



รายงานวิจัยฉบับสมบูรณ์

โครงการ “การลงทุนโดยตรงของบรรษัทข้ามชาติไทย
ในลาว: แนวโน้ม แรงจูงใจ และปัจจัยกำหนดการลงทุน
(Outward FDI of Thai MNEs in the Lao PDR: Trends,
Motives and Determinants)”

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โครงการ “การลงทุนโดยตรงของบรรษัทข้ามชาติไทยในลาว:
แนวโน้ม แรงจูงใจ และปัจจัยกำหนดการลงทุน (Outward FDI of
Thai MNEs in the Lao PDR: Trends, Motives and
Determinants)”

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EXECUTIVE SUMMARY

1. Needs for the study

Although the Lao PDR is not the key recipient country of FDI inflows to ASEAN, since 2005 the country has actually attracted more than 1,000 million dollars FDI inflows each year (as oppose to merely 54 million dollars FDI inflows in 2001 and less than 0.5 million dollars each year before 2005). The FDI inflows actually reached the country record high in 2009 at 4,313 million dollars and continued to be as high as 2,539 and 2,320 million dollars in 2010 and 2011 (Ministry of Planning and Investment, Lao PDR, 2013a). Key sources of FDI flows to the country have been from Thailand, China, and Vietnam. During 2001 to 2009 (except in 2004), each country took turn to be a top source country of FDI inflows to the Lao PDR. However, during 2009-2011 investment from Thailand had been declined, while Vietnam became a top investor in 2009 and China was ranked first in 2010 and 2011.

According to UNCTAD (2010), a number of factors point toward increasing trend of FDI inflows to the Lao PDR. First, deeper economic integration among ASEAN member countries and between ASEAN and other Asian countries (especially China) are expected to further boost FDI inflows to the Lao PDR in later years. In terms of investment agreement among ASEAN member countries, under ASEAN Comprehensive Investment Agreement (ACIA), the Lao PDR will allow the free flow of ASEAN investment in manufacturing sector as early as 2009 and in the primary sector by 2015. Second reason is owing to the 2009 law on Investment promotion. This new law demonstrates a big step of effort to level playing field between domestic and foreign investors by merging the law governing domestic and foreign investments, previously in separate laws.

“Among the features most highlighted in the new law include: same tax exemptions for local and foreign business, access to 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” (UNCTAD, 2010, p. 48).

With investment opportunities in the Lao PDR, it would be beneficial for Thai MNEs and policy makers to explore trends and pattern of FDI inflows to the country. This study tries to describe trends and patterns of Thai outward FDI in the Lao PDR (compared to other key FDI source countries, especially China and Vietnam); examining motives and determinants of Thai MNEs investment in the Lao PDR. The study then shows implications from the study results and provides recommendations to related parties including policy makers related to outward FDI from Thailand and inward FDI to the Lao PDR as well as Thai MNEs invested in or plan to invest in the Lao PDR.

2. Objectives of the study

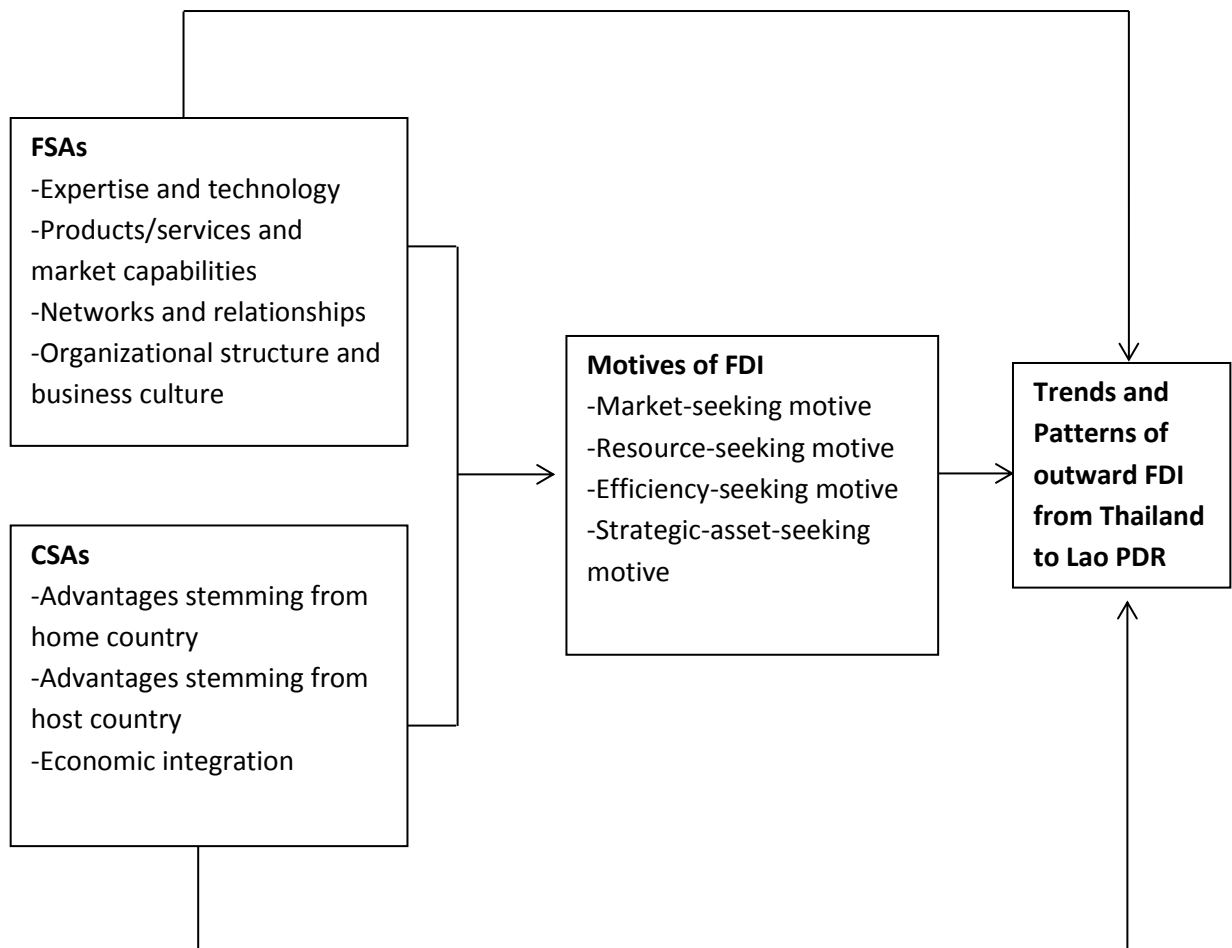
The main objectives of this study are to

- (1) Explain trends and patterns of outward FDI from Thailand to the Lao PDR.
- (2) Examine motives of outward FDI from Thailand to the Lao PDR.
- (3) Describe and assess determinants of outward FDI from Thailand to the Lao PDR based on Firm-specific-advantages (FSAs) and country-specific advantages (CSAs) framework (or FSAs/CSAs framework)
- (4) Demonstrate policy implications and provide suggestions to related parties including public and/or private organization involved in supporting outward FDI from Thailand and inward FDI in the Lao PDR, and Thai MNEs already invested in or plan to invest in the Lao PDR

3. Conceptual framework of the study

Figure 1 explains conceptual frame work of this study

Figure 3.1: Conceptual framework of the study



4. Data and Samples

This study employs secondary data from reliable sources and primary data (from in depth interviews with relevant Thai and Lao government agencies and Thai MNEs invested in the Lao PDR) to analyze trends, motives, and factors affecting outward FDI from Thailand to Lao PDR.

5. The study results

5.1 Rules and regulations development in the Lao PDR

Table 1 shows summary of important rules and regulations development events in the Lao PDR since the New Economic Mechanism (NEM) in 1986. In general since 1986 the Lao PDR has geared toward more open market policy.

Table 1: Important events and rules and regulations development of the Lao PDR since 1986

Year	Event
1986	New Economic Mechanism (NEM)
1988	Foreign Investment Code Privatization program
1989	Agreement with World Bank and IMF on additional reforms
1990	Bank of the Lao PDR (the Lao PDR central bank)
1992	Joined Greater Mekong Sub-region (GMS) Granted observer status in ASEAN
1994	Law on Foreign Investment Promotion and Management Business Law
1995	Law on the Bank of the Lao PDR
1997	A full member of ASEAN Application for the WTO membership
1998	Participate in AFTA Adopt AIA
2000	Decree on Commercial Bank
2004	Major revision of the Law on Foreign Investment Promotion and Management (1994) Law on the Promotion of Domestic Investment
2005	Enterprise Law 2005 Tax Law 2005
2006	Enterprise Law 2005 came into effect
2007	Law on Commercial Bank

2009	Law on the Investment Promotion in the Lao PDR
2010	Lao Securities Exchange (LSX)
2011	Decree on the Implementation of the Investment Promotion Law Law on the Promotion of Small and Medium Enterprises Revision of the Tax Law (2005)
2012	Adopt ACIA
2013	A full membership of WTO

Source: Summarized by author

5.2 Trends and patterns of outward FDI from Thailand to the Lao PDR

Actual Investment of Thai MNEs in the Lao PDR

Since 2005 actual investment of Thai MNEs in the Lao PDR had been growing except for during 2009 and 2010. Considering actual investment of Thai MNEs in the Lao PDR by sector, during 2005 to 2011 key important sectors (pertaining outward FDI stocks from Thailand to Lao PDR during the time period) that Thai MNEs had been invested in Lao PDR were electricity, gas, steam and air conditioning supply sector (accounted for 36.5% of total Thai outward FDI stocks to the Lao PDR during 2005-2011), followed by construction sector, manufacturing sector, and financial and insurance activities sector (accounted for 23.8, 19.5 and 9.2 of total Thailand outward FDI stocks to the Lao PDR during 2005-2011, respectively). For electricity, gas, steam and air conditioning supply sector, high value of investment was in 2008 and 2010 (the highest value compared to other sectors in the same years). Investment in manufacturing sector was peaked in 2011 (much higher than previous years and the highest value compared to other sectors in the same year). The sharp increase was due to the sudden increase in the investment in manufacturing of food products sector (one subsector of manufacturing sector) in 2011 (this subsector was accounted for 92.0 percent of Thai outward FDI stocks in manufacturing sector to the Lao PDR in 2011 and 51 percent of total Thai outward FDI stocks to the Lao PDR in the same year). For financial and insurance activities sector, high value of investment was in 2009 (the highest value compared to other sector in the same year).

Approved level of Investment of Thai MNEs in the Lao PDR

Dividing time period of consideration into 4 time periods which are 1990-1995, 1996-2000, 2001-2005, 2006-2010, value of approved investment from Thailand in The Lao PDR tends to increase overtime except for the period of 1996-2000 consistent with the time period of Asian financial crisis since 1997 and recovery periods in the following years. In terms of number of projects, from 1990 to 2010 there were 597 projects of Thai MNEs approved to invest in the Lao PDR. The number of projects Thai investor participated in the approved investment in the Lao PDR during 2006-2010 (262 projects) increased almost double compared to during 2001-2005 (133 projects). Similar to value of investment, the smallest number of projects Thai investors participated in the investment in Lao PDR was during 1996-2000 period (55 firms).

In terms of types of investment, during early stage of FDI in the Lao PDR, 1990-1995, approximately half of value of investment from Thailand (52 per cent) was wholly foreign owned. However, in the subsequent periods majority of value of investment tends to include Lao partners as part of the investment (96, 86 and 73 per cent during 1996-2000, 2001-2005 and 2006-2010). This could be partly due to the fact that the promulgation of the Law on Foreign Investment Promotion and Management in 1994, with major revision in 2004, has attracted investors from the Lao PDR to joint invest with foreign firms to enjoy benefits based on foreign investment promotion. However, in 2009, the Law on investment promotion in the Lao PDR tends to level playing field of foreign and domestic investors. Besides large investment in the later periods tend to involve infrastructure development (including telecommunication sector) or in energy sector (including electricity generation) so that investors from the Lao PDR, especially from the state own enterprise, likely to join the investment as one of the joint venture partners.

Considering form of investment, in terms of number of projects, majority of Thai MNEs invest in the form of general business rather than concession business for all time periods. This is quite a normal phenomenon since concession business in general tends to be larger investment compared to general business so that number of concession projects could be smaller. However, in terms of approved value of investment, although during the first decade of foreign investment in the Lao PDR (1990-2000) 75 per cent of total Thai investment in the Lao PDR was

in the form of general business, the following decade (2001-2010) 76 per cent of total Thai investment in the Lao PDR is in the form of concession business. This could be based on the concentration of industry sector that Thai MNEs invested in in different time periods.

Considering investment sector invested by Thai MNEs, in terms of number of projects, during 1990-2010, majority of Thai MNEs projects approved to invest in the Lao PDR was in industry and handicraft sector, agricultural sector, service sector and trading sectors (26, 17, 14, and 11 per cent of total number of Thai firms). Industry and handicraft sector continued to be the largest number of Thai MNEs projects approved to invest in the Lao PDR prior to and after 2000. During 1990-1995, 17 per cent of total number of projects Thai MNEs participated in the investment in the Lao was in garment sector (the second rank after industry and handicraft sector), but the proportion of the sector reduced in the following period (1995-2000) and much less significant after 2000. Proportion of number of projects Thai MNEs participated in the investment in the Lao PDR in agricultural sector tends to increase every period from 11 per cent during 1990-1995 to 21 per cent during 2005-2010 (the second place after industry and handicraft sector). After 2000, service sector had also played more roles in terms of proportion of number of projects Thai MNEs participated in the investment in the Lao PDR.

Considering approved value of investment by sector, during early years of investment, 1990-1995, investment from Thailand was concentrated in hotel and restaurant sector and mining sector (35 per cent and 33 per cent of total investment from Thailand respectively) with large investment in the hotel and restaurant sector in 1994 (72 per cent of total investment value from Thailand in 1994) and mining sector in 1993 and 1995 (84 per cent and 25 per cent of total investment value from Thailand in 1993 and 1995 respectively). During 1996-2000, majority of value of investment was in telecom sector (80 per cent) with large investment in 1996 (98 per cent of total investment value from Thailand in 1996), followed by service sector (13 per cent). During 2001-2005 investment in the electricity generation sector was accounted for the largest share of total value of investment from Thailand during the time period (78 per cent) with large investment in 2002 (98 per cent of total investment value from Thailand in 2002) while there was no investment in the sector prior 2002. During 2006-2010, the top two sectors hosted investment from Thailand include electricity generation sector and mining sector (33 per cent and 32 per

cent). Investment in mining sector was prominent in 2008 (74 per cent of total investment value from Thailand in 2008). The increasing proportion of investment in electricity generation sector and mining sector after 2000 could be the reason causing proportion of investment value from Thailand in the Lao PDR in concession business greater than general business and the joint venture type with the Lao PDR investor (especially state owned firm) greater than wholly foreign owned type.

Considering region or province that Thai MNEs approved to invest in the Lao PDR, in terms of number of projects, during 1990-2010 Thai MNEs were concentrated in Vientiane Capital, Champasak province, Khammouan province, and Savannakhet province (63, 14, 5 and 4 per cent of total number of projects Thai MNEs invest in the Lao PDR). The pattern for value of investment is similar. The value of investment from Thai MNEs during 1990-2010 was also centered in Vientiane Capital, Champasak province, Khammouan province, and Savannakhet province (43, 27 and 12 per cent of total value of investment of Thai MNEs in the Lao PDR).

5.3 Motives of investment of Thai MNEs in the Lao PDR

Motives of investment of Thai MNEs in the Lao PDR depend on sectors or industries of consideration. For example,

- Service sector (such as tour operators, hotels, restaurants, airlines, trading, leasing beauty business, bus transportation, construction, gas station): mostly market seeking motives (mostly for domestic market, but some sectors are also for foreign market such as service firms in tourism related business including tour operators, hotels, restaurants, airlines, etc.), but some are for strategic asset seeking motive (such as airlines, as their business presence in the Lao PDR to address their international expansion capability image). For banking sector, investors invested in the Lao PDR and other firms doing business with Thai entities are the key target customers of most branches of Thai commercial banks in the Lao PDR, although they also provide some services to other enterprises and individuals (such as services on lending, depositing, money transfer

etc.) Leasing business is quite new in the Lao PDR, but has been drawing more attention from foreign investors to engage in this type of business. Similar to banking sector, the target market of Thai law firms are Thai MNEs invested in the Lao PDR. However, Thai law firms also provide service to local business or MNEs from other countries while the volume of service provide to individuals are quite small.

- Agricultural sector and agri-business: natural resource seeking (especially arable land to grow crops such as coffee tree, sugarcane, rubber, etc. in affordable price); market seeking (mostly for export; for example, export of coffee bean to Japan, export of sugar to Europe). With the support of European Union to products export from the Lao PDR (based on generalized system of preference, GSP), the MNEs can export some products (such as sugar) from the Lao PDR to European Union (EU) and face less import duties than sugar export from Thailand; efficiency seeking (cheap labor cost per unit of labor).
- Manufacturing (depends on products): market seeking (for domestic market and export) and efficiency seeking (cheap labor)
- Electricity generation: natural resource seeking (such as hydropower electricity generating); market seeking (for domestic market and export, but mostly for export, especially to Thailand and some to Viet Nam); efficiency seeking (from location proximity to transmit electricity)
- Mining: resource seeking
- Construction: market seeking (for domestic market)
- Water supply: market seeking (for domestic market) and efficiency seeking
- Wood industries: : natural resource seeking
- Handicraft: market seeking (mostly for export including products sold to foreign travelers)

Table 2: Investment incentives of various industries

Investment incentives	Market seeking	Natural resource seeking	Efficiency seeking	Strategic asset seeking
Industry	Service Agriculture Manufacturing Electricity generation Construction Water supply Handicraft	Agriculture Electricity generation Mining Wood industry	Manufacturing	Service

5.4 Firm-specific Advantages and Country Specific Advantages of Thai MNEs in the Lao PDR

Table 2 provides summary of the analysis of Thai MNEs firm specific advantages (FSAs). Table 3 and 4 provide summary of the analysis of the country-specific advantages (CSAs) of the home country (Thailand) and host country (the Lao PDR), respectively.

Table 2: Summary of the Thai FSAs of Thai MNEs invested in the Lao PDR

FSAs elements	Advantages and disadvantages
Expertise and technology	<ol style="list-style-type: none"> 1. Advantages from management expertise of experienced Thai managers or Thai investors 2. Different expertise and technology advantages in different industries <ul style="list-style-type: none"> - High technology sector: disadvantages in some sectors such as high speed train and advantages in some sector such as telecommunication - Agricultural sector: similar weather (between Thailand and the Lao PDR) so that similar technology to grow crops can be applied. However, with lack of labor for the industry technology or production procedure with less labor and more machines (such as for cultivation and production in factory for agribusiness) might be needed. - Service sector: More demand from middle to high income people in the Lao PDR (such as some high rank government officials, some private business owners, expatriates, tourists, etc.) for high quality service in some sectors provided by Thai MNEs.
Products/services and market capabilities	<ol style="list-style-type: none"> 1. Advantages from perception of Lao people for Thai products as high quality compared to products from other countries such as Chinese products or domestic products. 2. Advantages from Marketing capability, especially from the fact that Lao people can receive information from all Thai TV programs so that some Thai MNEs can exercise their marketing strategy more effective than MNEs from other countries.
Networks and relationships	<ol style="list-style-type: none"> 1. First mover advantages of Thai MNEs invested in the Lao PDR at the early stage of foreign investment in the country. <ul style="list-style-type: none"> - These MNEs have advantages from early establishment of necessary networks and relationships (such as the networks and relationships with responsible government officers or politicians in related agencies, local, Thai or international distributors, suppliers and buyers, etc. - However, these networks and relationships have to be updated overtime based on the dynamic nature of this kind of advantages

	<p>2. Advantages from ability of Thai MNEs to establish necessary networks and relationships on their own but with disadvantages in the senses that not much coordination between Thai MNEs themselves (business clusters of Thai MNEs in the Lao PDR are quite weak and rather informal) and with Thai government to establish those necessary networks and relationships.</p>
Organizational structure and business culture	<p>1. Advantages from dynamic capability to learn from previous investment experience to choose appropriate mode of entry strategy (such as between wholly-foreign owned type or joint investment with Lao investors either public or private partners) for current investment. However, the information regarding other choices of investment mode of entry, such as mergers and acquisitions and green field investment are not available for the analysis in this study.</p> <p>2. Advantages based on monitoring capability</p> <ul style="list-style-type: none"> - Thai investors can monitor their assigned (Thai) managers easier compared to investors from other countries <ul style="list-style-type: none"> ■ Due to location proximity of the two countries Thai investors can travel to inspect their business and their managers with comparatively low cost compared to investors from many other countries. ■ Due to language similarity between Thailand and the Lao PDR, Thai investors can cross check capabilities of their managers with relevant stakeholders, such as with other staffs or workers, suppliers and consumers or buyers, easier than investors from other countries. - Thai managers can monitor their Thai and Lao workers or staffs easier compared to managers from other countries <ul style="list-style-type: none"> ■ Due to language similarity between Thailand and the Lao PDR, Thai managers can cross check capabilities of their workers with relevant stakeholders, such as with other staffs or workers, suppliers and consumers or buyers, easier than investors from other countries. <p>3. Advantages from ability to adjust organization management based on existing business environment and ability to adjust the organization management once the business and social environment have changed. Although not all Thai MNEs possess this capability, many of the success</p>

	ones are the ones that can adjust their management structure well based on the changing dynamic of business environments.
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Source: summarized from the analysis by the author

Table 3: Summary of the home country (Thailand) CSAs of Thai MNEs invested in the Lao PDR

CSAs elements	Advantages and disadvantages
Location proximity	<p>1. Logistic advantages</p> <ul style="list-style-type: none"> - to import raw materials, equipment and other intermediate goods from Thailand. - to export product back to Thailand or to other countries through sea port in Thailand (since the Lao PDR does not have access to the sea). <p>2. Advantages from similar weather</p> <ul style="list-style-type: none"> - With location proximity and weather similarity, similar crops and wood can be grown within the two countries (such as sugar cane, rubber tree, coffee beans, rice, etc.) with similar expertise and technology providing advantages for Thai MNEs especially in agricultural sector and agri-business and wood industry.
Language and cultural proximity	<p>1. Advantages from similar speaking language</p> <ul style="list-style-type: none"> - Thai investors can communicate with various stakeholders related to investment in the Lao PDR, ranging from Lao investment partners (if they do have one), staffs or workers working for the business, government officials, local suppliers, domestic buyers or customers, etc. easier than investors from other countries. - Lao people can watch various Thai TV programs. Thai investors can use these advantages (be able to watch the same channels and understand the language) to predict or understand consumer demand influenced by Thai media. However, in rare occasions this can also

	<p>create disadvantages from problems arising from some contents in the media unintentionally create conflicts between the two countries.</p> <p>2. Advantages from cultural proximity</p> <ul style="list-style-type: none"> - Although the cultures of the two countries are not exactly the same, they share certain level of similarities. - With cultural similarities, Thai MNEs may understand and know proper ways to deal with related parties such as Lao business partners, workers, government officers, suppliers and customers better than investors from other countries.
Institutional proximity	<p>1. Overall institutional proximity from the Global Competitive Index (GCI), 2013-2014,</p> <ul style="list-style-type: none"> - The overall GCI competitive rank of the Lao PDR was 81 while Thailand was ranked 37 out of 148 countries. - Out of 12 pillars of consideration, Thailand seems to be in a better rank in almost all pillars except for pillar 1 (institutions) and pillar 7 (labor market efficiency) which the Lao PDR was in a better rank. - Except for pillar 3 (macroeconomics environment) and pillar 10 (market size), in all other pillars the different of the GCI score of each pillar in absolute value is between 0 and 1. <p>2. From the GCI, although in general Thailand macroeconomic environment tend to be better than the Lao PDR and the market size in Thailand is much larger than the Lao PDR, there are also many competitiveness elements that Thailand and the Lao PDR share some similarities. These create some advantages for Thai MNEs compared to investors from other countries in the sense that Thai investors might be more familiar with somewhat similar competitive environment between investing and doing business in their home country (Thailand) and in the host country (the Lao PDR).</p>
Thailand outward FDI plan and policy	<p>1. Advantages from more effort compared to the past to liberalize foreign investment by relevant Thai government agencies, such as</p> <ul style="list-style-type: none"> - The Capital Account Liberalization Master Plan by the Bank of Thailand. - Foreign investment facilitation and support by the Thailand Board of Investment (BOI) and the Export-Import bank of Thailand. <p>2. Disadvantages from unclear policies regarding direction of Thailand foreign direct investment and no direct authority or government agency</p>

	<p>responsible to design and decide on Thailand appropriate foreign investment policy.</p> <p>3. Disadvantages from inadequate collaboration with Thai MNEs to facilitate or help the MNEs establishing necessary networks.</p>
Trade and investment agreement	<p>1. Advantages from bilateral and multilateral investment and trade agreement between Thailand and the Lao PDR and with some other countries for multilateral agreements such as the ASEAN Comprehensive on Investment Agreement (ACIA),</p> <p>2. The comparative advantages based on agreements and collaborations in various forms between the Lao PDR and Thailand for Thai MNEs as opposed to advantages the MNEs from other countries have acquired from the agreements and collaboration of the Lao PDR with other countries are still needed to be further explored.</p>

Source: summarized from the analysis by the author

Table 4: Summary of the host country (the Lao PDR) CSAs of Thai MNEs invested in the Lao PDR

CSAs elements	Advantages and disadvantages
Market opportunity	<p>1. Disadvantages from small size of domestic market</p> <p>2. Advantages from being one of the Generalized System of Preference (GSP) or other tariff preferences (for least developed countries) receiving countries which provide opportunity for investors invested in the Lao PDR. to penetrate into markets of the GSP granted countries with lower cost and lower barriers.</p>
Rules and regulations	<p>1. Advantages from the country improvement of rules and regulations over time.</p> <p>2. Disadvantages from some problems regarding the enforcement, implementation and application of rules and regulations.</p>
Factor markets	<p>1. Natural resources</p>

	<ul style="list-style-type: none"> - Advantages from opportunities based on available natural resource for various sector such as mining sector, hydropower, agricultural and agri-business sector (available land to grow crops), tourism sector, etc. - Some disadvantages as those natural resource intensive sectors are normally highly regulated. <p>2. Human resources</p> <ul style="list-style-type: none"> - Advantages from low cost of labor - Disadvantages from inadequate amount of labor in all levels including professionals (such as managers, engineers, accountants, lawyers, etc.), skilled and unskilled labor in the Lao PDR. - Disadvantages from somewhat low labor productivity of the workers. - Disadvantages high labor turnover rate. - Some disadvantages for foreign workers in terms of problems regarding the procedures acquiring working permit and other problems such as available appropriate medical care. <p>3. Input and raw materials or other intermediate goods</p> <ul style="list-style-type: none"> - Disadvantages in terms of inadequate amount and in some case quality of available domestic inputs and raw materials - Advantages based on location proximity to import inputs, raw materials or equipment from Thailand - Disadvantages from some problems of custom procedures when import intermediate goods from other countries. <p>4. Financial access and financial transaction</p> <ul style="list-style-type: none"> - Disadvantages from difficulty in terms of financial access in the Lao PDR (especially the problems based on required collateral assets) - Disadvantages from high cost of fund (comparatively high interest rate in the Lao PDR compared to other countries) - Disadvantages from small capital market and no secondary market for debt securities.
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	<ul style="list-style-type: none"> - Disadvantages from limits on available financial products and financial instrument - Disadvantages from not impressive services from some commercial banks
Attitude of Lao people toward Thai products and Thai investors	<ol style="list-style-type: none"> 1. Disadvantages based on better attitude on investors from China and Vietnam than Thai investors (in the opinion of some Thai MNEs), could be partly based on historical reasons. 2. Advantages based on perception of Lao people on Thai products as high quality
Infrastructure and logistics	<ol style="list-style-type: none"> 1. Advantages from improvement of infrastructure in the country over time 2. Disadvantaged from inadequate infrastructure needed. 3. Disadvantages from limit choices of logistic providers

Source: summarized from the analysis by the author

5.5 Policy recommendations and recommendations for Thai MNEs

Recommendations for Thai government

- (1) Policies regarding direction of Thailand foreign investment are unclear. No direct authority or government agency responsible to design and decide on Thailand appropriate foreign investment policy. Accordingly, this study proposes that Thailand may assign the task to responsible government authority or set up a committee consisting of representatives from relevant government agencies (who also have authorities to implement the policy in their own or relevant agencies) to
- Decide on direction of Thailand foreign investment policy which shall be coincided with overall macroeconomic policy goals of the country.
 - Design strategic plan to achieve foreign investment policy goals, for example
 - Appropriate strategies for the overall outward FDI policy.
 - Appropriate strategies for investment of Thai MNEs in each specific region or country.
 - Appropriate strategies for investment of Thai MNEs in each specific sector.
 - Appropriate strategies for investment of Thai MNEs in each specific sector within each region/country
 - Authorizes relevant government agencies to implement the strategic plan
- (2) Improve custom procedures and logistic infrastructures as well as adjustment of relevant rules and regulations (which shall comply with the country bilateral and multilateral agreements) to facilitate goods export to and import from the Lao PDR (and other countries) and goods in transit through Thailand. The implementation and application of rules and regulations shall also be monitored and evaluated for better service and further policy decisions.

Recommendations for the Lao government (some of the suggestions could be implemented with assistance or collaboration with other countries)

(1) Evaluate laws and regulations which have already been implemented. This includes some specific regulations; for example, regulations regarding

- Cease to grant new investment license to some sectors such as mining sector, rubber plantation, and eucalyptus plantation, etc.
- Changes in authorities of government agencies and/or relatively new government authorities.
- Specified period prior MNEs receiving investment licenses after submitting the application.

(2) Human resource management and development

- If the country has goals to promote some economic sectors such as some service sectors, relevant trainings and education to create more labors to work for the sectors should be promoted. This can also enhance labor productivity for the sectors in the future.
- Encourage labor to improve their productivity via various measures such as higher education, trainings, acquiring licenses needed (professional licenses such as licenses for engineer, accountant, lawyer, etc.)
- According to the problem of labor shortage in most economic sectors, in some cases, the country may allow or even attract more foreign workers to work in the country. This may also create skill transfer (technology or knowledge transfer) from foreign workers to Lao workers.
- Due to some problems regarding the interpretation and application of some laws and regulations by government officers (such as different interpretation by officers in different organizations or even within the same organization, application of the same regulations differently to different MNEs, etc.),
 - The government may develop some procedures for mutual understanding, interpretation and application of laws and regulations.

- Evaluating and monitoring system of laws and regulations application in practice shall be implemented. This can help assessing quality of services provided by the officers and moderate corruption problems.
- Enhance collaboration with other countries in terms of human resource development, for example
 - Higher education collaboration: such as scholarships for Lao People to study abroad, development of education institutions in the Lao PDR, etc.
 - Trainings collaborations: could be for private personals and officers from public sector, including trainings in the country and trainings abroad.
 - Due to language similarity, further collaborations between the Lao PDR and Thailand regarding the Lao PDR human resource development shall be enhanced.

(3) Logistic development

Based on various collaborations, the Lao PDR has developed infrastructures for better logistic within the country such as the development of local and regional road network, airports, high speed trains, etc. The following recommendations are to complement the existing effort and increase efficiency of the logistic service within the countries

- Encourage more competition in logistic service providers market for better services and at reasonable prices.
- Improve the enforcement of some rules and regulations such as the ones regarding road transportation, etc.
- Further develop or improve logistic infrastructures such as road conditions, etc.
- Based on various international bilateral and multilateral logistic agreements, the Lao PDR may prepare to launch or implement rules and regulations comply with those agreements for transportation of goods, people and vehicles as well as for transportation service providers.

(4) Custom procedure improvement

Since there are some problems in terms of implementation of custom rules and regulations, some confusion on import duties imposed, length of time for custom procedures, additional payments (formal and informal fees), the followings are some suggestions to improve the procedures.

- To accelerate the custom process, trainings for related personals for better understanding of rules and regulations and their applications as well as new techniques and technology for the custom procedures might be needed.
- Find the ways to moderate or eliminate corruption problems such as implementing monitoring system, etc.
- Based on various bilateral and multilateral custom agreements, the Lao PDR may prepare to launch or implement rules and regulations comply with those agreements for import and export goods and goods in transit.

(5) Financial sector development

- Development of capital markets and money markets. This could benefit both domestic enterprises and foreign MNEs as their sources of fund and investment opportunities.
- There are rooms for financial products and financial instruments to be improved, such as new financial products regarding exchange rate hedging and other products for future markets such as swop, forward and option.
- Considering measures to improve services of commercial banks such as
 - Shorten time customers spend for their financial transactions with the banks.
 - Provide new financial products and services (allowed by the Bank of Lao PDR).
 - Train staffs for better understanding of rules and regulations and new financial products and other relevant trainings to provide service more efficiently.
 - Clearly state documents and procedures required for each financial transaction.Etc.

- Monitor levels of interest rates (compared to other countries) and use appropriate monetary policy (and other policies) to gear toward appropriate level of interest rate (based on short term and long term macroeconomic policy goals).

(6) Data collection and provision of data

- To be able to design appropriate policy, available and reliable data for assessment are crucial. The following data shall be useful if the government can gather and arrange systems to collect them
 - Actual investment value VS. approved investment value
 - Number of projects discontinued to invest in the Lao PDR
 - Divestiture value, especially from foreign disinvestment
 - Amount of profit tax and other custom duties exemption or reduction based on investment incentives provided by the government and actual payment by local firms and MNEs.

Etc.
- Even though each government agency may be assigned different task and responsibility, the coordination of data between government authorities could enhance policy regulations and implementation and application of those rules and regulations.
- Some data are useful for foreign investors to consider investment in the country. The government may consider which data and information shall be available for public.

Recommendations for Thai MNEs invested in or plan to invest in the Lao PDR

Although Thai MNEs possess several advantages based on the FSAs and CSAs as mentioned in section 5.4 (FSAs and CSAs of Thai MNEs in the Lao PDR) many of those advantages are dynamic by nature, for example, improving experiences of investors and managers and changing in network capability advantages (under FSAs), changing rules and regulations of

home country outward FDI policy and other relevant policies (under home country CSAs) and changing rules and regulations of host country inward FDI policy and other relevant policies and changes of other business environment in the investment host country (under host country CSAs). Thai MNEs already invested in the Lao PDR or plan to invest in the Lao PDR have to update its FSAs or create new ones, for example

- (1) Update information regarding changes of relevant rules and regulations, the implementation and application of the regulations and other useful information such as each industry investment situation, product market situation, input market situation, etc. so that Thai MNEs can be able to exercise their existing FSAs based on the home and host country CSAs and be able to seek for opportunities to better enhance the strength of their business or create new advantages based on those changes.
- (2) Based on all sources of information acquired, Thai investors shall use the information for their business decision and may consider update their FSAs, for example to
 - Update technology, productivity and expertise suitable for input and product markets situation. For example,
 - Due to shortage of labor in the Lao PDR in many investment sectors such as in agricultural sector or agribusiness sector, industrial sector and service sector Thai MNEs may consider using technology or production procedures that rely less on number of labors. Moreover, with tight supply of all skill levels of labor in the Lao PDR labor market, especially the professional and skilled labor, Thai MNEs may consider ways to attract those workers. For example, they may consider hiring or accepting college students in relevant fields to work as interns in their companies so that when those students graduate they may consider working with the companies. Thai MNEs themselves also have a chance to recruit experience personals to work with the enterprises and be able to explore capability of those students while they work as interns before the MNEs actually recruit them to work. Moreover, the MNEs also need to design strategy to be able to keep those qualified labors in the firms

since there could be tendency that those workers may move to other firms offering better compensation or benefits.

