotourism growth; developing infrastructure and facilities and improving access to ecotourism sites; training and advocacy (to local communities, private sector, and those engaged by the sector); encouraging the private sector to adhere to best practices in ecotourism activities, including instituting community and private sector partnerships in the provision of ecotourism products and services, among others. The strategy is hoped to promote greater interest in the ecotourism sector among stakeholders, including tour operators and tourism service providers.

**Source:** UNCTAD; "National Ecotourism Strategy and Action Plan 2005-2010: Summary", Lao National Tourism Administration.

**FIGURE III.1 TOURISM TRENDS IN THE LAO PEOPLE'S DEMOCRATIC REPUBLIC**

■ International Arrivals (Left-hand Scale) ■ Tourism Revenues (Right-hand Scale)



Source: Mekong Tourism Coordinating Office:  
<http://www.mekongtourism.org>, information accessed in January 2010.

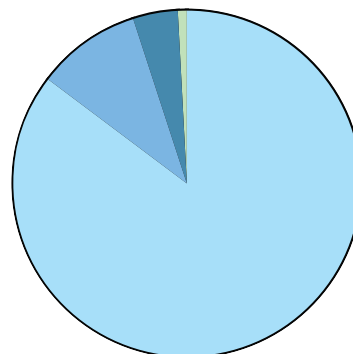
**TABLE III.6. TOURIST ARRIVALS IN THE LAO PEOPLE'S DEMOCRATIC REPUBLIC BY NATIONALITY, 2008**

COUNTRIES	NUMBER OF ARRIVALS	MARKET SHARE (%)
Thailand	891,448	51.27
Viet Nam	351,384	20.21
China	105,852	6.09
United States	54,717	3.15
France	39,077	2.25
United Kingdom	36,038	2.07
Japan	31,569	1.82
Australia	28,180	1.62
Germany	25,191	1.45
Republic of Korea	18,065	1.04

Source: Statistical Yearbook 2008, the Lao People's Democratic Republic, Ministry of Planning and Investment, Department of Statistics.

**FIGURE III.2. TOURIST ARRIVALS BY CONTINENT OF ORIGIN, 2008 (% OF TOTAL)**

Aisa and Pacific	85.26%
Europe	9.71%
America	4.33%
Africa and Others	0.59%



Source: Statistical Yearbook 2008, the Lao People's Democratic Republic, Ministry of Planning and Investment, Department of Statistics.

The Lao People's Democratic Republic has yet to realize its potential to become a major tourism destination in the region. At the moment, the country is usually a side trip for tourists in the Mekong area, with an average stay of 4.5 days and only half of tourists coming back to the country. Average receipt per arrival in the Lao People's Democratic Republic was \$290 compared to \$855 in Thailand and \$570 in Cambodia.

The Government is aware that more can be done to boost the sector's performance. In recent years, the NTA has collaborated with the Tourism Business Association, hotels, and restaurants to advertise and promote Lao tourism both at regional and international levels. In addition, 13 checkpoints have been upgraded to international standards and with the capacity to issue visas on the spot.

### Box III.8. Enhancing subregional links to boost Lao tourism

Realizing the importance of co-developing their tourism industries, the Lao People's Democratic Republic, Viet Nam and Cambodia signed in 2007 a tripartite agreement aimed at boosting tourism development projects in 10 provinces in these three countries. The project includes conducting joint surveys on tourism development potential and foreign direct investment attraction capacities in these jointly-promoted provinces as well as projects relating to immigration control and tourism infrastructure construction.

In addition, an ADB-funded road system improvement in the Lao People's Democratic Republic and Viet Nam is aimed at better linking these three countries' tourism industries and is hoped to narrow the gap in tourism administration and management between the Lao People's Democratic Republic, Viet Nam and Thailand. ADB estimates that the link will increase the number of tourists from these three countries and abroad by 15 per cent annually. For the Lao People's Democratic Republic, more than developing the tourism industry, this key road link will integrate the markets of the Greater Mekong Subregion countries and will help facilitate the movement of goods and services – an issue of key interest for both domestic and foreign investors.

Already, intraregional tourism is on a steady increase and the number of tourists arriving from ASEAN countries as well as China has been growing both in number and spending power. Chinese developers have also now moved into the Lao People's Democratic Republic to exploit opportunities in the country's tourism market.

**Source:** Viet Nam News, ASEANAffairs – [www.aseanaffairs.com](http://www.aseanaffairs.com); information accessed in October 2009.



## Agriculture

Foreign agricultural investors are not only attracted by low land prices and rents, but also lower tariffs and duties on Lao exports, given the country's status as a least developed country.

While agriculture remains the most important sector in terms of share to GDP and contribution to employment, the sector continues to be largely dominated by subsistence farming employing traditional farm methods. In terms of productivity, the Lao People's Democratic Republic fares relatively well compared to its regional neighbours as shown

in the table below, with annual output per worker improving steadily in recent years, exceeding that of Viet Nam's and Cambodia's.

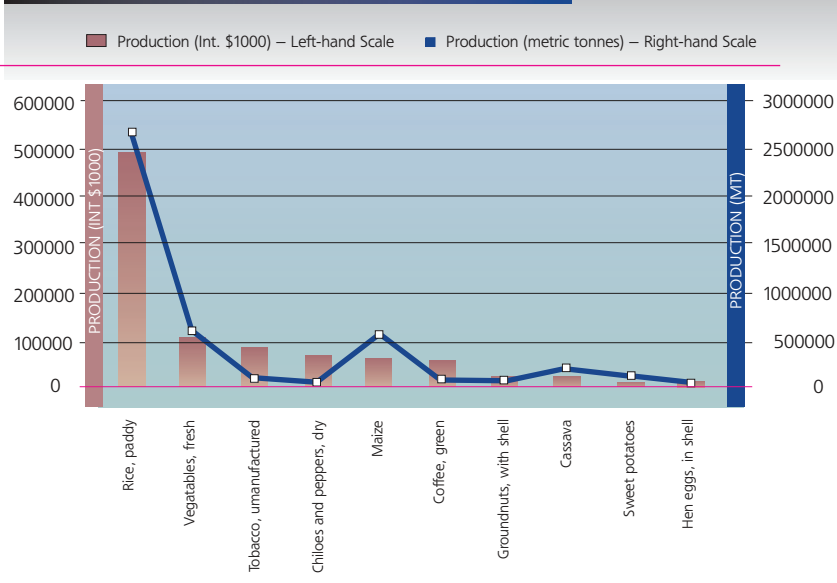
The introduction of better farming practices and improved technology by foreign investors have brought benefits to the sector. There are promising opportunities in the transition from subsistence to commercial agriculture for both Lao farmers and foreign investors, especially through contract farming for rice, maize and other products, and their processing. Organic production in particular is being targeted by the Government as a promising niche for exports.<sup>27</sup>

**TABLE III.7. AGRICULTURAL PRODUCTIVITY, THE LAO PEOPLE'S DEMOCRATIC REPUBLIC AND SELECTED REGIONAL NEIGHBOURS**

COUNTRY/GROUP	AGRICULTURAL VALUE-ADDED PER WORKER (2000 \$)
Lao People's Democratic Republic	459
Cambodia	314
Viet Nam	304
Thailand	624
East Asia and the Pacific	438
Low-income	319
World	908

**Source:** World Development Indicators 2009, World Bank. Data are for the period 2003-2005.

**FIGURE III.3. AGRICULTURAL PRODUCTION**



**Source:** FAOStat, <http://faostat.fao.org/site/339/default.aspx>, accessed online, January 2010. Latest data was for 2007.



In a bid to stimulate growth in rural areas, the Lao Government opened the agriculture sector to foreign investment in 2005. In 2006 alone, the Government approved 30 agriculture projects worth a total of \$458 million. Concessions were granted to Lao firms as well as Chinese, Vietnamese and Thai investors. More recently, Republic of Korea entrepreneurs have invested, together with Lao firms in a joint venture to establish cassava plantations in the Lao People's Democratic Republic.

Rice yields increased from 2.6 tons per hectare in 1996 to 3.5 tons in 2006. The target of 3.3 million

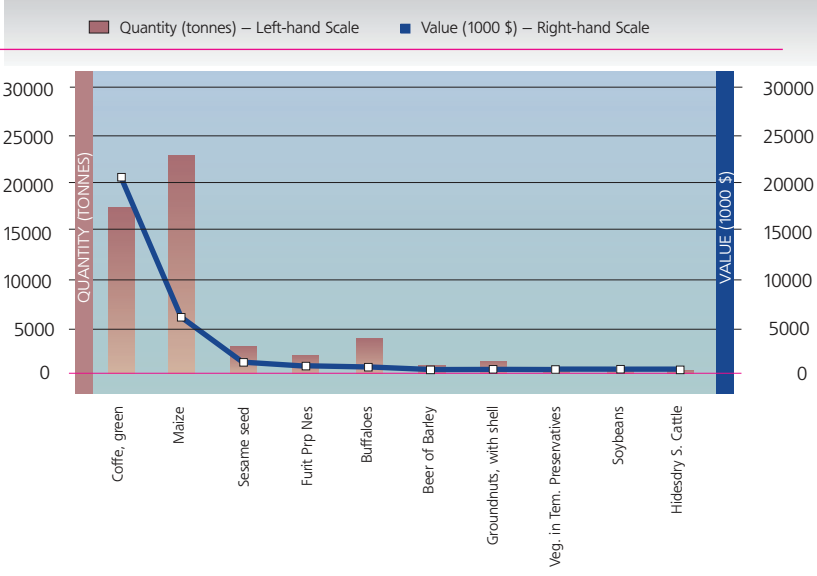
tons for 2010 is likely to be surpassed with the introduction of new rice strains and improved farming methods which will boost yields to 5 tons per hectare. However, being the main food item for the Lao population, only a small percentage of the country's total rice production is exported. In an attempt to diversify the sector and improve its responsiveness to international commodity markets, the government has encouraged the switch of land usage from rice to cash crops with relative success as new crops continue to attract large FDI inflows. However, with the recent spike in food prices, both the Government and foreign investors are likely to revise their crop allocation targets.<sup>28</sup>

**TABLE III.8. AGRICULTURE PRODUCTS BY REGION OF CULTIVATION**

PRODUCT	REGION
Maize	Bokeo, Sayaboury, Houaphanh, Xiengkhouang
Soybean	Luang Prabang, Bokeo, Houaphanh, Champasak
Sugar cane	Vientiane, Phongsaly, Borikhamsay, Luang Namtha
Vegetables	Boloven Plateau Rubber Oudomsay, Luang Namtha, Bokeo, Sekong, Khammouane, Champasak
Coffee	Champasak, Saravane, Sekong
Sesame	Luang Prabang, Sayaboury, Oudomsay, Vientiane
Teak	Luang Prabang, Sayaboury, Vientiane, Bopkeo, Chamapasak, Bolikhamxay, Attapeu

Source: National Social and Economic Development Plan 2006–2010.