- Due to some problems regarding level of labor productivity of workers (Lao workers and inexperienced Thai workers), Thai MNEs may consider upgrade knowledge or skills of those laborers through various methods such as providing more training for workers or collaborating with relevant institutions to upgrade labor expertise. Besides, in some service sector providers, professional license of workers (such as for lawyers, accountants, architectures, engineers, etc.) are required. Thai MNEs may encourage their staffs, especially the Lao ones, to acquire necessary licenses.

- Update products and services based on existing consumer demand and prediction of consumer needs in the future. As mentioned in the section 5.4 (FSAs and CSAs of Thai MNEs in the Lao PDR), Thai MNEs may have some advantages regarding perception of Lao people on Thai products and some advantages related to marketing capability. In general Thai consumer products have been perceived by Lao people as high quality. People in the Lao PDR are also already quite familiar with Thai consumer products and some services. However, although equipped with those advantages, competition in the market has become more intense over time since the Lao PDR has pursued open market policy. Consumer needs in different groups of consumers in the Lao PDR have also changed over time. For example, there are needs for better service, higher product quality or demand for new types of products and services for middle to high income people in the Lao PDR (including some high rank government officials, expatriates, tourists, etc.), better banking services and probably new financial products for corporate customers and individuals, etc. Thai MNEs still need to evaluate their product or service position in the Lao PDR market and prepare strategic plan for future product or service positioning. This is also applied to export product produced in the Lao PDR with product positioning strategy in the target markets. Thai MNEs shall also reap benefits and advantages from all kinds of trade and investment agreements of the Lao

PDR with other countries (especially as the GSP recipient country and benefits tariff preferences granted by other countries) for their export products.

- Update existing networks with relevant parties or establish new relationships with related parties such as government officials, local or international buyers, suppliers, logistic providers, other Thai investors, local investors, or investors from other countries, etc. Based on information from the interviews, most Thai MNEs tend to establish their business network on their own with less support from Thai government or any business clusters. In terms of clusters among themselves, although there are a few formal clusters, most business clusters among Thai MNEs are informal and quite weak. This study proposes that beside building or updating the networks of their own Thai MNEs shall also enhance business collaboration among themselves so that they can act as a group to provide comments or suggestions to Thai and the Lao PDR government regarding investment regulations and other relevant matters and enjoy other cluster benefits such as experience and information sharing from the cluster participants, etc. In this case, Thai MNEs not only upgrade their FSAs based on network capability advantages but also might be able to further improve home country CSAs and host country CSAs in the future.
- Update business organizational structures and business culture to fit well with changes in business environment over time. For new Thai MNEs, they have to make decision on appropriate mode of entry (such as consider between a wholly foreign owned type or joint investment with the Lao PDR investors) and organization structure (such as management team, staff recruiting, etc.) within the company based on all information acquired from various sources (such as consider investment experience of other Thai investors or other foreign investors, etc.). From the interviews, some existing Thai MNEs mentioned that some new Thai firms do not succeed in their investment in the Lao PDR due to wrong information or wrong perception (regarding market characteristics, business culture, ways to build business networks, factor markets situation, etc.). Similarly, Thai MNEs already invested in the Lao PDR may evaluate their past and current business situation (all the problems they have faced and benefits they have

gained from the investment) then make decision on their future investment, for example, decide on whether they should invest more, maintain the size of their business, reduce their level of investment or discontinue their investment in the Lao PDR and decide on whether they should adjust their organizational structure and business culture within the firms based on changes in business environment, etc. However, it is worth noting that appropriate organizational structure for each Thai MNE could be differed based on various reasons. For example, some Thai MNEs may find that joint investment with trusted Lao investors is best for their business to reduce many transaction costs while doing business in the Lao PDR. However, some Thai MNEs may not have good experience with Lao investment partners and may decide to switch their existing investment type to wholly foreign owned one if they have a chance to do so or for their new investment in other enterprises. In terms of organizational structures, although most Thai MNEs tend to hire Thai managers and Thai management team to manage their business (or the investors take care of the business themselves), some Thai MNEs find that training Lao personals to work in the management team should be a good strategy for their businesses in the long run since in many cases some Thai staffs or Thai management team are assigned to work in the Lao PDR only for temporary or only for some time period.

บทคัดย่อ

ในระหว่างที่ผ่านมาโอกาสการลงทุนในสาธารณรัฐประชาธิปไตยประชาชนลาวค่อนข้างโดดเด่น จากการเติบโตทางเศรษฐกิจของประเทศ การลงทุนจากต่างประเทศในลาวที่เพิ่มขึ้น และการออกกฎหมายการลงทุนฉบับปี พ.ศ. 2552 เพื่อให้ให้นักลงทุนในประเทศและนักลงทุนต่างประเทศอยู่ภายใต้กฎหมายการลงทุนฉบับเดียวกันจากที่เคยแยกกันคนละฉบับ โดยงานศึกษาชิ้นนี้มีวัตถุประสงค์ในการ (1) อธิบายแนวโน้มและรูปแบบการลงทุนโดยตรงของไทยในลาว (2) ศึกษาแรงจูงใจในการไปลงทุนโดยตรงของไทยในลาว (3) ศึกษาปัจจัยที่ส่งผลต่อการลงทุนโดยตรงของไทยในลาวภายใต้กรอบความได้เปรียบเฉพาะของบริษัท (firm-specific advantages, FSAs) และความได้เปรียบเฉพาะของประเทศหรือภูมิภาค (country-specific advantages, CSAs) หรือ กรอบ FSAs/CSAs (4) นำเสนอข้อเสนอแนะเชิงนโยบายต่อภาคส่วนต่างๆ ที่เกี่ยวข้อง รวมถึงภาครัฐและเอกชนที่เกี่ยวข้องกับการสนับสนุนการลงทุนโดยตรงของไทยในลาว และบรรษัทข้ามชาติไทยที่ลงทุนหรือสนใจเข้าไปลงทุนในลาว

ผลการศึกษาพบว่า

- (1) ในช่วงปี พ.ศ. 2543 ถึง พ.ศ. 2553 หากพิจารณาจากมูลค่าการลงทุนโดยตรงสะสม (foreign direct investment stocks หรือ FDI stocks) ประเทศไทย จีน และเวียดนาม มีสัดส่วนการลงทุนใกล้เคียงกัน คือ อยู่ที่ร้อยละ 22, 21 และ 18 ตามลำดับ โดเมนจีนและเวียดนามมีบทบาทเพิ่มขึ้นอย่างเห็นได้ชัด การลงทุนโดยตรงจากต่างประเทศจะอยู่ในอุตสาหกรรมหลักๆ คือ การผลิตไฟฟ้า (ร้อยละ 34) เหมืองแร่ (ร้อยละ 26) และภาคบริการ (ร้อยละ 12)
- (2) ในช่วงปี พ.ศ. 2543 ถึง พ.ศ. 2553 มูลค่าการลงทุนโดยตรงสะสมของไทย (foreign direct investment stocks หรือ FDI stocks) ในลาวส่วนใหญ่จะอยู่ในอุตสาหกรรมหลักๆ คือ การผลิตไฟฟ้า (ร้อยละ 31) เหมืองแร่ (ร้อยละ 24) และภาคบริการ (ร้อยละ 11) ภาคอุตสาหกรรมและงานฝีมือ (ร้อยละ 10) และภาคเกษตร (ร้อยละ 9) พื้นที่การลงทุนส่วนใหญ่อยู่ในนครหลวงเวียงจันทน์ (ร้อยละ 43) แขวงจำปาสัก (ร้อยละ 27) แขวงคำม่วน (ร้อยละ 12) และแขวงสะหวันนะเขต (ร้อยละ 6) สำหรับประเภทการลงทุนเป็นการลงทุนในลักษณะการร่วมทุน (joint venture) (ร้อยละ 74) และเป็นในลักษณะการเป็นเจ้าของโดยต่างชาติทั้งหมด (wholly foreign owned) (ร้อยละ 26) ในส่วนของรูปแบบการลงทุนเป็นทั้งการลงทุนในลักษณะธุรกิจสัมปทาน (concession business) (ร้อยละ 63) และในลักษณะธุรกิจทั่วไป (general business) (ร้อยละ 37)

- (3) การลงทุนในสาธารณรัฐประชาธิปไตยประชาชนลาว ซึ่งถือเป็นประเทศกำลังพัฒนานั้น อาจต้องอาศัยความได้เปรียบเฉพาะของบริษัท (firm-specific advantages, FSAs) และความได้เปรียบเฉพาะของประเทศหรือภูมิภาค (country-specific advantages, CSAs) ในลักษณะที่ต่างจากการลงทุนในประเทศพัฒนาแล้ว
- (4) แรงจูงใจสำคัญของการลงทุนโดยตรงของบริษัทข้ามชาติไทยในลาวคือ แรงจูงทางด้านการแสวงหาตลาด (market seeking motive) ทั้งตลาดในประเทศลาวเองและตลาดในต่างประเทศ และแรงจูงในทางด้านการแสวงหาทรัพยากรธรรมชาติ (natural resource-seeking motive)
- (5) ความได้เปรียบเฉพาะของบริษัท (firm-specific advantages, FSAs) ที่จำเป็นสำหรับการลงทุนในลาว คือ ความได้เปรียบในเรื่องของเครือข่ายและความสัมพันธ์ (network and relationship) และความสามารถทางการบริหารจัดการและการยอมรับในตัวสินค้าไทยโดยคนลาว
- (6) สำหรับความได้เปรียบเฉพาะของประเทศหรือภูมิภาค (country-specific advantages, CSAs)
- ในส่วนของความได้เปรียบเฉพาะของประเทศที่เป็นแหล่งทุนซึ่งในที่นี้คือประเทศไทย (Home country-specific advantages) ประเทศไทยควรมีการกำหนดนโยบายและมาตรการที่เกี่ยวข้องกับการลงทุนโดยตรงในต่างประเทศให้ชัดเจน
 - การขาดแคลนทรัพยากรทางธรรมชาติในประเทศไทย และการมีทรัพยากรธรรมชาติในลาว เป็นปัจจัยผลักดันและปัจจัยดึงดูดให้เกิดการลงทุนของบริษัทข้ามชาติไทยในลาวที่มีแรงจูงใจในการลงทุนในการแสวงหาทรัพยากรธรรมชาติ (natural resource-seeking motive)
 - ในส่วนของการการลงทุนโดยตรงของบริษัทข้ามชาติไทยในลาวจากแรงจูงใจในการแสวงหาตลาด (market-seeking motive) เกิดจากการเติบโตทางเศรษฐกิจของลาวจึงทำให้เกิดอุปสงค์ในประเทศในสินค้าและบริการชนิดหรือรูปแบบใหม่ๆ สำหรับตลาดต่างประเทศ บริษัทข้ามชาติเหล่านี้ได้ประโยชน์จากการได้รับสิทธิพิเศษทางการค้าของลาวจากประเทศต่างๆ เช่น (ระบบสิทธิพิเศษทางภาษีศุลกากร หรือ Generalized System of Preferences, GSP)
 - ในส่วนของความได้เปรียบเฉพาะของประเทศที่รับการลงทุนซึ่งในที่นี้คือประเทศลาว (host country-specific advantages)

- ในส่วนของตลาดปัจจัยการผลิตในลาว พบว่า ลาวยังขาดแคลนแรงงานในทุกประเภท (ทุกระดับฝีมือ) แรงงานในภาคการผลิตมีผลิตภาพการผลิตต่ำ ตลาดทุนในลาวมีขนาดเล็ก มีทรัพยากรที่ดินมาก แต่ยังคงมีปัญหาในเรื่องการจัดการที่ดินดังกล่าว โดยบริษัทข้ามชาติบางแห่งสามารถเข้าไปใช้ประโยชน์ที่ดินที่ได้สัมปทานน้อยกว่าที่ระบุไว้ในสัญญา
 - กฎหมายการลงทุนและกฎเกณฑ์การลงทุนในลาว มีการปรับเพื่อให้การลงทุนจากภายในประเทศและการลงทุนจากต่างประเทศเผชิญกับกฎเกณฑ์และสิทธิที่เท่าเทียมกันมากขึ้น และมีการเพิ่มแรงจูงใจในการลงทุนให้มากขึ้น อย่างไรก็ตามลาวเองยังคงมีปัญหาบางประการในการบังคับใช้กฎหมายและกฎเกณฑ์ต่างๆ ดังกล่าว
- ความใกล้เคียงกันของตำแหน่งที่ตั้ง (location proximity) ของไทยและลาว เป็นตัวเสริมความได้เปรียบเฉพาะของบริษัท (firm-specific advantages, FSAs) ของบริษัทข้ามชาติไทย ในส่วนของความสามารถในการกระจายสินค้า (โดยเฉพาะจากลาวมาไทย) และความสามารถในการเคลื่อนย้ายปัจจัยการผลิต (โดยเฉพาะจากไทยไปลาว)
 - ความใกล้เคียงกันทางภาษาและวัฒนธรรมของไทยและลาว (language and cultural proximity) ของไทยและลาว เป็นตัวเสริมความได้เปรียบเฉพาะของบริษัท (firm-specific advantages, FSAs) ของบริษัทข้ามชาติไทย ในส่วนของความสามารถทางการตลาด (marketing capability) และความสามารถในการจัดการ (management capability)
 - ความใกล้เคียงกันทางสถาบัน (institutional proximity) ของไทยและลาว เป็นตัวเสริมความได้เปรียบเฉพาะของบริษัท (firm-specific advantages, FSAs) ของบริษัทข้ามชาติไทย ในส่วนของความสามารถทางด้านการสร้างเครือข่าย (network capability)
 - ลาวยังคงขาดข้อมูลที่สำคัญบางประการที่จำเป็นสำหรับการวิเคราะห์และกำหนดนโยบายด้านการลงทุนของประเทศ เช่น ข้อมูลเกี่ยวกับการลงทุนโดยตรงที่เกิดขึ้นจริง (นอกเหนือจากข้อมูลการลงทุนโดยตรงที่ได้รับการอนุมัติ) จำนวนโครงการที่ยกเลิกหรือยุติการลงทุนในลาว มูลค่าการถอนทุนคืนของการลงทุนโดยเฉพาะการลงทุนจากต่างประเทศ มูลค่าภาษีกำไร ภาษีศุลกากร หรือภาษีต่างๆ ที่ลาวยกเว้นหรือลดให้การลงทุนทั้งจากในประเทศและต่างประเทศ เพื่อเป็นการสร้างแรงจูงใจในการลงทุน เป็นต้น

Abstract

With investment opportunities in the Lao PDR based on the country economic growth, increasing trend of FDI inflows to the country and new investment promotion law 2009, leveling playing field between domestic and foreign investors, this study aims to (1) explain trends and patterns of outward FDI from Thailand to the Lao PDR; (2) examine motives of outward FDI from Thailand to the Lao PDR.; (3) describe and assess determinants of outward FDI from Thailand to the Lao PDR based on firm-specific-advantages (FSAs) and country-specific advantages (CSAs) framework (or FSAs/CSAs framework); (4) demonstrate policy implications and provide suggestions to related parties including public and/or private organization involved in supporting outward FDI from Thailand and inward FDI in the Lao PDR, and Thai MNEs already invested in or plan to invest in the Lao PDR.

The results of the study show that

- (1) Based on value of investment stock, during 2001 to 2010 (calendar year) Thailand (22%), China (21%), and Vietnam (18%) were key sources of FDI in the Lao PDR, with growing roles of investment from China and Vietnam. Important industry hosting those investment were electricity generation sector (34%), mining sector (26%), service sector (12%)
- (2) Based on value of investment stock, during 1990-2010, majority of investment from Thailand in the Lao PDR are in electricity generating sector (31%), mining sector (24%), service sector (11%), industry and handicraft (10%) and agricultural sector (9%). Investment of Thai MNEs in the Lao PDR are in Vientiane Capital (43%), Champasak province (27%), Khammuan Province (12%) and Savannakhet (6%). In terms of type of investment, there were joint venture type (74%) and wholly foreign owned type (26%). In terms of forms of investment, the investment was in the form of concession business (63%) and general business (37%).
- (3) Investment in the Lao PDR as an emerging country might be required or focused on different firm-specific advantages (FSAs) and country-specific advantages (CSAs) compared to investment in developed countries.
- (4) Important motives of outward FDI from Thailand to the Lao PDR have been market-seeking (domestic and foreign markets) and natural resource-seeking motives.

(5) Key FSAs required for the investment in the Lao PDR are network and relationship advantages, dynamic management capabilities and perception of the Lao PDR on Thai products.

(6) In terms of Key CSAs

- Home-country (Thailand) specific advantages need to be improved were clearer direction on outward FDI policy of the country and measures to support the policy.
- Lack of resource in the home country (Thailand) is one of the key push factor and availability of resource in the host country (the Lao PDR) is one of the key pull factor for Thai MNEs with natural resource seeking motive to invest in the Lao PDR.
- In terms of market seeking motive, economic development in the Lao PDR has created domestic demand on new types of products and services. In terms of foreign markets some firms enjoy benefits from special trade treatment the Lao PDR has received from other countries (such as through the Generalized System of Preferences, GSP).
- In terms of host country (the Lao PDR) specific advantages
 - The Lao PDR factors of production markets situation: inadequate amount of all types (skilled level) of labor and low labor productivity of production workers; small capital market; rich in terms of land resource, however due to some land management problems for some concession firms the land that can actually be used was less than area specified in the concession contracts.
 - Investment laws and regulations have been improved to provide level playing field between foreign and domestic investors and more investment incentives. However, there still exist problems regarding the implementation of those rules and regulations.
- Home and host countries (Thailand and the Lao PDR) location proximity has enhances Thai MNEs FSAs in terms of product distribution capability (especial from the Lao PDR to Thailand) and provide advantages in terms of movement of factor of production (especially from Thailand to the Lao PDR).
- Home and host countries (Thai and the Lao PDR) language and cultural similarity enhances Thai MNEs FSAs in terms of marketing capability and management capability
- Home and host countries (Thailand and the Lao PDR) institutional proximity enhance Thai MNEs FSAs in terms of network capability.
- The Lao PDR still lack some useful data for policy analysis; for example, data of actual investment value vs. approved investment value; number of projects discontinue to invest from the Lao PDR; divesture value, especially from foreign

disinvestment and amount of profit tax and other custom duties exemption or reduction based on investment incentives provided by the government, etc.

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CHAPTER 1: INTRODUCTION

This chapter describes the needs for the study in section 1.1 and clearly demonstrates the study objectives in section 1.2.

1.1 Introduction

Since financial and economic crisis in 2009, developing countries have played more roles in world FDI as host and source countries of the world inward and outward FDI (UNCTAD, 2012). For the Asia-Pacific region, International Monetary Fund (2012) explains that over the last two decades emerging Asia has received a high share of global FDI. However, the pattern of FDI in the region has changed. Data show that over the last decade the share of investment from within the region in overall FDI to Asian low-income countries and Pacific Island countries has increased, especially investment from China. That means Asian economy has increasingly relied more on economic situation within the region.

Intra-regional investment within the Association of South East Asian Nation (ASEAN) and from other Asian countries (especially China) has also become more prominent, especially since 2007. Although FDI inflows to ASEAN continue to have been concentrated in more advanced ASEAN member countries, FDI flows to relatively low-income ASEAN member countries (namely Cambodia, the Lao PDR, Myanmar, and Vietnam) has generally received more investment as well (UNCTAD, 2012; International Monetary Fund, 2012; ASEAN, 2011).

Although the Lao PDR is not the key recipient country of FDI inflows to ASEAN, since 2005 the country has actually attracted more than 1,000 million dollars FDI inflows each year (as oppose to merely 54 million dollars FDI inflows in 2001 and less than 0.5 million dollars each year before 2005). The FDI inflows actually reached the country record high in 2009 at 4,313 million dollars and continued to be as high as 2,539 and 2,320 million dollars in 2010 and 2011 (Ministry of Planning and Investment, Lao PDR, 2013a). Key sources of FDI flows to the country have been from Thailand, China, and Vietnam. During 2001 to 2009 (except in 2004), each country took turn to be a top source country of FDI inflows to the Lao PDR. However, during 2009-2011

investment from Thailand had been declined, while Vietnam became a top investor in 2009 and China was ranked first in 2010 and 2011.

According to UNCTAD (2010), a number of factors point toward increasing trend of FDI inflows to the Lao PDR. First, deeper economic integration among ASEAN member countries and between ASEAN and other Asian countries (especially China) are expected to further boost FDI inflows to the Lao PDR in later years. In terms of investment agreement among ASEAN member countries, under ASEAN Comprehensive Investment Agreement (ACIA), the Lao PDR will allow the free flow of ASEAN investment in manufacturing sector as early as 2009 and in the primary sector by 2015. Second reason is owing to the 2009 law on Investment promotion. This new law demonstrates a big step of effort to level playing field between domestic and foreign investors by merging the law governing domestic and foreign investments, previously in separate laws.

“Among the features most highlighted in the new law include: same tax exemptions for local and foreign business, access to 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” (UNCTAD, 2010, p. 48).

With investment opportunities in the Lao PDR, it would be beneficial for Thai MNEs and policy makers to explore trends and pattern of FDI inflows to the country. This study tries to describe trends and patterns of Thai outward FDI in the Lao PDR (compared to other key FDI source countries, especially China and Vietnam); examining motives and determinants of Thai MNEs investment in the Lao PDR. The study then shows implications from the study results and provides recommendations to related parties including policy makers related to outward FDI from Thailand and inward FDI to the Lao PDR as well as Thai MNEs invested in or plan to invest in the Lao PDR.

1.2 Objectives of the study

The main objectives of this study are to

- (1) Explain trends and patterns of outward FDI from Thailand to the Lao PDR.
- (2) Examine motives of outward FDI from Thailand to the Lao PDR.
- (3) Describe and assess determinants of outward FDI from Thailand to the Lao PDR based on Firm-specific-advantages (FSAs) and country-specific advantages (CSAs) framework (or FSAs/CSAs framework)
- (4) Demonstrate policy implications and provide suggestions to related parties including public and/or private organization involved in supporting outward FDI from Thailand and inward FDI in the Lao PDR, and Thai MNEs already invested in or plan to invest in the Lao PDR

CHAPTER 2: LITERATURE REVIEW

This literature review section is divided into two parts. First is the review of related theories or frameworks. Then, the study shows the review of empirical studies related to FDI, especially in terms of inward FDI to and outward FDI from developing countries.

2.1 Theoretical literature review

This section reviews theories or frameworks related to motives and determinants of FDI.

2.1.1 Motives for foreign direct investment (FDI)

Dunning (1980, 1981) divides FDI into four types (as cited in Sukpanich and Rugman, 2010):

- **Natural resource-seeking FDI:** MNEs choose a specific host country based on sources of natural resources at the lowest relative cost. This type of MNE is normally associated with the export of resource-based products from the host country.
- **Market-seeking FDI:** MNEs expand their production abroad to new customers in new markets or by extending and preserving their existing markets. In terms of trade, this type of FDI can sometimes generate an import substitution effect, but often also leads to trade creation.
- **Efficiency-seeking FDI:** This type of FDI reflects a rationalization of the MNE's operations and normally is related to a specialization of various affiliates in its internal network. This can increase both intra-firm knowledge and goods flows. However, Hiratsuka (2006) suggests that indeed efficiency-seeking motive of FDI can be regarded as one type of resource seeking FDI
- **Strategic asset-seeking FDI:** In this case, assets of foreign firms are utilized to create synergies with the existing FSAs through common ownership. This could be done by non-equity forms of FDI such as joint venture or acquisition.

According to Shatz and Venables (2000) (as cited in Aldaba and Yap, 2009), there are two important motives for FDI. One motive is to acquire cheaper inputs (known as vertical FDI). The other motive is to serve the host market (horizontal FDI).

(1) Vertical FDI: a firm may decide to divide vertical chain of production into many stages and relocate each stage (or some stages) of production to different locations (countries) where costs are lower (Aldaba and Yap, 2009). In particular, based on “knowledge-capital model” (assuming that firms can conduct knowledge-based activities separately from production), a firm may locate knowledge-based activities in a country (countries) with relatively low costs of skilled labor and locate production facilities in a country (countries) with relatively low costs of unskilled labor (Plummer and Cheong, 2010). Plummer and Cheong (2010) suggest that a firm will engage in more vertical FDI when “1) it has higher ability to fragment production; 2) there are large differences in comparative advantage between countries for each stage of production; and 3) there are lower trade costs” (Plummer and Cheong, 2010, p. 9)

(2) Horizontal FDI: Due to some trade restrictions such as tariffs or other trade barriers, a firm may decide to duplicate production and sell facilities or set up a subsidiary in more than one location (country) (Aldaba and Yap, 2009). Plummer and Cheong (2010) explain that MNEs may engage in horizontal FDI given “1) similar country market-size; 2) similar home and host countries’ relative endowments; 3) lower plant level fixed costs; and 4) higher trade costs” (Plummer and Cheong, 2010, p. 9).

2.2.2 Determinants of FDI

Dunning's OLI Framework

Dunning (1977, 1981) suggests that there are three conditions for firms to engage in foreign direct investment (FDI). Those conditions include ownership advantages, location advantages, and internalization advantages. Accordingly, the paradigm has become known as the OLI framework: ownership (O), location (L), and internalization (I).

(1) Ownership advantages (O advantages): A firm's ownership advantage can come in many possible forms. According to Dunning (1983a and 1983b), these advantages may be related to assets (Oa advantages) and transaction skills (Ot advantages). The former advantages arise from the ownership of assets which are specific to the firm and to which other firms do not have access (unique assets), such as firm-specific knowledge. The latter advantages are related to the capabilities of MNEs to capture transactional benefit (or economizing transaction costs) through the coordination of assets located in different countries. For a firm to engage in FDI, the benefit from these ownership advantages should outweigh the cost of doing business abroad.

(2) Location Advantages (L advantages): These advantages can be related to government controls and regulations, such as tariffs and quotas, political risk, and cultural values. It can also come from the foreign market's cheap factor prices, and can be related to transportation costs. Factors such as access to customers and local opportunities are also important sources of location advantages.

(3) Internalization advantages (I advantages): A firm may decide to engage in FDI rather than exporting or licensing to overcome market imperfection problems. According to Rugman (1982), the imperfections of the market can be both natural market imperfections (e.g. the public good characteristic of knowledge) and structural market imperfections (e.g. government controls and regulations)

FSAs/CSAs framework

Later studies on motives of FDI have developed Dunning's OLI framework to a closely related framework called FSAs/CSAs framework stating that firm-specific advantages (FSAs) and country-specific advantages (CSAs) are important forces of firms to locate their production abroad.

According to UNCTAD (2006), the basic rationale for FDI by firms in a global market economy is to increase or protect their profitability and/or capital value (Sukpanich and Rugman, 2010). However, to be able to profitably or effectively extend operations abroad, a firm from either a

developed or developing country needs to possess superior advantages. Those advantages include

(1) Firm-specific advantages (FSAs): These are the proprietary knowledge-based assets internalized by MNEs when there is a situation of market failure (Rugman 1981; Buckley and Casson 1976). UNCTAD (2006) explains that the internalization (overseas expansion) of MNEs occurs to better exploit their existing competitive advantages (their FSAs) abroad or to protect, increase or add to these advantages. The resource-based view or resource based theory suggests that a firm's unique resources and heterogeneous capabilities can generate competitive advantages, which can lead to sustainable superior returns (Rugman and Verbeke, 2002; Barney, 1991). According to Barney (1991), firm resources and capabilities could be distinguished based on their value, rareness, inimitability and substitutability. These resources or firm's proprietary assets may include brand names, skilled labor, knowledge of technology, and efficient production processes (Wernerfelt, 1984). Moreover, those FSAs could be related to expertise and technology, production and service capabilities, business model and MNEs forms of governance (UNCTAD, 2006). This kind of advantages is in line with ownership advantages (O advantages) in Dunning's OLI framework.

(2) Country-specific advantages (CSAs): These advantages arise from the environment of the country. According to Sukpanich and Rugman (2010), these CSAs may include natural market factor endowments, factor prices, government regulations, and market access. This kind of advantages coincides with location advantages (L advantages) in Dunning's OLI framework. Institutional theory also emphasizes the influences of formal and informal institutional environment (such as cultural, political and other factors) of home and host countries as well as the distance between home and host countries on MNEs advantages and disadvantages when invest abroad. Accordingly, institutional theory complements the concept of CSAs (in FSAs/CSAs framework) and location advantages (in Dunning's OLI framework) in explaining determinants of MNEs foreign direct investment.

Asian Development Bank (2006) describes that a country attractiveness as a host of FDI inflows depends on

- (1) Comparative advantage in international production: This advantage can be related to endowment of natural resources, costs of labor and other factors of production, etc.
- (2) Domestic investment climate: this part can be classified into two conditions
 - Foreign investment regime: This may include “rules governing foreign investment and specific incentives for investors such as tax holidays and repatriation of profits” (Asian Development Bank, 2006, page 11)
 - General investment environment: This is related to “a variety of factors including political stability, macroeconomic environment, adequacy of social and physical infrastructure, level of institutional development, and attitude of host countries towards foreign enterprise participation” (Asian Development Bank, 2006, page 11-12)

As cited in Sukpanich and Rugman (2010), Rugman (1981 and 2005) explains that the Multinational Enterprises (MNEs) strategies are based on the interaction between FSAs and CSAs. Firms may possess weak or strong FSAs and CSAs (Rugman and Verbeke, 1990). Different levels of FSAs and CSAs of MNEs could lead to different level and types of FDI. Many studies also emphasize the needs for using institutional theory and resource based view together with other theories or concepts such as transaction cost economics perspective (including agency theory) in explaining MNEs advantages, strategies and performance, especially in emerging economies context (Hoskisson et al. 2000; Wright et al. 2005; Meyer and Peng 2005; Peng, Wang and Jiang 2008; Khanna and Palepu, 2010; Ramamurti and Singh, 2010; Hoskisson et al. 2012). This actually coincides with the suggestion of employing interaction between FSAs and CSAs, under the FSAs-CSAs framework, in explaining MNEs strategies.

Based on institutional theory and resource based theory, resources are normally based in a context and depends on characteristics of the context (Leonard-Barton, 1992 as cited in Hoskisson et al., 2000). Institutional environment might be a constraint for or can facilitate firms' strategies. Accordingly, firm's sustainable advantages depend on resource-based and institutional factors and ability of firms to manage their resources and capabilities based on

environmental context they face (Hoskisson et al. 2000; Hoskisson et al. 2012). Under emerging economies context, firms from emerging economies may possess different resources and assets compared to firms from developed countries. Also, investment in emerging economies may require different types of resources and strategies compared to investment in developed economies (Hoskisson et al. 2000; Wright et al. 2005; Hoskisson et al. 2012). For example, Peng and Heath (1996) suggest that a network-based growth strategy is expected to be more feasible strategy in transition economies than internal growth strategy. Khanna and Palepu (2010) explains that in order to succeed in the investment in the emerging markets, MNEs as well as domestic enterprise have to spot the nature of institutional voids in emerging markets then learn and respond to those institutional voids. According to Cuervo-Cazurra and Genc (2008), although MNEs from developing countries seem to have some disadvantages compared to MNEs from developed countries due to poorer institutions of the home country, they may be able to turn these disadvantages to their advantages compared to developed country MNEs when operating in other countries with difficult governance conditions because they are more familiar with the operation in similar conditions.

Some studies also bring in other factors in explaining MNEs strategies such as level of infrastructure and factor market development of home and host countries of investment (Hoskisson et al., 2012) and industry characteristic factors (Peng, Wang and Jiang 2008). For example, Hoskisson et al. (2012) emphasizes on interaction of the two dimensions of country context which are level of institutional development and infrastructure and market development in determining strategies of emerging multinationals strategies in terms of resource management (in the study called “resource orchestration”), market entry and governance strategy. Peng, Wang and Jiang (2008) employing the concepts of resource-based view, institutional based view and industry based view in describing firms’ strategies and performance in emerging economies.

Transaction cost perspective (including agency theory) is also used in various studies to explain strategies of MNEs invest in emerging economies and strategies of emerging economies MNEs, especially regarding governance strategies (Hoskisson, 2000; Wright et al. 2005; Xu and Meyer 2012). In general, the theory explains MNEs governance mode choice based on the trade-off

between transaction costs of market and governance costs of hierarchy. Agency theory is also used to explain the strategies of MNEs (including governance structures of enterprise and other strategies) based on related parties characteristics and incentives with some assumptions of asymmetric information among them. These may include strategies based on the strategic interaction of principle and agent such as between owner, investors, shareholders or MNEs board of director (considered as principle) and manager (considered as agent) and the strategic interaction among heterogenous groups of principles themselves (Hoskisson 2000; Wright 2005; Filatotchev and Wright 2011; Hoskisson 2012).

In a more dynamic context, these FSAs and CSAs can be strengthened or weakened over time. In the long run, when a firm engages in international expansion, it can develop new knowledge, generate new technology, reconfigure its systems to fit the environment better, and have more managerial experience (Ruigrok and Wagner 2003; Hitt, Hoskisson and Kim 1997). In such cases, the FSAs could be improved over time. Meyer and Thaijongrak (2012) explain that MNEs learning process can occur through various mechanisms including through business networks, local joint ventures and acquisitions, strategic asset-seeking FDI and by observing peers. According to Tallman & Yip (2001), for the companies with core competencies, international expansion can generate new opportunities to leverage the existing valuable resources. The MNEs can also access new resources and generate new capabilities through international expansion. Accordingly, strategies of MNEs usually involve a balance between the exploitation of existing resources and the development of new ones (Wernerfelt 1984; Hoskisson 2012). However, it is possible that when a firm has more international operations, the organization can become more complex and more difficult to coordinate and manage (Geringer, Beamish & daCosta 1989). These problems can weaken the FSAs in the long run. The relative strength of the CSAs can also alter over time according to changes in government regulations and national market situations. For example, many emerging economies tend to adopt more market-based or open market policies (Hoskisson, 2000). However, it is worth noting that even in a dynamic context, the FSAs and CSAs still interact to determine MNEs strategies.

In terms of determinants of different types of FDI (vertical FDI and horizontal FDI), Plummer and Cheong (2010) suggest that a firm will engage in more vertical FDI when 1) MNE has higher

ability to fragment production; 2) countries have large differences in comparative advantage between each stage of production; and 3) trade costs are low. Moreover, Jones and Kierrzkowsky (2004) (as cited by Aldaba and Yap 2009) suggest that optimal level of fragmentation depends on market size, economic growth, and service links costs. On the other hand, MNEs tend to engage in horizontal FDI given 1) similar market-size between countries; 2) similar home and host countries' relative endowments; 3) low plant level fixed costs; 4) high trade costs.

Determinants of FDI based on motives of FDI could be different. Asian Development Bank (2006) suggests that for MNEs engaging in FDI due to market-seeking motive, factors affect those MNEs to locate their investment abroad either in industrialized countries or developing countries could be similar. Those factors may include market demand in the host country and trade barriers. That is MNEs may overcome those trade barriers to penetrate to host country market by invest and produce in the host market instead (this is sometimes known as tariff-jumping FDI). Another implication is that this kind of FDI might compensate level of trade between home and host countries of FDI (Aldaba and Yap 2009). With more regional economic (especially trade) integration of the FDI host country with other countries in the region (or any other preferential trade agreements either at bilateral level or multilateral level), market enlargement effect now combines domestic market of FDI host country with other countries in that economic integration agreements. For MNEs with efficiency-seeking motive, in examining factors affecting FDI it is important to distinguish between two types of production, one is export-oriented production and the other is assembly processes within vertically integrated global production systems. It is possible that efficiency-seeking FDI might create more trade between home and host countries of FDI (there might be more trade in parts or intermediate goods between home and host countries of FDI). However, Plummer and Choeng (2009) explain that transfer of finished goods and parts is normally associated with trade and logistic costs. Accordingly, trade costs and/or level of trade barriers (especially in related final products and parts or intermediate goods that shipped between home and host countries or to and from third party) may affect level of efficiency-seeking FDI.

2.2 Empirical literature review

There exists empirical literature regarding trends, motives and factors affecting outward and inward FDI from and to developing countries. UNCTAD (2011b) describes FDI trends and patterns in less-developed countries (LDCs) in 2001-2010. The study also describes key observations on FDI impacts and shortcomings and provides some policy suggestions regarding investment in LDCs. UNCTAD (2006) explains that compared to developed-country at similar stage of development, MNEs from developing countries tend to invest overseas at very early stage. Besides, the sources of FSAs or other competitive advantages of these MNEs cover a wider range than merely technological and expertise-based competencies. The study also describes four key factors push and pull FDI from and to developing countries. Firstly, market-related factors tend to be a strong force push and pull FDI from and to developing countries. Second factor is related to rising costs of production in the home country (especially the increase in labor costs in some developing countries from East and South-East Asian countries). Third, competitive pressures (for example from competition from low costs producers, particularly from efficient East and South-East Asian manufacturers) push developing MNEs to invest abroad. Forth, home and host policies affect MNE FDI decisions. The study also explains possible impact of FDI on home and host countries economy.

Many studies explore patterns, motives, determinants and effects of inward FDI in developing countries. Considering FDI in ASEAN member countries, some studies explain factors affecting location decision of FDI inflows to ASEAN countries, and some studies rank, score, or calculate indicators for those countries for their inward FDI attractiveness based on different country-specific characteristics (Karimi and Yusop, 2009; Wong, Shankar, and Toh, 2010; ASEAN, 2011; Wong and Wirjo, 2012). Ismail (2009) employs semi-gravity model examining determinants of FDI in ASEAN countries.

Some studies explore inward FDI to a group of countries or each country in ASEAN. For example, Asian Development Bank (2006) describes trends, patterns, motives, and determinants of FDI to countries in Mekong region. Many studies explore patterns, characteristics, determinants, and effects of inward FDI in more developed ASEAN countries;

for example, studies regarding FDI in Thailand (Jansen 1995; Ramstetter, 2004; Kohpaiboon, 2006; Kohpaiboon, 2009), FDI in Malaysia and the Philippines (Giroud, 2007). Although with some efforts, studies related to FDI in ASEAN less developed countries (including Cambodia, the Lao PDR, Vietnam, and Myanmar commonly known as CLMV countries) are quite limited. Those studies include studies examining FDI in Cambodia (Cuyvers, Soeng, and Plasmans, 2011), FDI in the Lao PDR (Menon, 1998), FDI in Myanmar (Khine, 2008), and FDI in Vietnam (Giroud, 2007), FDI in CLMV countries from Thailand (Chantapong and Tanabadeepat, 2012)

Some studies on inward FDI to ASEAN focus on specific factors determining levels of FDI. For example, Ismail and Yussof (2003) explore effects of labor market competitiveness on FDI inflows to three ASEAN member countries including Malaysia, Thailand, and the Philippines. Kemegue and Mohan (2007) examine the effect of geographic neighbors on new FDI inflows from the United States to ASEAN countries. Rammal and Zurbruegg (2006) study the impact of regulatory quality on intra-ASEAN FDI. Kindra, Strizzi and Mansor (1998) explore the effect of investment promotion programs on inward FDI to ASEAN countries, special interest is given to the role of marketing facets of those programs. Many studies examine the role of economic integration within the region (especially many kinds of agreement among ASEAN member countries and between member countries with third country or region) on FDI inflows to ASEAN member countries (for example, Konan and Heinrich, 1998; Aldaba and Yap, 2009; Plummer and Choeng, 2009; Ismail, Smith and Kugler, 2009; International Monetary Fund, 2012)

Compared to inward FDI studies, studies regarding outward FDI from developing countries are relatively scarce. Some studies focus on exploring factors affecting outward FDI from developing or transition countries (especially from Asian nations). For example, Rajan, Kumar, and Vargill (2008) study factors influencing surge of FDI from Asian countries. Hill and Jongwanich (2009) describe that factors affecting outward FDI of developing East-Asian countries (in terms of regional factors and country specific factors) include the region deeper economic integration, more open FDI regimes, increasing technological and financial sophistication, rising savings levels, and global economic situation. Williamson et al. (2013), explore emerging MNEs competitive advantages based on the MNEs innovation, value-chain configuration and mergers and acquisitions strategies based on MNEs from various emerging

economies. Kayam (2009) concentrates her study on effects of foreign competition (either as imports or inward FDI) on the outward FDI of developing and transition countries. Goa (2004) compared factors affecting outward FDI from developing and developed countries and finds that outward FDI from East and Southeast Asian developing countries is less sensitive to host country income, and declines more rapidly with distance compared to FDI from developed OECD countries.

In the past decades, increasing number of studies are interested in exploring characteristics, performance, motives and factors affecting outward FDI from member countries of ASEAN. Hiratsuka (2006) explains patterns, motives and determinants of intra-ASEAN FDI. The study finds that due to home market effect, market seeking is an important motive of ASEAN MNEs, especially large ASEAN firms. In addition, similar to outward FDI from developed country, ASEAN MNEs expand their business abroad based on efficiency-seeking motives (especially for low factor of production, such as labor cost). Sukpanich and Rugman (2010) describe trends and patterns of ASEAN countries outward FDI (especially intra-regional investment). The study also assesses FSAs and CSAs factors affecting investment of ASEAN MNEs abroad.

Regarding outward FDI from ASEAN countries, some studies concentrate their research on outward FDI from each member countries. For example, Pangarkar and Lim (2003) assess performance and factors affecting performance of Singaporean MNEs. The factors explored include mode of FDI, relative size of FDI, cultural distance, and host government attitudes. Unakoon and Jongprasoplap (2011) explains that home country policies to support outward FDI are one of the key factors determining effectiveness of outward FDI from Malaysia (the study also explore the case of outward FDI from Taiwan).

In terms of outward FDI from Thailand, although the studies in the fields are quite limited compared to studies regarding inward FDI to Thailand, the issues have been attracted more attention from academic scholars. Some studies explain trends, patterns and motives of Thai outward FDI (For example, Pananond and Kanchanachoochat, 2006; Pananond 2007; Sukpanich, 2009; Chantapong and Tanabadeepat, 2012). Pananond and Kanchanachoochat (2006) and Pananond (2007) explore determinants of Thai outward FDI before and after Asian

financial crisis. They find that while networking capabilities are key factors affecting outward FDI of Thai MNEs during pre-crisis era, industry-specific technological capabilities play increasing roles in determining investment of Thai MNEs abroad. Wee (2007) explains that motives of Thai MNEs to invest abroad vary between firms depending on the industry an MNE operate, the internationalization experience of an MNE, the extent of each MNE business networks, and purpose of the MNE outward FDI. The study also explores key drivers of Thai MNE outward FDI including the MNE competitiveness (the MNE's FSAs), the policy framework, and the institutional measures supporting and confining Thai outward FDI. Masron and shahbudin (2010) focus their study on the role of country-specific characteristics (CSAs) affecting outward FDI from Thailand (compared to Malaysia). Chantapong and Tanabadeepat (2012) explore key motives and factors determining investment of Thai MNEs in neighboring countries (including Cambodia, the Lao PDR, Myanmar, and Vietnam, known as CLMV countries). They found that market-seeking purpose is the key incentive for Thai MNEs to invest in CLMV countries, followed by competitive capability of Thai MNEs in international market and labor incentive (especially, in terms of amount of labor and cheaper labor cost in those CLMV countries).

CHAPTER 3: CONCEPTUAL FRAMEWORK, DATA AND SAMPLE AND RESEARCH METHODOLOGY

3.1 Conceptual Framework

Figure 3.1 explains conceptual framework of this study. The study examines determinants of outward FDI from Thai MNEs to the Lao PDR according to motives and types of FDI. Based on FSA/CSAs framework, the determinants of the specified FDI explored in this study are divided into

- (1) Firm-specific advantages (FSAs): This part examines and assesses Thai MNEs resources and capabilities affecting those MNEs competitive advantages to invest in the Lao PDR. The MNEs' FSAs of consideration include (adjusted from UNCTAD, 2006 framework)
 - Expertise and technology
 - Products/services and market capabilities
 - Networks and relationships
 - Organizational structure and business culture
- (2) Country-specific advantages (CSAs): This part examines country-specific advantages (CSAs) of home country (Thailand) and host country (the Lao PDR) of FDI.
 - Expertise and technology
 - Home country advantages: Examples of these advantages are Thai government policies and regulations related to outward FDI, supply chain situations of business or sectors of interest, language proximity, institutional proximity and cultural proximity with host country, etc.
 - Host country advantages: Adapt from Asian Development Bank (2006), this study examines
 - Comparative advantages related to market-oriented factors: For example market size, consumer tastes and preferences, etc.

- Comparative advantages in international production: For example in terms of natural resources endowment, factor of production costs (such as labor costs), etc.
- Domestic investment climate: this part can be classified into two conditions
 - ✓ Foreign investment regime: This may include laws, rules or regulations related to foreign investment and specific incentives for investors such as tax holidays and repatriation of profits (Asian Development Bank, 2006)
 - ✓ General investment environment: This is related to various factors including political stability, macroeconomic environment, adequacy of social and physical infrastructure, level of institutional development, and attitude of host countries towards foreign enterprise participation” (Asian Development Bank, 2006)
- Economic integration: a number of studies hypothesize and examine relationship between level of economic integration and FDI. This study explores formal economic agreements (especially related to investment and trade) between FDI home and host countries (Thailand and the Lao PDR and between FDI host country (the Lao PDR) with other countries that could possibly affect outward FDI of Thai MNEs in the Lao PDR.

This study assesses level FSAs/CSAs (weak or strong) in each aspect of advantages. The dynamic of these advantages is also examined. The study also explores interaction between these two types of advantages (FSAs and CSAs) in explaining motives and trends and patterns of outward FDI from Thai MNEs to the Lao PDR. Based on the findings, the study then shows implications from the results of the study and provides key messages and recommendations to related parties (for example policy recommendations to organization related to FDI, informative messages and suggestions for Thai MNEs already invested or plan to invest in the Lao PDR, etc.)

Table 3.1 demonstrates required FSAs and CSAs for each type of motives of investment

Figure 3.1: Conceptual framework of the study

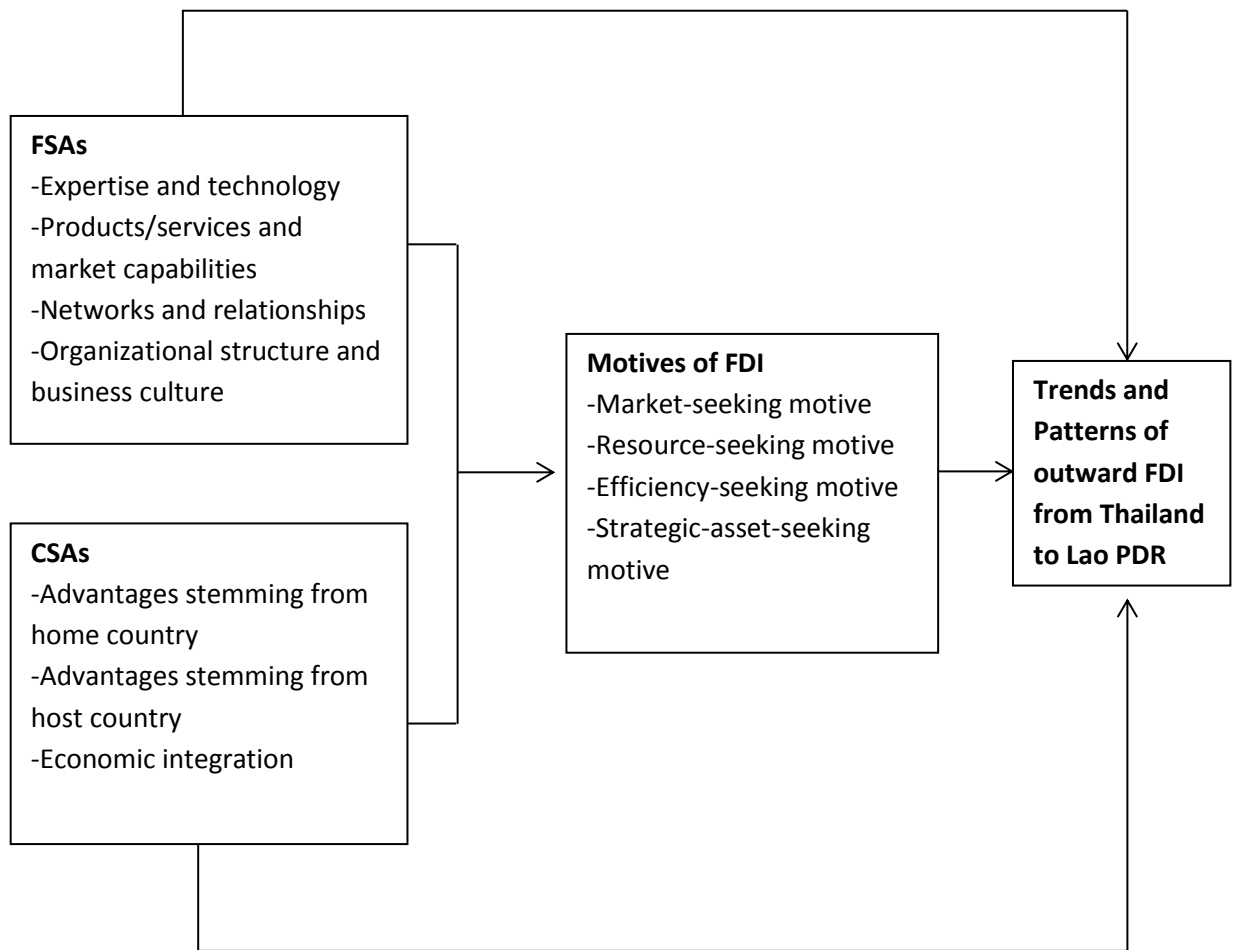


Table 3.1: Required FSAs and CSAs for each type of motives of investment

	Market seeking	Natural resource seeking	Efficiency seeking	Strategic asset seeking
Required FSAs				
(1) Expertise and technology	-Management expertise and experience			
	-Technology related to distribution channels and marketing	-Production technology	-Production technology	-Relevant technology
(2) Products/services and market capabilities	-Perception on Thai MNEs product			
	-Marketing capability			
(3) Network and relationship	-Networks and relationships with local, Thai or international distributors and buyers	-Networks and relationships with responsible government officers or politicians in related agencies	-Networks and relationships linked to owners of factors of production and suppliers of intermediate products	-Networks and relationships with related parties from public and private sectors
(4) Organizational structure and business culture	-Dynamic capability to adjust organization management -Monitoring capability			

	Market seeking	Natural resource seeking	Efficiency seeking	Strategic asset seeking
Required CSAs				
(1) Location proximity	-Location proximity as advantage to export final products from the Lao PDR to Thailand or to nearby countries	-Location proximity as advantage to export of natural resource intensive products from the Lao PDR to Thailand or to nearby countries (these products could be final goods or intermediate goods for further production in Thailand or in other nearby countries)	- Location proximity as advantage for the movement of some factor of production	
(2) Language and cultural proximity	-to enhance management capability and complement with organization management design			
	-to enhance marketing capability			
	-to enhance relevant network and relationship	-to enhance relevant network and relationship	-to enhance relevant network and relationship	-to enhance relevant network and relationship
(3) Institutional proximity	-to enhance relevant network and relationship	-to enhance relevant network and relationship	-to enhance relevant network and relationship (especially in	-to enhance relevant network and relationship

	Market seeking	Natural resource seeking	Efficiency seeking	Strategic asset seeking
	(especially in the case of investment in the developing countries)	(especially in the case of investment in the developing countries)	the case of investment in the developing countries)	(especially in the case of investment in the developing countries)
(4) Thailand outward FDI plan and policy	-Thailand overall strategic plan and measures related to the country outward FDI			
(5) Trade and investment agreement	-level of trade openness of the Lao PDR to Thailand to other countries -General System of Preferences (GSP) granted by developed countries to the Lao PDR	-level of the Lao PDR investment openness to foreign countries in natural resource intensive sectors	- level of the Lao PDR openness to movement of factor of productions to and from other countries	-level of the Lao PDR trade and investment openness
(6) Market opportunity	-Domestic demand (domestic market size and new demand) -Foreign demand (advantages from trade			-Domestic demand and regional demand

	Market seeking	Natural resource seeking	Efficiency seeking	Strategic asset seeking
	agreement of Lao PDR with other countries or such as GSP granted to low income country)			
(7) Rules and regulations				
Rules and regulations relevant to business set up	-investment application and consideration of investment application or investment approval procedure for both general business and concession business			
	-Some service sectors such as banking and telecommunication might be highly regulated, clear and acceptable rules of market penetration are needed	-Natural resource intensive sectors are normally highly regulated, clear and acceptable rules for the use of those natural resources are needed	-Rules and regulations regarding proportion of domestic factor of production to total factor of production (such as employment of domestic labor as a proportion of total labor) are relevant	
Rules and regulations after receiving investment license	-rules and regulations regarding product and service distribution in the		-rules and regulations regarding movement of intermediate goods and factors	

	Market seeking	Natural resource seeking	Efficiency seeking	Strategic asset seeking
	country and export		of production -rules and regulations regarding use of factors of production	
(8) Factor markets				
Labor (human resource)	-Availability of amount and quality of labor relevant to marketing and distribution task in home and host countries		-Availability of amount and quality of labor relevant to production capability building in home and host countries	
	-Availability of amount and quality of labor at professional level such as manager, lawyer, accountants, engineers, etc.			
Capital	-Ease of financial access in home and host countries			
Raw materials		-Availability of resource used as raw materials in the home and host countries	-Available of raw material and other intermediate goods in the home and host countries	
Land and other real estate properties and natural resource	-Rights on land use and other real estate properties such as buildings, factories, etc.			

	Market seeking	Natural resource seeking	Efficiency seeking	Strategic asset seeking
		-Rights on natural resource products extracted such as ores, gold, petroleum, etc.		
(9) Attitude of Lao people toward Thai products and Thai investors	- Attitude of Lao people toward Thai products	-Attitude of Lao people toward Thai investors	-Attitude of Lao people toward Thai investors	
(10) Infrastructure, utility and logistics	- Infrastructure, utility and logistics relevant to the distribution of final products	-Infrastructure, utility and logistics relevant to access to natural resource needed	- Infrastructure, utility and logistics relevant to the movement of intermediate goods and factor of production	

3.2 Research Methodology

Data and samples

This study employs both primary data and secondary data to analyze trends, motives, and factors affecting outward FDI from Thailand to Lao PDR.

Secondary data are derived from reliable sources such as from Bank of Thailand, Ministry of Planning and Investment (Lao PDR), Ministry of Industry and Commerce (Lao PDR), Lao National Committee for Special Economic Zones (NCSEZ) Secretariat, and also from other reliable organizations. Moreover, more information and data are derived from academic articles and reports from reliable sources.

Primary data is derived from two sources.

- (1) The first source is from interviewing representative of related parties including representatives from organizations related to outward FDI from Thailand and inward FDI in the Lao PDR and representatives from Thai MNEs currently invest or used to invest in the Lao PDR (organizations and types of Thai MNEs interviewed are shown in later section).
- (2) In case that direct interview arrangement is not convenient for interviewee, phone interview or questionnaire distribution had been arranged to collect data and information.

In terms of Thai MNEs samples, this study collects samples of Thai MNEs (with investment experience in the Lao PDR) based on various aspects of those MNEs including

- (1) Industry type (such as agriculture, industry, mining, trading, hotel and restaurant, banking, services, construction, and energy industries)
- (2) MNEs size: Large and small and medium size MNEs
- (3) Investment experience in different regions of the Lao PDR

- (4) Type of investment: Wholly foreign owned and joint venture with Lao (domestic) investors
- (5) Form of investment: General business and concession business

The following provides information of samples employed in this study with in depth interview.

The samples consists of

- (1) Thai MNEs invested in or has business contract with the Lao PDR (30 firms) in various sectors including agriculture, banking, construction, consultant, energy industries (electricity generation and water supply), hotel and restaurant, industry and handicraft, trading, wood industry, other service (including transportation such as bus and air services). The interviews were arranged in the following locations (including phone interviews).
 - In Vientiane: 10 firms
 - In Champasak Province: 7 firms
 - In Savahnakhet Province: 3 firms
 - In Luang Prabang Province: 8 firms
 - In Bangkok, Thailand: 2 firms (one of them has invested in Savahnakhet Province the other firm has established business contract without setting up any new business entities in the Lao PDR)
- (2) One special economic zone developer (non-Thai MNE)
- (3) The Lao PDR government agencies (for some agencies in both Vientiane and local Office)
 - Ministry of Planning and Investment
 - Ministry of Industry and Commerce
 - Lao National Committee of Special Economic Zone
 - Ministry of Natural Resources and Environment
- (4) Thai government agencies
 - Thai Trade Center Vientiane, Ministry of Commerce (Thailand)

Interview procedure and interview content

The study decides to conduct in depth interview in three regions of the Lao PDR including central part (in Vientiane), northern part (in Luang Prabang Province) and in the southern part (in Savahnakhet Province and Champasak Province). Vientiane is chosen as one of the city conducting an interview since it is the capital city where many Thai MNEs headquarters located in (although the MNEs may have some or majority of their investment in other cities or provinces) and where key Lao PDR government agencies located in. In the northern part, Luang Prabang Province was chosen due to the fact that there are many service Thai MNEs, especially in tourism sector, located in. In the southern part, Savahnakhet Province and Champasak Province are chose because these two provinces are key economical provinces in the southern part of the Lao PDR hosting investment from Thailand and other foreign companies, especially in agricultural sector.

In terms of interview procedure and interview content, this section describe based on the broad group of interview samples

(1) Thai Trade Center in Vientiane

The researcher sent formal letter to Thai Trade Center in Vientiane to ask permission to conduct interview with key decision maker of the agency. The interview content is related to

- The roles of the Embassy and Thai Trade Center relevant to investment of Thai MNEs in the Lao PDR (for example, investment facilitation, dispute reconciliation, etc.)
- Problems that Thai investors normally face while prepare to invest and when they have already invested in the Lao PDR
- Recommendations to Thai investors (plan to invest or have already invested in the Lao PDR) and to the relevant Thai and the Lao PDR government agencies.

(2) The Lao PDR government agencies

The researcher sent formal letter to the Lao PDR Embassy to help coordinate on setting up meetings or conducting interview with key decision maker of the relevant Lao PDR government agencies as stated earlier. The interview content is related to

- The roles of each of the Lao PDR government agencies relevant to investment, especially foreign investment, in the Lao PDR (for example, investment policy

design, investment rules and regulations imposition and implementation, investment facilitation, investment dispute resolution, etc.)

- General investment situation and investment environment in the Lao PDR
- Future policy and rules and regulations relevant to investment in the Lao PDR planned to imposed or implemented by each of the Lao PDR government agencies being interviewed
- Problems that foreign investors normally face while preparing to invest and when they have already invested in the Lao PDR
- Recommendations to Thai investors (plan to invest or have already invested in the Lao PDR) and to the relevant Thai and other Lao PDR government agencies.

(3) Thai MNEs invested in or has business contract with the Lao PDR and one special economic zone developer (non-Thai MNE)

The researcher sent formal letter to the targeted Thai MNEs as specified in the data and samples section to ask permission to conduct interview with key decision maker of each of those firms, followed by calling those MNEs for interview schedule confirmation. The research clearly states that the name of the company and the interviewee will not be shown in the report. This procedure is to make sure that the interviewee(s) or informant(s) feel confident to provide information or state their opinion without being afraid that the information and opinion provided would affect their business. The interview content is related to

- Motives of investment (market seeking, resource seeking, efficiency seeking, and/or strategic asset seeking)
- Type of investment (Wholly foreign owned and joint venture with Lao (domestic) investors)
- Form of investment (General business and concession business)
- Business background (length of investment period, products or services provide, employment structure, market for the products or services produced, management system)
- Investment incentives MNEs interested in (profit tax, other customs duty and taxes, accession to finance, specific promotion incentives, opinion on overall incentives)

- Investment application and consideration of investment application or investment approval procedure (regulations on eligible application for investment, investment approval procedures, enterprise registration certificate, term of investment and overall opinion on business set up application and procedure, etc.)
- Rules and regulations after receiving investment license
- Business operation
 - Financial access
 - Financial transaction
 - Equipment and raw material
 - Human resource
 - Land and real estates
 - Utility
 - Tax
 - Intellectual property rights
- Business network
- Other business environment
 - Attitude of people in the Lao PDR toward foreign investors and foreign products
 - Safety environment
 - Cost of living
- Reasons for discontinue business and reduce or stagnate investment in the Lao PDR

CHAPTER 4: THE LAO PDR BACKGROUND AND RULES AND REGULATIONS DEVELOPMENT

4.1 The Lao PDR brief history, important events, and rules and regulation development

This section is divided into two parts. The first part explains a brief history of the Lao PDR in terms of political and administration prior to the country important rules and regulation reform in 1986. Table 4.1 summarizes important events prior to 1986. The second part of this section describes important events especially the one pertaining rules and regulation development affecting foreign investment. Table 4.2 summarizes important events and rules and regulation development of the country since 1986. This information shall be useful in understanding and analyzing foreign relations of the Lao PDR and foreign investment, especially major investors in the country from the past to present.

The Lao PDR brief history prior to 1986

Table 4.1 shows brief history and important events prior to 1986. According to Table 1, between 1353 and 1828 the Lao PDR was unified as Lan Xang Kingdom (meaning the kingdom of million elephants), founded by King Fa Ngum. The capital city of the country was Luang Prabang located in the Northern region of the country then moved to Vientiane in 1520. In the late 18th century under controlled of Siam (now Thailand), the kingdom was divided into three principalities. In 19th century Siam (now Thailand) had taken control of most of the kingdom until Laos was incorporated into French Indochina colony with Vietnam and Cambodia in 1893. Then, from 1893 to 1949, Laos continued to be a French colony, except for a brief Japanese occupation period in 1940s during World War II (Laos returned to be a French colony in 1945). The country gained formal independence from France on 22 October 1953 then gained full independence, ratified under the Geneva Convention, as a constitution monarchy in 1954 (KPMG, 2009 and UNCTAD, 2010).

Table 4.1: Brief history of the Lao PDR prior to 1986

Year	Important Events
1358-1828	Lan Xang Kingdom
19 th century prior to 1983	Thailand (that time called Siam)'s colony period
1983-1949	French colony (part of French Indochina colony) period, except for a brief period of Japanese occupation in 1940s during World War II
1953	Formal independence from France on October 22 nd , 1953
1954	Full independence ratified under the Geneva Convention as a constitutional monarchy country
1959-1975	The war between United States and Vietnam
1975	Lao monarchy ended with the foundation of the Lao People's Democratic Republic (the Lao PDR) and declaration of an official Marxist-Leninist government

Source: summarized by author with information from KPMG (2009) and UNCTAD (2010)

After the independence, Laos was under chaos, political instability, and slow economic development. The war between the United States and Vietnam between 1959 and 1975 had also affected the country leading to much destruction and political instability during the time period. Vietnam was actually played an important role in the country during Laos independence process from France and after the independence declaration. In 1975, the Lao monarchy ended with the foundation of the Lao People's Democratic Republic (the Lao PDR) and an official Marxist-Leninist government was proclaimed (KPMG, 2009 and UNCTAD, 2010).

The Lao PDR important events since 1986

This part provides overview of rules and regulation development in the Lao PDR since 1986, especially regulations pertaining foreign investment in the country. Table 4.2 summarizes important events and rules and regulation development of the country since 1986.

Table 4.2: Important events and rules and regulations development of the Lao PDR since 1986

Year	Event
1986	New Economic Mechanism (NEM)
1988	Foreign Investment Code Privatization program
1989	Agreement with World Bank and IMF on additional reforms
1990	Bank of the Lao PDR (the Lao PDR central bank)
1992	Joined Greater Mekong Sub-region (GMS) Granted observer status in ASEAN
1994	Law on Foreign Investment Promotion and Management Business Law
1995	Law on the Bank of the Lao PDR
1997	A full member of ASEAN Application for the WTO membership
1998	Participate in AFTA Adopt AIA
2000	Decree on Commercial Bank
2004	Major revision of the Law on Foreign Investment Promotion and Management (1994) Law on the Promotion of Domestic Investment
2005	Enterprise Law 2005 Tax Law 2005
2006	Enterprise Law 2005 came into effect
2007	Law on Commercial Bank
2009	Law on the Investment Promotion in the Lao PDR
2010	Lao Securities Exchange (LSX)
2011	Decree on the Implementation of the Investment Promotion Law Law on the Promotion of Small and Medium Enterprises Revision of the Tax Law (2005)
2012	Adopt ACIA
2013	A full membership of WTO

Source: Summarized by author

Prior 1986, the Lao PDR was a country without constitution and with hardly any legislation with centrally planned economy and limited private sector role (KPMG, 2009). In 1986, the ruling Lao People's Democratic Party introduced the New Economic Mechanism (NEM), a comprehensive reform program to transform a centrally planned economy to a market-oriented one. According to UNCTAD (2010), under the reform program, farmers are allowed to own land and sell crops freely with almost all government-fixed prices were eliminated. State own enterprises (SOEs) had been reformed with higher degree of management independence and lower subsidies. The monopoly power of SOEs has declined. Private firms gain more direct access to imports and credits. Exchange rate was set closer to real market level. Trade barriers had been reduced. In terms of international relations, despite the country political regime, the government of the Lao PDR has established good relationship with other countries aiming at the country economic development through collaboration with international communities (Oraboune, 2010).

In 1988, the Lao PDR privatization program was commended. Privatization had occurred in service sectors such as telecommunications, transportation, insurance, real estate and tourism sectors. The preferred mode of privatization was a joint venture of state and private sector with the state retained the share of 51 per cent then reduced the share in the later stages (UNCTAD, 2010). Since 1986, the Lao PDR has gradually opened economy to trade and investment. As part of the NEM program, Foreign Investment Code was passed in July 1988. The Investment Code was replaced by the Law on Promotion and Management of Foreign Investment in July 1994 and a substantial revision of the law in October 2004 (Asian Development Bank, 2006). Details and comparison of regulations under this law are provided in section 4.2 and in Table A1.1 in Appendix 1.

In 1989, the Lao government agreed with the World Bank and the International Monetary Fund (IMF) for additional reforms including expansion of monetary and fiscal policy reforms, private enterprise and foreign investment promotion, privatization or close non-performing SOEs, banking system development, maintaining a flexible exchange rate, freer trade policy from reduction of tariff and elimination of unnecessary trade regulations (UNCTAD, 2010).

In 1992, the Lao PDR joined a sub-regional economic cooperation program called the Greater Mekong Sub-region (GMS). The GMS was formed in 1992 involving five countries (Cambodia, the Lao PDR, Myanmar, Thailand, and Vietnam) and the province of Yunnan and Guangxi in the People's Republic of China with the main corporation in trade and infrastructure development to improve connectivity within the region by improving transportation, energy, and telecommunications sectors (UNCTAD, 2010).

In July 1992, the Lao PDR was granted observer status in the Association of Southeast Asian Nations (ASEAN). At the 28th ASEAN Ministerial Meeting (AMM) in Brunei, the country applied to join the ASEAN. In July 1997, at the 30th AMM in Kuala Lumpur, Malaysia, the Lao PDR (together with Myanmar) was accepted as a full membership of ASEAN. The Lao PDR then participated in the ASEAN Free Trade Area (AFTA) in 1998 (Menon, 1998). In the same year as the full membership of ASEAN was granted, 1997, the Lao PDR also applied for a membership of World Trade Organization (WTO).

As a member of the ASEAN the Lao PDR has to adopt investment agreement ratified by all ASEAN member countries. That is, the ASEAN's Agreement on the Promotion and Protection of Investment, also known as the ASEAN Investment Guarantee Agreement (ASEAN IGA), signed in 1987. Then, the ASEAN investment Agreement (AIA) was signed in 1998. At the latest, the two agreements were replaced by the ASEAN Comprehensive on Investment Agreement (ACIA), signed in February 2009 and took effect on 29 March 2012 (ASEAN Secretariat, 2013).

In terms of Business Law and Enterprise Law, in 1994 the Business Law was promulgated to promote "a multi-sectoral economy investing in business in all sectors in order to expand a trade-based market" (Article 1 of The Lao PDR Business Law, 1994). Although the Business Law covers various other aspects of commercial law, the provisions in this law were related to the formation and management of business enterprises. The law was applied equally to foreign invested enterprises or domestic enterprises. The Business Law was superseded by the Enterprise Law, proclaimed in 2005 and came into effect in 2006. The Enterprise Law determines rules, regulations, and measures for establishing operating and managing enterprises to promote production, business, and services of all economic sectors (The Lao

PDR Enterprise Law, 2005). This law has been applied to domestic and foreign enterprises. The key issue of this law at that time, especially in terms of its implementation, would be whether it was consistent with the Law on Promotion and Management of Foreign Investment which was substantially revised in 2004.

In the year that the Law on Promotion and Management of Foreign Investment was revised, 2004, The Law on the Promotion of Domestic Investment was also promulgated. However, in 2009, the Law on the Investment Promotion in the Lao PDR was proclaimed. This new law merges the law governing domestic and foreign investments, previously under separate laws. This is actually a crucial step in terms of laws and regulations to level the playing field of foreign and domestic investors. In 2011, the decree on the Implementation of the Investment Promotion Law was proclaimed to expand and provide clarification through the implementation of the 2009 Investment Promotion Law. In the same year, 2011, the Lao PDR launched the Law on Promotion of Small and Medium Enterprises.

In terms of Tax Law, it was first promulgated in 2005 and was amended in 2011. The Amended Tax Law came into effect on 1 January 2012, with further adjustment in regulations in the following decrees. This is the first legislative amendment of tax law and introduces various changes in tax rate, type of tax collection, and related rules. For example, business turnover tax was replaced by the Value Added Tax (VAT), changes in profit tax and personal income tax, abolish of minimum tax imposed on companies either make profits below a certain level or incur losses in a tax year, etc. According to UNCTAD (2010), in terms of international agreements on tax, the Lao PDR also sign double taxation agreements with China, the Republic of Korea, the Russian Federation, Thailand, and Vietnam.