**FIGURE III.4. TOP AGRICULTURE PRODUCT EXPORTS**



Source: FAOstat, <http://faostat.fao.org/site/339/default.aspx>, accessed online, January 2010. Latest data was for 2007.

**29** FAOStat  
<http://faostat.fao.org/site/339/default.aspx>

**30** World Bank (2008). Lao Economic Report.

Foreign investments have been so far focused on cash and export-oriented crops. Maize, soybean, tea, vegetables and other cash crops have received significant investments from Thailand, China and Viet Nam, through projects and contract farming in border provinces. In the past two years, for instance, Thai CP Group has invested in maize plantations in Sayaboury province, while River Kwai International Food Industry invested in organic farming in Paksong.

Coffee is a particularly prominent agricultural export product given the high quality of Lao beans. The Lao People's Democratic Republic is increasingly becoming a significant coffee producer in the region, with 24,690 tons produced in 2006. For the same period, Thailand's production reached 46,900 tons and Viet Nam's was recorded

at 853,500 tons.<sup>29</sup> Sugarcane production is also peaking up, the main foreign investor being Mitr Phol Sugar. Its Lao investments, mainly in Savannakhet province rose from \$26 million to nearly \$70 million in 2007, with new projects planned for early 2009.<sup>30</sup> The main export market for sugar is China.

The Government's strategy to further improve the country's attractiveness as an investment destination for agricultural production includes establishing provincial production zones and distribution centres, training farmers in new value added segments and encouraging the use of new technologies in farming. Introducing a system of certification for exports should also improve growth in the sector.

#### **Box III.9. The Lao People's Democratic Republic to join ASEAN "Rice-exporting Association" and the International Coffee Organization**

The Lao People's Democratic Republic, together with the other rice-producing ASEAN countries which are members of the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy Group, namely the Lao People's Democratic Republic, Cambodia, Myanmar, Thailand and Viet Nam, have unveiled ambitious plans for rice farming. The proposed consortium, which member countries would want to see kick-off in 2010 has as its primary aim, the stabilization of rice prices for the benefit of the exporting members. Rice from Cambodia, Viet Nam and Thailand is believed to account for more than half the world's total annual exports of the grain. The Lao People's Democratic Republic believes it could grow rice on more than 2 million hectares of land, as opposed to the 900,000 hectares currently being used. To realize this, it would need technical assistance from its neighbours and other donors.

The country is also expecting to join the International Coffee Organization (ICO) this year – a membership which it hopes will enhance Lao coffee's global reputation and attract foreign investment. To date, almost 95 per cent of the Lao People's Democratic Republic's coffee production is exported.

**Source:** The Economist Intelligence Unit, Country Report, September 2009.



**31** The Lao People's Democratic Republic Economic Monitor 2008, World Bank.

**32** The Economist Intelligence Unit, Country Report, September 2009.

**33** Ibid.

**34** The Lao People's Democratic Republic Economic Monitor 2008, World Bank.

**35** "Field report for rubber and sugar cane", NAFRI 2003.

**36** Ibid.

**37** Laos Today, 06 June 2007.

## Forestry

The forestry sector provides another potential source of growth, especially in rural areas. The sector accounted for \$153 million of exports in 2006, ranking it as the second biggest merchandise export product after copper.

The sector is dominated by natural log but it also produces a wide variety of other woods such as cork, rattan, bamboo and eucalyptus. The nascent pulp tree and waste paper industry had exports of \$500,000 in 2006. The demand for such products is expected to grow rapidly, especially in India and China. The largest companies in this industry are Oji Lao Plantation Forest Company and Aditya Birla Group of India. Both companies have aggressively expanded their eucalyptus plantations in the Lao People's Democratic Republic in the past few years. Aditya Birla in particular has plans to exploit 7,500 ha per year throughout 2012.<sup>31</sup> A Chinese paper company, Shan Dong Sun, which obtained a land concession for 50 years, plans to establish a 30,000 ha eucalyptus tree plantation in Savannakhet. The company also plans to build a pulp mill to process the wood into paper. The \$2 billion project is expected to provide employment for about 60,000 people.<sup>32</sup>

The Government is keen to promote the sustainable management of its forests following slash and burn agriculture and illegal logging. With respect to the latter, concerns were expressed that continued forest encroachment, which was blamed on a failure to monitor investment project, would impact negatively on existing and planned hydropower projects and the Lao People's Democratic Republic may not be able to retain the water needed to power its ambition to be the "battery of Asia".<sup>33</sup> While this has increased scrutiny of the sector, bona fide investors remain welcome.

## Natural rubber industry

The Lao People's Democratic Republic has a tropical climate that is well suited to rubber plantations. It has also seen strong growth in production. Exports grew from almost nothing in early 2000 to 10,800 tons in 2006. By 2006, 11,800 ha had been given over to rubber cultivation with another 182,000 ha allocated to newly approved projects. The Ministry of Agriculture and Forestry revealed plans for rubber plantations on 250,000 ha of land by 2010, with the largest concentrations in the southern provinces of Saravan, Champassak and Attapeu.

Currently, the most active investors in the rubber sector are Chinese, Vietnamese, and Thai. In addition to key projects in recent years such as Daklak Rubber, Viet Nam General Rubber, Lao-Thai Hua Rubber, Junnan Power Biological Products Group, 2007 saw increased activity, with new projects worth tens of million dollars by Quang Minh Rubber, Lao-Quasa-Geruco Joint Stock (\$19 million), and Dau Tieng Viet Lao Rubber Joint Stock.<sup>34</sup>

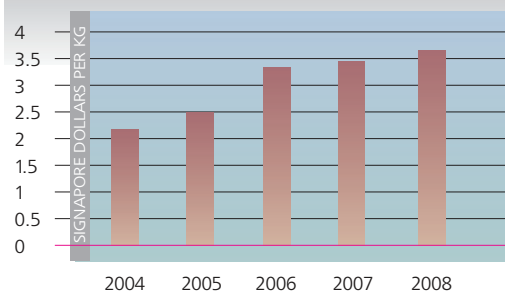
As rubber trees in China grow older and become less productive, Chinese companies are targeting the northern regions of the Lao People's Democratic Republic to compensate for slowing output growth at home.<sup>35</sup> China's State-owned Yunnan Natural Rubber Industrial company has gradually expanded its holdings to over 66,000 ha of rubber plantations in northern the Lao People's Democratic Republic, with long-term plans to reach 133,000 ha by 2010 and 333,000 ha by 2015.<sup>36</sup> Vietnamese investments are concentrated in the south, mainly in Champasack, Saravan, Sekong and Attapeu. Dak Lak Rubber planted 10,000 ha in 2007, and is expanding by 2,000-2,500 ha in 2008. The Lao Government has also signed a partnership agreement with another company to plant 4,000 ha against a 50 year lease and fiscal privileges.<sup>37</sup> Finally, Japanese, Indian and Scandinavian companies are also becoming active players in the sector, with a strong presence in the central provinces.

The expansion of rubber plantations remains one of the most controversial issues in the Lao People's Democratic Republic, with concerns raised that such activity is being used as an excuse to amass huge land areas or that rubber investments as environmentally damaging.<sup>38</sup> But the Government continues to be interested in developing a rubber-processing industry and towards this end is looking at training workers, improving access to capital by local farmers and ensuring adequate supplies of high-quality seeds.

### Special economic zones

The Law on Investment Promotion allows for the establishment of special economic zones as an investment incentives. The Savan-Seno, a zone in southern Savannakhet province, which borders both Viet Nam and Thailand, is such a zone. Businesses setting up in the zone are exempt from profit tax for up to 10 years, and are then subject to a discounted profit tax rate of 8 per cent. Thus far, only seven companies have agreed to invest in the area. However, in August 2009, a Hong Kong (China) garment company, Cherry Body Fashions, announced plans to set up a large factory at Savan-Seno. Cherry will benefit not only from investment incentives, but also from exemptions from customs duties on imports of raw materials as well as low-tariff access to foreign markets, including India and the EU. The most pressing challenge remains the extent to which the province could provide sufficient labour for the needs of businesses setting up in the zone.

**FIGURE III.5. AVERAGE NATURAL RUBBER PRICE IN SINGAPORE EXCHANGE**



Source: GlobStat, UNCTAD Statistics. Data accessed in January 2010













The investment environment is currently being reformed with the recent adoption by the National Assembly of the 2009 Law on Investment Promotion. The new law, which merges the laws governing domestic and foreign investments, previously contained in separate laws, will (going by the letter of the law) significantly simplify investment application procedures and level the playing field for foreign and local investors by affording them equal incentives. One key change which is of utmost interest to foreign investors is the provision allowing foreigners to own land, previously reserved only to Lao nationals. Complementing recent regulatory improvements, such as the implementation of the provisions of the Enterprise Law (2007), the reforms in the banking sector, as well as the restructuring of State-owned enterprises, the new Law on Investment Promotion is an important step to improving the Lao People's Democratic Republic's investment environment.

This section on regulatory framework presents the legal aspects of the investment environment and should be read together with the next chapter on investor perceptions.

## Legal and judicial system

### Basis

The legal system of the Lao People's Democratic Republic derives, historically, from Lao customary law and tradition, and aspects of French law and post-1975 socialist-inspired ideology. However, this legal framework has been undergoing substantial reform, driven by post-1986 liberalization, regional integration and the goal of the country to join WTO.

### Legislative aspects

The Constitution vests legislative power in the National Assembly, which has the sole right to pass laws and request their promulgation by the President within 30 days. Draft laws may be proposed to the National Assembly, via the Drafting Committee of the Prime Minister's Office, by the National Assembly itself, the President, the Government, the Supreme Court, the Public Prosecutor-General and mass organizations at the central level.

Laws and resolutions passed by the National Assembly are subordinate to the Constitution, but have primacy over Presidential Decrees, Government Decrees and Decisions, Ministerial Decisions, Instructions, Orders and Notifications, Governors' Decisions, and Province and Village regulations.

### Judicial aspects

The judicial system has the Supreme Court at its apex. The Appellate Court is immediately below it, followed by the Provincial and Municipality Courts and the District Courts. The Appellate Court was specifically created to hear appeals relating to the Provincial, Municipality and District Courts.



39 Information provided by the Ministry of Planning and Investment; Vientiane Times, 10 July 2009.

### Institutional framework

The approval in July 2009 by the Lao National Assembly of the new Law on Investment Promotion saw the much-awaited merger of the laws on domestic and foreign investment. The move was aimed at, among others, harmonizing and standardizing the requirements, procedures and incentives for both foreign and domestic investors. Although the implementing decree is still under consideration, the new law, together with other regulatory and institutional improvements, would help facilitate and speed up the approval of business ventures across the country.

Among the features most highlighted in the new Law include<sup>39</sup>: same tax exemptions for local and foreign businesses, access to a strengthened and more effective one-stop service for local and foreign investors to hopefully reduce the total business registration period from the current 45 days to 10 days, and, of interest to foreign investors most especially, they would now have the right to purchase land in the Lao People's Democratic Republic, although the specific size and number of land parcels that foreigners are allowed to purchase, and other related issues, still need to be defined through further regulation.

The Investment Promotion Department (IPD), operating under Ministry of Planning and Investment acts within the Lao People's Democratic Republic as the permanent office with One-Stop Service Unit to promote and facilitate foreign investments. As the lead agency for all matters relating to FDI, the IPD:

- (a) proposes strategies and incentives to promote and attract foreign investments;
- (b) issues decisions, orders and instructions regarding the protection and promotion of foreign investments;
- (c) disseminates policies, laws and regulations and other information of interest to foreign investors;
- (d) supervises and coordinates with sectoral organizations and local authorities in implementing the Law on the Promotion of Foreign Investment;
- (e) issues or withdraws a foreign investment license, particularly concerning projects involving the grant of a concession; and
- (f) serves as a focal point in disputes concerning the business operations of foreign invest

**TABLE IV.1 BILATERAL INVESTMENT TREATIES**

COUNTRY	DATE SIGNED	ENTRY INTO FORCE
Australia	6 April 1994	8 April 1995
Cambodia	24 November 2008	—
China	31 January 1993	1 June 1993
Cuba	28 April 1997	10 June 1998
Denmark	9 September 1998	9 May 1999
France	12 December 1989	8 March 1991
Germany	9 August 1996	24 March 1999
India	09 November 2000	5 January 2003
Indonesia	18 October 1994	14 October 1995
Japan	03 August 2008	—
Malaysia	8 December 1992	—
Mongolia	3 March 1994	29 December 1994
Myanmar	5 May 2003	—
Netherlands	16 May 2003	—
Pakistan	23 April 2004	—
Republic of Korea	15 May 1996	14 June 1996
Russian Federation	6 December 1996	9 February 2006
Singapore	24 March 1997	26 March 1998
Sweden	29 August 1996	1 January 1997
Switzerland	4 December 1996	4 December 1996
Thailand	22 August 1990	7 December 1990
United Kingdom	1 June 1995	1 June 1995
United States	3 August 1996	—
Viet Nam	14 January 1996	23 June 1996

Source: UNCTAD, International Investment Instruments, online database

40 Department of Domestic and Foreign Investments, the Lao People's Democratic Republic.

### Membership in international organizations

The Lao People's Democratic Republic is a member of the following regional and international organizations:

- Association of Southeast Asian Nations (ASEAN);
- Asian Development Bank (ADB);
- Economic and Social Commission of Asia and the Pacific (UN-ESCAP);
- Food and Agriculture Organization (FAO);
- International Bank for Reconstruction and Development (IBRD);
- International Civil Aviation Organization (ICAO);
- International Finance Corporation (IFC);
- International Monetary fund (IMF);
- Interpol;
- United Nations (UN) and several of its specialized agencies (ILO, ITU, UNCTAD, UNESCO, UNIDO, UPU, WHO, WIPO, WMO).

### Double taxation agreements

The Lao People's Democratic Republic has double taxation agreements with China, the Republic of Korea, the Russian Federation, Thailand and Viet Nam.



### Entry and exit

Foreign investors may invest in the Lao People's Democratic Republic subject to obtaining an investment licence and not engaging in an activity that is considered detrimental to the natural environment, national security, public health or national culture.

### Institutional form and basic requirements

Foreign and domestic investors can own up to 100 per cent of an enterprise registered in the Lao People's Democratic Republic. The enterprise law does not make any distinction between foreign and domestic companies in terms of registration requirements. Investors may invest in three types of investments as follows: (a) general business; (b) concession; and (c) development of special economic zones and specific economic zones. Companies may choose among these types of business forms:<sup>40</sup>

- Representative office;
- Branch office;
- Sole trader;
- Partnership;
- Limited liability company;
- Public company;
- Private-State mixed enterprise.

The most common form of business in the Lao People's Democratic Republic is a Limited Liability Company (LLC). An LLC has the right to own property and carry out business under its name. Its liabilities to others would be separate from those of its shareholders. An LLC may have from 1 to 20 shareholders; if the registered capital exceeds 5 billion kips, the company must have an auditor and a board of directors. An LLC must establish reserve funds appropriated at 10 per cent from its net profit. The shares of a limited liability company must all have the same value. Mergers, acquisitions, increase or reduction of capital, sale or transfer of all the business or a substantial part of the limited company to another person, must be approved by two thirds of the shareholders present to the assembly and accounting for at least 80 per cent of the capital. The LLC must hold a general shareholder meeting at least once a year, which has the power to elect one or more directors over the company. The manager may bind the company and may be liable to the company and third parties for his or her wrongful acts.

A company of up to 19 workers and/or a maximum Kips 250 million in total assets and/or Kips 400 million in annual turnover is considered a small enterprise. An enterprise with a maximum of 99 employees and/or Kips 1.2 billion in assets and/or Kips 1 billion in turnover is considered a medium-sized enterprise as defined by the Small and Medium Enterprise Decree issued in April 2004.

A Joint-Venture enterprise is a joint enterprise between the State and private business entities. In mixed enterprises, the State must hold at least 51 per cent of the shares. Mixed enterprises are regulated by the same rules as public companies with the following exceptions: (a) the Government has the decision over the transfer of shares owned by the State; (b) the private shares are managed as shares of public companies; (c) the share certificates are transferable; (d) the chairman of the board of directors is appointed by the Minister of Finance and the vice-chairman is selected by the private party and approved by the Minister of Finance; and (e) the president of the board of directors has a casting vote.

Under any form, investors are required to bring into the country 20 per cent of their investment within the first 60 days after the date of incorporation, while the remainder may be determined by the directors.



## Registration and authorization

The New Enterprise Law, officially promulgated by the President in 2006 and came into force in 2007, introduced the following key changes:

- Simplified and less time-consuming registration procedure, for business activities excluded from the “negative list” i.e. list of highly sensitive business activities, e.g. national security, public order, cultural traditions and the environment that are required to undergo inspection by relevant sectoral agencies prior to the registration of an enterprise;
- Making business registration information available to the public;
- Creation of single access points (that bring together representatives from agencies) for businesses.

The New Enterprise Law also introduced a new business registration process, described in the box below, which saw its actual implementation with the launch of the Enterprise Registration Office (ERO) in Vientiane on 8 August 2008. The Government expects that once the above procedure is fully operational, the time required to start a business, for activities that are outside the negative list, should be significantly reduced from approximately 200 days currently to only about 10–13 days.

In addition to the formal business registration procedure described above, businesses must likewise obtain or fulfil the following requirements:

- Get approval from the Ministry of Information and Culture for the **company sign** indicating the company name;
- Register with the Financial Department for **taxes**;
- Apply for a **company seal** with the Ministry of Public Security – Police Department;
- Register workers for **social security insurance**, with the Ministry of Labour and Social Welfare. The law requires employees and employers to participate in the compulsory social security regime;
- **Register accounting books** with competent tax authority;
- **Register assets**, both movable and non-movable, with the Department of Housing and Lands and the Ministry of Finance.



### Building permit

The permit must be requested at the provincial Department of Public Works and Transport (DPWT). The designs and accompanying documentation must have been approved by a legally recognized design company before the submission. The screening procedure lasts a maximum of 45 days.

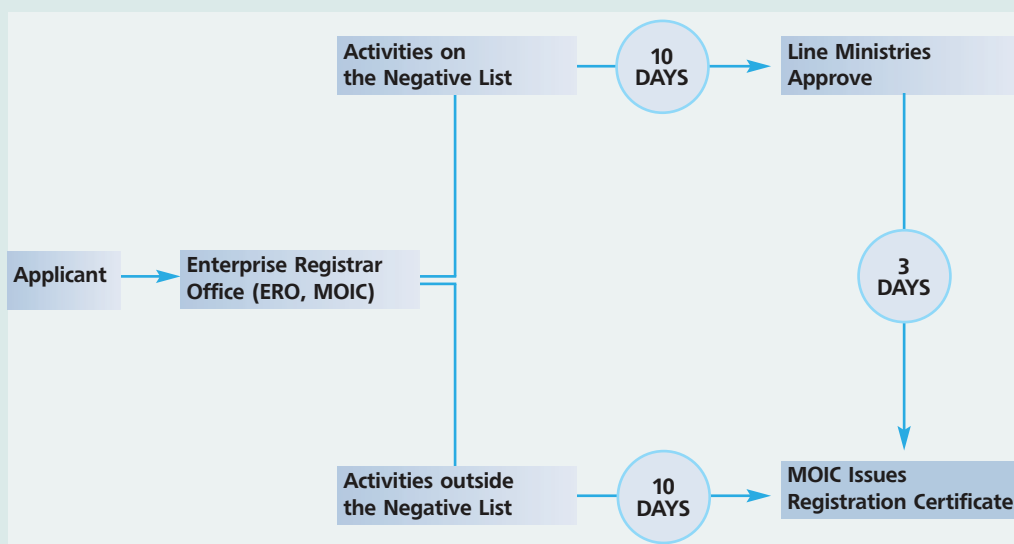


### Factory operation licence

A factory is considered a site or a vehicle with machinery that produces at least 5 horsepower or 3.73 kilowatts or that requires the use of 10 or more employees.

Entrepreneurs must submit an application for approval to the Ministry of Industry and Commerce or provincial or district authority, as relevant, together with details of the factory, equipment required and electricity and water system plans. The approval speed varies between provinces and according to the complexity of the project, but should not exceed 30 days. The factory operation licence lasts three to five years depending on the size and type of the operations, but it is renewable.

#### Box IV.1. Business registration process under the New Enterprise Law (2007): improving the business environment in the Lao People's Democratic Republic



If the activity falls under the negative list, the ERO shall forward the application to relevant line ministries for comments on the enterprise establishment within ten days. If approved, the ERO shall complete the enterprise registration within three working days.

Registration of concession projects, which have to go through the Committee for Promotion and Management of Investment, will take approximately 30 working days from the date of receipt of the notice.

In World Bank's *Doing Business in Landlocked Economies 2009*, however, starting a business in the Lao People's Democratic Republic still require, on the average, 103 days – the longest by far (and thus the slowest) compared to other landlocked economies reviewed by the report.

**Sources:** UNCTAD; Business Issues Bulletin, the Lao People's Democratic Republic, No. 3, July 2006 and No. 4 March 2007, Lao National Chamber of Commerce and Industry and the Mekong Private Sector Development Facility.

## Exit

The investor is free to exit from a venture in accordance with Lao law. No limitations are posed on disinvestment.