Regarding financial market and regulations, the Bank of Lao PDR (central bank of the Lao PDR) was established in 1990 to replace the State Bank. This was the important step to separate functions of central bank and commercial bank. The Law on the Bank of the Lao PDR was promulgated in 1995. The Decree on Commercial Bank was proclaimed in 2000, followed by the promulgation of the Law on Commercial bank in 2007. Regarding capital market, the Lao Securities Exchange (LSX) was officially opened on 10 October 2010. The LSX began to

operate in January 2011 with two listed companies; Banque Pour Le Commerce Extérieur (BCEL) and EDL Generation Public Company (EDL-GEN).

In 2013, after sixteen years since the application was submitted (in 1997) and the preparation and revision of various related regulations, the Lao PDR was finally granted a full membership of the World Trade Organization (WTO) in 2 February 2013. This is a crucial step for the Lao PDR for the new era of trade openness. This might bring about both threats and opportunities to firms invested in the Lao PDR.

4.2 Foreign Investment Laws

As mentioned in the previous section, since the New Economic Mechanism (NEM) was introduced in 1986, the Lao PDR has continuously opened its economy, especially in terms of trade and investment. Regarding investment policy, the Foreign Investment Code was passed in July 1988. It is then replaced by the Law on Promotion and Management of Foreign Investment in July 1994. The law was substantially revised in 2004, the same year that the Law on the Promotion of Domestic Investment was launched. Then, the Law on the Investment Promotion is promulgated in 2009 merges domestic and foreign investment laws. This section provides a comparison of the rules, regulations, and incentives provided by the Law on Promotion and Management of Foreign Investment in 1994, its revised version in 2004, and the new Law on the Investment Promotion in 2009 (Table A1.1 in Appendix 1 provides comparison of those laws by issues based on parts and articles in the law). The decree on the Implementation of the Investment Promotion Law was launched in 2011 to expand and provide clarifications on the contents of certain articles in the Law on the Investment Promotion (2009), such as division of responsibilities of various management authorities.

According to Table A1.1 in Appendix 1, the key issues compared across three versions of investment laws related to foreign investors are as of the following [It is noted that for the convenience of explanation the Law on Promotion and Management of Foreign Investment (1994) hereafter will be called “Foreign Investment Law (1994)”, the revised version of the law in

2004 will be called “Foreign Investment Law (2004)” and the new Law on the Investment Promotion declared in 2009 will be called “Investment Promotion Law (2009)”].

Scope of law application

While Foreign Investment Law (1994) and the Foreign Investment Law (2004) had been applied only to foreign investors, the Investment Promotion Law (2009) has been applied to both foreign investors and domestic investors (but does not apply to family-based business and retailers).

Investment form

In the Foreign Investment Law (1994), there are only two forms of investment including (1) A wholly foreign-owned enterprise (2) A Joint venture between foreign investor (s) and domestic investor (s).

In case of joint venture between foreign investors and domestic investors, the Foreign Investment Law (1994) states that foreign investors who invest in a joint venture must contribute a minimum portion of 30 per cent of the total equity investment in that venture; the Foreign Investment Law (2004) requires the same percentage for the joint venture’s registered capital. However, the Investment Promotion Law (2009) requires that foreign investors in the joint venture shall contribute at least 10 per cent of the total capital.

Determination of registered capital

The Foreign Investment Law (1994) does not clearly determine minimum amount of registered capital to total capital. The Foreign Investment Law (2004), however, requires that the registered capital of a foreign investment enterprise must not be less than 30 per cent of its total capital while the Investment Promotion Law (2009) requires only concession business to have its registered capital cannot be less than 30 per cent of its total capital.

Terms of investment

The Foreign Investment Law (1994) does not clearly specify maximum number of years for investment terms. However, the Foreign Investment Law (1994) states that the investment term of a foreign investment enterprise depends on the nature, size and conditions of the business activities or project but shall not exceed 50 years and may be extended with the approval of the government. However, the investment term of a foreign investment enterprise shall be for a maximum of 75 years.

The Investment Promotion Law (2009) distinguishes terms of investment regulations based on types of business. That is, the investment in general business has unlimited term of investment except for a business where the term has been determined in separate regulations and laws of relevant authorities. The investment in concession business and investment in the special economic zones and specific economic zones depend on type, size, investment value, and conditions of the concession activities or conditions of each special economic zone and specific economic zone but shall not exceed 99 years. However, investment in those kinds of business may be extended on a case by case basis with the consideration and approval of the related government authorities. The regulations on terms of investment specified earlier are also applied to investors invested in the special economic zones and specific economic zones.

Types of investment

Based on the three law of comparison, the Investment Promotion Law (2009) is the only law explicitly specifies and describes three types of investment including (1) General business (2) Concession business (3) Activities for development of special economic zones and specific economic zones. There are also chapters in the law devoted for each type of investment. It is also noted that the total capital of the foreign investors in general business shall not be less than one billion kips (1,000,000,000 kips).

Management authorities and one-stop-service for investment

Under the Foreign Investment Law (1994), the Foreign Investment Management Committee (FIMC) was established to assist, license, coordinate with other relevant authorities, and monitor foreign investment.

Under the Foreign Investment Law (2004), management authorities related to foreign investment include (1) The Committee for Promotion and Management of Investment (CPMI) at central and provincial levels (2) Sectors and other relevant sectoral organizations.

Under the Investment Promotion Law (2009), Investment management authorities consist of (1) Planning and Investment sector (2) Industrial and Commercial sector (3) Special Economic Zones and Specific Economic Zones. Parts of the responsibilities of these authorities are also based on types of investment.

For all three laws, the concept of one-stop-service for investment has been imposed. However, the Investment Promotion Law (2009) devotes a chapter to describe relevant authorities, principles and implementation mechanism of the one-stop-service for investment concept

Investment application

Based on the Foreign Investment Law (1994), foreign investors interested in investment in the Lao PDR shall submit application and supporting document to the one-stop-service of Foreign Investment Management Committee (FIMC), while under the Foreign Investment Law (2004), foreign investors interested in investment in the Lao PDR shall submit application and supporting document to the one-stop-service of the Committee for Promotion and Management of Investment (CPMI).

Under the Investment Promotion Law (2009), the submission of investment application to relevant authorities also depends on types of investment. That is, investors wishing to invest in general business shall submit their application to the one-stop-service of Ministry/Department of

Industry and Commerce; investors wishing to invest in concession business and investors wishing to establish a special economic zone and a specific economic zone shall submit their application to the one-stop-service of Ministry/Department of Planning and Investment; other investors (not the developer) wishing to invest in the special economic zone and a specific economic zone shall submit their applications to the one-stop-service of the concerned zone management committee of that special economic zone or that specific economic zone.

Consideration of investment application or investment approval procedure

According to the Foreign Investment Law (1994), upon receipt of a completed application and supporting documents the FIMC shall notify the applicant of the decision within 60 days of the application's submission date.

Under the Foreign Investment Law (2004), the timeframes of consideration are different based on types of investment, but for all types of investment the timeframes are less than the timeframe of 60 days specified in the Foreign Investment Law (1994). That is, upon receipt of a completed application and supporting documents the Committee for Promotion and Management of Investment (CPMI) shall coordinate with relevant sectors and local authorities, when necessary, to consider and to respond to applicant in the following timeframes

- (1) Projects which fall in the list of promoted [activities]: 15 working days
- (2) Projects which fall in the list of open activities with conditions: 25 working days
- (3) Projects which involve the grant of a concession: 45 working days.

Under this law, the timeframes of application consideration for all kinds of projects are less than the timeframe of 60 days specified in the Foreign Investment Law (1994)

Under the Investment Promotion Law (2009), the timeframes of consideration are different based on types of investment and in general less than timeframes stated in the Foreign Investment Law (2004). That is,

- (1) General business: 10 working days, controlled business 13 working days
- (2) Concession business: not specified
- (3) Investment calling list: 45 working days
- (4) Special economic zone and a specific economic zone: not specified
- (5) Investment in special economic zone and a specific economic zone: not specified

Promoted activities

The Foreign Investment Law (1994) does not explicitly state promoted industries. However Article 18 in Section Three of the law states that in highly exceptional cases and by specific decision of the Government of the Lao PDR, foreign investors may be granted special privileges and benefits, especially due to the size of the investment and significant positive impact upon the socio-economic development of the Lao PDR.

Under the Foreign Investment Law (2004) promoted activities include (1) production for export (2) activities relating to agriculture or forestry, and agricultural, forestry and handicraft processing activities (3) activities relating to industrial processing, industrial activities using modern techniques and technology, research and development, and activities relating to the protection of the environment and biodiversity (4) human resource development, skills development and public health (5) construction of infrastructure (6) production of raw materials and equipment to be supplied to key industrial activities; [and] (7) development of the tourism industry and transit services.

Under the Investment Promotion Law (2009), promoted sectors and activities are quite similar to those mentioned in the Foreign Investment Law (2004). That is the promoted sectors include agriculture, industry, handicraft and services. Prioritized activities are activities related to the poverty reduction, the improvement of living conditions of people, construction of infrastructure, human resource development, jobs creation, etc. However, the Investment Promotion Law (2009) explicitly divides promoted activities into three levels, level 1, level 2, and level 3, for activities with highest, moderate and low level of promotion.

Promoted zones

The Foreign Investment Law (1994) mentioned about the establishment of investment promotion zones, but does not explicitly identify types of the zones, benefits of the zones, and zones management principles.

The Foreign Investment Law (2004) and the Investment Promotion Law (2009) are similar in the sense that promotion zones are divided into 3 zones based on the socio-economic infrastructure and geographical conditions (but might be somewhat different in terms of the explanation of each zone). Under the Investment Promotion Law (2009), three types of promotion zones include

Zone1: Zones having least socio-economic infrastructure development in facilitating investments. The zones are mainly mountainous remote areas.

Zone2: Zones having moderate socio-economic infrastructure development, enabling partial facilitation to the investments, and having less difficult geographical situation compared to Zone 1

Zone3: Zones having good socio-economic infrastructure development in supporting investments

Profit tax incentives

The Foreign Investment Law (1994) states that foreign investment is subjected to a uniform flat rate of profit tax at 20 per cent. However, as mentioned in article 18, Section Three of the law, in highly exceptional case, the investor could be granted special privileges related to profit tax.

The Foreign Investment Law (2004) and the Investment Promotion Law (2009) identify profit tax incentives based on type of zones. Under the Foreign Investment Law (2004), investment in Zone 1, Zone 2, and Zone 3 will be exempted from profit tax for 7, 5, and 2 years, respectively (with Zone 2 and Zone 3 are subjected to the reduction of profit tax for 3 and 2 years,

respectively). Moreover, the profit used for the expansion of licensed business activities is also exempted from profit tax during the accounting year.

Under the Investment Promotion Law (2009), profit tax incentives are not only based to zone of investment but also level of promotion activities. That is,

- investment in Zone 1 under level 1, 2 and 3 are subjected to tax exemption for 10, 6, and 4 years, respectively
- investment in Zone 2 under level 1, 2 and 3 are subjected to tax exemption for 6, 4 and 2 years, respectively
- investment in Zone 3 under level 1, 2 and 3 are subjected to tax exemption for 4, 2 and 1 years respectively

Under this law, the enterprises are exempted from profit tax the next accounting year, if the net profit derived from business activities is used for business expansion. Moreover, another difference of this law compared to the Foreign Investment Law (2004) is that if enterprise incurs losses in this accounting year, the losses are permitted to carry to three consecutive accounting years to use as a deductible from profit.

See more details of regulation regarding profit tax incentives in all three laws in Table A1.1 in Appendix 1.

Other custom duties and taxes incentives

Under the Foreign Investment Law (1994), equipment, means of production, spare parts and other materials used in the operation of investment projects or in productive enterprises are subjected to import duty as a uniform flat rate of 1 per cent of imported value. However, as mentioned in Article 18, Section Three of the law, in highly exceptional case, the investor could be granted special privileges related to custom duties and taxes incentives. For raw materials and intermediate components imported for the purpose of processing and then re-exported,

they are exempted from import duties. All exported finished products are also exempted from export duties.

The Foreign Investment Law (2004) also mentions about exemption of export duty on finished export product and on semi-finished products imported for processing or assembly for the purpose of export. However, one of the differences of Foreign Investment Law (2004) compared to the Foreign Investment Law (1994) is in terms of import of equipment and raw material. Under the Foreign Investment Law (2004) equipment, spare parts and vehicles directly used for production or raw material are exempted from import duties if they do not exist domestically or which exist but are insufficient. In terms of other taxes, during the tax exemption period and during the tax reduction period, the enterprises are exempted from minimum tax. However, investment in special economic zones, specific economic zones, industrial zones, and border trade are also subjected to other specific regulations.

Under the Investment Promotion Law (2009), there is also an exemption of export duty for export product, but clearly specify the exception case. For example, the importation of all types of fuel is not exempted from duties and taxes. The exportation of natural resources and natural resource-made products has to comply with concerned regulations and laws. Importation of raw material, equipment, spare parts and vehicles which are directly used for production is exempted from import duties, but this has to comply with other specific regulations.

Specific promotion incentives

The Foreign Investment Law (1994) mentions about foreign firms might be granted special privilege based on government consideration, while the Foreign Investment Law (2004) states that special economic zones, industrial zones, border trade areas and other specific economic zones shall follow the laws and regulations of such specific areas. The Investment Promotion Law (2009) clearly identify specific promotion incentives for investment in development of hospitals, kindergartens, schools, vocational schools, colleges, universities, research centers and some public utilities. That is, they will be exempted from the land lease or concession fees for some time period if the land owned by the government. The exemption period is also based

on investment zones where zones 1, 2 and 3 will be exempted from land lease and concession fee for 15, 10, and 3 years consecutively.

Rights on land use

One of the key distinguish elements of regulations in the Investment Promotion Law (2009) of those Foreign Investment Law 1994 and 2004 is that foreign investors are allowed to own land, while in the Foreign Investment Law 1994 and 2004 only mention about right to lease land and the right on concession over land. Under the Investment Promotion Law (2009), foreign investors with registered capital of 500,000 US dollars or above are allowed to purchase land use rights based on duration consistent with investment term.

Rights on hiring labor

The Foreign Investment Law (1994) clearly states that when recruiting or hiring employees, foreign investors shall give priority to Lao citizens, but also allow all foreign enterprise to employ skilled and expert foreign personnel. The Foreign Investment Law (2004) explicitly determines that if necessary, the use of foreign personnel must not exceed 10 per cent of the enterprise's labor force. The Investment Promotion Law (2009), however, mentions that if the enterprise needs to employ more foreign physical laborers and technical personnel than specified in the Labor Law, the investor has the right to submit request to the government for consideration.

Rights of foreign investor on residence in the Lao PDR

The Foreign Investment Law (1994) merely states in general that the government shall facilitate foreign investors, their foreign personnel and the immediate family members of those investors and those personnel shall have the right to entry into, travel within, stay within and exit from the territory of the Lao PDR. The Foreign Investment Law (2004) provides specific examples of those facilitations such as multiple entry visas, long term residence in the territory of the Lao PDR (if approved by the government), and the right to request for Lao nationality. The content regarding rights of foreign investor on residence in the Lao PDR in the Investment Promotion

Law (2009) is similar to those in The Foreign Investment Law (2004). However, in the Investment Promotion Law (2009) the example of government facilitations regarding multiple entry visas is explicitly identified at a maximum of 5 years.

Obligation on time frame of starting business

In the Foreign Investment Law (1994) and the Foreign Investment Law (2004), foreign investors are required to commence business activities in accordance with investment plan submitted within 90 days from the date receiving investment license. In the Investment Promotion Law (2009), for concession business, investors are also required to start business operation within 90 days. If the investors fail to do so, the Ministry/Department of Planning and Investment will issue a written warning. Then, if the investors still do not start business within 60 additional days the concession business could be abrogated.

4.3 Tax law

The first Tax Law of the Lao PDR was promulgated in 2005 and was amended in 2011. The Amended Tax Law came into effect on 1 January 2012, with further adjustment in regulations in the following decrees. This is the first legislative amendment of tax law and introduces various changes in tax rate, type of tax collection, and related rules. The followings show some major changes of tax regulations¹.

Business Turnover Tax (BTT)

Under the Tax Law (2005), Business Turnover Tax (BTT) was either 5 per cent or 10 per cent. With the Amended Tax Law (2011), there is one single rate of 10 per cent. The Business Turnover Tax (BTT) has then been replaced by the Value Added Tax (VAT) with the single standard rate of 10 per cent. The scope of Value Added Tax is also much wider in application compared to the prior Business Turnover Tax.

¹ Information from DFDL (2012) and Price Waterhouse and Coopers (2012)

Profit Tax

In the Lao PDR, enterprises have been classified into three types (1) sole traders (2) partnerships (3) companies. Based on the Tax Law (2005), sole traders, enterprises paid profit tax based on a basic of accounting system, and freelancers were subjected to progressive profit tax rates of 0 – 35 per cent. With the Amended Tax Law (2011), from 1 January 2012 (to 1 October 2012) they had been subjected to reduced maximum rate of 28 per cent instead of 35 per cent. That is they had been subjected to progressive profit tax rates of 0 – 28 per cent. For enterprises in the forms of partnerships and companies, prior 1 January 2012 they had been subjected to general profit tax rate of 35 per cent or reduced profit tax rate under Law on Promotion of Domestic Investment (2004) and Law on Promotion of Foreign investment (2004) and the Investment Promotion Law (2009). However, under the Amended Tax Law (2011), from 1 January 2012 (to 1 October 2012) they had been subjected to profit tax rate of 28 per cent instead of 35 per cent. This rate had been applied to both domestic and foreign investment enterprises licensed under the Investment Promotion Law (2009) except enterprises eligible for reduced profit tax rate specified by the Investment Promotion Law (2009). The new rate does not affect foreign investment enterprises licensed to invest in the Lao PDR under the Law on Promotion of Foreign investment (2004). It is also noted that for tobacco production business the profit tax rate had been reduced to only 30 per cent. Moreover, with the new decree the profit tax in general has been further reduced from 28 per cent to 24 per cent, effective on 1 October 2012. However, the companies engaged in the manufacture, import and sales of tobacco are subjected to profit tax rate of 26 per cent. The 2 per cent reduced profit tax (from prior rate of 28 per cent) is to be contributed to the Tobacco Control Fund under the Law on Tobacco Control.

Minimum Tax

Under the the Tax Law (2005), companies made profits below a certain level or made losses in a tax year were subjected to Minimum Tax payment. Under the Amended Tax Law (2011) the profit tax is calculated based on an actual basis based on revenues less deductible expenses and no minimum tax payment imposed on enterprises report a loss.

Personal Income Tax

Under the the Tax Law (2005), the Lao nationals monthly income less than or equal to 1.5 million Kips were subjected to personal income tax rate of 0-5 per cent while the ones with monthly income more than 1.5 million Kips were subjected to progressive personal income tax rate of 5-25 per cent. Under the Amended Tax law, Table 4.3 shows the new progressive Personal Income Tax rate effective on 1 January 2012 and on 1 October 2012.

Table 4.3: Personal Income Tax (PIT) Rate effective in 1 January 2012 and 1 October 2012

Level	Monthly Income (Keeps)	PIT rate effective 1 January 2012	PIT rate effective 1 October 2012
1	1,000,000 and below	0	0
2	1,000,001 - 3,000,000	5	5
3	3,000,001 - 6,000,000	10	10
4	6,000,001 - 12,000,000	15	12
5	12,000,001 - 24,000,000	20	15
6	24,000,001 - 40,000,000	25	20
7	Above 40,000,000	28	24

Source: summarize based on information from DFDL (2012) and Price Waterhouse and Coopers (2012)

For foreigners work in the Lao PDR and received income paid overseas, under the Tax Law (2005), foreign employees were subjected to income tax on foreign source employment only if they had resided in the Lao PDR for 180 days or more in any year. However, under the Amended Tax Law (2011), the 180 days rule is eliminated so that foreigners work in the Lao PDR and receives income overseas are subjected to tax in the Lao PDR except for the double tax agreement on international agreements or the rule may still apply.

For the expatriates employed by a concession project enterprise signed the investment contract before 1 January 2012 and the employment contract is within the indefinite terms, they are

subjected to Personal Income Tax rate at 10 per cent until the concession agreement expires. However, if the employment contract is a fixed term one, the expatriate has been subjected to 10 percent income tax until the employment term expires. After that the expatriate are subjected to personal income tax the same progressive rates as of the Lao employees. For expatriated employed by general business enterprises, they are subjected to progressive tax rates as of the Lao nationals regardless of the date employment contracts are signed.

International Agreements on Tax

In terms of international agreements on tax, the Lao PDR signs double taxation agreements with China, the Republic of Korea, the Russian Federation, Thailand, and Vietnam (UNCTAD, 2010).

4.4 International Investment Agreements

This section explains related investment agreement adopted by the Lao PDR. The section starts with the explanation of investment agreement within ASEAN members then describes bilateral investment agreements of the Lao PDR with other countries.

Investment Agreement among ASEAN member countries

As a member of ASEAN since 1997, the Lao PDR has to adopt investment agreement ratified by all ASEAN member countries. The ASEAN Agreement on the Promotion and Protection of Investment, also known as the ASEAN Investment Guarantee Agreement (ASEAN IGA) was signed in 1987. It is also noted that the amendment of the Lao PDR constitution in 1991 covered most of the issues in the ASEAN IGA such as issues regarding the right of foreign investors to repatriate capital and dividend, protecting investors from uncompensated nationalization or expropriation of foreign investment. The agreement was amended in 1996 dealing with simplifying investment procedure and approval process, information access, and transparency of the rules governing investment (Menon, 1998).

Then, the ASEAN investment Agreement (AIA) was signed in 1998. While, ASEAN IGA focuses on foreign investment protection, AIA further enhance ASEAN a competitive, conducive, and liberal investment area (Aldaba and Yap, 2009). The ASEAN Comprehensive on Investment Agreement (ACIA), one major initiative of the ASEAN economic integration under the ASEAN Economic Community (AEC), was signed in February 2009 and took effect on 29 March 2012. The ACIA consolidates the ASEAN IGA and the AIA to provide a clearer interaction of provisions regarding investment liberalization, protection, promotion and facilitation. The ACIA also supersedes those two precursor investment agreements (ASEAN IGA and AIA) including their subsequent amendments (ASEAN Secretariat, 2013a). Under the ACIA, the Lao PDR agreed to allow free flow of ASEAN investments in manufacturing as early as 2009 and in the primary sector by 2015 (UNCTAD, 2010).

Bilateral Investment Agreements

As of 1 June 2013, there are 23 bilateral investment agreements concluded. Details of the date concluded and the date entry into force are described in Table 4.4.

Table 4.4: Total number of Bilateral Investment Agreements concluded, 1 June 2013

Reporter	Partner	Date of Signature	Date of entry into force
Lao, People's Democratic	Australia	6-Apr-94	8-Apr-95
	Cambodia	24-Nov-08	---
	China	31-Jan-93	1-Jun-93
	Cuba	28-Apr-97	10-Jun-98
	Denmark	9-Sep-98	9-May-99
	France	12-Dec-89	8-Mar-91
	Germany	9-Aug-96	24-Mar-99
	India	9-Nov-00	5-Jan-03
	Indonesia	18-Oct-94	14-Oct-95
	Japan	3-Aug-08	3-Aug-09
	Korea, Republic	15-May-96	14-Jun-96
	Malaysia	8-Dec-92	---

Reporter	Partner	Date of Signature	Date of entry into force
	Mongolia	3-Mar-94	29-Dec-94
	Myanmar	5-May-03	---
	Netherlands	16-May-03	1-May-05
	Pakistan	8-Dec-04	---
	Russian Federation	6-Dec-96	9-Feb-06
	Singapore	24-Mar-97	26-Mar-98
	Sweden	29-Aug-96	1-Jan-97
	Switzerland	4-Dec-96	4-Dec-96
	Thailand	22-Aug-90	7-Dec-90
	United Kingdom	1-Jun-95	1-Jun-95
	Vietnam	14-Jan-96	23-Jun-96

Source: UNCTAD (2013b)

4.5 International Trade Agreements

The Lao PDR has unilateral trade agreements with 39 nations. This section first describes obligations of the Lao PDR under some multilateral trade agreements including the ASEAN Free Trade Area (AFTA), and obligations under World Trade Organization (WTO). Then, the section continues to describe Generalized System of Preferences (GSP) status granted to the Lao PDR.

Obligations under AFTA

In 1997, the Lao PDR was accepted as full membership of the ASEAN. The country then participated in the ASEAN Free Trade Area (AFTA) in 1 July 1998². The key agreement of AFTA is the Common Effective Preference Tariff (CEPT) which differed from prior Preferential Trade Arrangement (PTA) that the approach in CEPT is more a sectoral basis rather than a product by product approach of PTA, making it a more comprehensive and less cumbersome. Under the

² In January 1992, the six countries of ASEAN known as ASEAN 6 (including Thailand, Singapore, Malaysia, Indonesia, the Philippines and Brunei) agreed to establish ASEAN Free Trade Area (AFTA). The newer member countries, including Vietnam (joined ASEAN in 1995), Myanmar and the Lao PDR (joined ASEAN in 1997) and Cambodia (joined ASEAN in 1999), have also participated in AFTA.

AFTA, the Lao PDR had obligation to reduce its tariff rate to 0-5 per cent in 1 January 2008, except for the Sensitive List. For new ASEAN members (including Vietnam, the Lao PDR, Myanmar), the Sensitive List is divided into two groups; Normal Sensitive List and Highly Sensitive List. The tariff on products under Normal Sensitive List shall be reduce to 0-5 per cent by 1 January 2010, whereas the tariff on products under Highly Sensitive List shall be reduce to 0-5 per cent by 1 January 2015 (Menon, 1998). The following information shows number of tariff lines in different list

- Immediate Inclusion List: products in this list have to be undergone immediate liberalization through the intra-regional (CEPT) tariff rates, removal of quantitative restrictions and other non-tariff barriers. For the Lao PDR the tariffs on products in this list have to be reduced to 0-5 per cent within 2008. In the beginning the Lao PDR has put forward 533 tariff lines for the Immediate Inclusion List (representing 15 per cent of all tariff lines) and all of these tariff lines already carry tariff rate between 0 and 5 per cent. Accordingly, when the Lao PDR first join AFTA in 1998 no tariff has to be reduced.
- Temporary Exclusion List: In 1998, 2,818 tariff lines were in the Temporary Exclusion List (almost 80 per cent of all tariff lines) and the tariff on products in this list shall be phased into the Inclusion list between 1 January 2000 and 1 January 2005.
- Sensitive List: In 1998, 119 tariff lines (3.35 per cent of all tariff lines) of unprocessed agricultural products were in the Sensitive List. However, the Lao PDR was committed to reduce tariff o 0-5 per cent, remove quantitative restrictions and other non-tariff barriers within 2015.
- General Exception List: 81 tariff lines were in the General Exception List. The products included in this list have to satisfy conditions under the Article XX of the GATT³. According to Menon (1998), the Lao PDR put many products in this list, while many of those products seem to not satisfy any conditions specified in Article XX, such as passenger motor vehicles, boats, jewelry and various excise products such

³ Article XXX of the GATT stating that goods to be excluded from tariff reductions if such goods are necessary for the protection of national security, public morality, human and plant life, or health of if such products are articles of artistic, historic or archaeological value (Menon, 1998).

as cigarettes, beer, wine whisky and petroleum products. That is, the Lao PDR tended to use this list as a measure to protect various sensitive products. (Menon, 1998 and ASEAN Secretariat, 2013b)

Obligations under World Trade Organization (WTO)⁴

After sixteen years since the application was submitted (in 1997) and the preparation and revision of various related regulations, the Lao PDR was finally granted a full membership of the WTO in 2 February 2013. This is a crucial step for the Lao PDR for the new era of trade openness. This might bring about both threats and opportunities to firms invested in the Lao PDR. The followings are the major obligations of the Lao PDR as a member of the WTO.

(1) Market Opening

In terms of the opening of commodities markets, the Lao PDR has agreed to set maximum tariff rate as of the followings

- For all commodities, the average tariff rate shall not exceed 18.8 per cent
- For agricultural commodities, the maximum tariff rate shall not exceed 19.3 per cent
- For other commodities, the maximum tariff rate shall not exceed 18.7 per cent

In terms of the opening of services markets, the Lao PDR has agreed on opening service markets in 10 major service sectors (with 79 subsectors). Those sectors include business services, construction, distribution, private education, environmental services, insurance, banking and other finances, private hospital services, and tourism and air transport.

(2) Other obligations

Besides market opening obligations, the Lao PDR is also obliged to follow other regulations, for example, regulations regarding taxes and other charges (for example, tax and other charges on

⁴ Information from World Trade Organization (2013).

imports shall follow National Treatment principle), right to legal appeal, custom procedures, and other trade interventions such as price controls (of agricultural products, other commodities and services), quantitative restriction, quotas, licensing, bans and other restrictions. Moreover, the Lao PDR government shall launch and implement laws and regulations to be aligned with WTO Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS) by 1 January 2015 and Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) by 31 December 2016. Transparency measures aligned with WTO regulations are also needed to be implemented.

Generalized System of Preferences (GSP) and other tariff preferences

According to UNCTAD (2013a), the objectives of the Generalized System of Preferences (GSP) in favored of least developed countries among developing countries are to increase their export earnings, promote their industrialization and to accelerate their rates of economic growth.

Under GSP schemes, selected products from developing countries are granted reduced or zero tariff rates over the MFN rates by preference giving countries. The least developed countries (LDCs) receive special and preferential treatment for wider coverage of products and deeper tariff reductions. Currently there are 13 national GSP schemes notified to UNCTAD secretariat including Australia, Belarus, Bulgaria, Canada, Estonia, the European Union, Japan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey and the United States of America (UNCTAD, 2013a).

According to Foreign Trade Policy Department, Ministry of Industry and Commerce (2013), the Lao PDR is granted unilateral and reciprocal preferences from 47 developed and developing countries. Also as a Least Developed Country (LDC), the Lao PDR is granted unilateral tariff preference under the GSP from 36 countries. Table 4.5 shows preference giving countries of GSP to the Lao PDR and indicating some specific types of GSP under European Union GSP scheme. Since 2002 the European Union has granted a duty free quota free market access to LDCs (including the Lao PDR) under the Everything But Arms (EBA) initiative. Furthermore, the Lao PDR has also been granted preferential tariff treatments from various countries including

some emerging economies as the country participation of various agreements as of the following examples.

- In terms of unilateral preferential treatment, under Asia-Pacific Trade Agreement (APTA), as one of the LDCs participating country, the Lao PDR has been granted unilateral preferential treatment by China, Republic of Korea, India and Sri Lanka. Moreover, under ASEAN Integrated System of Preferences (AISP) scheme in 2002, the Lao PDR and other new ASEAN members including Cambodia, Myanmar and Vietnam have been granted unilateral preferential treatments from older ASEAN members (including Thailand, Malaysia, the Philippines, Indonesia, Singapore and Brunei Darussalam) to reduce the development gaps among ASEAN member countries.
- In terms of reciprocal tariff treatments, under CEPT scheme of ASEAN, the tariff rate of import products among member countries have been significantly reduced to 0-5%. In addition, the Lao PDR and Vietnam have signed a preferential trade arrangement to reduce or eliminate tariff on many commodities. Moreover, with the negotiations with other ASEAN dialogues partners, some countries such as China, Republic of Korea, Japan, India, and Australia-New Zealand have scheduled tariff reductions in a reciprocal basis with the Lao PDR. Furthermore, under APTA the Lao PDR can export products with lower tariff rates to China, Republic of Korea, India, Sri Lanka and Bangladesh.

Table 4.5: Generalized System of Preferences list of beneficiaries

GSP Beneficiaries	GSP donors													
	Australia	Belarus	Canada	European Union			Japan	New Zealand	Norway	Russian Federation	Switzerland	Turkey	United States	
				GSP	GSP-LDCs (EBA)	GSP+							GSP	AGOA
Lao People's Democratic Republic	×	×	×	×	×		×	×	×	×	×	×		

Notes:

AGOA : African Growth and Opportunity Act. The column “AGOA” indicates those countries benefiting from trade preferences granted under AGOA.

EBA : Everything But Arms. The column “EBA” indicates least developed countries benefiting from trade preferences under the European Union–GSP scheme.

GSP : Generalized System of Preferences. The column “GSP” indicates developing countries benefiting from trade preferences under GSP schemes.

GSP+ : The column “GSP+” indicates those countries included in the special incentive arrangement for sustainable development and good governance under the European Union–GSP scheme.

Source: UNCTAD (2011b)

4.6 Special and Specific Economic Zones (SEZs)

The concept of Special and Specific Economic Zones (SEZs) has been introduced to the Lao PDR in 2000 from feasibility study of the second Lao-Thai Friendship Bridge in Savannakhet presented by Japan International Cooperation Agency (JICA). Since 2003 the Lao PDR has established and developed SEZs and has provided legal foundation for the management and administration of the SEZs. However, the Lao National Committee for Special Economic Zones (NCSEZ) Secretariat, the standing organization for the NCSEZ, was established in 2010. The key objectives of SEZs in general are to promote economic growth to the country by using tax and other business incentives to attract domestic and foreign investment in the target sectors and locations strategically planned by relevant authorities. However, based on the development strategy for the Special and Specific Economic Zones (SEZs) in the Lao PDR, 2011-2020, in general the development of SEZs in the northern region of the country is aimed to promote economy in the region and improve income level and standard of living of people in the region by various measures such as measures to promote construction and development of new town, to promote tourism linked to historical tracks and fine culture of various ethnic groups and to improve infrastructure in the region. On the other hand, the development of SEZs in the capital, central and southern provinces is aimed at establishing sources of revenues for the nation in the long run by focusing on the development of specific economic zones regarding, for example, warehouse, industrial production zone for export, trade zone and High Technology Park (Secretariat Office of the Lao National Committee for Special and Specific Economic Zones, 2012a).

Table 4.6 provides list of established SEZs in the Lao PDR. According to Table 4.6, currently, there are two Special Economic Zones (Savan-Seno Special Economic Zone and Golden Triangle Special Economic Zone) and eight Specific Economic Zones in the Lao PDR. In terms of SEZs developer, some zones are developed by pure government investment. For some SEZs, the developers are from private sector (either Lao enterprise, foreign enterprise or by both Lao and foreign enterprise). The developers of some SEZs are both government and private enterprises.