### Box IV.2. UNCTAD-JBIC Blue Book on Best Practice in Investment Promotion and Facilitation: the Lao People's Democratic Republic Implements the Action Plan

The Government of the Lao People's Democratic Republic endorsed the Blue Book on Best Practice in Investment Promotion and Facilitation jointly prepared by UNCTAD and the Japan Bank for International Cooperation (JBIC) in 2004. The Blue Book, which was a product of intense brainstorming and consultations with stakeholders and experts, contained an action plan of 11 measures, ideally actionable over a period of one year, to orient the country's investment environment towards best practice in investment promotion and facilitation. The UNCTAD team which conducted an evaluation of the progress of implementing the action plan in August 2008 found that of the eleven measures, a majority has been either fully or partly implemented. The action plans and the progress in their implementation are presented in the table below.

Action plans	Progress in Implementation		
	Fully implemented	Partially implemented	Not yet implemented
Produce timely official translations of business-related laws and decrees into English.		■	
Install an investor tracking system.	■		
Transform DDFI's Monitoring Division into a unit focusing on building stronger relationships with existing investors in the Lao People's Democratic Republic.			■
Implement a targeted investment promotion strategy: starting with light manufacturing, including agro-processing.	■		
Produce an UNCTAD Investment Guide.	■		
Train government institutions dealing with investors to be client-oriented.			■
Fully develop a "network" of contacts across all line ministries dealing with business matters.		■	
Initiate pilot programme on building supplier relationships between foreign and domestic firms (i.e., backward linkages) among DDFI, MOIH, MOAF, and other agencies for the light manufacturing and agro-processing sectors.			■
Establish a Lao Business Forum for existing investors (in partnership with IFC/MPDF), and host one pre-investment forum for prospective investors.	■		
Build up the information base and services of national chamber to support SMEs and other businesses.			■
Strengthen Provincial Chambers of Commerce and Industry.		■	

The full implementation of the rest of the identified measures complements the Lao Government's other initiatives to improve the over-all investment climate – regulatory improvements, streamlining of business procedures, improvements in infrastructure and skill development, among others. All these are steps in the right direction and must be sustained and further build upon to ensure an investment environment conducive and attractive to foreign direct investments.

Source: UNCTAD.



**41** WTO (2008). Accession of the Lao People's Democratic Republic to the World Trade Organization, Factual Summary of Points Raised, JOB(07)/160/Rev.1, 9 June 2008, 119–120.

## Rights of investors

### Intellectual property rights

The Lao People's Democratic Republic is a member of the World Intellectual Property Organization (WIPO) and signatory to the Paris Convention for the Protection of Intellectual Property and the Patent Cooperation Treaty.

A new Intellectual Property Law covering copyright and related rights, trademarks, trade secrets, geographical indications, industrial designs, patents, petty patents, layout designs of integrated circuits, and the protection of plant varieties has entered into force as of 14 April 2008. The Law will be complemented by implementing regulations and decrees.<sup>41</sup>

Enforcement of intellectual property law is the responsibility of the Science and Technology Authority (STA), Customs and the Economic Police, and the courts.



## Protection of property

The assets and investment of foreign investors in the Lao People's Democratic Republic are protected by the laws, regulations and constitution against seizure, confiscation or nationalization, except if necessary for a public purpose, in which case the foreign investors shall be paid adequate, effective and prompt compensation in accordance with the laws and regulations.

The Lao People's Democratic Republic has no anti-trust statutes. The bankruptcy law permits either the business or creditor the right to petition the court for a bankruptcy judgment, and allows businesses the right to request mediation. There is no record of foreign-owned enterprises, whether as debtors or as creditors, petitioning the courts for a bankruptcy judgment.

## Dispute resolution

The Lao People's Democratic Republic is a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. The State has accepted foreign rulings both in cases in which it has been in arbitration with a foreign investor and in cases between private contracting parties, even if the latter is not specifically allowed for in contract law. The Lao People's Democratic Republic is also a member of the United Nations Convention on International Trade Law.

Domestic dispute resolution may be carried out through the following: (a) mediation, (b) administrative resolution, (c) Committee for Economic Dispute Resolution (OEDR), and (d) filing of a claim or litigation. In case the conflict cannot be amicably settled through mediation or administratively remedied, the parties may approach the OEDR to provide an alternative to the judicial system. The decision by the OEDR can be appealed at the People's Court.

The Lao legal system is evolving and undergoing improvements. In 2003, a commercial court was established and began to hear cases in 2005. The Lao Bar Association was set up in 2007.

**42** Information received from Ministry of Planning and Investment based on available information from the new Law on Investment Promotion (2009).

### Exchanging and remitting funds

Investors are free to repatriate their earnings, which must be done through the Laotian banking system, although passing through the banking system is not a requirement for personal income. As part of the Government's strategy of improving the investment environment, a tax certificate is no longer required in order to perform the transfer.

Capital or assets repatriated can include:

- Profits from business operations;
- Payment of interest on loans from foreign country through commercial banks located in the Lao People's Democratic Republic;
- Exportation of machinery, and production means, that were imported for temporary uses, with deduction and exemption of import duty;
- A foreign individual who comes to work in investment operation and has income from such work may send his/her income to foreign country after fulfilment of his/her completed financial obligations according to the laws and regulations;
- Money and assets that are the property of the foreign investor;

The process for repatriation of capital and assets of foreign investors must be done in accordance with the laws and regulations of the Bank of the Lao People's Democratic Republic and other relevant laws and regulations.

If investors or foreign personnel require foreign currency, they are required to open a foreign currency account.

### Competition policy

The Lao People's Democratic Republic has a Competition Bureau based in the Ministry of Industry and Commerce. It derives its authority from the 2004 Competition Ordinance and the 2008 Consumer Protection Act.

The main focus of the Bureau is preventing the sale of fake and adulterated products, under its consumer protection remit.

### Incentives

#### Tax incentives<sup>42</sup>

The discussion that follows outlines the broad guidelines with respect to the incentives that the Law on Investment Promotion provides. As of the Guide's writing, the specific activities that will comprise what is referred to as the "promoted sectors" are still being discussed and will be included in the Law's implementing decree.

The Law categorizes promoted activities into three levels as follows:

- **Level 1:** Activities with top-level promotion;
- **Level 2:** Activities with moderate-level promotion;
- **Level 3:** Activities with low-level promotion.

The determination of the level of priority will be partly based on the activity's contribution to the Government's efforts aimed at poverty reduction, improvement of the living conditions of the people, construction of infrastructure, human resource development and employment, among others.

Based on the socio-economic infrastructure and geographical conditions of the country, the following zoning criteria have been set:

- **Zone 1:** Zones where socio-economic infrastructure does not facilitate investments. These zones are mainly mountainous remote areas. These zones will be classified as the top priority in terms of investment promotion;
- **Zone 2:** Zones with socio-economic infrastructure that partially provides facility to investments, and has geographical situation which is not as harsh as Zone 1. These zones receive intermediate priority in terms of investment promotion;
- **Zone 3:** Zones with good infrastructure to support investments. These zones will be a low priority in terms of investment promotion.

Consequently, in consideration of the classification of the promoted activities and their corresponding zones, the following incentive rates apply:

#### Box IV.3 Incentives by zone

##### Zone 1

- Activities within the promoted sectors level 1 shall be entitled to a profit tax exemption for 10 years.
- Activities within the promoted sectors level 2 shall be entitled to a profit tax exemption for 6 years.
- Activities within the promoted sectors level 3 shall be entitled to a profit tax exemption for 4 years.

##### Zone 2

- Activities within the promoted sectors level 1 shall be entitled to a profit tax exemption for 8 years.
- Activities within the promoted sectors level 2 shall be entitled to a profit tax exemption for 4 years.
- Activities within the promoted sectors level 3 shall be entitled to a profit tax exemption for 2 years.

##### Zone 3

- Activities within the promoted sectors level 1 shall be entitled to a profit tax exemption for 6 years.
- Activities within the promoted sectors level 2 shall be entitled to a profit tax exemption for 2 years.
- Activities within the promoted sectors level 3 shall be entitled to a profit tax exemption for 1 year.

**Source:** Ministry of Planning and Investment, Department for Promotion and Management of Domestic and Foreign Investment (DDFI), the Lao People's Democratic Republic.



In addition, priority sector investors benefit from the following:

- During the tax exemption period and during the tax reduction period, the enterprise is exempted from minimum tax;
- The profit used for the expansion of licensed business activities shall be exempted from profit tax during the accounting year;
- Exemption from import duties and taxes on equipment, spare parts and vehicles directly used for production, on raw materials which do not exist domestically or which exist but are insufficient, and on semi-finished products imported for processing or assembly for the purpose of export;
- Raw materials and semi-finished products imported for processing or assembly for import substitution shall be exempted from import duties and taxes or shall be subject to reduced rates of import duties and taxes; and
- Exemption from export duty on export products.

The following specific incentives apply when investing in building a hospital, kindergarten, primary school and secondary school, college, vocational school and other research centres:

- **Zone 1:** exemption of land lease/concession fee for state land in 15 years;
- **Zone 2:** exemption of land lease/concession fee for state land in 10 years; and
- **Zone 3:** exemption of land lease/concession fee for state land in 3 years.

Furthermore, investing in building a hospital, kindergarten, primary school and secondary school, college, vocational school and other research centres shall be entitled to a profit tax exemption for five years.



### Duty exemptions

Foreign investors are exempt to pay import duty on equipment, spare parts and other materials used in the operation of their enterprises. Raw materials and intermediate goods imported for the purpose of processing and re-export are likewise exempt from import duties. Raw materials and intermediate goods imported for the purpose of import substitution may be eligible for import duty reductions, and are reviewed on a case-by-case basis.

### Performance requirement

The Lao People's Democratic Republic does not impose performance requirements per se. Foreign investors are encouraged to give priority to Lao citizens in recruiting and hiring. According to the foreign investment law, foreign personnel can be hired, although they may not exceed 10 per cent of the enterprise's total labour force. Enterprises intending to bring in foreign workers must first apply for work permits from the Ministry of Labour and Social Welfare. A foreign personnel list must also be submitted to the Planning, Monitoring and Evaluation Division of the Department for Promotion and Management of Domestic and Foreign Investment (DDFI).

### Land and real estate property

Land is administered by the newly established National Land Management Authority, based in the Prime Minister's Office.

Under the new Law on Investment Promotion, foreign investors with registered investment capital of \$500,000 and above are entitled to land use rights for business or residential purposes. The duration shall be determined on the basis of the duration of the investment and upon consultation with local authorities and other existing regulations.

Where an investor wishes to use Government-owned land, he must apply for a concession. Under the new system, land deals now require central approval. Cases involving fewer than 1,000 ha of land must be approved by the prime minister, while larger deals require the endorsement of the Council of Ministers. In order to combat deforestation, forested land cannot be concessioned. Where there is ambiguity, a survey is undertaken which can take up to two months.

If a concession is granted, it is granted for 30 years and can be extended to 50 and finally 70 years. Where the National Land Management Authority (NLMA) approved the concession, the investor's requirements are referred to the province in question to locate the land and make it available. However, conflicting demands for land from investors and farmers already occupying the land has made obtaining large concessions difficult.





This chapter summarizes the results of consultations with the private sector in the Lao People's Democratic Republic. The consultations were carried out through individual meetings with investors and consulting and legal firms. Notwithstanding the general observations and specific points below, investors noted a strong dialogue between them and the Government. This has had a positive effect on the Government attitude and response to investors' needs and has spurred a number of the reforms described earlier in the guide.

This summary should be seen as no more than indicative of private sector opinion in the Lao People's Democratic Republic.

## **General observations**

Investors interviewed cited the range, strength and untouched nature of opportunities both in resource and non-resource sectors. Many felt that by entering the country when they did they had been able to position themselves well in a fast-growing market. Investors also praised the security and macro-economic stability of the country.

However, concern was raised on the need for greater clarity with regard to the procedures for the acquisition of licences and other administrative processes. Many investors felt that the Government should take steps to clarify the role of each institution, both in the capital and in the provinces. Investors also mentioned energy provision as an important factor. While the reliability of supply has improved, the total provision of energy is seen as a limiting factor to expansion, especially in the resource sector. Nevertheless, investors agreed that the many challenges they faced did not detract from the overall attractiveness of certain sectors.

## **Specific points**

### **Human resources**

Investors recognized that there is a skills shortage in the country. However, many are committed to training Laotians, and, as local staff gain experience, placing them in management positions. Investors were happy with the rules on work permits for expatriates and reported no problems. Rules regarding the hiring and firing of staff were judged by investors to be fair.

### **Energy infrastructure**

On power supply, the reliability of this appears to have improved substantially. However, extension of the grid so that investors would not have to import electricity from Thailand, especially for mining operations was deemed essential. A case was raised of a bauxite miner who wished to build an aluminium smelter in order to create greater value added. However, power needs for this were far beyond what could be obtained locally.

### **Customs**

Investors highlighted difficulties and delays in customs procedures for import and export, hampering manufacturing operations. The import of project vehicles, allowed tax free for foreign investors, was also problematic. According to investors, shipments had to be cleared well in advance if swift clearance at the border were to be obtained.

### **Taxation**

Investors judged the rates of taxation to be fair. However, it was felt that greater clarity was needed on the role of the Investment Promotion Department in awarding incentives. There were complaints that incentive rates had been overridden by separate regulations issued by line ministries or agencies. Investors also cited a tendency for tax rates to be changed at short notice.

### **Land**

There was overall satisfaction with the system enabling investors to lease from private Lao enterprises and citizens. However, when it came to land concessions for plantations, investors cited cases of having signed concession agreements to obtain land, and not subsequently being able to obtain the land they had been promised. While the National Land Administration is nominally in charge of obtaining land for an investor, investors felt that provincial authorities appear to be having the final and overriding say. With regards to compensation for land, investors felt more needed to be done to make them aware of their rights to compensation through the distribution to all investors of Prime Minister's Decree 192.

**43** Source: Ministry of Planning and Investment, Department for Promotion and Management of Domestic and Foreign Investment (DDFI), the Lao People's Democratic Republic.

### 1. Priority sectors and restrictions

#### Priority sectors

The first four sectors are among the priority sectors, and where most investments are currently concentrated, with the remaining three identified as potential sectors for foreign investments:

- Hydropower;
- Mining;
- Tourism;
- Agribusiness;
- Construction material;
- Light industry; and
- Services.

#### Restrictions and prohibitions <sup>43</sup>

##### Activities closed to both national and foreign investors

ISIC Code	Activities
2927	Manufacture of all types of weapon
2429	Manufacture for processing of all types of narcotic drug
3698	Manufacture of cultural items destructive of the national culture and tradition
-	Manufacture of chemical substance and industrial waste hazardous to human life and environment
7492	Investigation and security activities
9303	Funeral and related activities
-	Pedagogy, teaching of other religious and producing specialist for national defence – security

##### Industries closed to foreign investors

ISIC Code	Activities	Condition
<b>Manufacturing</b>		
1729	Manufacture of Lao dolls	Reserved for Lao citizens
3691	Manufacture of products of copper, silver and gold (jewelry)	Reserved for Lao citizens
3692	Manufacture of authentic Lao musical instruments	Reserved for Lao citizens
3699	Manufacture of blankets and mattresses with cotton and kapok	Reserved for Lao citizens
<b>Fishery</b>		
0500	Fishing, operations of fishing hatcheries and fish farms; service activities incidental to fishing	Investment activities shall satisfy at least 3 of the 6 additional conditions to qualify for investment incentives

44 The activities included in this table are not exhaustive. Please consult the Ministry of Planning and Investment, Department for Promotion and Management of Domestic and Foreign Investment (DDFI), the Lao People's Democratic Republic for the full listing.

**Notes:**

- 1.) Subject to specific approval from the Government
- 2.) Subject to agreement with the Government
- 3.) Local equity participation requirement
- 4.) 100% export requirement
- 5.) Main ratio of export
- 6.) Subject to use a main ratio of local raw material
- 7.) Subject to processing
- 8.) Only where no investment plan of the Government
- 9.) Subject to high technology
- 10.) Not to impact the environment and society
- 11.) Subject to production and processing in the Lao People's Democratic Republic (approval for domestic manufacturing or processing only)
- 12.) Hotels are promoted; camping sites and other provision of short stay accommodation are being reserved
- 13.) A representative tourism authority from a country is permitted, but the repetitive shall only be a market research or liaison office. No tour operating service or carrying on a business
- 14.) Foreigners are not entitled to own land, but they have the right to lease land to use efficiently
- 15.) Must adhere to the fishing regulation issued by each local authorities
- 16.) Production of tobacco leaf is promoted. Manufacture of tobacco is subject to main ration export and use local raw material
- 17.) No new wood processing factory to be licensed, but they are promoted if using planting wood
- 18.) Subject to specific detail determined by the Ministry of Public Health

Activities open to investors but with restrictions <sup>44</sup>		
ISIC Code	Activities	Condition
<b>Agriculture, Hunting and Related Service Activities</b>		
0150	Hunting, trapping, wildlife propagation including related service activities	1.) 2.)
<b>Forestry, Logging and Related Service Activities</b>		
0200	Forestry, logging and related service activities	1.) 2.) (closed for logging)
0501	Operation of fish hatcheries in the Mekong River	
0503	Production and processing of local fishes	1.) 2.)
<b>Industries, Handicraft, Mining</b>		
1010-30	Extraction and processing of anthracite (hard coal), lignite and peat	2.) 7.)
1110	Extraction of petroleum and natural gas	2.) 7.)
1120	Service activities in relation to oil and gas (excluding surveying)	2.) 7.)
1200	Extraction of uranium and thorium	2.)
1310	Extraction of iron ores	2.) 7.)
1320	Extraction of non-ferrous metal ores	2.) 7.)
1410	Quarrying of stone, sand and white clay	2.) 7.)
1421	Extraction of mine for chemical and mineral production and to be fertilizer product	2.) 7.)
1429	Other extraction of mining not elsewhere classified	2.) 7.)
1551	Manufacture of all type of alcohol	3.) 5.) and/or 6.)
1553	Manufacture of beer	3.) 5.)
1600	Manufacture of cigarettes	16.)
202	Manufacture of wood and wood products	17.)
<b>Manufacture of Wood, Products of Wood, except Furniture, Rattan Products, Rice Straw and Plaiting Materials</b>		
2021	Manufacture of peel-wood, veneer sheets, manufacture of plywood, laminboard, particle board and other panels and board	17.)
2022	Manufacture of wood for construction and window frame for house construction	17.)
2023	Manufacture of wooden container (container), wooden cover	17.)
2022	Manufacture of flooring parquets	17.)
2029	Manufacture of other product of wood; specific material of rattan, rice straw and plaiting material	17.)
24	Manufacture of chemical	10.)
2423	Manufacture of medicines	3.) 5.) and/or 6.)
34	Manufacture of all types of motor vehicle (except vehicle assemble factory and rehabilitation of second hand vehicle)	3.) 5.) and/or 6.)
3691	Manufacture of brass, silver and gold	1.)
4010	Production, collection and distribution of electricity	2.)
4020	Manufacture of gas, distribution of gas through main pipe	9.)

<i>CONTINUED</i>		
<b>ISIC Code</b>	<b>Activities</b>	<b>Condition</b>
<b>Water Supply Service</b>		
4100	Water supply services	8.)
<b>Construction</b>		
4510-4550	Construction site clearing (location); Building of complete construction or a part construction; civil engineering; Installation; Building completion activities; Renting of construction vehicles or demolition of construction equipment with equipment controller	1.)
<b>Trading</b>		
5010	Sale of motor vehicle	1.) and/or 11.)
<b>Wholesale and Trade Agent, except Motor Vehicles and Motorcycles</b>		
5122	Wholesale of beverage and tobacco	11.) 3.)
5131	Wholesale of textile, clothes and shoes	11.) 3.)
5142	Wholesale of iron and metal mining	11.)
5143	Wholesale of construction equipment and tools for repairing of heavy vehicles, plumbing and heating equipment and component	11.)
5150	Wholesale of machineries, equipment and component	11.) 3.)
5190	Other wholesale	11.)
<b>Hotels and Restaurants</b>		
5510	Hotel with more than 51 rooms	1.) 12.)
<b>Land Transport</b>		
6010	Railway transportation goods transport within the country (between province to province)	1.) 2.)
6021	Passenger transport within the country (between province to province)	1.) 9.)
6030	Goods transport by boarder transit (international)	1.) 2.)
	Passenger transport by boarder transit (international)	1.) 2.)
6030	Transport via pipeline	1.) 2.)
<b>Water Transport</b>		
6110	Sea and coastal sea transport Goods transport between the country Passenger transport between the country	1.) 2.)
<b>Air Transport</b>		
6210	Scheduled air transport	1.) 2.)
6220	Non-scheduled air transport	1.) 2.)
<b>Supporting and Service Transport Activities, Activities of Travel Agencies</b>		
	Storage and inventory which is external ( <i>international</i> ) origin	



**Notes:**

- 1.) Subject to specific approval from the Government
- 2.) Subject to agreement with the Government
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- 4.) 100% export requirement
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- 6.) Subject to use a main ratio of local raw material
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- 14.) Foreigners are not entitled to own land, but they have the right to lease land to use efficiently
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- 18.) Subject to specific detail determined by the Ministry of Public Health

**CONTINUED**

<b>Post and Telecommunication</b>		
6411	National post activities	1.)
6412	Courier activities other than national post activities	1.)
6420	Telecommunication	2.)
<b>Financial Intermediation, except Insurance and Pension Funding</b>		
6519; 6591; 6592;6599	Monetary and other services; Financial leasing; Other credit granting; Financial services	1.)
<b>Insurance and Pension Funding</b>		
6601	Life insurance	2.)
6602	Pension funding	1.)
6603	Other insurances	2.)
6720	Activities auxiliary to insurance and pension funding	1.)
<b>Land (Real estate) Activities</b>		
7010	Activities to land and construction items (immovable property) owned or to be leased	14.)
7020	Activities to land and construction items (movable property) based on payment of rent or contract	1.)
<b>Renting of Machineries and Equipments</b>		
7113	Renting of air transport equipment	1.)
7129	Renting of other machineries and equipment not elsewhere classified	1.)
<b>Computer and Related Activities</b>		
7240;7290	Data base activities; Other activities related to computer	1.)
<b>Other Business Activities</b>		
7411	Legal activities	1.)
7412	Accounting, book-keeping, auditing activities; tax consultancy	1.)
<b>Education</b>		
8030	Higher education and institute	1.)
<b>Public Health and Social Work</b>		
8511	Hospital and clinic activities	1.)
8512	Medical, pharmaceutical and dental treatment activities	1.)
8519	Health care activities	1.)
<b>Entertainment, Culture and Sports Activities</b>		
9211	Production and distribution of cinema (movies) and video	1.)
9212	Movie projection (records)	1.)
9213	Radio broadcast and television activities	1.)
9220	News agencies activities	1.)