Table 4.6: List of established SEZs in the Lao PDR

No.	Name	Establishment	Location	Developer
1	Savan-Seno Special Economic Zone	2003	Savannakhet Province	100% government
2	Boten Beautiful Land Specific Economic Zone	2003	Luangnamtha District, Luangnamtha Province	100% private (Chinese)
3	Golden Triangle Special Economic Zone	2007	Tonpheung District, Bokeo Province	Government + Private (Chinese)
4	Vientiane Industrial and Trade Area	2009	Xaythany District, Vientiane Capital	Government (Ministry of Industry) + Private (Commerce and Nam Wei Development Co., Ltd.)
5	Saysetha Development Zone	2010	Xaythany District, Vientiane Capital	Government + Private (Lao and Chinese)
6	Phoukhyo Specific Economic Zone	2010	Thakhek District, Khammuane Province	100% Private (Lao)
7	Thatluang Lake Specific Economic Zone	2011	Xaysettha District, Vientiane Capital	100% private (Chinese)
8	Longthanh-Vientiane Specific Economic Zone	2008	Vientiane Capital	100% private (Vietnamese)
9	Dongphosy Specific Economic Zone	2012	Hadxaifong District,	100% private (Malaysian)

			Vientiane Capital	
10	Thakhek-Specific Economic Zone	2012	Thakhek District, Khammuane Province	100% government

Source: Secretariat Office of the Lao National Committee for Special and Specific Economic Zones (2012b),

CHAPTER 5: FOREIGN INVESTMENT TRENDS, OUTWARD FDI FROM THAILAND AND FDI IN THE LAO PDR

This chapter is divided into 4 sections. Section 5.1 provides overview of the world FDI trends (especially to and from developing countries) and section 5.2 describes ASEAN FDI situation. Section 5.3 explains outward FDI situation from Thailand, followed by Thailand outward FDI policy in section 5.4. Section 5.5 demonstrates inward FDI trends in the Lao PDR. The chapter also provides analysis of the Lao PDR competitiveness based on the Global Competitive Index (GCI) 2013-2014 prepared by World Economic Forum in section 5.6.

5.1 Global FDI situation

According to Figure 5.1, from 2004 to 2007 global FDI flows had increased in line with the growth in the world economy. The value then had declined during 2007 to 2009, consistent with the slowdown in world economic situation in the time period. Although global FDI flows rebound in 2010 and 2011, in 2012 the value fell by 18 per cent to 1.35 trillion as oppose to positive growth in other key economic indicators such as global GDP, international trade and unemployment. This seems to show that it may take longer time than expected for global FDI flows to recover (UNCTAD, 2013c). Based on UNCTAD projection, global FDI flows during 2013 to 2015 tend to increase.

Figure 5.1: Global FDI flows, 2004-2012, and projections, 2013-2015 (Billions of dollars)



Source: UNCTAD (2013c)

In terms of global FDI geographic distribution, according to Table 5.1, FDI inflows to developed economies and developing economies increase in 2011 (18 per cent and 15 per cent respectively). The values for both types of economies declined in 2012 with sharper decline in developed economies than in developing economies (32 per cent and 4 per cent respectively). That is, it seems to be that FDI flows to developing countries tends to be more resilient compared to FDI flows to developed countries. Moreover, in 2012 FDI flows to developing economies were accounted for 52 per cent of total global FDI inflows, while in 2010 and 2011 the proportion were approximately 45 per cent. It is for the first time ever that FDI inflows to developing economies exceed FDI inflows to developed economies. Among all regions in developing economies, East and South-East Asia together showed the highest share of FDI inflows (the region has been accounted for 21 to 24 percent of global FDI inflows during 2010 to 2012 and was accounted for 24.1 per cent in 2012), followed by Latin America and Caribbean (the region has been accounted for 14 to 18 per cent of global FDI inflows during 2010 to 2011 and was accounted for 18.1 per cent in 2012)

Table 5.1: FDI flows (by region), 2009-2011

Unit: Billions of dollars and per cent

Region	FDI Inflows			FDI Outflows		
	2010	2011	2012	2010	2011	2012
World	1,409	1,652	1,351	1,505	1,678	1,391
1.Developed economies	696	820	561	1030	1183	909
2.Developing economies	637	735	703	413	422	426
Africa	44	48	50	9	5	14
Asia	401	436	407	284	311	308
- East and South-East Asia	313	343	326	254	271	275
- South Asia	29	44	34	16	13	9
- West Asia	59	49	47	13	26	24
Latin America and the Caribbean	190	249	244	119	105	103
Oceania	3	2	2	1	1	1
3.Transition economies	75	96	87	62	73	55
Structurally weak, vulnerable and small economies	45	56	60	12	10	10

Region	FDI Inflows			FDI Outflows		
	2010	2011	2012	2010	2011	2012
Least developed countries	19	21	26	3.0	3.0	5.0
Landlocked developing countries	27	34	35	9.3	5.5	3.1
Small island developing States	4.7	5.6	6.2	0.3	1.8	1.8
Memorandum : percentage share in world FDI flows						
1.Developed economies	49.4	49.7	41.5	68.4	70.5	65.4
2.Developing economies	45.2	44.5	52.0	27.5	25.2	30.6
Africa	3.1	2.9	3.7	0.6	0.3	1.0
Asia	28.4	26.4	30.1	18.9	18.5	22.2
- East and South-East Asia	22.2	20.8	24.1	16.9	16.2	19.8
- South Asia	2.0	2.7	2.5	1.1	0.8	0.7
- West Asia	4.2	3.0	3.5	0.9	1.6	1.7
Latin America and the Caribbean	13.5	15.1	18.1	7.9	6.3	7.4
Oceania	0.2	0.1	0.2	0.0	0.1	0.0
3.Transition economies	5.3	5.8	6.5	4.1	4.3	4.0
Structurally weak, vulnerable and small economies	3.2	3.4	4.4	0.8	0.6	0.7
Least developed countries	1.3	1.3	1.9	0.2	0.2	0.4
Landlocked developing countries	1.9	2.1	2.6	0.6	0.3	0.2
Small island developing States	0.3	0.3	0.5	0.0	0.1	0.1

Source: World Investment Report, UNCTAD (2013c)

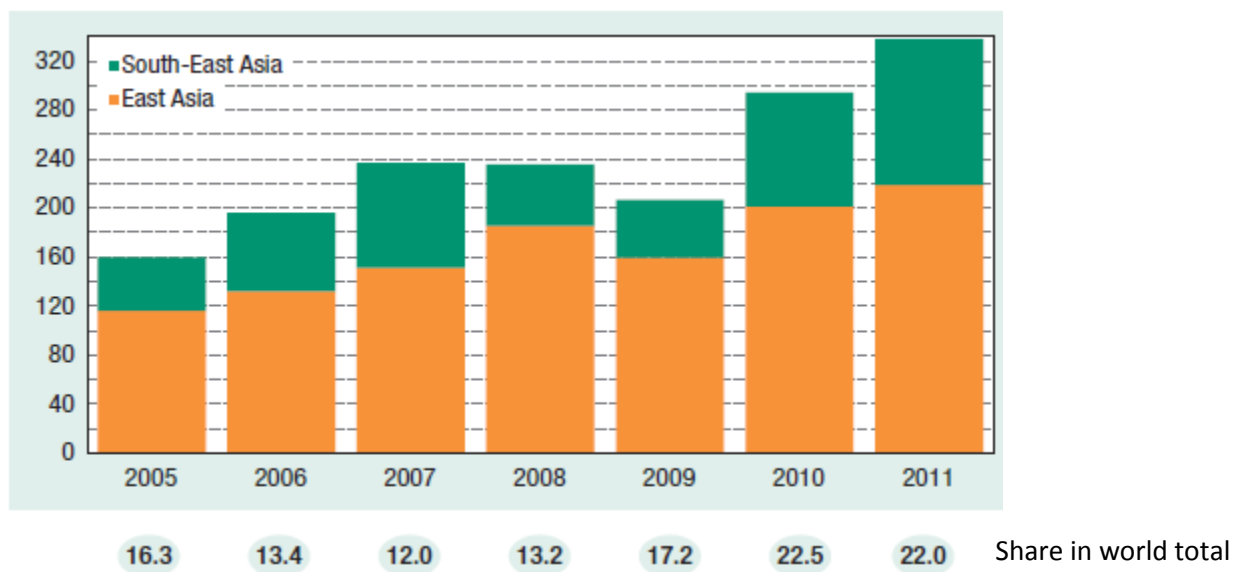
Considering global FDI outflows, between 2010 and 2012, developing economies and transition economies together had held a smaller share than the outflows from developed economies. During the time period developed economies were accounted for approximately 65 to 71 per cent of total global FDI outflows while developing economies and transition economies were accounted for approximately 25 to 31 per cent and 4 percent, respectively. It is noted that in 2012 the FDI outflows from developing economies were accounted for 31 per cent of the global FDI outflows, the highest proportion ever. Among developing economies, East and South-East Asia together showed the highest share of FDI outflows (the region has been accounted for 19

to 22 percent of global FDI outflows during 2010 to 2012 and was accounted for 22.2 per cent in 2012), followed by Latin America and Caribbean (the region has been accounted for 6 to 8 per cent of global FDI outflows during 2010 to 2012 and was accounted for 7.4 per cent in 2012). Moreover, according to UNCTAD (2013c), BRICS countries (Brazil, the Russian Federation, India, China and South Africa) have continued to be the leading source of FDI among emerging countries' FDI outflows.

5.2 ASEAN FDI situation

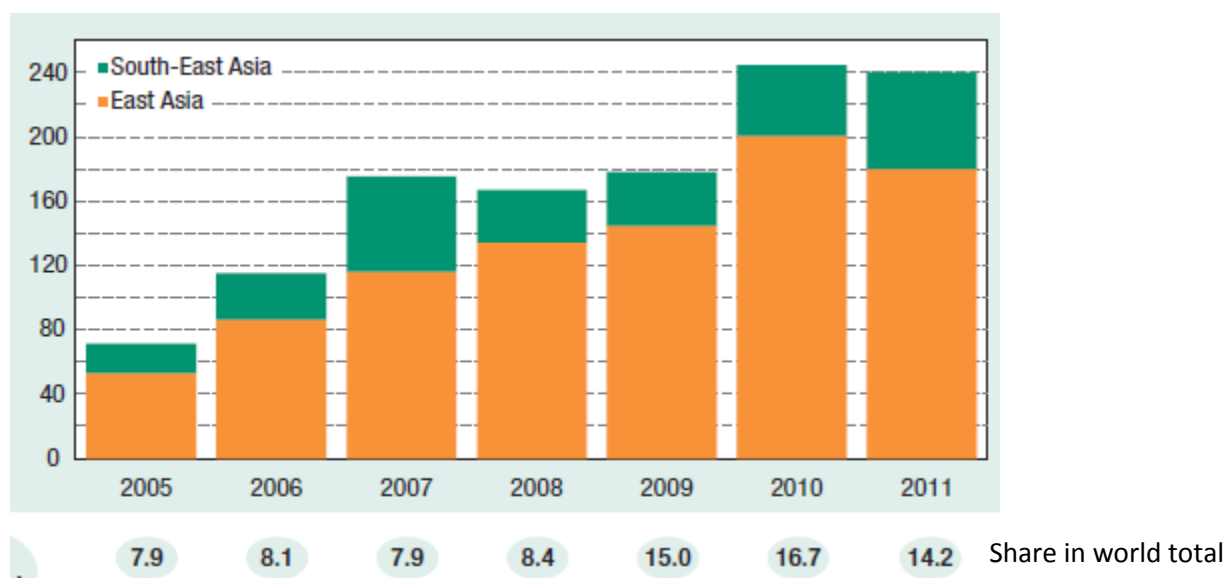
Based on world FDI situation information described earlier, it is undeniable that East and South-East Asia has played increasing important roles in global FDI both in terms of FDI inflows and FDI outflows. In 2010 and 2011, South-East Asia outperformed East Asia in terms of inward FDI growth (Figure 5.2 and Figure 5.3). According to Table 5.2, in 2010 the FDI inflows to ASEAN member countries also reached its peak at 76.2 billion dollars (surpassing the previous record of 75.7 billion dollars in 2007). Although the increase in FDI inflows to ASEAN was driven by sharp rises inflows to Malaysia, Indonesia and Singapore, ASEAN less developed countries received increasing inflows, especially from neighboring countries (for instance China and Thailand) (ASEAN, 2011). In 2011, FDI inflows to Brunei Darussalam, Indonesia, Malaysia, and Singapore were on a rise. However, FDI inflows to Thailand declined due to natural disaster in Thailand, disrupting production especially in the automobile and electronic industries. For ASEAN less developed countries, Cambodia, the Lao People's Democratic Republic (Lao PDR) and Myanmar have continued to show good prospects of FDI inflows, while Vietnam FDI inflows declined slightly (UNCTAD, 2012)

Figure 5.2: FDI inflows, 2005-2011 (billions of dollars)



Source: UNCTAD (2012, p. 42)

Figure 5.3: FDI inflows, 2005-2011 (billions of dollars)



Source: UNCTAD (2012, p. 42)

Table 5.2: Flows of inward direct investment to ASEAN

Unit: Billions of dollars and per cent per year

Host Country	Average (1995-2009)	Average (2004-2007)	2007	2008	2009	2010
Brunei Darussalam	686 -21.3	299 (-11.7)	260 (-40.0)	239 (-8.1)	370 -54.5	630 -70.3
Cambodia	322 -23.2	466 -88.2	867 -79.5	815 (-6.0)	539 (-33.9)	783 -45.2
Indonesia	2,694 (-6.8)	5,518 (-19.5)	6,928 -41	9,318 -34.5	4,877 (-47.7)	13,340 -172.8
Lao PDR	107 -43.4	139 -174.8	324 -72.6	228 (-29.6)	319 -39.9	333 -4.4
Malaysia	4,533 -31.1	5,825 -41.2	8,538 -40.6	7,248 (-15.1)	1,381 (-80.9)	9,156 -563
Myanmar	455 -13.8	407 -32.2	715 -67.1	976 -36.5	963 (-1.3)	450 (-53.3)
The Philippines	1,614 -62.8	2,095 -66.8	2,916 (-0.2)	1,544 (-47.1)	1,963 -27.1	1,713 -12.7
Singapore	15,643 -20.3	25,716 -41.4	37,033 -26.2	8,589 (-76.8)	15,279 -77.9	35,520 -132.5
Thailand	5,805 -14.5	8,675 -21.6	11,330 -19.8	8,539 (-24.6)	4,976 (-41.7)	6,320 -27
Viet Nam	2,970 -18.3	3,192 -59	6,739 -180.8	9,579 -42.1	7,600 (-20.7)	8,000 -5.3
Total	34,829 -5.8	52,332 -33.2	75,650 -33.5	47,076 (-37.8)	38,266 (-18.7)	76,208 -99.2

Note: Data in 2009 and 2010 are from ASEAN (2012a), the rest is from ASEAN (2011)

Source: ASEAN (2011) and ASEAN (2012a)

In terms of sources of FDI inflows to ASEAN countries, between 2000 and 2005, European Union, ASEAN (intra-ASEAN investment), the United States and Japan had been major FDI sources. However, since 2006 (for India case since 2007) besides these four countries or regions, China, India, and Republic of Korea had played more roles as sources of FDI inflows to ASEAN countries. However, information from 2002 to 2010 shows that in most years European Union had the largest share of FDI in ASEAN, except for 2002 (Japan held the largest share) and 2008 (ASEAN held the largest share). Another point to be noted is that intra-ASEAN investment had become more prominent over time. Since 2007 ASEAN had been ranked second (except for 2008 the region was ranked first) as source of FDI inflows to ASEAN after European Union (data from Table in appendix 3 in ASEAN, 2011, p. 31).

Considering FDI inflows to ASEAN by sector, between 2000 to 2010 manufacturing sector and financial intermediation and services sector were normally the top two sectors receiving FDI inflows (except for 2009 when investment in real estate sector was higher than FDI inflows in financial intermediation and services sector). Moreover, FDI inflows to trade and commerce sector (since 2003), service sector (since 2004), and real estate sector (since 2006) had played more roles compared to total FDI inflows to the region. Another important sector receiving FDI inflows during the time period were mining and quarrying sector (data from Tables in appendix 4.1-4.11, ASEAN, 2011, p. 32-47).

5.3 Overall outward FDI from Thailand

According to Table 5.3, during 2006 to 2011 outward FDI stocks of Thai MNEs were 111,501 million dollars. The majority of Thai outward FDI were to ASEAN member countries. While ASEAN as a whole (as host region of outward FDI from Thailand) was accounted for 34.7 per cent of total Thai outward FDI stock, ASEAN less developed countries (including Cambodia, the Lao PDR, Myanmar and Vietnam, sometimes called CLMV countries) together was accounted for 28.2 per cent of total Thai outward FDI stock to ASEAN countries (9.8 per cent of total Thai outward FDI). Singapore and Malaysia were top two recipient countries in the region (accounted for 45.8 and 15.9 percent of total Thai outward FDI stock to ASEAN countries and 15.9 and 5.5 per cent of total Thai outward FDI), followed by Myanmar and Vietnam (accounted for 9.7 per

cent and 9.4 per cent of total Thai outward FDI stock to ASEAN countries and 3.4 and 3.3 per cent of total Thai outward FDI). According to Table 5.4, key sectors (classified by business sector of Thai investors) Thai MNEs had invested in during 2006 to 2011 were manufacturing, mining and quarrying, financial and insurance activities (accounted for 28.1, 27.5 and 13.9 per cent of total Thai outward FDI, respectively). Within manufacturing sector, investment in manufacture of computer, electronic and optical products and manufacture of chemicals and chemical products were accounted for the largest proportion (14.6 and 14.4 of total Thai outward FDI in manufacturing industries).

In terms of Thai outward FDI flows, during 2006 to 2011 Thai FDI outflows had increased over time (average growth rate were 38 per cent). It is noted that in 2009, while FDI outflows from many other countries, especially those from developed countries slowed down, Thai outward FDI increased 42.1 per cent. In 2010 and 2011, outward FDI of Thai MNEs continued to increase, especially in 2011 the growth rate was as high as 72.5 per cent (the highest growth rate within five years period). The outflows increased from 3,415.1 million dollars in 2006 to 12,127.4 million dollars in 2011. The five year average growth rate (2006-2011) was 30.7 per cent. Among all ASEAN member countries, Singapore and Malaysia were the most important recipient countries in terms of Thai outward FDI flows to the region each year, except for 2006 that Myanmar was accounted for a higher share. However, in terms of five year average growth rate (2006 to 2011), investment in the Lao PDR and the Indonesia had the highest growth (82.7 per cent and 45.3 per cent) compared to other countries in the region. Considering Thai FDI outflows by sectors, investment in electricity, gas, steam and air conditioning supply had the highest five year average growth rate (158.7 per cent), followed by mining and quarrying sector, wholesale and retail trade; repair of motor vehicles and motorcycles sector, and real estate activities sector (52, 51.2 and 44.7 per cent respectively). Within manufacturing sector, outflows in manufacture of machinery and equipment and manufacture of beverages had the highest average growth rate (2,220 and 203 per cent) (Table 5.3 and Table 5.4).

Thai MNEs investment in ASEAN less developed countries (CLMV) decreased in 2007, but had been increasing since 2008 (Table 5.3). The five year average growth rate (2006-2011) of Thai outward FDI to these countries was 20.1 per cent. Among CLMV countries, Vietnam was

accounted for the majority part of the outflows each year, except for 2006 and 2010 that Myanmar and the Lao PDR were accounted for the highest share. However, in terms of five year average growth rate, investment in the Lao PDR had the highest growth (82.7 per cent).

Table 5.3: Thai Direct Investment Position Abroad Classified by Country 1/ (millions of US dollars)

		2006	2007	2008	2009	2010	2011 p	2006-2011	per cent of total
1	ASEAN	3,415.14	3,182.23	4,503.52	6,025.46	9,433.69	12,127.37	38,687.41	34.7
2	Brunei Darussalam	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.0
3	Cambodia	134.46	146.42	151.62	176.51	174.53	233.76	1,017.30	0.9
4	Indonesia	346.77	181.37	203.81	268.24	440.29	1,172.42	2,612.90	2.3
5	Laos	49.27	142.01	294.03	551.86	744.80	710.53	2,492.50	2.2
6	Malaysia	331.75	547.14	882.86	1,221.11	1,519.98	1,650.22	6,153.06	5.5
7	Myanmar	849.95	259.35	381.19	517.77	700.34	1,060.81	3,769.41	3.4
8	Philippines	192.71	217.02	194.85	195.72	258.93	211.87	1,271.10	1.1
9	Singapore	1,138.64	1,323.26	1,935.15	2,496.68	4,861.74	5,968.50	17,723.97	15.9
10	Vietnam	371.59	365.66	460.01	597.57	733.08	1,119.26	3,647.17	3.3
11	EU 2/	304.89	593.18	650.40	892.21	1,412.04	2,007.96	5,860.68	5.3
12	Austria	21.42	18.12	18.33	14.67	12.24	11.55	96.33	0.1
13	Belgium	21.17	38.69	38.07	51.73	118.98	85.75	354.39	0.3
14	Denmark	0.16	0.18	1.91	0.13	2.37	2.36	7.11	0.0
15	France	4.34	19.14	33.91	16.00	25.82	22.49	121.70	0.1
16	Germany	48.08	22.75	23.16	40.18	36.12	53.49	223.78	0.2
17	Ireland	0.57	0.48	0.14	0.31	65.32	0.35	67.17	0.1
18	Lithuania	29.96	37.80	119.08	161.98	275.30	313.06	937.18	0.8
19	Netherlands	2.96	35.36	87.94	151.57	187.57	441.97	907.37	0.8
20	United Kingdom	103.19	343.42	245.72	312.93	524.96	898.65	2,428.87	2.2
21	Other EU	73.04	77.24	82.14	142.71	163.36	178.29	716.78	0.6
22	Australia	41.69	36.83	36.68	45.60	229.57	725.00	1,115.37	1.0
23	Bangladesh	32.31	29.96	33.77	64.23	95.66	126.23	382.16	0.3
24	British Virgin Islands	598.55	613.83	757.41	1,050.75	1,010.85	1,699.74	5,731.13	5.1
25	Canada	9.70	17.09	22.20	31.06	47.96	249.64	377.65	0.3
26	Cayman Islands	1,153.61	1,297.94	1,595.08	2,258.12	2,695.07	4,103.64	13,103.46	11.8
27	China	788.51	1,125.86	1,214.45	1,917.44	1,955.33	2,283.43	9,285.02	8.3
28	Egypt	12.47	512.50	476.51	465.07	509.79	287.55	2,263.89	2.0
29	Hong Kong	717.94	669.04	831.99	833.72	1,741.49	2,619.90	7,414.08	6.6
30	India	103.87	167.09	168.18	205.87	281.73	305.45	1,232.19	1.1

		2006	2007	2008	2009	2010	2011 p	2006-2011	per cent of total
31	Japan	261.19	129.75	242.53	946.90	798.81	893.01	3,272.19	2.9
32	Mauritius	213.57	208.86	313.05	622.10	729.35	955.76	3,042.69	2.7
33	South Korea	11.49	2.93	0.75	0.41	0.85	0.70	17.13	0.0
34	Switzerland	60.92	56.39	50.68	54.29	85.22	53.29	360.79	0.3
35	Taiwan	155.81	58.49	59.62	54.32	57.99	39.53	425.76	0.4
36	United Arab Emirates	1.39	14.77	21.44	25.09	135.47	136.00	334.16	0.3
37	United States	471.60	419.78	546.12	833.10	757.66	1,397.04	4,425.30	4.0
38	Others	230.24	313.82	556.04	839.58	1,591.17	10,638.77	14,169.62	12.7
39	Total	8,584.89	9,450.34	12,080.42	17,165.32	23,569.70	40,650.01	111,500.68	100.0

Remark:

1/ Includes equity and investment fund shares, reinvested earnings and debt instruments from/to related companies.

2/ EU comprises 27 countries : Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Bulgaria, and Romania.

Source: Bank of Thailand

Table 5.4: Thai Direct Investment Position Abroad Classified by Business Sector of Thai Investors 1/ (Millions of US Dollars)

	2006	2007	2008	2009	2010	2011 p	2006-2011	% of total
A. Agriculture, forestry and fishing	2.49	0.00	0.00	40.66	64.22	75.67	183.04	0.2
B. Mining and quarrying	1,473.77	2,026.57	3,408.83	4,504.97	7,615.79	11,672.59	30,702.52	27.5
C. Manufacturing	3,960.82	3,080.83	3,995.35	5,275.63	6,696.46	8,288.79	31,297.88	28.1
Of which:								
10 Manufacture of food products	1,451.85	889.37	1,173.11	935.88	1,717.99	1,882.02	8,050.22	7.2
11 Manufacture of beverages	41.77	39.61	33.00	342.95	276.75	595.25	1,329.33	1.2
13 Manufacture of textiles	109.09	140.44	282.29	362.68	440.69	599.40	1,934.59	1.7
17 Manufacture of paper and paper products	121.90	150.39	140.41	137.35	161.32	206.76	918.13	0.8
20 Manufacture of chemicals and chemical products	568.59	322.24	540.26	778.14	1,089.67	1,196.32	4,495.22	4.0
22 Manufacture of rubber and plastics products	322.97	236.35	279.41	171.21	206.70	264.20	1,480.84	1.3
26 Manufacture of computer, electronic and optical products	705.64	529.54	609.16	752.25	967.53	996.98	4,561.10	4.1
27 Manufacture of electrical equipment	147.97	252.32	328.18	78.91	85.79	73.98	967.15	0.9
28 Manufacture of machinery and equipment n.e.c.	14.96	2.98	2.85	320.84	324.49	406.61	1,072.73	1.0
29 Manufacture of motor vehicles, trailers and semi-trailers	176.20	150.15	207.47	731.73	634.51	468.44	2,368.50	2.1
D. Electricity, gas, steam and air conditioning supply	225.41	32.85	276.59	454.98	649.85	843.82	2,483.50	2.2
F. Construction	92.47	175.24	199.62	253.21	299.65	221.61	1,241.80	1.1

	2006	2007	2008	2009	2010	2011 p	2006-2011	% of total
G. Wholesale and retail trade; repair of motor vehicles and motorcycles	426.42	471.06	612.45	1,524.50	2,406.20	2,616.66	8,057.29	7.2
H. Transportation and storage	410.94	494.39	597.41	766.03	948.54	878.58	4,095.89	3.7
I. Accommodation and food service activities	108.37	113.67	175.49	232.52	232.11	210.82	1,072.98	1.0
K. Financial and insurance activities 2/	1,407.65	2,276.16	2,157.44	2,635.50	2,737.68	4,291.00	15,505.43	13.9
L. Real estate activities	234.55	583.60	484.14	651.21	1,004.31	1,033.64	3,991.45	3.6
Others	242.00	195.97	173.10	826.11	914.89	10,516.83	12,868.90	11.5
Total	8,584.89	9,450.34	12,080.42	17,165.32	23,569.70	40,650.01	111,500.68	100.0

Remark:

1/ Includes equity and investment fund shares, reinvested earnings and debt instruments from/to related companies.

2/ Includes investments in investment companies

Source: Bank of Thailand (retrieve data July 16 2013)

5.4 Thailand outward FDI policy

According to the 11th Social Economics and Development Plan 2012-2016, Chapter 2, item 4 (development strategies), one of the strategy mentioned is item 4.5

“4.5 Strategy to create regional connectivity for social and economic stability. This strategy is designed to create a connection between economic development and international cooperation in the region on the basis of mutual reliance in order to enhance resilience against external events. Priority should be given to the development of production and investment bases that have links to neighboring countries and to the Southeast Asia Region and include connectivity with domestic production bases. The importance of sustainable partnerships in developmental cooperation for mutual benefit at sub-regional and regional levels should be emphasized.” [The 11th Social Economics and Development Plan, 2012-2016 (English version), p. 26-27 in Thailand Office of the National Economic and Social Development Board (2013)]

This clearly demonstrates priority of the country strategic plan to create regional connectivity including production and investment links with Thailand neighboring countries and other countries in the Southeast Asian region. Some effort regarding this matter had been made since 2009, followed by “Capital Account Liberalization Master Plan” by the Bank of Thailand. This plan aims at relaxing controls on various kind of investment to provide more investment options for Thai investors and to make risk management on exchange rate more flexible. First step of the plan was in 2012-2013 including measures related to

- (1) Outward direct investment regulations
- (2) Outward portfolio investment regulations
- (3) Foreign currency deposit
- (4) Foreign exchange risk management
- (5) Other measures

Regarding outward direct investment regulations, the relaxation of capital control measure in 2009 is to allow Thai companies to freely invest abroad in the form of direct investment (both in equity investment and direct loans forms) and allow lending of Thai companies to non-affiliated companies abroad up to \$50mn/year (previously required approval). Moreover, in the case of Thai companies, there has been no amount limit for outward direct investment since 2010. Under the “Capital Account Liberalization Master Plan” the relaxation of capital control measure in 2012-2013 is to allow Thai individuals to freely invest abroad and remove amount limit for direct investment by Thai individuals. In the next phase, the Bank of Thailand will evaluate the impact of the new regulations implemented during 2012-2013 then consider further relaxing additional regulations as deemed appropriate (Bank of Thailand, 2013).

There are also other agencies in Thailand provides some support or help facilitate outward FDI of Thai MNEs in other countries. For example, Thailand Board of Investment (BOI) has established Thailand Overseas Investment Center. Key affairs of the center are to (1) provide consulting and training services for Thai investors interested in investment abroad (2) conduct and provide useful research regarding foreign investment situation and various analysis of foreign investment (3) promote efficient and responsible foreign investment (4) act as a knowledge center for investment of Thai MNEs in other countries (Thailand Board of Investment, 2013). The Export Import Bank (EXIM Bank) also support foreign investment of Thai MNEs through various measures such as providing long term loans for investment project abroad for Thai investors and providing investment hedging service (regarding risks which could be related to political risk or other actions of government in the host country damaging the investment project) (Export-Import Bank of Thailand, 2013).

5.5 Investment in the Lao PDR

According to Gunawardana and Sisombat (2008), in 1920s Indochina had experienced a boom in mining activity. For Laos, only tin mining business received attention. Besides, by 1937, approximately 97 per cent of investment in Laos was from France (Stuart, 1995 and Linbald, 1998 as cited in Gunawardana and Sisombat, 2008).

However, since the New Economic Mechanism (NEM) was introduced in 1986, the Lao PDR has pursued more market-oriented policy and has gradually opened to trade and investment. Figure 5.4 and 5.5 show overall approved investment stocks and approved investment stocks by country, respectively, to the Lao PDR from 1988 to 2010. Figure 5.6, 5.7 and 5.8 show overall approved investment flows, approved investment flows by country, and approved investment flows by sector, respectively, to the Lao PDR from 1988 to 2010. Table 5.5 and 5.6 break down approved investment stocks to the Lao PDR by country and approved investment stocks by sector, respectively, into different time periods. Table 5.7 and 5.8 show information regarding values of investment flows to the Lao PDR each by country and by sector each year from 2001 to 2010.

Prior to discussion on FDI inflows to the Lao PDR, it is worth noting that the data available by the Lao PDR is the approved level of FDI, not the actual investment values. According to Menon (1998), the survey from Foreign Investment Management Committee (FIMC) shows that out of 131 projects, only 25 to 30 per cent of licensed investment had been realized within five years of the proposed starting date. Menon (1998) explains that this might be because (1) a large proportion of foreign investment was in large projects, such as hydro-power projects, which were normally a long-term projects so that investments were split into sets of consecutive time period rather than huge investment in the beginning of projects (2) approved investment might not actually reflect real interest of foreign investors in the projects since they sometimes submit applications projects in various countries to guarantee at least one is successful or for strategic reason that gaining license of investment in one country may strengthen application in other countries.

Table 5.5: Approved FDI to the Lao PDR by country of origin (millions of US dollars)

No.	Country	1988-1994	1995-2000	2001-2005	2006-2010	1988-2000	2001-2010
1	Thailand	1,193.19	1,436.48	614.10	2,035.52	2,629.67	2,649.62
2	China	73.09	78.11	282.16	2,303.45	151.20	2,585.62
3	Vietnam	2.46	18.29	125.49	2,037.64	20.75	2,163.12
4	France	13.87	397.39	416.35	37.73	411.26	454.08
5	Malaysia	26.48	695.98	83.75	67.56	722.46	151.32
6	USA	661.91	394.94	15.55	21.37	1,056.85	36.92
	Total (All Countries)	2,995.72	4,057.88	2,431.58	9,794.42	7,053.60	12,226.00

Note: Official figures include former Lao citizen now living overseas and small number of investments made by Chinese and Vietnamese companies. The DDFIL records licence approvals rather than project implementation.