## Appendix 2

### Main foreign investors

	Name	Source country	Activity	Project location or postal address
<b>AGRICULTURE</b>				
1.	Plantation and Wood Processing Co., Ltd.	India	Plantation and wood processing	Khammuan & Savanakhet
2.	Oji Plantation	New Zealand/Lao	Eucalyptus and acacia plantation	Vientienne (VT) Mun.
3.	Dau Tieng Viet Lao Rubber Joint Stock Co., Ltd.	Viet Nam	Rubber plantation	M. Bajiang
4.	Lao-Thai Hua Rubber Company Limited	Thailand	Rubber plantation	04 Provinces – VT.mun, VTP, BOX & SVK
5.	Daklak Ruber Co., Ltd.	Viet Nam	Plantation	B. Thaluang M. Pakse P CPS
6.	Lao-Yedao Agriculture Development Co., Ltd.	China	Cassava plantation	M. Sonbuly, Savanaketh Province
7.	Viet-Lao Joint Stock Rubber Company	Viet Nam	Rubber plantation	B. M. Pakse P CPS
8.	Lao-Quasa-Geruco Joint Stock Company	Viet Nam	Rubber plantation	M. Pin & Sepone
9.	V & H Corporation (Lao) Co., Ltd.	Viet Nam/Lao	Rubber, sugar cane, cone plantation	M. Pakngum
10.	QuangMinh Rubber Co., Ltd. Co., Ltd.	Viet Nam	Rubber plantation	-
11.	Lao Malaysia Plantation Development Co. Ltd.	Malaysia/Lao	Plantation of Palm tree	M.Pakxan, Borikhamxay Province
12.	Lao Tobacco Limited	France/Singapore/Lao	Tobacco producing and selling	B. Somvang, M. Sisattanak
13.	Mekong Agriculture Industry Co., Ltd	Thailand	Producing and exporting crop	B.Sisavath, Chanthabouly District VT.Mun
14.	Argarwood Lao Group Co., Ltd	Thai/Lao	Plantation	B. M. Keoudom, PVT.
15.	Savannakhet Sugar Corporation	Thai	Sugar cane plantation	-
16.	Agarwood Lao Group Co., Ltd.	Thai/Lao	Plantation	-
<b>INDUSTRIES</b>				
1.	Lao Metal Industry Co., Ltd	Thai	Producing metal	M. Paksun
2.	Lao Cement Industry Public Co., Ltd	China/Lao/Korea	Producing cement	M. Mahaxay KHM
3.	Lao Cement Ltd.	China/Lao	Cement production for export	Samsenthai Road, Vientiane, Lao People's Democratic Republic 412111

**CONTINUED**

4.	Lao Beer Factory Co., Ltd II	Singapore/Lao	Producing beer and water	B. Salakham Hatsayfong
5.	Lao Brewery Co., Ltd	China (Hong Kong)/Lao	Beer production	KM12 Salakham Hatsayfong VT. Mun. 812000
6.	Lao-Brewery Co., Ltd.	Singapore/Lao	Producing beer and water	Off: Sisavad neua Chanthuabuly VT. Mun. 222279-80
7.	The Econ. Quadrangle Joint Devt. Corp. Ltd.	Thailand/Lao	construction, tourism, service etc.	B. M. Pakse P CPS
8.	Lao-Canadian Galvanizing Corporation	Canada/Lao	Galvanizing of steel and the bailey bridge	B. Naxaytay VT. Mun. 214541
9.	JungYa Isi Cement Lao Co.	China	Cement Production for Export	B. Km 2 M.Salavanh Salavanh Provice 020 2400678
10.	Lao Metal & Lpp Co., Ltd.	Korea	Producing wire	B. Nakham M. Kaisonephomvihan
11.	Lao Building Material Co., Ltd. (Vang Vieng Cement Plant)	China/Lao	Cement plant (ordinary portland cement)	Samsenthai Rd Sihome VT.Mun. 313371
12.	Lao Champa Tobacco Co., Ltd.	China	Tobacco producing and selling	M. Thulakhom

**MINING**

1.	Lanxang Minerals Limited	Australia	Exploring and surveying gold and copper	B. Sisangvone M. Saisetta P. VT Mun
2.	PVEP Mekong Co., Ltd.	Viet Nam	Petroleum and Gas survey and extraction	-
3.	Sino Lao Aluminium Corporation Limited (SLACO)	Thailand/Lao	Hydropower	M. Pakse
4.	Lao hung Oil Company	United States	Mining	127 Inpeng Rd Watchantha VT.Mun. 216109
5.	Enterprise Oil Exploration (C.E.P.)	France/England	Mineral and petrol	52 Nokeokouman rd mixay VT. Mun. 212149/213060
6.	SV Fonet Mining Co., Ltd.	Korea/Lao	Mining	M. Thakhaek
7.	Sino-Lao Potash Mining Co., Ltd	China	Mining	B. Thongmang M. Saithany PVT
8.	V.T.P. Stole Lao Industry Joint Stock Company	Taiwan Province of China/Lao	Cranit stone exploration in bolikhamxay	B.Phonkheng M. Xaysetha, VT.Mun.
9.	Salamander Energy Group Limited	United Kingdom	Petroleum and gas survey and extraction	M. Savanakheth
10.	Mekong Minerals Corporation Limited (MMC)	Malaysia	Survey gold mining at Xiengkhuang	Province 335 Saphanmo Rd B.Naxai M.Saisetta VT.Mun. 412940/416834

**CONTINUED**

11.	Zhongji Hongxing Mining Lao Co., Ltd	China	Exploring and surveying iron	M. Hinboun, Mahasai Khammuan
12.	Joint International Mining Co., Ltd.	Viet Nam/Lao	Coal	M. Khanthabouly & M. Bualapha
13.	Lao Pu Ying mining Co., Ltd.	China/Lao	Copper	M. Xiengkho
14.	Hoa Phat Group	Viet Nam	Exploring and surveying iron	M. Viengsai
15.	Thai Duong Mineral Company Limited	Viet Nam	Exploring and surveying zinc, tin etc.	M. Samneua
16.	Lao Namico Co., Ltd.	Viet Nam	Exploring and surveying iron	M. Viengxay

**TRADING**

1.	Coffee Plantation "Bolivene"	Russian Federation/Lao	Coffee plantation/ import-export	(Champasack) M. Paksong
2.	Caltex oil (Lao) Co., Ltd.	Thailand	Petroleum products/ import-export	B. Phonsa-Ad xaisetha VT. Mun. 414785, 414336
3.	Chevron (Lao), Ltd.	Thailand	Import and export petrol (brand CALTEX)	-
4.	Keomotor Heavy Equipment Co., Ltd.	Thailand/Lao	Import car from Japan	B. Nakham Sikhottabong
5.	Vientiane-Hunan Friendship Shopping Mall Co., Ltd.	China/Lao	Shopping center	-
6.	Hunghueung Agriculture Export-Import Co., Ltd.	Thailand/Lao	Producing and exporting pig	B. Pakhed M. Nasaythong P, VT.
7.	Tara Petroleum Co., Ltd.	Thailand	Import and export petrol (brand CALTEX)	B. Nongpanai M. Sikhottabong P, VT. Mun.
8.	SCC Lao Trading Co., Ltd.	Thailand	Trading	B. Phonesavannue, M. Sisattanak, VT

**HOTEL & RESTAURANT**

1.	Lao Holding Co., Ltd.	Thailand/Lao	Tourism development in Khonphaphen	Off: 305 Samsenthai RD Chanthabuly, VT.Mun.
2.	Lao-Syuen Development Co., Ltd.	Malaysia/Lao	Tourism	B.MEUANGVATHA SIKHOT VT.Mun. 217594-5
3.	Aac Green City Lao Co., Ltd.	Korea	Tourism	Mr. Kibok Wee
4.	Intra Global Holdings (Lao) Co., Ltd.	Thailand/Lao	golf, super market, nightclub, restaurant and sport centre	B. HouyJiet, M. Paksong Champasack
5.	Sun holding (Sun park hotel) Co., Ltd.	Malaysia	Five star hotel	B. Phiawat M. Sisattanak, VT.

**CONTINUED**

6.	Savan Vegus and Casino Co., Ltd	Korea/Lao	Hotel and Casino	-
7.	Paksong Goldern Co., Ltd.	Lao	Resort	-
8.	M. Grand hotel (Luangpabang) Co., Ltd	Thai/Lao	Hotel and tourism in Xienkeo	(Luangpabang) Xiengkeo, Luangpabang 312683
<b>BANKING</b>				
1.	Vientiane Branch of Krung Thai Bank Limited	Thai	Banking	M. Chanthaboury
2.	Joint Development Bank	Thai/Lao	Full banking services	75/1-5 Lanexang road, VT.Mun. 213532-36
3.	Anz Vientiane Commercial Bank limited	Australia/ New Zealand/ Thai/Lao	Banking	B. Chanthabouly
4.	Indochina Bank Ltd.	Korea/Lao	Banking	M. Saysettha
5.	Lao-Viet Bank (L.V.B)	Viet Nam/Lao	Banking	VT. Mun. 214377
6.	Stars Bank Co., Ltd.	Swizeland	Banking	VT. Mun.
7.	Lao Industrial & Commercial Bank Limited	Malaysia	Banking	M. Chanthabouly
8.	Kolao Bank Ltd.	Korea/Lao	Banking	Ban Nongchanh M. Sisattanck
9.	First Credit Bank	United States	Banking	Nongbone Rd B.Phonxay M.Xaisetha VT.Mun.
10.	Thai Farmers Bank	Thailand	Banking	084 Lanxang Rd Chanthabuly 213550-4
11.	Bangkok Bank Public Limited	Thailand	Banking	38/13-15 Morning Market Hassadee 213560, 213562
12.	Vientiane Commercial Bank Ltd.	Australia/Lao	Banking	No.33 LaneXang Rd B.Hatsady Chanthabouly VT.Mun. 222700-4, 217601-3
13.	Thai Military Bank Public Co., Ltd	Thailand	Banking	69 Khounbulom Rd M.Chanthabuly 216486/217174
14.	Siam Commercial Bank Co., Ltd	Thailand	Banking	095/117 Sisaket Chanthabuly 217306/213500-2
15.	Krung Thai Bank Limited Company Limited	Thailand	Banking	80 Luangphabang Rd 213480/222761
16.	Bank of Ayudhaya Public Co., Ltd.	Thailand	Banking	9/6 Nui 17 Lanxang road hatsdytai,VT.Mun. 213520,214575
17.	Public Bank Berhad	Malaysia	Banking	VT. Mun. 216614
18.	Lao-Viet Bank	Viet Nam/Lao	Banking	B. Hardsadetai. M. Chantabouly



## CONTINUED

**SERVICES**

1.	Dok Gneo Kham(Group) Co., Ltd.	China (Macao)/ Lao	Tourism	M. Tonpheng
2.	Dein Jang Impt.-Expt.	United States	Foreign airline	02. Pankham Street, VT.Mun.
3.	Boo-young-Lao Co., Ltd.	Korea	Golf	M. Saythany
4.	Lao-Viet Trading Development and Joint Venture Co., Ltd	Viet Nam/Lao	Shopping center	B. Nongchanh M. Sisattanack
5.	Sinta Taxi and Car Rental Co., Ltd.	China/Lao	Taxi service	M. Saysetha
6.	International Commercial Bank(Lao) Co., Ltd. (ICB Lao)	Switzerland	Banking	M. Sisattanak
7.	Overland Tourist Transport Co., Ltd.	Thai/Lao	Tourism	B. Hathsady M. Chanthabouly
8.	Lao Central Payment Network Co., Ltd.	Singapore/Lao	ATM network services	M Chanthabouly
9.	Kolao Group Company	Korea	Automobile, trading, hotel, restaurant, construction and agriculture	M. Saisettha
10.	Global Sourcing (Lao People's Democratic Republic) Company Limited	Thailand	Programme software Lao script and after care service	M. Sisatanack
11.	Lao aviation joint dev. Enterprise Ltd	China/Lao	National and international airline business	No.2 Pangkham Rd Chanthabuly, VT.Mun. /212057313032
12.	Lao dy transportation Co., Ltd.	Korea	Transportation service	B.Nongbone M.Saisettha, VT.Mun.
13.	A.B.C. Co., Ltd.	Korea/Lao	Repair machines and cars and rent service	B.Kaolio M.Sikhottabong, VT.Mun.
14.	Lao-Tha-um Co., Ltd.	Korea	Golf	M. Luangprabang
15.	HHI Lao Co., Ltd.	Korea	Home and building rent service	M. Saysetha

**ENERGY**

1.	Nam Theun 2 Power Company Limited	France/Thailand /Lao	Hydro power	26 Kounboulom RD. Box 5862, VT.Mun.
2.	Num Ngum 2 Power Company Limited	Thailand/Lao	Hydro power	M. Chanthaboury
3.	Lao-Dong Ah Co., Ltd (Sepian Senamnoi)	Korea/Lao	Electric power generation	Attapeu Province 020511160
4.	Namngum 3	Thailand/ Germany/Lao	Hydro power	Xaysomboun Special zone

*CONTINUED*

5.	Theun-hinboun Hydro-power Co., Ltd.	Thailand/Norway /Lao	Industry of energy at Borikhamxay	Province B. Phaxay M.Sinak VT.Mun. 312842
6.	Xekaman 3 Power Company	Viet Nam/Lao	Electric power generation	M Dacjung Xekong
7.	Nam Ngum 5 Power Company Limited (NN5PC)	China/Lao	Electric power generation	M. Luangprabang, Xiengkhuang
8.	Houay-ho Power Co., Ltd.	Netherlands/ Thailand/Lao	Houay-ho Hydro power in Champasack /Atteupeu	Off: B.fai Noui 7 M.Sikhot VT.Mun. 222346
9.	Nam Lik 1-2 Power Company Limited(NLPC)	China/Lao	Electric power generation	M.Phonehong
10.	Region HPS Lao Co., Ltd.	Russian Federation	survey, design and develop dam	M. Sisattanak
11.	Tad Salen Power Company Limited	Thailand	Electric power generation	M. Sisattanak
12.	Tainhong Co., Ltd.	China	Producing and selling tobacco	B. Porpiod
13.	Nam Nhone Hydro Power Co., Ltd.	Lao	Electric power generation	B. Nonghai M. Hatsayfong

**Source:** Ministry of Planning and Investment, Department of Domestic and Foreign Investment, the Lao People's Democratic Republic.



## Appendix 3

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**45** Ministry of Planning and Investment, the Lao People's Democratic Republic.

### Sources of further information

Investment Promotion Department (IPD)  
Ministry of Planning and Investment  
Souphanouvong Road, Vientiane Capital 01001  
The Lao People's Democratic Republic  
Tel: (856 21) 217014, 223002, 218377  
Fax: (856 21) 215491  
Email: investinlaos@gmail.com.  
Website: <http://www.invest.laopdr.org>

Enterprise Registry Office  
Ministry of Industry and Commerce  
Phonexay Village,  
Xaysetha District, Vientiane Capital  
The Lao People's Democratic Republic  
Tel: (856 21)412001, Fax: (856 21)412011  
Email: ero@moc.gov.la;  
Website: <http://www.moc.gov.la>

### Public sector<sup>45</sup>

1. Presidential Office  
Mr. Banhsa Betvongsone  
Tel: (856-21) 214209

2. National Assembly  
Mr. Bounpeng Bouasavanh  
Tel: (856-21) 413518  
Reception: (856-21) 413518

3. Prime Minister's Office  
Mr. Khamphanh Chanthavikoun:  
Tel: 213656, 020 2417556

4. National Geographic Department  
Reception: (856-21) 214917

7. Bank of Lao  
Reception (856-21) 243710

8. Central Control Committee  
Reception: (856-21) 911255

10. Electrical Construction and  
Installation State Enterprise  
Reception: (856-21) 562540

11. Commission for External Relations  
of Central Committee of the Lao People's  
Democratic Republic  
Mrs. Vanhkhamb Visavanh  
Tel: (856-21) 41 4046

12. Lao Trade Union  
Reception: (856-21) 212753

16. The Lao Federation of Trade Union  
Mr. Solasack Phetpalignavanh  
Tel: (856-21) 222473

20. Ministry of Agriculture & Forestry  
Mr. Sompong Souvannamethy  
Tel: (856-21) 415361

21. Ministry of Industry and Commerce  
Foreign Trade Policy Department  
Tel: (856-21) 450066

22. Ministry of Finance  
Mr. Kongmoun  
Tel: (856-21) 41 2406

23. Ministry of Foreign Affairs  
Reception: (856-21) 415822

24. Ministry of Public Health  
Reception: (856-21) 214000

25. Ministry of Education  
Mr. Phay  
Tel: (856-21) 216004

26. Ministry of Justice  
Reception: (856-21) 911299

27. Ministry of Information and Culture  
Reception: (856-21) 21 2412

28. Ministry of Public Works  
and Transportation  
Reception: (856-21) 412255

29. Ministry of National Defense  
Reception: (856-21) 911017

30. Ministry of Public Security  
Reception: (856-21) 951084

31. Ministry of Labor & Social Welfare  
Administration Division  
Tel: (856-21)213003

32. Bank of the Lao People's Democratic Republic  
Reception: (856-21) 21 3109

33. Lao Telecommunications  
Autocom Office  
Tel: (856-21) 216465, 216466

34. ETL  
Reception: (856-21) 260005

35. EPL  
Mr. Someboune Nouhouang  
Tel: (856-21) 214843 Ext 305

36. EDL  
Reception: (856-21)451519

37. Lao Water Supply Enterprise  
Ms. Noy  
Tel: (856-21)412882

38. Department of Aviation  
Department Office  
Tel: (856-21)512163

39. National University of Lao People's  
Democratic Republic  
Mr. Khamtoun  
Tel: (856-21) 770385

### **Business groups**

Lao Pharmaceutical and Medical Group  
Sokpalaung Rd, Thongkang Village  
Sisathanath District, Vientiane Capital  
Tel: (856 21) 312 271  
Fax: (856 21) 314 722

Electricity Installation and Construction Group  
Laungprabang Rd, Watchan Village  
Chanthabouly District, Vientiane Capital  
Tel: (856 21) 217 153  
Fax: (856 21) 216 874

Food Stuff and Consumer Goods Group  
43-47 Lanexang AV, Chanthabouly District  
Vientiane Capital  
Tel: (856 21) 215 043  
Fax: (856 21) 217 054

Salt Producers Group  
Sithaneun Village, Sikhothabong  
Vientiane Capital  
Tel: (856 21) 264 632  
Fax: (856 21) 218 248

Lao Business Construction Group  
Thadeau Rd., Hatsayphone District  
Vientiane Capital  
Tel: (856 21) 217 120  
Fax: (856 21) 217 120

Lao Agriculture Products Processing Group  
Nongbone Village, Saysettha District,  
Vientiane Capital  
Tel: (856 21) 451 852  
Fax: (856 21) 414 922

Material Construction Group  
Kaysone Phomvihane AV, Phopra nao Village  
Vientiane Capital  
Tel: (856 21) 218 521  
Fax: (856 21) 216 881

Lao Manufacturing Group  
Nongheu Village, Hatsaiphong District  
Vientiane Capital  
Tel: (856 21) 812 007  
Fax: (856 21) 812 00

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**Associations**

Lao Association of Travel Agents  
Mr. Bouakao PHOMSOUVANH  
President  
Tel: (856 21) 243 501-2  
Fax: (856 21) 251 770  
www.latalaos.org

Lao Coffee Association  
Mr. Sinouk SISOMBAT  
President  
Tel: (856 31) 212 644  
Fax: (856 21) 312 150

Lao Handicraft Association  
Mrs. Rassanikone NANONG  
President  
Tel: (856 21) 452 956  
Fax: (856 21) 453 678  
www.laohandicrafts.com

Association of Lao Garment Industry  
Mr. One-Sy BOUTSIVONGSAKD  
President  
Tel: (856 21) 222 789, 214 450  
Fax: (856 21) 216 993

Lao Hotel and Restaurant Association  
Mr. Oudet SOUVANNAVONG  
President  
www.laohotelgroup.org

International Transport Association  
Mr. Prachith SAYAVONG  
President  
Tel: (856 21) 417 053  
Fax: (856 21) 417 056

Lao Consulting Companies Association  
Mr. Sumphone MANODHAM  
President  
Tel: (856 21) 451 841  
Fax: (856 21) 451 844

Lao Young Entrepreneur Association  
Mr. Ousavanh THIENGTHEPVONGSA  
President  
Tel: (856 21) 243 551  
Fax: (856 21) 243 533