Source: drawn by author from the following data sources

- 1988-2000 data are from Gunawardana and Sisombat (2008). Original data are from Department of Domestic and Foreign Investment of Lao PDR (2004)
- 2001-2010 data are from Ministry of Planning and Investment in Laos (2010)

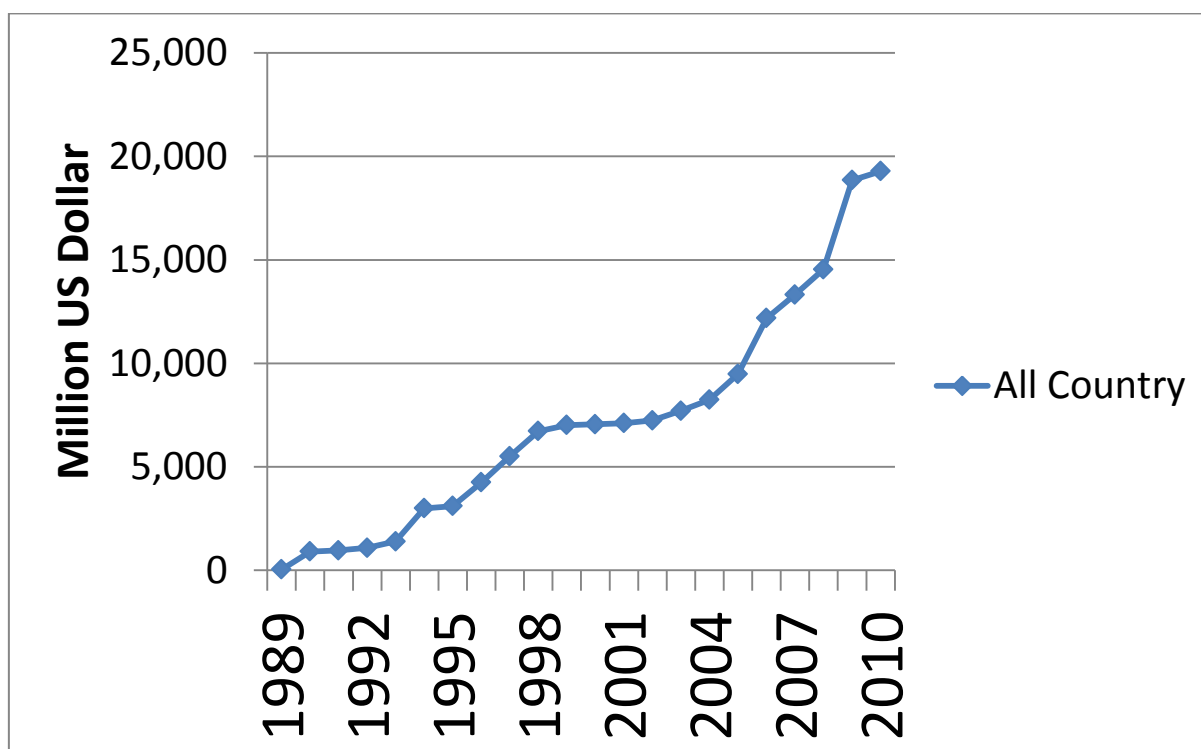
Table 5.6: Approved FDI to the Lao PDR by sector (millions of US dollars)

No.	Sectors	1988-1994	1995-2000	2001-2005	2006-2010	1988-2000	2001-2010
1	Electricity Generation	2,175.00	2,769.00	1,157.55	2,995.50	4,944.00	4,153.05
2	Agriculture	48.86	91.96	142.98	1,012.18	140.82	1,155.16
3	Mining	19.23	42.47	435.78	2,726.35	61.70	3,162.12
4	Industries-Handicraft	71.24	146.64	193.81	831.84	217.88	1,025.64
5	Services	47.91	49.52	125.60	1,276.68	97.44	1,402.29
6	Trading	46.82	16.21	171.66	140.54	63.03	312.20
7	Construction	50.58	15.72	29.09	259.39	66.30	288.48
8	Hotel-Restaurant	297.63	216.80	70.28	165.13	514.43	235.41
9	Wood Industries	66.22	100.96	26.23	92.60	167.17	118.83
10	Bank	50.80	21.00	20.10	145.00	71.80	165.10
11	Telecommunications	69.24	568.41	39.94	116.23	637.65	156.17
12	Garment	47.22	16.63	14.76	15.71	63.84	30.47
13	Consultancy	4.98	2.56	3.79	17.45	7.54	21.25
	Grand Total	2,995.72	4,057.88	2,431.58	9,794.42	7,053.60	12,226.00

Source: drawn by author from the following data sources

- 1988-2000 data are from Gunawardana and Sisombat (2008). Original data are from Department of Domestic and Foreign Investment of Lao PDR (2004)
- 2001-2009 data are from Ministry of Planning and Investment in Laos (2010)

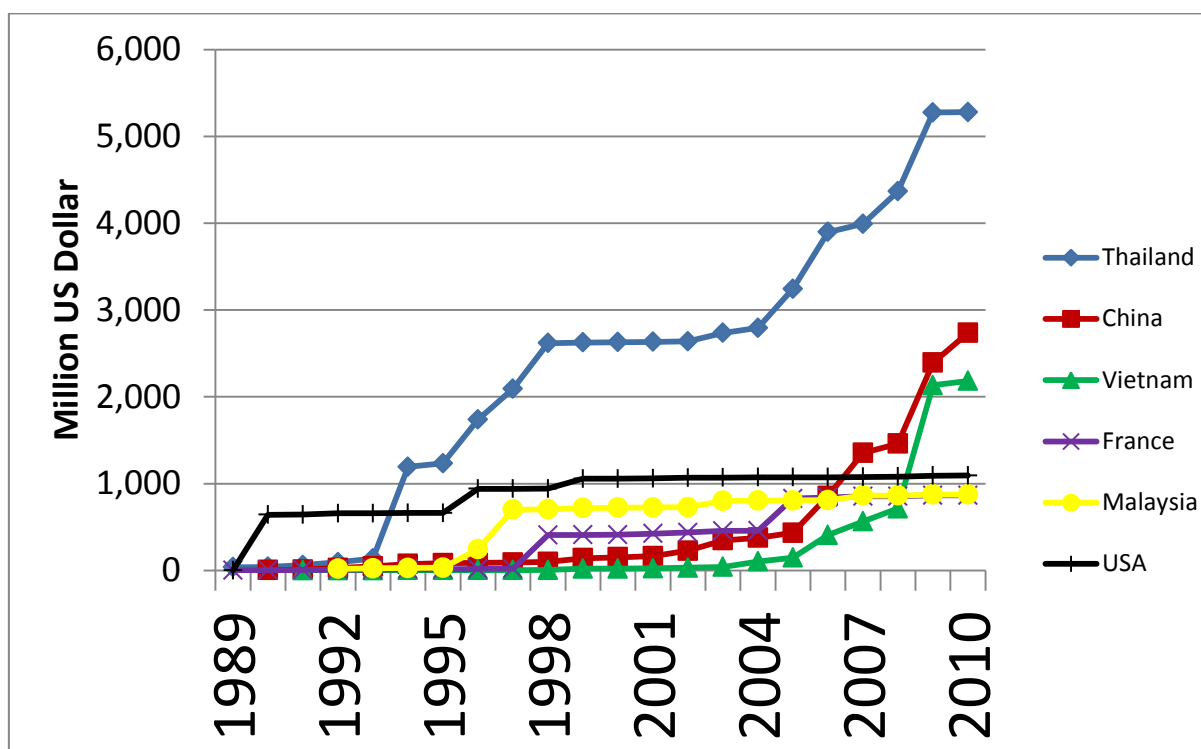
Figure 5.4: Approved FDI stocks to the Lao PDR (all source countries), 1988-2010



Source: drawn by author from the following data sources

- 1988-2000 data are from Sisombat (2007). Original data are from Department of Domestic and Foreign Investment of Lao PDR (2004)
- 2001-2010 data are from Ministry of Planning and Investment in Laos (2010)

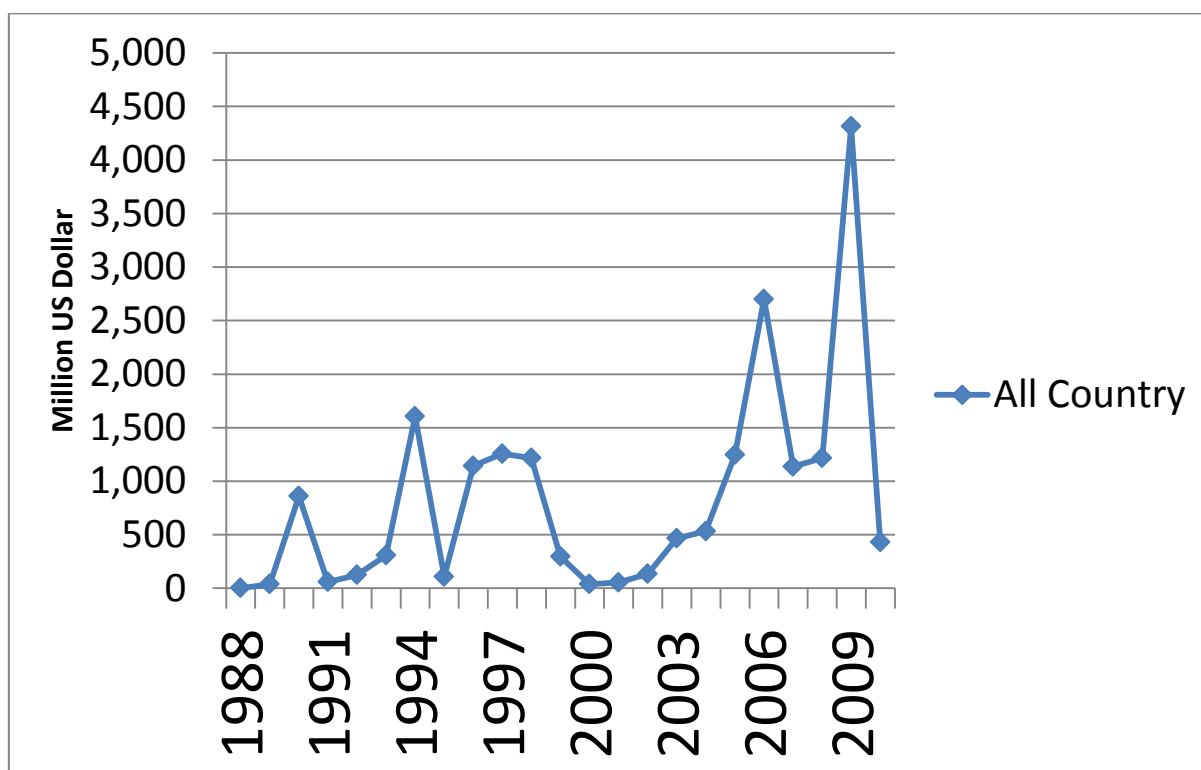
Figure 5.5: Approved FDI stocks to the Lao PDR (by country), 1988-2010



Source: drawn by author from the following data sources

- 1988-2000 data are from Gunawardana and Sisombat (2008). Original data are from Department of Domestic and Foreign Investment of Lao PDR (2004)
- 2001-2010 data are from Ministry of Planning and Investment in Laos (2010)

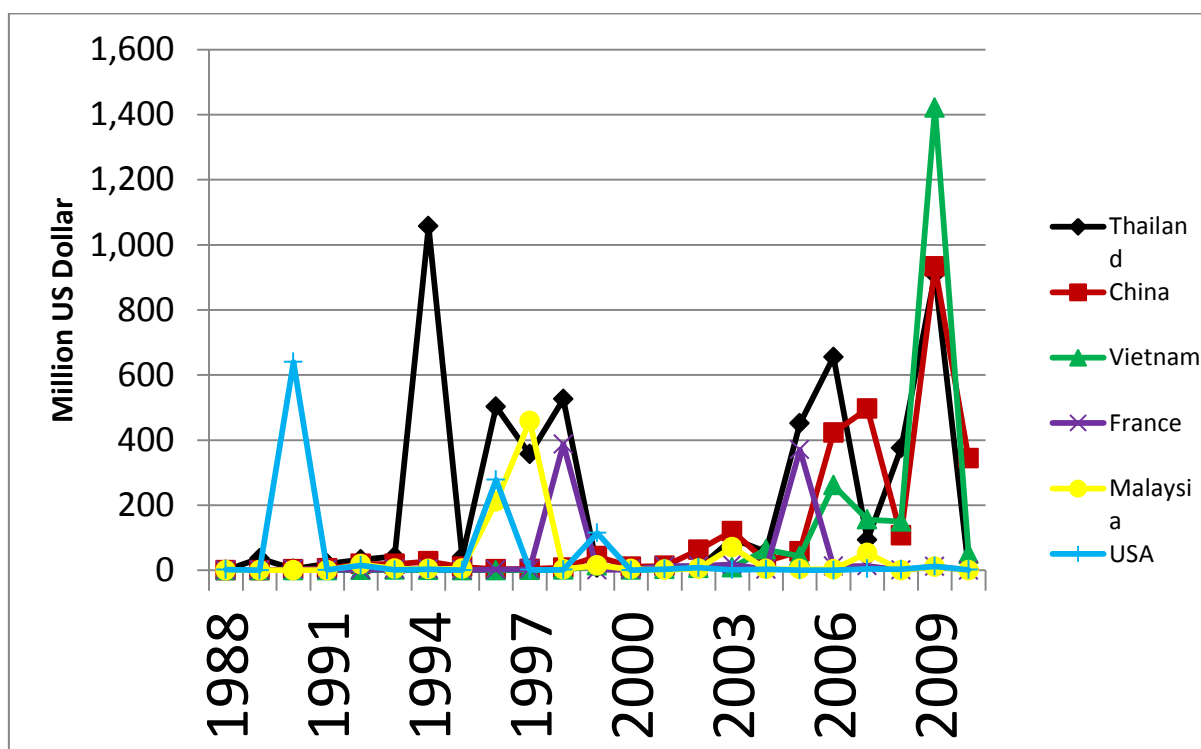
Figure 5.6: Approved FDI flows to the Lao PDR (all source countries), 1988-2010



Source: drawn by author from the following data sources

- 1988-2000 data are from Gunawardana and Sisombat (2008). Original data are from Department of Domestic and Foreign Investment of Lao PDR (2004)
- 2001-2010 data are from Ministry of Planning and Investment in Laos (2010)

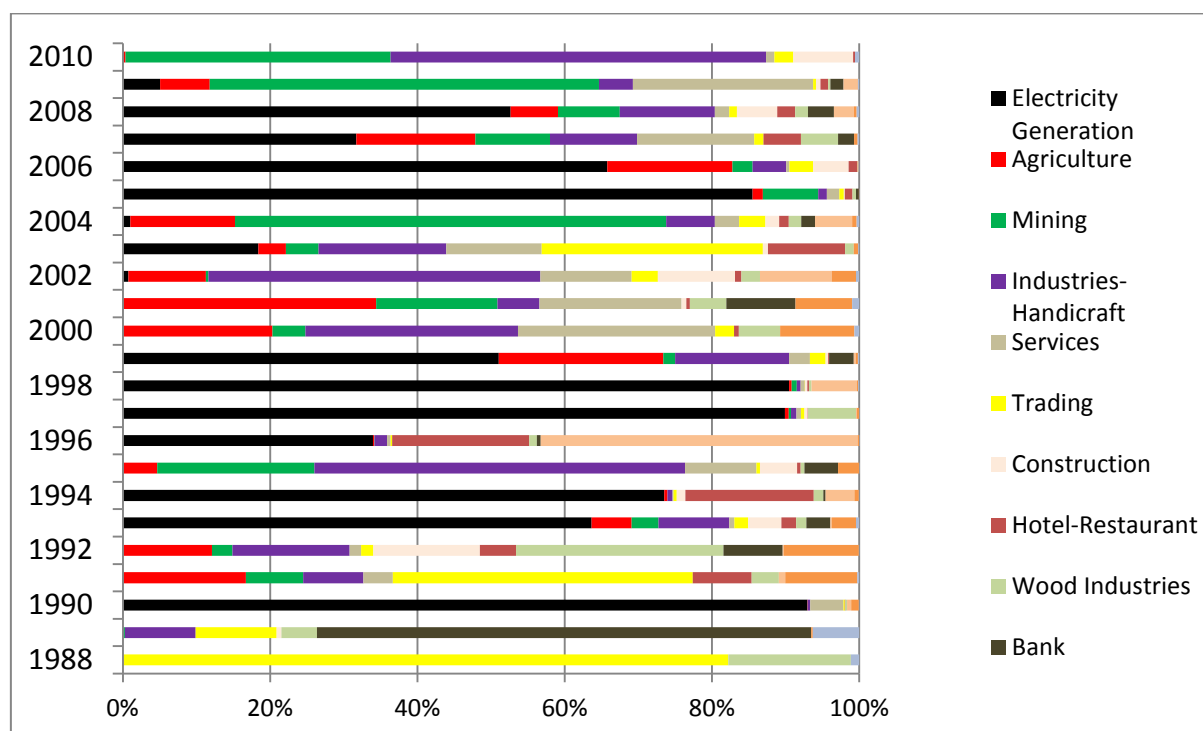
Figure 5.7: Approved FDI flows to the Lao PDR (by country), 1988-2010



Source: drawn by author from the following data sources

- 1988-2000 data are from Gunawardana and Sisombat (2008). Original data are from Department of Domestic and Foreign Investment of Lao PDR (2004)
- 2001-2010 data are from Ministry of Planning and Investment in Laos (2010)

Figure 5.8: Approved FDI flows to the Lao PDR (by sector), 1988-2010



Source: drawn by author from the following data sources

- 1988-2000 data are from Gunawardana and Sisombat (2008). Original data are from Department of Domestic and Foreign Investment of Lao PDR (2004)
- 2001-2010 data are from Ministry of Planning and Investment in Laos (2010)

Table 5.7: Approved Foreign Investment in Laos classified by country, 2001-2010

Year		2001		2002		2003		2004		2005		2006		2007		2008		2009		2010		2000-2009 (Dec)	
No	Country	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)
1	Thailand	8	3,291,000	12	6,345,594	30	96,337,177	33	57,220,054	25	450,905,419	30	655,229,967	31	92,720,384	31	375,197,133	37	908,641,389	4	3,736,040	241	2,649,624,157
2	China	9	13,415,000	13	62,568,467	35	119,858,229	45	28,197,753	33	58,123,360	54	423,231,606	47	496,055,204	41	107,246,034	47	932,892,867	16	344,028,084	340	2,585,616,604
3	Vietnam	6	3,412,570	5	6,872,000	9	8,660,363	19	63,277,801	23	43,266,879	23	261,176,139	35	155,913,820	39	149,425,319	48	1,421,214,766	4	49,905,000	211	2,163,124,657
4	France	6	12,608,000	8	13,363,500	11	17,613,000	6	2,520,000	6	370,250,000	11	12,143,611	10	13,143,068	2	500,000	7	11,732,567	1	210,000	68	454,083,746
5	Korea	15	10,374,750	16	12,790,000	10	13,745,000	15	14,200,700	10	10,219,855	15	163,741,000	24	82,154,400	16	59,882,810	18	74,874,000	3	3,350,000	142	445,332,515
6	Japan	1	500,000	3	381,000	9	3,340,583	6	4,525,000	5	4,400,000	2	401,500,000	7	6,110,970	3	846,850	5	3,730,000	1	8,107,960	42	433,442,363
7	India	0	-	1	130,000	1	200,000	-	-	-	-	1	350,000,000	-	-	-	-	3	2,477,000	-	-	6	352,807,000
8	Australia	2	400,332	2	490,332	1	1,500,000	4	292,700,000	8	21,286,864	5	1,390,000	5	13,620,000	2	1,900,000	2	666,000	1	500,000	32	334,453,528
9	Malaysia	1	1,500,000	5	4,853,000	8	70,776,037	5	3,250,000	6	3,374,200	5	3,150,155	3	53,210,000	2	130,000	7	10,924,582	1	150,000	43	151,317,974
10	Singapore	1	250,000	3	700,000	5	36,150,000	1	3,170,000	3	1,200,000	5	43,465,000	4	15,909,000	3	1,407,500	3	5,689,150	1	5,300,000	29	113,240,650
11	Canada	0	-	-	-	3	40,100,000	1	1,000,000	1	2,930,000	1	80,000	3	4,481,750	2	6,042,000	2	3,293,300	1	300,000	14	58,227,050
12	Russia	1	300,000	1	950,000	2	3,000,000	2	1,100,000	-	-	3	1,275,310	1	10,700,000	1	33,000,000	2	1,613,000	1	1,150,000	14	53,088,310
13	Switzerland	1	750,000	-	-	2	300,000	2	30,000,000	-	-	-	-	-	-	1	10,000,000	3	4,902,452	-	-	9	45,952,452
14	USA	3	3,211,560	1	8,000,000	4	1,223,000	7	2,820,000	1	300,000	1	56,000	6	4,526,666	3	2,813,000	3	12,359,660	2	1,614,000	31	36,923,886
15	England	0	-	2	433,200	4	376,500	1	100,000	2	500,000	4	5,120,000	1	11,300,000	1	100,000	4	15,700,000	-	-	19	33,629,700
16	Taiwan	1	300,000	1	620,000	-	-	1	4,000,000	1	1,000,000	2	6,500,000	2	800,000	2	3,500,000	2	1,200,000	1	950,000	13	18,870,000
17	Sweden	0	-	1	12,940,000	2	150,000	-	-	-	-	-	-	1	845,135	-	-	1	245,138	-	-	5	14,180,273
18	Norway	0	-	-	-	1	12,800,000	-	-	-	-	-	-	-	-	2	204,120,000	1	13,245,000	-	-	4	230,165,000
19	Poland	0	-	-	-	-	-	-	-	-	-	-	-	1	5,000,000	-	-	-	-	-	-	1	5,000,000
20	Germany	4	1,350,000	4	500,000	1	100,000	1	100,000	-	-	1	150,000	3	2,481,508	-	-	2	1,650,000	-	-	16	6,331,508
21	Italy	0	-	-	-	-	-	-	-	1	100,000	2	3,500,000	-	-	-	-	-	-	-	-	3	3,600,000
22	Peru	0	-	-	-	-	-	-	-	-	-	1	3,000,000	-	-	-	-	1	3,000,000	-	-	2	6,000,000
23	Cambodia	2	1,949,500	-	-	1	20,000	-	-	1	100,000	-	-	-	-	1	100,000	3	7,840,000	-	-	8	10,009,500
24	Panama	0	-	-	-	-	-	-	-	-	-	1	1,750,000	-	-	-	-	-	-	-	-	1	1,750,000
25	Holland	0	-	-	-	-	-	1	1,000,000	-	-	-	-	1	300,000	-	-	1	4,570,000	-	-	3	5,870,000
26	Myanmar	1	200,000	-	-	-	-	-	-	-	-	2	680,000	1	300,000	-	-	1	166,650	-	-	5	1,346,650
27	Island	0	-	2	1,100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	1,100,000
28	Israel	0	-	-	-	-	-	-	-	-	-	1	1,200,000	-	-	-	-	-	-	-	-	1	1,200,000
29	Indonesia	0	-	-	-	-	-	-	-	-	-	-	-	1	1,000,000	-	-	-	-	-	-	1	1,000,000
30	Belgium	1	100,000	-	-	-	-	-	-	1	100,000	-	-	2	700,000	-	-	1	300,000	-	-	5	1,200,000
31	Sri Lanka	0	-	-	-	-	-	1	200,000	-	-	-	-	-	-	-	-	-	-	1	200,000	2	400,000

Year		2001		2002		2003		2004		2005		2006		2007		2008		2009		2010		2000-2009 (Dec)	
No	Country	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)
32	Cuba	1	185,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	185,000
33	Portugal	0	-	-	-	-	-	-	-	1	100,000	-	-	-	-	-	-	-	-	-	-	1	100,000
34	Turkey	0	-	-	-	-	-	-	-	-	-	1	100,000	-	-	-	-	-	-	-	-	1	100,000
35	Nepal	0	-	-	-	-	-	-	-	-	-	-	-	1	100,000	-	-	-	-	-	-	1	100,000
36	Philipine	0	-	-	-	-	-	-	-	-	-	-	-	1	100,000	-	-	-	-	-	-	1	100,000
37	Berkanarb	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	4,780,000	-	-	2	4,780,000
38	Hungary	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	330,000	1	100,000	3	430,000
	Total	64	54,097,712	80	133,037,093	178	465,987,139	161	533,148,782	143	1,245,307,116	171	2,699,690,943	191	1,136,905,973	152	1,215,543,365	208	4,312,886,689	39	429,395,378	1,387	12,226,000,190
Including Lao Share of :						39	39,737,250	10	23,767,474	15	277,150,539	-	361,432,155		165,434,068		259,332,719		864,849,168		10,794,294		2,002,497,667

Source: Ministry of Planning and Investment, Lao PDR (2013a)

Table 5.8: Approved Foreign Investment in Laos classified by sector, 2001-2010

No	Year	2001		2002		2003		2004		2005		2006		2007		2008		2009		2010		2000-2009 (Dec)	
	Sectors	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)
1	Electricity Generation	0	0	1	1,000,000	6	85,800,000	6	5,500,000	10	1,065,250,000	13	1,776,702,200	4	360,539,385	3	640,000,000	4	218,260,000	0	0	47	4,153,051,585
2	Agriculture	13	18,616,250	6	13,988,000	16	17,321,800	19	75,704,017	21	17,352,240	39	458,518,711	43	183,839,207	23	78,490,650	30	289,833,350	1	1,500,000	211	1,155,164,225
3	Mining	2	8,900,000	1	500,000	25	20,728,679	24	312,109,734	39	93,538,625	26	73,806,160	22	115,270,631	17	102,066,035	37	2,280,459,092	9	154,746,000	202	3,162,124,956
4	Industry & Handicraft	12	3,090,570	17	59,938,067	45	80,805,248	37	35,375,470	19	14,596,280	31	122,996,955	26	134,186,182	31	156,887,470	34	198,720,294	10	219,046,143	262	1,025,642,679
5	Services	14	10,451,560	20	16,511,100	33	60,297,610	23	17,479,069	20	20,865,477	21	12,098,651	40	181,185,113	18	23,589,318	30	1,055,059,107	7	4,750,000	226	1,402,287,005
6	Trading			15	4,710,594	21	140,098,410	19	19,000,000	11	7,855,000	17	86,049,085	15	13,928,465	12	12,888,000	18	16,639,571	5	11,033,235	133	312,202,360
7	Construction	2	350,000	5	13,948,000	3	3,247,751	7	9,991,123	3	1,550,000	3	130,600,000	0		10	66,600,000	9	27,194,077	1	35,000,000	43	288,480,951
8	Hotel & Restaurant	2	245,000	5	1,135,000	11	48,795,314	8	7,000,000	10	13,109,200	9	32,224,181	14	58,152,550	8	29,430,000	16	44,220,000	2	1,100,000	85	235,411,245
9	Wood Industry	5	2,678,000	3	3,373,000	5	5,502,327	8	8,988,669	8	5,690,294	3	1,10,00	6	56,964,864	9	20,991,680	2	13,634,200	0	0	49	118,833,034
10	Banking	7	5,096,000			0		1	10,000,000	0	5,000,000	0	0	2	25,000,000	5	43,000,000	8	77,000,000	0	0	23	165,096,000
11	Telecom			1	12,940,000	0		2	27,000,000			0	0	0		1	32,450,980	1	83,774,998	0	0	5	156,165,978
12	Garment	4	4,150,000	3	4,440,000	9	2,770,000	3	3,100,000	1	300,000	5	3,885,000	8	5,520,688	5	5,109,232	2	1,200,000	0	0	40	30,474,920
13	Consultances	3	520,332	3	553,332	4	620,000	4	1,900,700	1	200,000	4	1,800,000	11	2,318,888	10	4,040,000	17	6,892,000	4	2,400,000	61	21,245,252
	TOTAL	64	54,097,712	80	133,037,093	178	465,987,139	161	533,148,782	143	1,245,307,116	171	2,699,690,943	191	1,136,905,973	152	1,215,543,365	208	4,312,886,689	39	429,395,378	1,387	12,226,000,190

Source: Ministry of Planning and Investment, Lao PDR (2013b)

The Foreign Investment Code was proclaimed in 1988. In the beginning, in late 1980s, FDI inflows to the Lao PDR were small. In 1988, FDI inflows to the Lao PDR were only 2.7 million US dollars. In terms of country source, 75 per cent of overall investment were from the United States. Regarding distribution of investment sector, 82 per cent of overall investment was in trading sector. However, the growth rate in the following years, 1989 and 1990 were tremendous (1,336 and 2,139 per cent), especially in service and banking sector. In 1990 the highest investment values were from the United States (74 per cent), followed by domestic investment (23 per cent). This was for the first time since 1988 that domestic investment played important role in overall investment. The majority of investment (93 per cent of overall investment) in 1990 was in electricity generation (Figure 5.4-5.8)

In early 1990s investment in the Lao PDR started to grow rapidly. The average growth rate of investment between 1991 and 1994 was 147 per cent per year. The Law on Promotion and Management of Foreign Investment was promulgated in 1994. In 1994, the value of investment in the Lao PDR was 1.6 billion dollars, with the growth rate of 245 per cent from previous year and 66 per cent of overall investment was from Thailand. The electricity generation sector was accounted for 74 per cent of total investment, and hotel and restaurant sector was accounted for 18 per cent of overall investment. It is also noted that in 1994, it was for the first time that FDI stocks from Thailand in the Lao PDR surpassed FDI stocks from the United States (Figure 5.5). According to Table 5.5 and 5.6, from 1988 to 1994, investment stocks in the Lao PDR altogether were almost 3 billion dollars. Thailand was the top investor in the Lao PDR (40 per cent of overall investment), followed by the United States (22 per cent of overall investment). In terms of business sector, during 1988 and 1994, electricity generation was accounted for the highest share (73 per cent of total investment), followed by hotel-restaurant sector (10 per cent of total investment).

In 1995, investment in the Lao PDR reduced 93 per cent from previous year, mainly because there was no investment in the electricity generation sector. In that year, investment in industry and handicraft sector was accounted for the highest share (50 per cent of total investment), followed by mining sector (21 per cent of total investment). In 1996, investment grew 950 per cent from previous year (become 1.14 billion dollars), mainly from large investment in

telecommunication sector (1.18 billion dollars). The largest share of investment was attributed to telecommunication sector (43 per cent of total investment), followed by electricity generation sector and hotel and restaurant sector (34 and 19 per cent of total investment, respectively).

In 1997, the Lao PDR became a full member of ASEAN. A new member of ASEAN in 1997 together with the application to join WTO in the same year tended to signal foreign investors for the development of rules and regulation in the Lao PDR to international standard. However, because of Asian financial crisis in 1997 investment in the Lao PDR grew only 10 per cent. In 1997, investment from Thailand dropped to the third place (28 per cent of total investment) after investment from Malaysia (Malaysia became a top investor in the Lao PDR for the first time) and domestic investment (accounted for 36 and 33 per cent of total investment). The electricity generation sector was still the top investment sector (1.13 billion dollars, accounted for 90 per cent of total investment). In 1998, 1999 and 2000, investment in the Lao PDR continued to slow down with the growth rate -3, -76 and -87 per cent, respectively. In 1998, even overall investment in the Lao PDR decreased, investment in electricity generation sector was still as high as 1.1 billion dollars and was accounted for 90 per cent of total investment). Thailand became a top investor once again. The sharp decreases in investment in 1999 and 2000 were mainly from the decrease in level of investment in electricity generation sector in 1999 and no investment in the sector in 2000.

In terms of stocks of investment in the Lao PDR during 1995 to 2000, overall investment throughout the period was 4.06 billion dollars (Table 5.5 and Table 5.6). Thailand was the top investor during the specified time period (accounted for 35 per cent of overall investment stocks), followed by Malaysia (17 per cent), France and the United States (accounted for approximately 10 per cent of overall investment stocks in 1995-2000). In terms of business sector, the electricity generation sector was still accounted for the highest share (68 per cent of total investment stocks in 1995-2000), followed by telecommunications sector and hotel and restaurant sector (14 and 5 per cent of overall investment stocks in 1995-2000)

In terms of investment during 2001 and 2010, FDI had been playing more important role in the Lao PDR economy, especially after 2005 (UNCTAD, 2010). Besides, the seventh five-year

economic and social development plan (2006-2010) requires that contribution from domestic and foreign investment together to the economy shall not be less than 1.7 billion annually (Ministry of Planning and Investment, Lao PDR, 2012a). Accordingly, related organizations (especially the ones involved with foreign and domestic investment to the country) have been trying to launch policies and/or adjust related procedures to facilitate and promote investment. In 2004, the Law on Promotion and Management of Foreign Investment was substantially revised as well as the Law on the Promotion of Domestic Investment had been launched in the same year. Then in 2009 the Lao PDR proclaimed the Law on the Investment Promotion in the Lao PDR which was for the first time merged laws governing foreign and domestic investment. The decree on the Implementation of the Investment Promotion Law was also launched in 2011 to expand and provide clarifications on the contents of certain articles in the Law on the Investment Promotion (2009).

During 2001 to 2010 (calendar year) investment stocks (approved investment) in the Lao PDR was 12,226 million dollars (Table 5.5 to Table 5.8). Thailand, China, and Vietnam were key sources of FDI in the Lao PDR. The FDI value of those countries were accounted for 22, 21 and 18 per cent of total investment stocks during 2001-2010, respectively (with 241, 340, and 211 number of projects, respectively) (Table 5.5 and Table 5.7). UNCTAD (2010) states that the Lao PDR naturally attracted investment from those three countries due to their geographic proximity and their interest in exploring untapped market. However, it is worth noting that although Thailand was accounted for largest share of overall investment stocks during 2001-2005 (accounted for 35 per cent of total investment stocks during the period specified), its shares in total values of investment stocks during 2006-2010 declined to 21 per cent, ranked third after China and Vietnam, which were accounted for 24 and 21 per cent of total investment stocks during 2006-2010. Increase in China-ASEAN and intra-ASEAN economic integration is also expected to provide a further boost in FDI inflows to the Lao PDR in later years (UNCTAD, 2010)

Regarding business sector hosted investment, during 2001 to 2010 important economic sectors were electricity generation sector and mining sector (accounted for 34.0 and 25.9 percent of total investment stocks 2001-2010, respectively, with 47 and 202 number of projects respectively), followed by service sector, agricultural sector, and industry and handicraft sector

(accounted for 12, 9 and 8 percent of total investment stocks during 2001-2010, respectively) (Table 5.6 and Table 5.8). Considering investment by sector by splitting the period of 2001 to 2010 into the period of 2001-2005 and 2006-2010, according to Table 5.5 during 2001 to 2005 electricity generation sector was accounted for the largest share of overall investment stock during the time period specified (48 per cent), followed by mining sector (18 per cent) and industry and handicraft sector (8 per cent). During 2006 to 2010, electricity generation sector was still accounted for the largest share of overall investment stock during the time period specified (31 per cent), but lower share than the 2001-2005 period, followed by mining sector (28 per cent) and service sector (13 per cent).

In terms of investment flows to the Lao PDR, according to Table 5.7 and Figure 5.6, value of investment flows to the Lao PDR during 2001-2009 had been rising (except for the drop at the rate 57.9 per cent in 2007) from 54.1 million dollars in 2001 to 4,312 million dollars in 2009. Thailand, China, and Vietnam had been major investors in the country and took turn to be a top country source of FDI inflows to the Lao PDR each year (except in 2004 when Australia was the top investor). In 2001-2003 and 2007 China was a champion as a source of FDI inflows to the Lao PDR (accounted for approximately a quarter to half of total investment flows in the Lao PDR each year). In 2005, 2006 and 2008 Thailand was the top investor (accounted for approximately 25 to 36 per cent of investment flows in the Lao PDR each year). However, in 2009 Vietnam became a top investor (accounted for 33 per cent of total investment flows in the Lao PDR per year for both years) while China and Thailand FDI in Lao PDR were accounted for similar proportion of total investment flows to the Lao PDR (21-22 per cent). In 2010, overall FDI inflows to the Lao PDR drop drastically to 429 million dollars, decreased 90 per cent from previous year. China was the largest source of FDI country (accounted for 80 per cent of total investment), followed by Vietnam (accounted for 12 per cent of total investment). Investment from Thailand declined dramatically and was accounted for only 0.9 per cent of total investment value).

Consider value of FDI inflows into Lao PDR by sector, data from Table 5.8 and Figure 5.8 show that between 2001 and 2009 except for some years, agricultural sector or industry and handicraft sector was the top sector attracted FDI to Lao PDR (more specificity 2001-2003 and

2007), electricity generation sector and mining sector took turn to be the highest recipient sector of inflows to the Lao PDR. In some years one of these three sectors was accounted for more than 50 percent of total FDI inflows value to Lao PDR. For example, Mining sector was accounted for 58.5 and 52.9 percent of total FDI inflows to the Lao PDR in 2004 and 2009. Electricity generation sector was accounted for 85.5, 65.8 and 52.7 percent of total FDI inflows to the Lao PDR in 2005, 2006 and 2008. However, in 2010 there was no investment in electricity generation sector. Industry and handicraft sector was accounted for the largest share (accounted for 51 per cent of total investment in 2010), followed by mining sector (accounted for 36 per cent of total investment in 2010)

5.6 Competitiveness of the Lao PDR based on the Global Competitive Index

According to United Nations (2013), as at 30 November 2012, the Lao People's Democratic Republic (the Lao PDR) was considered as one of the 48 least developed countries (LDCs). The other two Southeast Asian countries include in the list were Cambodian and Myanmar. The criteria for inclusion based on several factors including per capita GNI, a human assets index and an economic vulnerability index.

According to World Economic Forum (2013), based on the Global Competitiveness Index (GCI) 2013-2014, the Lao PDR GCI score (2013-2014) were 4.08 (the score range from 1 to 7), ranked 81 out of 148 countries (the Lao PDR as well as Myanmar and Bhutan had been newly covered in the index). Among ten member countries of the Association of Southeast Asian Nations (ASEAN), the Lao PDR overall rank was better than Cambodia and Myanmar (ranked 88 and 139 respectively) but worse than other ASEAN member countries (Table 5.9). The GCI score is generally based on 12 pillars grouped into three categories including Category 1 (Basic Requirements consisting of four pillars which are institutions, infrastructure, macroeconomic environment, and health and primary education), Category 2 (Efficiency Enhancers consisting of six pillars which are higher education and trading, goods market efficiency, labor market efficiency, financial market development, technical readiness, market size) and Category 3 (Innovation and Sophistication Factors consisting of two pillars which are business sophistication and innovation). It is also noted that each pillar also consists of several indicators.