Lao Business Women Association  
Mr. Phouvong PHAMISITH  
President  
Tel: (856 21) 263 869  
Fax: (856 21) 263 869

Lao ICT Commerce Association  
Mr. Thanongsinh KANLANGA  
President  
Tel: (856 21) 250 850  
Fax: (856 21) 219 117

Plantation for Industry Association  
Mrs. Manivone VIRAVONG  
President  
Tel: (856 21) 520 023  
Fax: (856 21) 520 022

Lao Gem & Jewelry Trader Association  
Mr. Phouvong PHAMISITH  
President  
Tel: (856 21) 263 869  
Fax: (856 21) 263 869

Lao Wooden Products Association  
Mr. Thongsavanh SOULIYAMATH  
President  
Tel: (856 21) 760 386, 216 342  
Fax: (856 21) 760 387

Lao Automotive Association  
Mr. Saneu CHOUNILAMANY  
President  
Tel: (856 21) 262 663  
Fax: (856 21) 262 862

Lao Petroleum and Gas Association  
Mr. Khamchanh RATTANAVONG  
President  
Tel: (856 21) 710 985, 710 173  
Fax: (856 21) 451 986, 450 138



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**Others**

World Bank  
Phone Kheng Road  
Tel: (856-21) 450010-3, 414209  
Fax: (856-21) 412369

Mekong Project Development Facility  
Tel: (856-21) 45018-19  
Fax: (856-21) 450020

UNDP  
Phone Kheng Road  
Tel: (856-21) 213390-1 (Operator)  
Fax: (856-21) 212029, 214819

Asian Development Bank (ADB)  
Lane Xang Avenue  
Tel: (856-21) 250444  
Fax: (856-21) 250333

International Monetary Fund  
B. Xiangngeun, M. Chanthaboury, Vientiane  
Municipality  
Tel/Fax. 21 3206

**Useful links**

Department of Domestic and Foreign Investment  
<http://www.invest.laopdr.org/>

Ministry of Foreign Affairs  
<http://www.mofa.gov.la>

Ministry of Industry and Commerce  
Department of Production and Trade Promotion  
<http://www.laotrade.org.la/>

Lao National Assembly  
<http://www.na.gov.la/>

Lao Department of Statistics  
<http://www.nsc.gov.la/>

Lao Embassies around the World  
<http://www.laoembassy.com>

Ministry of Agriculture and Forestry  
<http://www.maf.gov.la/>

Banque pour le Commerce Exterieur, Lao  
<http://www.bcellaos.com/>

Department of Energy Promotion and  
Development (EPD)  
<http://www.poweringprogress.org/>

Department of Geology and Mines  
<http://www.dgm.gov.la/>

## Appendix 4

### List of public holidays in 2010

New Year's Day	1	January
Pathet Lao	6	January
Army Day	20	January
Chinese New Year	2	March
International Women's Day	8	March
Day of the People's Party	22	March
Lao New Year (Pi Mai)	13–15	April
Buddha Day	28	April
Labour Day	1	May
Children's Day	1	June
Lao Issara (Day of the Free Lao People's Democratic Republic)	13	August
Bouk Ok Pansa (Buddhist Fast ends)	1	September
Day of Liberation	12	October
National Day	2	December

## Appendix 5

### Business hours

<b>Government</b>	8:30-12:00; 13:30-16:30, Mondays to Fridays
<b>Banks</b>	8:30-15:30, Mondays to Fridays
<b>Shopping malls, commercial establishments</b>	7 a.m.–4 p.m., throughout the week



**State ownership and privatization**

The role of the State had been scaled down, with the number of State-owned enterprises dropping from 800 in 1990 to 37 in 2002 (see table below). Although precise estimates were not available, the 37 State-owned enterprises were considered to account for approximately 4 per cent of the Lao People's Democratic Republic's GDP in 2002,

making the economic significance of the State-owned sector similar to that in many market economies. Privatization had occurred in services sectors such as telecommunications, transportation, insurance, real estate and tourism. The preferred method of privatization was a joint venture model in which the State retained 51 per cent ownership initially, and then reduced its share at subsequent stages.

**State-owned enterprises involved in importation and exportation of goods**

Name of SOEs	Responsible agency	Sectors	Registered activities
Lao Trade Import–Export Company	Ministry of Industry and Commerce	Construction and technical equipment	Import of construction materials, electrical equipment and export of wood and handicraft products
Lao International Import–Export	Ministry of Industry and Commerce	Construction and technical equipment	Import of construction materials, electrical equipment and export of wood and handicraft products
Technical Equipment Supply Enterprise	Ministry of Industry and Commerce	Construction and technical equipment	Import of technical equipment including telecommunication equipment
Lanexang Development Co., Ltd.	Ministry of Industry and Commerce	Construction and technical equipment	Import of construction materials, spare parts, electrical equipment; export of wood and handicraft products
Construction Materials, Surveys & Analyses Co.	Ministry of Industry and Commerce	Construction and technical equipment	Import of construction materials and technical equipment
Lao International Trade Service Company	Ministry of Industry and Commerce	Construction and technical equipment	Import of technical equipment including various consumption goods; export of handicraft products
Lao State Fuel Company	Ministry of Industry and Commerce	Energy	Import of gasoline, diesel, lubricants and gas
Barite Exploration Co.	Ministry of Energy and Mining	Mining	Operation ceased
Lao Cotton State Enterprise	Lao Women's Union	Textile	Export of clothing and other cotton-made products
Pharmaceutical Factory No. 2	Ministry of Public Health	Public health	Import of chemical products and export of medicines
Pharmaceutical Factory No. 3	Ministry of Public Health	Public health	Import of chemical products and export of medicines
State Printing Enterprise	Ministry of Information and Culture	General printing	Printing equipment
Agricultural Machinery Company (Tha Ngone)	Ministry of Agriculture and Forestry	Agriculture and forestry	Import of agricultural machinery and materials; export of agricultural, forest and wood products
Development of Agro-Forestry Industry Co. (DAFI)	Ministry of Defence	Agriculture and forestry	Import of agricultural machinery and materials; export of agricultural, forest and wood products
State Enterprise for Agriculture and Industry Development	Ministry of Defence	Agriculture, forestry and manufacturing	Import of agricultural machinery and materials; export of agricultural, forest and wood products
Bolisat Phattana Khet Phoudoi (Mountainous Area Development Company)	Prime Minister's Office	Agriculture, forestry and rural development	Import of agricultural machinery and materials; export of agricultural, forest and wood products

### Other State-owned enterprises

Names	Responsible agency	Products or services
Lao National Tourism	Prime Minister's Office	Tourist services
Education Printing Enterprise	Ministry of Education	Education printing services
Education Equipment Printing	Lao Youth Union	Educational equipment
Electricité du Laos	Ministry of Energy and Mining	Electricity
National Lottery Co.	Ministry of Finance	Lottery
Lao Labour Services Co.	Ministry of Labour and Social Welfare	Employment services
Banque Pour Le Commerce Exterieur du Laos	Bank of the Lao People's Democratic Republic	Banking service
Lao Development Bank	Bank of the Lao People's Democratic Republic	Banking service
Agricultural Promotion Bank	Bank of the Lao People's Democratic Republic	Banking service
Lao Water Supply Co.	Ministry of Public Works and Transport	Water supply
La Poste du Laos	National Authority of Post and Telecommunication	Postal service
Lao Airlines	Ministry of Public Works and Transport	Airline services
Design Communication Institute	National Authority of Post and Telecommunication	Communication and design
Road and Bridge Construction No. 8 Co	Ministry of Public Works and Transport	Construction
River Transportation Co.	Ministry of Public Works and Transport	Transportation
River Construction and Transportation Co.	Ministry of Public Works and Transport	Construction
Communication and Design Co.	National Authority of Post and Telecommunication	Communication and design
River survey and Design Co.	Ministry of Public Works and Transport	Survey and design
Consultant Services Co.	Ministry of Finance	Consultant services
Lao Air	Ministry of Public Works and Transport	Airline service
Enterprise Telecommunication du Lao (ETL)	National Authority of Post and Telecommunication	Telecom services

**Source:** Ministry of Finance; Lao Government authorities. Latest data that could be provided was for 2002.

**Major laws and regulations affecting foreign investment**

<b>Name</b>	<b>Area</b>
Law on Investment (revised 2009, waiting for implementation)	Law governing investment
Law on Enterprise (2005)	Law governing the registration of commercial activities
Law on Labour (2007)	Law governing labour
Law on Customs (2005)	Law governing customs
Law on Tax (2005)	Law governing tax
Law on Land (2003)	Law governing land
Law on Forestry (1996)	Law governing forestry
Law on Mining 1997 (revised 2008, waiting for implementation)	Law governing mining
Law on Electricity (1997)	Law governing electricity
Law on Agriculture (1998)	Law governing agriculture
Law on Intellectual Property (2007)	Law governing trademark
Law on Value Added Tax (2007)	Law governing value added tax
Law on Industrial Processing (1999)	Law governing industrial processing
Law on Commercial Bank (1997)	Law governing commercial bank
Law on Insurance (1990)	Law governing insurance
Law on Environmental Protection (1999)	Law governing environmental protection
Law on Contract (1990)	Law governing contract
Law on Bankruptcy of Enterprise (1994)	Law governing bankruptcy of enterprise
Law on Water and Water Resource Management(1996)	Law governing Water and water resource
Law on Property (1990)	Law governing property
Forestry Law (1996)	Law governing use and management of forest resources

**Source:** UNCTAD.



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ASEAN Merchandise Trade Statistics Database, accessed through the ASEAN Website.  
<http://www.aseansec.org/14292.htm>. Access date: June 2010.

Department of Energy and Promotion Development, the Lao People's Democratic Republic:  
<http://www.poweringprogress.org/>.

FAOStat: <http://faostat.fao.org/site/339/default.aspx>.

IFC: <http://www.ifc.org>.

Mekong Tourism Coordinating Office: <http://www.mekongtourism.org>.

UNCTAD, International Investment Instruments, online database:  
<http://www.unctad.org/Templates/Page.asp?intltemID=3775&lang=1>.

UNCTAD FDI/TNC database: <http://www.unctad.org/fdistatistics>.

World Tourism Organization: <http://www.unwto.org>.

World Bank: <http://www.worldbank.org>.

### **Photo sources:**

**UNDP Lao People's Democratic Republic**

Pages: 6 (large), 6 (inset), 11, 16, 22, 31, 42, 44, 56.

**Ministry of Planning and Investment, Lao People's Democratic Republic**

Pages: x (large), x (inset), 26, 39, 49, 51, 52, 53, 55, 57.

**Harish Murthi (UNDP Lao People's Democratic Republic)**

Pages: 1, 34, 45 (large).

**Sandro Gianella**

Pages: 28 (large), 28 (inset), 36, 46 (large), 47, 50, 72.