The weight given to Category 1 (Basic Requirement), Category 2 (Efficiency Enhancers) and Category 3 (Innovation and Sophistication Factors) are 60, 35, and 5 per cent respectively

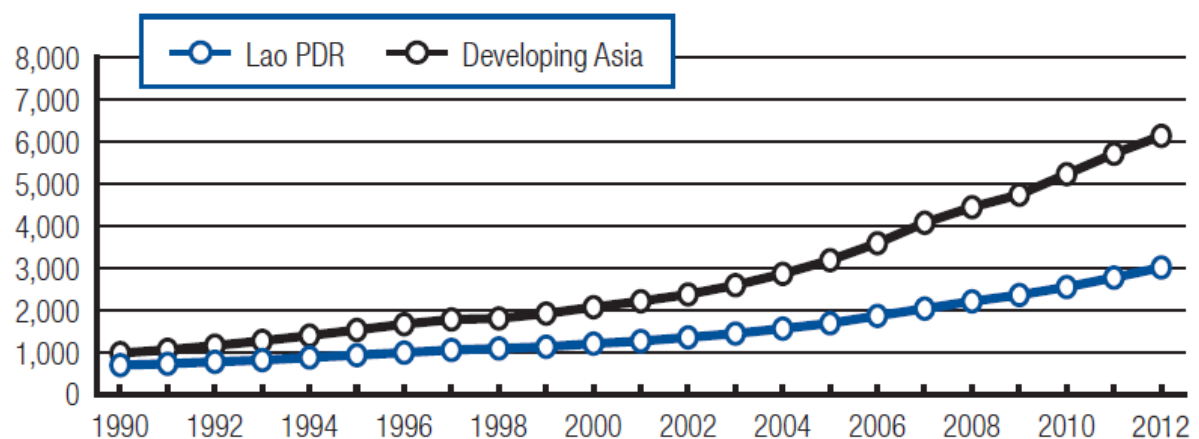
Table 5.9: Performance of ASEAN members in the 2013-2014 GCI and the 12 composing pillars, ranked out of 148 economies

Country/economy	GLOBAL COMPETITIVENESS INDEX	BASIC REQUIREMENTS				EFFICIENCY ENHANCERS						INNOVATION AND SOPHISTICATION FACTORS	
		1st pillar: Institutions	2nd pillar: Infrastructure	3rd pillar: Macroeconomic environment	4th pillar: Health and primary education	5th pillar: Higher education and training	6th pillar: Goods market efficiency	7th pillar: Labor market efficiency	8th pillar: Financial market development	9th pillar: Technological readiness	10th pillar: Market size	11th pillar: Business sophistication	12th pillar: Innovation
Singapore	2	3	2	18	2	2	1	1	2	7	34	17	9
Malaysia	24	29	29	38	33	46	10	25	6	51	26	20	25
Brunei Darussalam	26	25	58	1	23	55	42	10	56	71	131	56	59
Thailand	37	78	47	31	81	66	34	62	32	78	22	40	66
Indonesia	38	67	61	26	72	64	50	103	60	75	15	37	33
Philippines	59	79	96	40	96	67	82	100	48	77	33	49	69
Vietnam	70	98	82	87	67	95	74	56	93	102	36	98	76
Lao PDR	81	63	84	93	8	111	54	44	91	113	122	78	68
Cambodia	88	91	101	83	99	116	55	27	65	97	92	86	91
Myanmar	139	141	141	125	111	139	135	98	144	148	79	146	143

Source: World Economic Forum (2013), p. 33

Based on the GCI key indicators 2012⁵, the population in the Lao PDR was 5.5 million. The country GDP was 6.5 billion US dollars and GDP per capita was 1,158 US dollars. Based on value-added as a share (percentage) of GDP, the service sector, agricultural sector, and non-manufacturing sector were accounted for 35, 31 and 27 per cent of GDP respectively, while manufacturing sector was only accounted for 8 per cent of GDP. The GDP (purchasing power parity, PPP) was accounted for 0.02 per cent of the world GDP (PPP). According to Figure 5.9, since 1997 the gap of GDP (PPP) per capita of the Lao PDR compared to other developing Asian countries has become wider.

Figure 5.9: GDP (PPP) per capita (international dollars) 1990-2012



Source: World Economic Forum (2013), p. 244

⁵ Although the Lao PDR was included in the GCI rank in 2013-2014, World Economic Forum (2013) also report some GCI 2012 key indicators.

Table 5.10 shows the GCI 2013-2014 score of the Lao PDR by each pillar and each category and the country rank based on overall 148 countries. Table 5.11 shows details of the score for each indicator in all 12 pillars. According to Table 5.10, the country rank in terms of Basic Requirements (Category 1), Efficiency Enhancers (Category 2), and Innovation and Sophistication Factors (Category 3) were 83, 107 and 74. Among 12 pillars, the pillars that the country ranked worse than 100 include higher education and training (rank 111), technological readiness (rank 113), and market size (rank 122) all of them are in Efficiency Enhancers category (Category 2). The pillars that the country ranked better than 60 were labor market efficiency and goods (rank 44) market efficiency (rank 54) which are also in Efficiency Enhancers category (Category 2).

According to Table 5.11, there are some factors enhance the Lao PDR competitiveness in the global economy. That is, there are some indicators in some pillars of the GCI that the rank of the Lao PDR was better than 40. Those indicators include wastefulness of government spending (rank 11), public trust in politicians (rank 23) and efficiency of legal framework in settling disputes (rank 35) under institutions pillar (1st pillar); business impact of rules of FDI (rank 31), extent of market dominance (rank 31), buyer sophistication (rank 32) and effectiveness of anti-monopoly policy (rank 34) under goods market efficiency pillar (6th pillar); state of cluster development (rank 38) under business sophistication pillar (11th pillar); company spending on R&D (rank 33) under the innovation pillar (12th pillar).

To address some factors undermining the Lao PDR competitiveness in global economy, Table 5.11 shows that in each pillar there are some indicators that the Lao PDR ranks were worse than 100. Those include

- strength of investor protection (rank 146), strength of auditing and reporting standard (rank 129), efficiency of legal framework in challenging regulations (rank 114), transparency of government policymaking (rank 104) under institutions pillar (1st pillar);
- quality of port infrastructure (rank 137), fixed telephone lines coverage (rank 122) and airline services (rank 121) under infrastructure pillar (2st pillar);
- country credit rating (rank 125) under macroeconomic environment pillar (3rd pillar); business impact of tuberculosis (rank 136), business impact of HIV/AIDS (rank 128),

- business impact of malaria (rank 126), tuberculosis cases (rank 122), Malaria cases (rank 113), years of life expectancy (rank 107), infant mortality (rank 106) under health and primary education pillar (4th pillar);
- secondary education enrollment (rank 122) under higher education and training (5th pillar); number of day to start business (rank 140), imports as a percentage of GDP (rank 113) and prevalence of foreign ownership (rank 110) under goods market efficiency pillars (6th pillar);
 - redundancy costs, weeks of salary (rank 138) under labor market efficiency pillar (7th pillar);
 - financing through local equity market (rank 103), legal rights index (rank 101) under financial market development pillar (8th pillar);
 - international internet bandwidth (rank 137), individuals using internet (rank 125), mobile broadband subscriptions (rank 120); availability of latest activity (rank 112) and fixed broadband internet subscriptions (rank 104) under technological readiness pillar (9th pillar);
 - domestic market size index (rank 122), foreign market size index (rank 122), GDP (rank 120) under market size pillar (10th pillar);
 - control of international distribution (rank 125), local supplier quantity (rank 106), local supplier quality (rank 101) under business sophistication pillar (11th pillar);
 - availability of scientists and engineers (rank 135), PCT patent (rank 126) under innovation pillar (12th pillar).

Table 5.10: The Lao PDR Global Competitiveness Index (GCI) 2013-2014

	Rank (out of 148)	Score (1–7)
GCI 2013–2014	81	4.1
GCI 2012–2013 (out of 144)	n/a	n/a
GCI 2011–2012 (out of 142)	n/a	n/a
Basic requirements (60.0%)	83	4.4
Institutions	63	4
Infrastructure	84	3.7
Macroeconomic environment	93	4.4
Health and primary education	80	5.6
Efficiency enhancers (35.0%)	107	3.6
Higher education and training	111	3.3
Goods market efficiency	54	4.4
Labor market efficiency	44	4.6
Financial market development	91	3.8
Technological readiness	113	3
Market size	122	2.6
Innovation and sophistication factors (5.0%)	74	3.5
Business sophistication	78	3.9
Innovation	68	3.2

Source: World Economic Forum (2013), p. 244

Table 5.11: The Lao PDR Global Competitive Index (GCI) in details

INDICATOR	VALUE	RANK/148
1st pillar: Institutions		
1.01 Property rights	3.9	85
1.02 Intellectual property protection	3.8	64
1.03 Diversion of public funds	3.7	54
1.04 Public trust in politicians	4.2	23
1.05 Irregular payments and bribes	3.7	85
1.06 Judicial independence	4.1	56
1.07 Favoritism in decisions of government officials	3.5	43
1.08 Wastefulness of government spending	4.7	11
1.09 Burden of government regulation	3.7	55
1.10 Efficiency of legal framework in settling disputes	4.5	35
1.11 Efficiency of legal framework in challenging regs	2.9	114
1.12 Transparency of government policymaking	3.8	104
1.13 Business costs of terrorism	5.5	71
1.14 Business costs of crime and violence	5	55
1.15 Organized crime	4.7	89
1.16 Reliability of police services	4.3	68
1.17 Ethical behavior of firms	4.1	62
1.18 Strength of auditing and reporting standards	3.7	129
1.19 Efficacy of corporate boards	4.7	58
1.20 Protection of minority shareholders' interests	4.1	71
1.21 Strength of investor protection, 0–10 (best)*	1.7	146
2nd pillar: Infrastructure		
2.01 Quality of overall infrastructure	4.4	65
2.02 Quality of roads	4.2	65
2.03 Quality of railroad infrastructure	N/Appl.	n/a
2.04 Quality of port infrastructure	2.6	137
2.05 Quality of air transport infrastructure	4.3	76
2.06 Available airline seat km/week, millions*	22.1	121
2.07 Quality of electricity supply	5.2	61
2.08 Mobile telephone subscriptions/100 pop.*	101.9	90
2.09 Fixed telephone lines/100 pop.*	1.8	122
3rd pillar: Macroeconomic environment		
3.01 Government budget balance, % GDP*	-2.5	64
3.02 Gross national savings, % GDP*	17.3	83
3.03 Inflation, annual % change*	4.3	79
3.04 General government debt, % GDP*	53.1	100
3.05 Country credit rating, 0–100 (best)*	23.1	125
4th pillar: Health and primary education		
4.01 Business impact of malaria	3.7	126
4.02 Malaria cases/100,000 pop.*	1,097.40	113
4.03 Business impact of tuberculosis	3.7	136
4.04 Tuberculosis cases/100,000 pop.*	213	122
4.05 Business impact of HIV/AIDS	3.9	128

INDICATOR	VALUE	RANK/148
4.06 HIV prevalence, % adult pop.*	0.3	60
4.07 Infant mortality, deaths/1,000 live births*	33.8	106
4.08 Life expectancy, years*	67.4	107
4.09 Quality of primary education	3.8	79
4.10 Primary education enrollment, net %*	97.4	42
5th pillar: Higher education and training		
5.01 Secondary education enrollment, gross %*	45.8	122
5.02 Tertiary education enrollment, gross %*	17.7	100
5.03 Quality of the educational system	4	57
5.04 Quality of math and science education	3.8	90
5.05 Quality of management schools	4.1	82
5.06 Internet access in schools	3.9	87
5.07 Availability of research and training services	3.9	88
5.08 Extent of staff training	4.2	55
6th pillar: Goods market efficiency		
6.01 Intensity of local competition	5.2	56
6.02 Extent of market dominance	4.4	31
6.03 Effectiveness of anti-monopoly policy	4.6	34
6.04 Effect of taxation on incentives to invest	4.1	45
6.05 Total tax rate, % profits*	33.3	47
6.06 No. procedures to start a business*	6	47
6.07 No. days to start a business*	92	140
6.08 Agricultural policy costs	4.2	63
6.09 Prevalence of trade barriers	4.3	79
6.10 Trade tariffs, % duty*	8.5	95
6.11 Prevalence of foreign ownership	4	110
6.12 Business impact of rules on FDI	5	31
6.13 Burden of customs procedures	4.2	63
6.14 Imports as a percentage of GDP*	32.8	113
6.15 Degree of customer orientation	4.5	73
6.16 Buyer sophistication	4	32
7th pillar: Labor market efficiency		
7.01 Cooperation in labor-employer relations	5.3	15
7.02 Flexibility of wage determination	5.6	18
7.03 Hiring and firing practices	4.1	57
7.04 Redundancy costs, weeks of salary*	47.2	138
7.05 Effect of taxation on incentives to work	4.2	31
7.06 Pay and productivity	4.8	10
7.07 Reliance on professional management	4.3	62
7.08 Country capacity to retain talent	4.2	34
7.09 Country capacity to attract talent	3.4	74
7.10 Women in labor force, ratio to men*	0.99	6
8th pillar: Financial market development		
8.01 Availability of financial services	4.4	79
8.02 Affordability of financial services	4.5	45
8.03 Financing through local equity market	2.9	103
8.04 Ease of access to loans	3.3	40

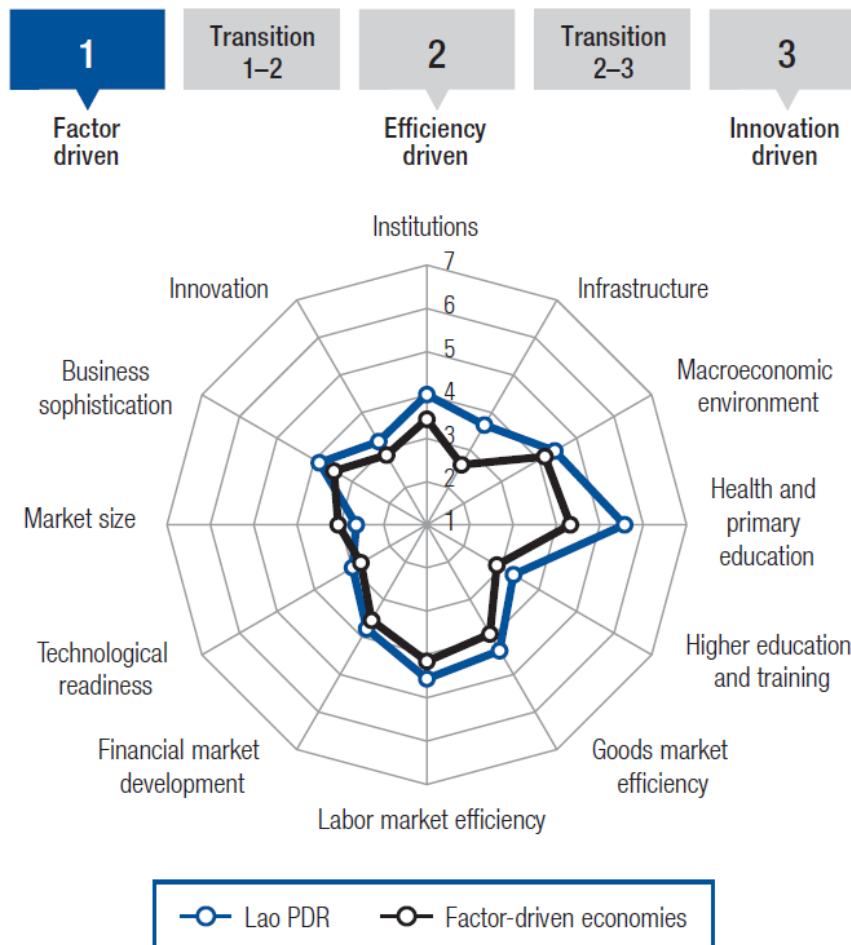
INDICATOR	VALUE	RANK/148
8.05 Venture capital availability	2.7	66
8.06 Soundness of banks	4.8	85
8.07 Regulation of securities exchanges	3.9	87
8.08 Legal rights index, 0–10 (best)*	4	101
9th pillar: Technological readiness		
9.01 Availability of latest technologies	4.2	112
9.02 Firm-level technology absorption	4.5	90
9.03 FDI and technology transfer	4.9	43
9.04 Individuals using Internet, %*	10.7	125
9.05 Fixed broadband Internet subscriptions/100 pop.*	1.5	104
9.06 Int'l Internet bandwidth, kb/s per user*	1.8	137
9.07 Mobile broadband subscriptions/100 pop.*	0.8	120
10th pillar: Market size		
10.01 Domestic market size index, 1–7 (best)*	2.4	122
10.02 Foreign market size index, 1–7 (best)*	3.4	122
10.03 GDP (PPP\$ billions)*	19.2	120
10.04 Exports as a percentage of GDP*	33	88
11th pillar: Business sophistication		
11.01 Local supplier quantity	4.3	106
11.02 Local supplier quality	4	101
11.03 State of cluster development	4.3	38
11.04 Nature of competitive advantage	3.2	92
11.05 Value chain breadth	3.8	63
11.06 Control of international distribution	3.5	125
11.07 Production process sophistication	3.5	93
11.08 Extent of marketing	4	80
11.09 Willingness to delegate authority	3.9	49
12th pillar: Innovation		
12.01 Capacity for innovation	3.8	46
12.02 Quality of scientific research institutions	3.6	74
12.03 Company spending on R&D	3.7	33
12.04 University-industry collaboration in R&D	3.4	83
12.05 Gov't procurement of advanced tech products	3.7	44
12.06 Availability of scientists and engineers	3	135
12.07 PCT patents, applications/million pop.*	0	126

Note: Values are on a 1 to 7 scale unless otherwise annotated with an asterisk (*)

Source: Source: World Economic Forum (2013), p. 245

In terms of stage of development, based on the Global Competitiveness Index (GCI) 2013-2014, the Lao PDR is listed in the Stage 1 (or factor-driven) country group⁶ (Figure 5.10).

Figure 5.10: The Lao PDR stage of development based on the Global Competitiveness Index (GCI)



Source: World Economic Forum (2013), p. 244

⁶ Based on the Global Competitiveness Index (GCI) 2013-2014, 148 countries in consideration have been divided into five country groups which are Group 1 (stage 1 or factor driven country group), Group 2 (transition from stage 1 to stage 2 country group), Group 3 (stage 2 or efficiency driven country group), Group 4 (transition from stage 2 to stage 3 country group) and Group 5 (innovation-driven country group).

CHAPTER 6: THAI OUTWARD FDI IN THE LAO PDR

This chapter is divided into two sections. Section 6.1 describes outward FDI situation of Thai MNEs in the Lao PDR. Section 6.2 systematically describes results of the study in depth interviews with representative of the Lao PDR and Thai related government agencies and Thai MNEs invested in the Lao PDR.

6.1 Thai outward FDI in the Lao PDR

This section is divided into two parts. The first part demonstrates the value of actual investment of Thai MNEs in the Lao PDR between 2005 and 2011 based on data derived from the Bank of Thailand. The second part explains situation of approved level of FDI of Thai MNEs in the Lao PDR between 1990 and 2012 based on data derived from the Lao PDR Ministry of Planning and Investment.

Actual Investment of Thai MNEs in the Lao PDR

Since 2005 actual investment of Thai MNEs in the Lao PDR had been growing except for during 2009-2010. Considering actual investment of Thai MNEs in the Lao PDR by sector, according to Table 6.1, during 2005-2011 key important sectors (pertaining outward FDI stocks from Thailand to Lao PDR during the time period) that Thai MNEs had been invested in Lao PDR were electricity, gas, steam and air conditioning supply sector (accounted for 36.5% of total Thai outward FDI stocks to the Lao PDR during 2005-2011), followed by construction sector, manufacturing sector, and financial and insurance activities sector (accounted for 23.8, 19.5 and 9.2 of total Thailand outward FDI stocks to the Lao PDR during 2005-2011, respectively). For electricity, gas, steam and air conditioning supply sector, high value of investment was in 2008 and 2010 (the highest value compared to other sectors in the same years). Investment in manufacturing sector was peaked in 2011 (much higher than previous years and the highest value compared to other sectors in the same year). The sharp increase was due to the sudden increase in the investment in manufacturing of food products sector (one subsector of manufacturing sector) in 2011 (this subsector was accounted for 92.0 per cent of Thai outward

FDI stocks in manufacturing sector to the Lao PDR in 2011 and 51 per cent of total Thai outward FDI stocks to the Lao PDR in the same year). For financial and insurance activities sector, high value of investment was in 2009 (the highest value compared to other sector in the same year).

Table 6.1: Thai direct investment outflow to Laos classified by business sector, 2005-2011

Unit: Millions of US Dollars

Business	2005	2006	2007	2008	2009	2010	2011P
A Agriculture, forestry and fishing	-	-	-	-	-	-	0.5
B Mining and quarrying	0.1	0.1	-	-	-	-	1.0
C Manufacturing	0.4	5.3	19.8	6.8	5.3	12.7	120.7
Example:							
10 Manufacture of food products	0.2	3.2	16.2	3.8	2.5	11.7	111.0
11 Manufacture of beverages	-	-	0.1	0.1	-	-	-
13 Manufacture of textiles	-	1.7	2.9	2.5	1.9	-	1.0
20 Manufacture of chemicals and chemical products	-	-	-	-	-	-	-
26 Manufacture of computer, electronic and optical products	-	0.4	0.4	0.3	0.6	0.8	0.8
27 Manufacture of electrical equipment	-	-	-	-	-	-	-
28 Manufacture of machinery and equipment n.e.c.	0.1	-	0.3	0.1	0.3	0.2	7.9
D Electricity, gas, steam and air conditioning supply	-	7.3	-	159.9	47.5	92.7	12.3
F Construction	1.1	8.8	28.2	38.1	36.4	32.1	63.9
G Wholesale and retail trade; repair of motor vehicles and motorcycles	0.1	6.7	0.5	-	2.1	0.6	3.9
H Transportation and storage	0.0	-	-	-	-	-	0.2
I Accommodation and food service activities	0.1	-	-	-	-	-	-
K Financial and insurance activities	-	-	0.4	-	56.0	9.5	14.4
L Real estate activities	-	-	1.8	1.8	-	-	0.2

Business	2005	2006	2007	2008	2009	2010	2011P
Others	0.4	0.1	-	0.2	49.8	25.5	0.9
Total	2.1	28.2	50.7	206.7	197.2	173.1	217.9

Source: Bank of Thailand

Table 6.2 demonstrates key Thai MNEs invest in each different industry sector (listed in UNCTAD, 2010). List of Thai MNEs invest in various regions in the Lao PDR can also be acquired from sources such as Thai Royal Embassy in the Lao PDR and other Lao PDR and Thai FDI related organizations.

Table 6.2: Major Thai MNEs investors in Lao PDR, by sector

No.	SECTOR	NAME	SORURCOUNTRY	ACTIVITY	PROJECT LOCATION
1	AGRICULTURE	Lao-Thai Hua Rubber Company Limited	THAILAND	Rubber Platation	04 Provinces -VT.mun,VTP, BOX AND SVK
2		Mekong Agriculture Industry Co.,Ltd	THAILAND	Producing and export crops	B.Sisavath, Chanthabouly District VT.Mun
3		Argarwood Lao Group Co., Ltd	THAILAND/ LAO	Platation	B.M. Keoudom, PVT.
4		Savannakhet Sugar Corporation	THAILAND	Sugar cane platation	-
5		Agrawood Lao Group Co.,Ltd	THAILAND/ LAO	Platation	-
6	INDUSTRIES	Lao Metal Industry Co.,Ltd	THAILAND	Producing metal	M. Paksun
7		The Econ. Quadrangle Joint Devt. Corp.Ltd	THAILAND/ LAO	Construction, tourism, service, etc	B.M. Pakse P CPS
8	MINNING	Sino Lao Aluminium Corporation Limited (SLACO)	THAILAND/ LAO	Hydropower	M.Pakse
9	TRADING	Caltex oil (Lao) Co.,Ltd	THAILAND	Petroleum products/import-export	B. Phonsa-Ad xaisetha VT. Mun. 414785,414336
10		Chevron (Lao) Co.,Ltd	THAILAND	Import and export petrol (Brand CALTEX)	-
11		Keomotor Heavy Equipment Co.,Ltd	THAILAND/ LAO	Import car from Japan	B.Nakham Silhottabong
12		Hungueung Agriculture Export-Import Co.,Ltd	THAILAND/ LAO	Producing and exporting pig	B. Pakhed M. Nasaythong P.VT
13		Tara Petroleum Co.,Ltd	THAILAND	Import and export petrol (Brand CALTEX)	B. Nongpanai M.Sikhottabong P.

No.	SECTOR	NAME	SORURCOUNTRY	ACTIVITY	PROJECT LOCATION
					VT.Mun.
14		SCC Lao Trading Co.,Ltd	THAILAND	Trading	B. Phonesavannue M. Sisattanak, VT.
15	HOTEL AND RESTAURANT	Lao Holding Co.,Ltd	THAILAND/ LAO	Tourism development in Khonohaphen	Off: 305 Samsenthai RD Chanthabuly, VT.Mun.
16		Intra Global Holdings (Lao) Co.,Ltd	THAILAND/ LAO	golf,supermarket, nightclub,restaurant and sport center	B. HouyJiet, M. Paksong Champasak
17		M. Grand hotel (Luangpabang) Co.,Ltd	THAILAND/ LAO	Hotel and tourism in Xienkeo	(Luangpabang) Xiengkeo, Luangpabang 312683
18	BANKING	Vientiane Branch of Krung Thai Bank Limited	THAILAND	Banking	M. Chanthaboury
19		Joint Development Bank	THAILAND/ LAO	Full banking servicers	75/1-5 Lanexang road, VT.Mun. 213532-36
20		Thai Farmers Bank	THAILAND	Banking	084 Lanxang RD Chanthabuly 213550-4
21		Bangkok Bank Public Limited	THAILAND	Banking	38/13-15 Morning Market Hassadee 213560,213562
22		Thai Military Bank Public Co.,Ltd	THAILAND	Banking	69 Khounbulom RD M.Chantabury 216486/217174
23		Siam Commercial Bank Co.,Ltd	THAILAND	Banking	095/117 Sisaket Chanthabury 217306/213500-2

No.	SECTOR	NAME	SORURCOUNTRY	ACTIVITY	PROJECT LOCATION
24		Krung Thai Bank Co.,Ltd	THAILAND	Banking	80 Luangphabang RD 213480/222761
25		Bank of Ayudhaya Public Co.,Ltd	THAILAND	Banking	9/6 Nui 17 Lanxang road hatsdytai, VT.Mun. 213520,214575
26	SERVICES	Overland Tourist Transport Co.,Ltd	THAILAND/ LAO	Tourism	B. Hathsady, M. Chanthaboury
27		Global Sourcing (Lao People's Democratic Republic Company Limited)	THAILAND	Programme software Lao script and after care service	M. Sisattanack
28	ENERGY	Nam Theun 2 Power Company Limited	THAILAND/ LAO /FRANCE	Hydro power	26 Kounboulom RD. Box 5862, VT.Mun.
29		Nam Theun 2 Power Company Limited	THAILAND	Hydro power	M. Chanthaboury
30		Namngum 3	THAILAND/ LAO /GERMANY	Hydro power	Xaysomboun Special zone
31		Theun-hinboun Hydro-power Co.,Ltd	THAILAND/ LAO /NORWAY	Industry of energy at Borikhamxay	Province B. Phaxay M.Sinak VT.Mun. 312842
32		Houay-ho Power Co.,Ltd	THAILAND/ LAO /NETHERLAND	Houay-ho Hydro power in Champasack/ Atteupeu	Off: B.fai Noui 7 M.Sikhot VT.Mun. 222346
33		global Sourcing (Lao People's Democratic Republic Company Limited)	THAILAND	Electric power generation	M. Sisattanack

Source: United Nations

Approved level of Investment of Thai MNEs in the Lao PDR

Table 6.3 to Table 6.6 demonstrate information regarding number of projects and value of Thai MNEs approved to invest in the Lao PDR during 1990-2012. It is noted that both number of projects and value of investment include all projects that Thai investors participated in the investment either Thai investors hold 100 per cent share, joint invest with investors from the Lao PDR or investors from other countries (by holding majority of the share or less share). Table 6.3 to Table 6.6 also show situation of investment of Thailand in the Lao PDR based on (1) share of investment by foreign countries (including Thailand) and by the Lao PDR (2) types of investment (wholly foreign own or joint invest with Lao investors) (3) form of investment either in the form of concession business or general business (4) investment sector (5) investment region or province in the Lao PDR.

Dividing time period of consideration into 4 time periods which are 1990-1995, 1996-2000, 2001-2005, 2006-2010, value of approved investment from Thailand in The Lao PDR tends to increase overtime except for the period of 1996-2000 consistent with the time period of Asian financial crisis since 1997 and recovery periods in the following years (Table 6.5). In terms of number of projects, from 1990 to 2010 there were 597 projects of Thai MNEs approved to invest in the Lao PDR (Table 6.3). The number of projects Thai investor participated in the approved investment in the Lao PDR during 2006-2010 (262 projects) increased almost double compared to during 2001-2005 (133 projects). Similar to value of investment, the smallest number of projects Thai investors participated in the investment in Lao PDR was during 1996-2000 period (55 firms).

In terms of types of investment, during 1990-2010 54 per cent of total number of projects Thai MNEs approved to invest in the Lao PDR and 25 per cent of total value of approved investment of Thai MNEs were wholly foreign owned (either pure investment from Thailand or Thailand joint invest with investors from other countries)(Table 6.4 and Table 6.6). In terms of number of projects, for each time period approximately 45 to 60 per cent of total number of projects Thai MNEs participated in was wholly foreign owned type. However, for value of investment, during early stage of FDI in the Lao PDR, 1990-1995, approximately half of value of investment from

Thailand (52 per cent) was wholly foreign owned. However, in the subsequent periods majority of value of investment tends to include Lao partners as part of the investment (96, 86 and 73 per cent during 1996-2000, 2001-2005 and 2006-2010). This could be partly due to the fact that the promulgation of the Law on Foreign Investment Promotion and Management in 1994, with major revision in 2004, has attracted investors from the Lao PDR to joint invest with foreign firms to enjoy benefits based on foreign investment promotion. However, in 2009 the Law on investment promotion in the Lao PDR tends to level playing field of foreign and domestic investors. Besides large investment in the later periods tend to involve infrastructure development (including telecommunication sector) or in energy sector (including electricity generation) so that investors from the Lao PDR, especially from the state own enterprise, likely to join the investment as one of the joint venture partners.

Considering form of investment, in terms of number of projects, majority of Thai MNEs invest in the form of general business rather than concession business for all time periods (Table 6.4). This is quite a normal phenomenon since concession business in general tends to be larger investment compared to general business so that number of concession projects could be smaller. However, in terms of approved value of investment, although during the first decade of foreign investment in the Lao PDR (1990-2000) 75 per cent of total Thai investment in the Lao PDR was in the form of general business, the following decade (2001-2010) 76 per cent of total Thai investment in the Lao PDR is in the form of concession business (Table 6.6). This could be based on the concentration of industry sector that Thai MNEs invested in in different time periods.

Considering investment sector invested by Thai MNEs, in terms of number of projects, during 1990-2010, majority of Thai MNEs projects approved to invest in the Lao PDR was in industry and handicraft sector, agricultural sector, service sector and trading sectors (26, 17, 14, and 11 per cent of total number of Thai firms) (Table 6.5). Industry and handicraft sector continued to be the largest number of Thai MNEs projects approved to invest in the Lao PDR prior to and after 2000. During 1990-1995, 17 per cent of total number of projects Thai MNEs participated in the investment in the Lao was in garment sector (the second rank after industry and handicraft sector), but the proportion of the sector reduced in the following period (1995-2000) and much

less significant after 2000. Proportion of number of projects Thai MNEs participated in the investment in the Lao PDR in agricultural sector tends to increase every period from 11 per cent during 1990-1995 to 21 per cent during 2005-2010 (the second place after industry and handicraft sector). After 2000, service sector had also played more roles in terms of proportion of number of projects Thai MNEs participated in the investment in the Lao PDR.

Considering approved value of investment by sector, according to Table 6.6, during early years of foreign investment in the Lao PDR, 1990-1995, investment from Thailand was concentrated in hotel and restaurant sector and mining sector (35 per cent and 33 per cent of total investment from Thailand respectively) with large investment in the hotel and restaurant sector in 1994 (72 per cent of total investment value from Thailand in 1994) and mining sector in 1993 and 1995 (84 per cent and 25 per cent of total investment value from Thailand in 1993 and 1995 respectively). During 1996-2000, majority of value of investment was in telecom sector (80 per cent) with large investment in 1996 (98 per cent of total investment value from Thailand in 1996), followed by service sector (13 per cent). During 2001-2005 investment in the electricity generation sector was accounted for the largest share of total value of investment from Thailand during the time period (78 per cent) with large investment in 2002 (98 per cent of total investment value from Thailand in 2002) while there was no investment in the sector prior 2002. During 2006-2010, the top two sectors hosted investment from Thailand include electricity generation sector and mining sector (33 per cent and 32 per cent). Investment in mining sector was prominent in 2008 (74 per cent of total investment value from Thailand in 2008). The increasing proportion of investment in electricity generation sector and mining sector after 2000 could be the reason causing proportion of investment value from Thailand in the Lao PDR in concession business greater than general business and the joint venture type with the Lao PDR investor (especially state owned firm) greater than wholly foreign owned type.

Table 6.3: Number of projects Thai MNEs approved to invest in the Lao PDR during 1990-2012

	1990-1995	1996-2000	2001-2005	2006-2010	1990-2000	2001-2010	1990-2010	2011	2012
Total capital	147	55	133	262	202	395	597	45	4
Type of investment									
Wholly foreign investment	88	25	78	130	113	208	321	22	2
Joint venture	59	30	55	132	89	187	276	23	2
Total	147	55	133	262	202	395	597	45	4
Form of investment									
Concession business	3	2	5	40	5	45	50	10	4
General business	138	51	127	219	189	346	535	35	0
Total	141	53	132	259	194	391	585	45	4
Investment sector									
1 Agriculture	16	8	25	54	24	79	103	12	1
2 Banking	6	0	0	3	6	3	9	0	0
3 Construction	12	0	6	3	12	9	21	1	0
4 Consultances	2	0	0	9	2	9	11	3	0
5 Education	0	1	1	2	1	3	4	0	0
6 Electricity Generation	0	0	1	5	0	6	6	1	1
7 Garment	25	6	3	9	31	12	43	0	0
8 Hotel & Restaurant	5	4	8	22	9	30	39	3	0
9 Industry & Handicraft	30	21	38	64	51	102	153	9	0
10 Mining	7	3	2	5	10	7	17	0	2
11 Public Health	0	0	0	0	0	0	0	0	0
12 Service	13	5	29	37	18	66	84	7	0
13 Telecom	1	2	1	0	3	1	4	0	0
14 Trading	24	3	14	28	27	42	69	8	0
15 Wood Industry	6	2	5	21	8	26	34	1	0
Total	147	55	133	262	202	395	597	45	4

	1990-1995	1996-2000	2001-2005	2006-2010	1990-2000	2001-2010	1990-2010	2011	2012
Province									
1 Attapeu	0	0	0	2	0	2	2	1	0
2 Bokeo	0	0	1	4	0	5	5	0	0
3 Bolikhamxai	1	0	6	2	1	8	9	0	0
4 Champasak	10	5	23	45	15	68	83	9	2
5 Houaphan	0	0	0	0	0	0	0	0	0
6 Khammouan	3	2	8	17	5	25	30	2	0
7 Louangnamtha	1	0	0	0	1	0	1	0	0
8 Louangphabang	2	0	3	11	2	14	16	0	0
9 Oudomxai	0	0	0	0	0	0	0	0	0
10 Phongsaly	0	0	0	0	0	0	0	0	0
11 Salavan	0	0	2	4	0	6	6	0	0
12 Savannakhet	1	2	4	19	3	23	26	1	0
13 Vientiane	2	0	5	7	2	12	14	2	2
14 Vientiane Capital	126	43	78	132	169	210	379	28	0
15 Xaignabouly	0	0	3	14	0	17	17	2	0
16 Xekong	0	0	0	4	0	4	4	0	0
17 Xiangkhouang	1	3	0	1	4	1	5	0	0
Total	147	55	133	262	202	395	597	45	4

Note: The total number of firms in terms of form of investment is not equal to total number of firms in terms of other aspects. This is because the data in this table are calculated from two datasets provided to the author in which one of the dataset provides information regarding form of investment of Thai firms invested in the Lao PDR but only for Thai MNEs with majority of the share of the enterprise not all Thai firms.

Source: Calculated by the author based on data provided by the Ministry of Planning and Investment of the Lao PDR.

Table 6.4: Proportion of total number of projects Thai MNEs approved to invest in the Lao PDR during 1990-2012 in various aspects

	1990-1995	1996-2000	2001-2005	2006-2010	1990-2000	2001-2010	1990-2010	2011	2012
Total capital	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Type of investment									
Wholly foreign investment	59.86	45.45	58.65	49.62	55.94	52.66	53.77	48.89	50.00
Joint venture	40.14	54.55	41.35	50.38	44.06	47.34	46.23	51.11	50.00
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Form of investment									
Concession business	2.13	3.77	3.79	15.44	2.58	11.51	8.55	22.22	100.00
General business	97.87	96.23	96.21	84.56	97.42	88.49	91.45	77.78	0.00
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Investment sector									
1 Agriculture	10.88	14.55	18.80	20.61	11.88	20.00	17.25	26.67	25.00
2 Banking	4.08	0.00	0.00	1.15	2.97	0.76	1.51	0.00	0.00
3 Construction	8.16	0.00	4.51	1.15	5.94	2.28	3.52	2.22	0.00
4 Consultances	1.36	0.00	0.00	3.44	0.99	2.28	1.84	6.67	0.00
5 Education	0.00	1.82	0.75	0.76	0.50	0.76	0.67	0.00	0.00
6 Electricity Generation	0.00	0.00	0.75	1.91	0.00	1.52	1.01	2.22	25.00
7 Garment	17.01	10.91	2.26	3.44	15.35	3.04	7.20	0.00	0.00
8 Hotel & Restaurant	3.40	7.27	6.02	8.40	4.46	7.59	6.53	6.67	0.00
9 Industry & Handicraft	20.41	38.18	28.57	24.43	25.25	25.82	25.63	20.00	0.00
10 Mining	4.76	5.45	1.50	1.91	4.95	1.77	2.85	0.00	50.00
11 Public Health	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12 Service	8.84	9.09	21.80	14.12	8.91	16.71	14.07	15.56	0.00
13 Telecom	0.68	3.64	0.75	0.00	1.49	0.25	0.67	0.00	0.00
14 Trading	16.33	5.45	10.53	10.69	13.37	10.63	11.56	17.78	0.00
15 Wood Industry	4.08	3.64	3.76	8.02	3.96	6.58	5.70	2.22	0.00
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Province	1990-1995	1996-2000	2001-2005	2006-2010	1990-2000	2001-2010	1990-2010	2011	2012
1 Attapeu	0.00	0.00	0.00	0.76	0.00	0.51	0.34	2.22	0.00
2 Bokeo	0.00	0.00	0.75	1.53	0.00	1.27	0.84	0.00	0.00
3 Bolikhamxai	0.68	0.00	4.51	0.76	0.50	2.03	1.51	0.00	0.00
4 Champasak	6.80	9.09	17.29	17.18	7.43	17.22	13.90	20.00	50.00
5 Houaphan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6 Khammouan	2.04	3.64	6.02	6.49	2.48	6.33	5.03	4.44	0.00
7 Louangnamtha	0.68	0.00	0.00	0.00	0.50	0.00	0.17	0.00	0.00
8 Louangphabang	1.36	0.00	2.26	4.20	0.99	3.54	2.68	0.00	0.00
9 Oudomxai	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10 Phongsaly	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
11 Salavan	0.00	0.00	1.50	1.53	0.00	1.52	1.01	0.00	0.00
12 Savannakhet	0.68	3.64	3.01	7.25	1.49	5.82	4.36	2.22	0.00
13 Vientiane	1.36	0.00	3.76	2.67	0.99	3.04	2.35	4.44	50.00
14 Vientiane Capital	85.71	78.18	58.65	50.38	83.66	53.16	63.48	62.22	0.00
15 Xaignabouly	0.00	0.00	2.26	5.34	0.00	4.30	2.85	4.44	0.00
16 Xekong	0.00	0.00	0.00	1.53	0.00	1.01	0.67	0.00	0.00
17 Xiangkhouang	0.68	5.45	0.00	0.38	1.98	0.25	0.84	0.00	0.00
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Note: The total number of firms in terms of form of investment is not equal to number of firms in terms of other aspects (see Table 6.3). This is because the data in this table are calculated from two datasets provided to the author in which one of the dataset provides information regarding form of investment of Thai firms invested in the Lao PDR but only for Thai MNEs with majority of the share of the enterprise not all Thai firms.

Source: Calculated by the author based on data provided by the Ministry of Planning and Investment of the Lao PDR.

Table 6.5: Value of investment of Thai MNEs approved to invest in the Lao PDR during 1990-2012 (US dollars)

	1990-1995	1996-2000	2001-2005	2006-2010	1990-2000	2001-2010	1990-2010	2011	2012
Total capital	671,975,000	609,877,491	1,249,256,275	4,189,334,426	1,281,852,491	5,438,590,700	6,720,443,191	193,659,398	272,425,250
Domestic share	121,117,565	150,378,426	296,828,560	986,308,235	271,495,991	1,283,136,795	1,554,632,786	9,320,812	69,214,860
Thai investment share	549,900,935	457,506,073	564,105,245	2,180,539,296	1,007,407,008	2,744,644,541	3,752,051,549	166,588,986	69,516,313
Type of investment									
Wholly foreign investment	284,524,803	17,497,193	76,949,155	579,780,870	302,021,996	656,730,025	958,752,021	146,739,876	1,280,000
Joint venture	265,376,132	440,008,880	487,156,090	1,600,758,426	705,385,012	2,087,914,516	2,793,299,528	19,849,110	68,236,313
Total	549,900,935	457,506,073	564,105,245	2,180,539,296	1,007,407,008	2,744,644,541	3,752,051,549	166,588,986	69,516,313
Form of investment									
Concession business	183,600,000	57,517,520	443,210,000	1,601,238,747	241,117,520	2,044,448,747	2,285,566,267	124,487,452	69,516,313
General business	316,600,935	396,688,553	120,795,245	505,065,100	713,289,488	625,860,345	1,339,149,833	42,101,534	0
Total	500,200,935	454,206,073	564,005,245	2,106,303,846	954,407,008	2,670,309,091	3,624,716,099	166,588,986	69,516,313
Investment sector									
1 Agriculture	15,129,886	4,341,239	37,755,154	278,259,562	19,471,125	316,014,716	335,485,841	24,187,452	600,000
2 Banking	30,000,000	0	0	15,780,347	30,000,000	15,780,347	45,780,347	0	0
3 Construction	17,138,000	0	6,353,274	10,550,000	17,138,000	16,903,274	34,041,274	3,940,000	0
4 Consultances	44,000	0	0	3,280,000	44,000	3,280,000	3,324,000	615,000	0
5 Education	0	160,000	135,000	200,000	160,000	335,000	495,000	0	0
6 Electricity Generation	0	0	440,000,000	723,320,000	0	1,163,320,000	1,163,320,000	8,700,000	65,536,313
7 Garment	20,568,816	2,781,820	1,900,000	6,210,968	23,350,636	8,110,968	31,461,604	0	0
8 Hotel & Restaurant	193,493,500	1,431,976	9,089,200	42,562,278	194,925,476	51,651,478	246,576,954	2,752,934	0
9 Industry & Handicraft	29,829,962	17,385,493	18,226,148	308,271,478	47,215,455	326,497,626	373,713,081	112,553,600	0
10 Mining	182,600,000	4,567,520	940,000	693,964,500	187,167,520	694,904,500	882,072,020	0	3,380,000
11 Public Health	0	0	0	0	0	0	0	0	0
12 Service	4,181,200	58,076,000	20,944,006	46,706,794	62,257,200	67,650,800	129,908,000	5,275,000	0
13 Telecom	42,700,000	365,001,600	4,900,000	0	407,701,600	4,900,000	412,601,600	0	0
14 Trading	11,397,943	860,425	21,338,294	28,048,581	12,258,368	49,386,875	61,645,243	8,425,000	0
15 Wood Industry	2,817,628	2,900,000	2,524,169	23,384,788	5,717,628	25,908,957	31,626,585	140,000	0
Total	549,900,935	457,506,073	564,105,245	2,180,539,296	1,007,407,008	2,744,644,541	3,752,051,549	166,588,986	69,516,313
Province									
1 Attapeu	0	0	0	3,500,000	0	3,500,000	3,500,000	1,616,000	0
2 Bokeo	0	0	30,000	3,312,400	0	3,342,400	3,342,400	0	0
3 Bolikhamxai	200,000	0	5,574,440	115,125,000	200,000	120,699,440	120,899,440	0	0
4 Champasak	203,645,866	5,815,843	17,759,269	783,978,483	209,461,709	801,737,752	1,011,199,461	16,225,086	66,136,313
5 Houaphan	0	0	0	0	0	0	0	0	0

	1990-1995	1996-2000	2001-2005	2006-2010	1990-2000	2001-2010	1990-2010	2011	2012
6 Khammouan	1,900,000	700,000	443,300,000	22,914,317	2,600,000	466,214,317	468,814,317	1,140,000	0
7 Louangnamtha	175,000,000	0	0	0	175,000,000	0	175,000,000	0	0
8 Louangphabang	7,213,500	0	2,157,700	4,828,400	7,213,500	6,986,100	14,199,600	0	0
9 Oudomxai	0	0	0	0	0	0	0	0	0
10 Phongsaly	0	0	0	0	0	0	0	0	0
11 Salavan	0	0	537,098	4,443,583	0	4,980,681	4,980,681	0	0
12 Savannakhet	200,000	456,000	1,825,000	238,667,734	656,000	240,492,734	241,148,734	102,600,000	0
13 Vientiane	265,000	0	3,663,500	13,460,000	265,000	17,123,500	17,388,500	3,898,500	3,380,000
14 Vientiane Capital	161,451,569	448,870,515	88,732,738	916,666,922	610,322,084	1,005,399,660	1,615,721,744	38,109,400	0
15 Xaignabouly	0	0	525,500	67,617,696	0	68,143,196	68,143,196	3,000,000	0
16 Xekong	0	0	0	2,734,762	0	2,734,762	2,734,762	0	0
17 Xiangkhouang	25,000	1,663,715	0	3,290,000	1,688,715	3,290,000	4,978,715	0	0
Total	549,900,935	457,506,073	564,105,245	2,180,539,296	1,007,407,008	2,744,644,541	3,752,051,549	166,588,986	69,516,313

Note: The total value of investment in terms of form of investment is not equal to total value of investment in terms of other aspects. This is because the data in this table are calculated from two datasets provided to the author in which one of the dataset provides information regarding form of investment of Thai firms invested in the Lao PDR but only for Thai MNEs with majority of the share of the enterprise not all Thai firms.

Source: Calculated by the author based on data provided by the Ministry of Planning and Investment of the Lao PDR.

Table 6.6: Proportion of total value of investment of Thai MNEs approved to invest in the Lao PDR during 1990-2012 in various aspects

	1990-1995	1996-2000	2001-2005	2006-2010	1990-2000	2001-2010	1990-2010	2011	2012
Total capital	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Domestic share	18.02	24.66	23.76	23.54	21.18	23.59	23.13	4.81	25.41
Thai investment share	81.83	75.02	45.16	52.05	78.59	50.47	55.83	86.02	25.52
Type of investment									
Wholly foreign investment	51.74	3.82	13.64	26.59	29.98	23.93	25.55	88.08	1.84
Joint venture	48.26	96.18	86.36	73.41	70.02	76.07	74.45	11.92	98.16
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Form of investment									
Concession business	36.71	12.66	78.58	76.02	25.26	76.56	63.06	74.73	100.00
General business	63.29	87.34	21.42	23.98	74.74	23.44	36.94	25.27	0.00
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Investment sector									
1 Agriculture	2.75	0.95	6.69	12.76	1.93	11.51	8.94	14.52	0.86
2 Banking	5.46	0.00	0.00	0.72	2.98	0.57	1.22	0.00	0.00
3 Construction	3.12	0.00	1.13	0.48	1.70	0.62	0.91	2.37	0.00
4 Consultances	0.01	0.00	0.00	0.15	0.00	0.12	0.09	0.37	0.00
5 Education	0.00	0.03	0.02	0.01	0.02	0.01	0.01	0.00	0.00
6 Electricity Generation	0.00	0.00	78.00	33.17	0.00	42.39	31.00	5.22	94.27
7 Garment	3.74	0.61	0.34	0.28	2.32	0.30	0.84	0.00	0.00
8 Hotel & Restaurant	35.19	0.31	1.61	1.95	19.35	1.88	6.57	1.65	0.00
9 Industry & Handicraft	5.42	3.80	3.23	14.14	4.69	11.90	9.96	67.56	0.00
10 Mining	33.21	1.00	0.17	31.83	18.58	25.32	23.51	0.00	4.86
11 Public Health	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12 Service	0.76	12.69	3.71	2.14	6.18	2.46	3.46	3.17	0.00
13 Telecom	7.77	79.78	0.87	0.00	40.47	0.18	11.00	0.00	0.00
14 Trading	2.07	0.19	3.78	1.29	1.22	1.80	1.64	5.06	0.00
15 Wood Industry	0.51	0.63	0.45	1.07	0.57	0.94	0.84	0.08	0.00

	1990-1995	1996-2000	2001-2005	2006-2010	1990-2000	2001-2010	1990-2010	2011	2012
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Province									
1 Attapeu	0.00	0.00	0.00	0.16	0.00	0.13	0.09	0.97	0.00
2 Bokeo	0.00	0.00	0.01	0.15	0.00	0.12	0.09	0.00	0.00
3 Bolikhamxai	0.04	0.00	0.99	5.28	0.02	4.40	3.22	0.00	0.00
4 Champasak	37.03	1.27	3.15	35.95	20.79	29.21	26.95	9.74	95.14
5 Houaphan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6 Khammouan	0.35	0.15	78.58	1.05	0.26	16.99	12.49	0.68	0.00
7 Louangnamtha	31.82	0.00	0.00	0.00	17.37	0.00	4.66	0.00	0.00
8 Louangphabang	1.31	0.00	0.38	0.22	0.72	0.25	0.38	0.00	0.00
9 Oudomxai	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10 Phongsaly	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
11 Salavan	0.00	0.00	0.10	0.20	0.00	0.18	0.13	0.00	0.00
12 Savannakhet	0.04	0.10	0.32	10.95	0.07	8.76	6.43	61.59	0.00
13 Vientiane	0.05	0.00	0.65	0.62	0.03	0.62	0.46	2.34	4.86
14 Vientiane Capital	29.36	98.11	15.73	42.04	60.58	36.63	43.06	22.88	0.00
15 Xaignabouly	0.00	0.00	0.09	3.10	0.00	2.48	1.82	1.80	0.00
16 Xekong	0.00	0.00	0.00	0.13	0.00	0.10	0.07	0.00	0.00
17 Xiangkhouang	0.00	0.36	0.00	0.15	0.17	0.12	0.13	0.00	0.00
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Note: The total value of investment in terms of form of investment is not equal to total value of investment in terms of other aspects (see Table 6.5). This is because the data in this table are calculated from two datasets provided to the author in which one of the dataset provides information regarding form of investment of Thai firms invested in the Lao PDR but only for Thai MNEs with majority of the share of the enterprise not all Thai firms.

Source: Calculated by the author based on data provided by the Ministry of Planning and Investment of the Lao PDR.

Table 6.7 and Table 6.8 provide more information regarding type of investment (joint venture with Lao investors or wholly-foreign owned) for each sector Thai MNEs had invested in the Lao PDR during 1990-2012. In terms of number of projects Thai MNEs participated in the investment in the Lao PDR, according to Table 6.7, during 1990-2000 out of 15 industries 6 industries had more number of projects in joint venture type with Lao investors including agriculture, consultant, education, hotel and restaurant, telecommunication and trading sectors. During 2001-2010, three of those industries which are agriculture, consultant and education turned to had more number of projects in the type of wholly-foreign owned investment (compared to none of Thai MNEs in consultant and education sector in this type of investment prior to 2000) while the other three industries which are hotel and restaurant, telecommunication and trading sectors continue to have more number of projects Thai MNEs jointly invest with Lao investors.

In terms of value of investment, similar to information based on number of projects during 1990-2000 consultant, education, hotel and restaurant and telecommunication sectors have more value of investment from Thailand in the form of joint venture with Lao investors, but agriculture and trading sectors (and other remaining sectors except industry and handicraft and service sectors) have more percentage of value of total investment in the form of wholly-foreign owned (Table 6.8). During 2001-2010, hotel and restaurant and telecommunication sectors still have more value of investment from Thailand in the form of joint venture with Lao investors. However, consultant and education sectors turned to have more investment value in the type of wholly-foreign owned investment (compared to none of them invest in this type of investment prior 2000) similar to the case based on number of projects. Service sector shows similar pattern to consultant and education sectors although originally has some investment value in the form of wholly-foreign owned prior to 2000. Mining sector shows opposite result that is turning from more percentage of investment value in the type of wholly-foreign owned to joint investment type with Lao investors. It is also worth noting that investment in telecommunication sector of Thai MNEs in the Lao PDR had always been in the type of joint venture with Lao investors. On the other hand, investment of Thai MNEs in the Lao PDR in banking sector had always been in the form of wholly-foreign owned. Moreover, regarding investment in electricity generation sector, there had not been any investment in this sector prior to 2002. However, during 2002-2010 investment of Thailand in the sector had surged and mostly (83 per cent of total value of

investment) in the form of joint venture with Lao investors. It is also noted that since 1990 there has not been any investment from Thailand in the Lao PDR in public health sector.

Considering region or province that Thai MNEs approved to invest in the Lao PDR, in terms of number of projects, during 1990-2010 Thai MNEs were concentrated in Vientiane Capital, Champasak province, Khammouan province, and Savannakhet province (63, 14, 5 and 4 per cent of total number of projects Thai MNEs invest in the Lao PDR)(Table 6.4). The pattern for value of investment is similar. The value of investment from Thai MNEs during 1990-2010 was also centered in Vientiane Capital, Champasak province, Khammouan province, and Savannakhet province (43, 27 and 12 per cent of total value of investment of Thai MNEs in the Lao PDR)(Table 6.6).

Table 6.7: Proportion of total number of projects Thai MNEs (approved to invest in the Lao PDR) in each sector based on form of investment

Investment sector	1990-2000			2001-2010			2011			2012		
	Joint Venture	Wholly Foreign Own	Total	Joint Venture	Wholly Foreign Own	Total	Joint Venture	Wholly Foreign Own	Total	Joint Venture	Wholly Foreign Own	Total
1 Agriculture	66.67	33.33	100	35.44	64.56	100	50.00	50.00	100	0.00	100.00	100
2 Banking	0.00	100.00	100	0.00	100.00	100	0.00	0.00	0	0.00	0.00	0
3 Construction	33.33	66.67	100	33.33	66.67	100	100.00	0.00	100	0.00	0.00	0
4 Consultances	100.00	0.00	100	33.33	66.67	100	66.67	33.33	100	0.00	0.00	0
5 Education	100.00	0.00	100	33.33	66.67	100	0.00	0.00	0	0.00	0.00	0
6 Electricity Generation	0.00	0.00	0	83.33	16.67	100	0.00	100.00	100	100.00	0.00	100
7 Garment	32.26	67.74	100	41.67	58.33	100	0.00	0.00	0	0.00	0.00	0
8 Hotel & Restaurant	66.67	33.33	100	53.33	46.67	100	66.67	33.33	100	0.00	0.00	0
9 Industry & Handicraft	43.14	56.86	100	48.04	51.96	100	22.22	77.78	100	0.00	0.00	0
10 Mining	40.00	60.00	100	85.71	14.29	100	0.00	0.00	0	50.00	50.00	100
11 Public Health	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0
12 Service	44.44	55.56	100	59.09	40.91	100	71.43	28.57	100	0.00	0.00	0
13 Telecom	100.00	0.00	100	100.00	0.00	100	0.00	0.00	0	0.00	0.00	0
14 Trading	37.04	62.96	100	42.86	57.14	100	50.00	50.00	100	0.00	0.00	0
15 Wood Industry	37.50	62.50	100	50.00	50.00	100	100.00	0.00	100	0.00	0.00	0

Source: Calculated by the author based on data provided by the Ministry of Planning and Investment of the Lao PDR.

Table 6.8: Proportion of total value of investment of Thai MNEs (approved to invest in the Lao PDR) in each sector based on form of investment

Investment sector	1990-2000			2001-2010			2011			2012		
	Joint Venture	Wholly Foreign Own	Total	Joint Venture	Wholly Foreign Own	Total	Joint Venture	Wholly Foreign Own	Total	Joint Venture	Wholly Foreign Own	Total
1 Agriculture	25.71	74.29	100	29.26	70.74	100	36.46	63.54	100	0.00	100.00	100
2 Banking	0.00	100.00	100	0.00	100.00	100	0.00	0.00	0	0.00	0.00	0
3 Construction	8.69	91.31	100	5.52	94.48	100	100.00	0.00	100	0.00	0.00	0
4 Consultances	100.00	0.00	100	18.90	81.10	100	80.49	19.51	100	0.00	0.00	0
5 Education	100.00	0.00	100	40.30	59.70	100	0.00	0.00	0	0.00	0.00	0
6 Electricity Generation	0.00	0.00	0	99.25	0.75	100	0.00	100.00	100	100.00	0.00	100
7 Garment	20.04	79.96	100	47.08	52.92	100	0.00	0.00	0	0.00	0.00	0
8 Hotel & Restaurant	98.79	1.21	100	79.42	20.58	100	42.89	57.11	100	0.00	0.00	0
9 Industry & Handicraft	51.53	48.47	100	12.95	87.05	100	0.75	99.25	100	0.00	0.00	0
10 Mining	3.62	96.38	100	99.99	0.01	100	0.00	0.00	0	79.88	20.12	100
11 Public Health	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0
12 Service	95.07	4.93	100	39.94	60.06	100	54.50	45.50	100	0.00	0.00	0
13 Telecom	100.00	0.00	100	100.00	0.00	100	0.00	0.00	0	0.00	0.00	0
14 Trading	24.55	75.45	100	29.20	70.80	100	18.46	81.54	100	0.00	0.00	0
15 Wood Industry	7.80	92.20	100	41.95	58.05	100	100.00	0.00	100	0.00	0.00	0

Source: Calculated by the author based on data provided by the Ministry of Planning and Investment of the Lao PDR.

6.2 Interview results

Motives of investment of Thai MNEs in the Lao PDR

Motives of investment of Thai MNEs in the Lao PDR depend on sectors or industries of consideration. For example,

- Service sector (such as tour operators, hotels, restaurants, airlines, trading, leasing beauty business, bus transportation, construction, gas station): mostly market seeking motives (mostly for domestic market, but some sectors are also for foreign market such as service firms in tourism related business including tour operators, hotels, restaurants, airlines, etc.), but some are for strategic asset seeking motive (such as airlines, as their business presence in the Lao PDR to address their international expansion capability image). For banking sector, investors invested in the Lao PDR and other firms doing business with Thai entities are the key target customers of most branches of Thai commercial banks in the Lao PDR, although they also provide some services to other enterprises and individuals (such as services on lending, depositing, money transfer etc.) Leasing business is quite new in the Lao PDR, but has been drawing more attention from foreign investors to engage in this type of business. Similar to banking sector, the target market of Thai law firms are Thai MNEs invested in the Lao PDR. However, Thai law firms also provide service to local business or MNEs from other countries while the volume of service provide to individuals are quite small.
- Agricultural sector and agri-business: natural resource seeking (especially arable land to grow crops such as coffee tree, sugarcane, rubber, etc. in affordable price); market seeking (mostly for export; for example, export of coffee bean to Japan, export of sugar to Europe). With the support of European Union to products export from the Lao PDR (based on generalized system of preference, GSP), the MNEs can export some products (such as sugar) from the Lao PDR to European Union (EU) and face less

import duties than sugar export from Thailand; efficiency seeking (cheap labor cost per unit of labor).

- Manufacturing (depends on products): market seeking (for domestic market and export) and efficiency seeking (cheap labor)
- Electricity generation: natural resource seeking (such as hydropower electricity generating); market seeking (for domestic market and export, but mostly for export, especially to Thailand and some to Viet Nam)
- Mining: resource seeking
- Construction: market seeking (for domestic market)
- Water supply: market seeking (for domestic market)
- Wood industries: : natural resource seeking
- Handicraft: market seeking (mostly for export including products sold to foreign travelers)

Types of investment

- In the past: many Thai MNEs consider investment in the form of joint venture between domestic (Lao) investor and foreign investor (Thai investor or Thai investor with investor (s) from another or other countries) or register as domestic firms (while in reality some shares or total shares of the enterprises are hold by Thai investor or Thai investor with another or other foreign investors because of investment procedure and profit tax reasons).
- Nowadays: more Thai MNEs consider investment in the form of wholly foreign (Thai) owned enterprises. Many of Thai MNEs invested in this form of investment stated that compared to joint venter form with Lao investor, wholly foreign own investment form is easier for business operation, especially in terms of important business decision making. In addition, they would like to avoid conflicts with the Lao business partners that might occur. However, there are many Thai MNEs invest in the Lao PDR in the form of joint venture with local investors. Some of them explain that the reasons they choose

such form of investment because they believe that local investors understand the market better and sometimes make it easier to do any transaction with relevant government authorities, especially if the local investors are the one who perform the task.

- Instead of invest in the form of new business entities or set up branch or representative office in the Lao PDR, some firms decide to set up business cooperation by contract. Some of them state that the reasons they choose contract form rather than other modes of investment because they are not ready to set up the new business entities in the Lao PDR due to lack of experiences in the market. Some of them would like to learn from their business partner first in various aspects (such as market condition and business environment in the investment sector of interest in the Lao PDR) before they can decide on further strategy on investment mode of entry. Some Thai firms mentioned that sometimes business of interest in the Lao PDR has contract not only with their firms but also with other Thai firms or other countries enterprises. Therefore, even with contracts, there are still some competitions with other firms. Besides, some Thai firms mentioned that even in the contracts clearly state obligations of business partners in the Lao PDR (such as farmers through contract farming agreement in agricultural sector or other local enterprises through contracts with the MNEs buyers or suppliers), they sometimes face the problems that the business partners in the Lao PDR break the contracts (such as farmers may sell their agricultural products to other firms even the contract does not allow them to do so or business partners buy products from other suppliers or sell products to other buyers while the contracts do not allow them to do so).

Business background

- Many Thai MNEs investors have background in investment in similar or relevant business in the home country (Thailand) or other countries (rather than Thailand and the Lao PDR) prior to their investment in the Lao PDR.
- Some Thai MNEs used to invest in the Lao PDR in the relevant business or other businesses prior to current investment.

Investment incentives MNEs interested in

Key investment incentives Thai MNEs interested in are

- Exemption or reduction of profit tax
- Exemption or reduction of other custom duties and taxes, especially the ones related to import duties on equipment and raw materials.
- Rights on land use

Investment application and consideration of investment application or investment approval procedure

- Length of time prior receiving investment license
 - In the past:
 - ✓ Take a lot longer consideration time than specified in the investment law
 - ✓ Cumbersome process (not a true one-stop service process)
 - More current situation:
 - ✓ Improvement in terms of length of time to receive investment license.
However, it normally takes some times before the MNE can start its operation due to other procedures such as measure required MNEs to send tax identification number application to the Ministry of Finance, Vientiane office, etc. Some firms seem to take longer time to receive business license than specified by law.
 - ✓ Simplifier process (but still not a true one-stop service process)
- Rules and regulations applications: the same rules or regulations sometimes have been interpreted differently by different government organizations or different government officers (even within the same organization).
- Concession business and large general business enterprises: not much problems in terms of understanding rules and regulations and processing investment application since most of them equipped with human resources specialized in laws and process to set up business in foreign countries within the firm or use service from professional law firms to process applications. Besides, many of them invest in the promoted sectors or

promoted activities or joint invest with the state own enterprise of the Lao PDR.

Processing investment application for those firms seems to be easier than others.

- General business (small enterprises): have some problems in terms of understanding rules and regulations and processing investment application. Most of the small firms might not be able to afford service from professional law firms and have to process the application themselves.
- Under the Foreign Investment Law (2004), foreign investors interested in investment in the Lao PDR shall submit application and supporting document to the one-stop-service of the Committee for Promotion and Management of Investment (CPMI). However, under the Law on the Investment Promotion in the Lao PDR (2009), the submission of investment application to relevant authorities depends on types of investment.
 - investors wishing to invest in general business have to submit their application to the one-stop-service of Ministry/Department of Industry and Commerce
 - investors wishing to invest in concession business and investors wishing to establish a special economic zone and a specific economic zone have to submit their application to the one-stop-service of Ministry/Department of Planning and Investment
 - other investors (not the developer) wishing to invest in the special economic zone and a specific economic zone have to submit their applications to the one-stop-service of the concerned zone management committee of that special economic zone or that specific economic zone.
- Since some government authorities are new in terms of investment approval task, for example, Ministry/Department of Industry and Commerce to approve general business application and comparatively new government authorities regarding special economic zones and specific economic zones at the central level and at the individual zone level to manage and regulate investment in the zones, government officers in those authorities are still in the learning and adjustment process to perform the task. The changes in such procedures and responsibilities of government agencies need further evaluation to appraise whether they actually facilitate the investors better. Moreover, transition of authorities needs to be carefully monitored in terms of conformity of the

decision making. Collection of important data for further assessment of relevant investment policies is also needed.

- Sometimes, the Lao PDR government announces regulations that for some time periods they cease or limit to grant new business licenses for some business sectors such as tour operators, gas station, etc. In that case, new MNEs have difficulties to start their business in the sectors even if they are capable to do so (they may have to acquire old license from existing registered firm instead of applying for a new license). Moreover, currently the government has ceased to approve new investment in mining sector, rubber plantation, and eucalyptus plantation until 2015. The reasons are to reconsider the country overall investment policy, especially policy and strategy related to those sectors, and monitor current investment situation in the sectors to prepare for the ASEAN economic integration under ASEAN Economic Community (AEC). Since 2012, retailer businesses have also been preserved to Lao citizen. This has ceased the opportunity for foreign investor to invest in such business.
- Some firms mentioned that to run business in the Lao PDR, they need to specify business operation details in the license application. However, sometimes when they want to slightly change or add parts of their operation or products and services provide they have to report the change or apply for a new type of license incurring a lot of transaction costs along the way. So, they wish that the regulations would be more flexible.
- One firm mentioned that to set up business in the Lao PDR, in some cases, the firm has to submit document in Lao language, so it requires some additional time and costs to translate and process the documents.
- Some investors believe that in some business sectors the government of the Lao PDR tends to encourage investment in the form of new enterprises in the Lao PDR rather than in the form of branch or representative offices, using low minimum investment value as an incentive. This could be due to the fact that the government of the Lao PDR would like to closely monitor and be able to efficiently regulate the sectors.

Rules and regulations after receiving investment license

○ Application of rules and regulations

- Many firms mentioned that sometimes government officers are not clear about rules and regulations. That is, the same rules or regulations sometimes have been interpreted differently by different government organizations or different government officers (even within the same organization). In addition, based on information from government officers and firm interviews, government officers in the Lao PDR are sometimes rotated based on availability of position rather than based on expertise causing problems in terms of learning process time and ability to truly understand problems in the fields of authorization.
- Some firms mentioned that there is some confusion in tax procedure, especially tax filing procedure, and some inconsistency between regulations and actual tax imposed. Some firms mentioned about problems regarding explicit accounting systems rules and regulations.
- Some procedures are cumbersome bringing about higher transaction cost than necessary, for example, sometimes firms operating in other provinces are required to submit various kinds of document to relevant government authorities in Vientiane or to both local office and Vientiane office even though some of those procedures should be able to finalize by local government office.
- Some Thai MNEs argued that the rules and regulations are sometimes not applied equally between domestic and foreign firms or sometimes between Thai firms and MNEs from other countries. That is, they have been treated differently from local business (and sometimes from other foreign business) in terms of some operating rights and enforcement of rules and regulations.
- Some firms mentioned that the enforcement of some regulations is sometimes not that strict causing the ones following the rules being punished with high cost of operation, while others enjoying the benefits of disregarding the regulations.
- Some firms stated that corruption is still a major problem in the country. Some investors argued that even they try to follow the specified regulations they still

have problems to being questioned and sometimes have been asked for under the table payment to process some transactions.

- Many Thai MNEs mentioned that to conduct business in the Lao PDR, business network, especially with government officers, is crucial, especially to facilitate business transaction with government agencies.
 - Some government agencies in the Lao PDR mentioned that government officers in various areas need to be trained and developed skills in the related fields so that they can design and enforce rules and regulations efficiently.
- Some changes in government organization structures affect firms. For example, merges of some government agencies require firms to change company stamp (increase firms' cost) etc.
- Access to information on changes in rules and regulations is sometime limited or not in timely basis (too slow and sometimes too late for the MNEs to adjust their business operation). Besides, changes in some rules and regulations are difficult or almost impossible for some MNEs to change some of their business operations according to the new regulations, and in some severe cases affect business existence and continuation. Moreover, some firms mentioned that sometimes rules and regulations proclaimed initially are in Lao language. In some cases, it took too long time for the relevant agencies to provide English versions of the rules and regulations, and sometimes the English versions do not cover all regulations details specified in the Lao language versions.
- Environmental regulations
- Some firms mentioned that the Lao PDR has quite good regulations in terms of forest management to preserve their resources, for example with deforesting fees, reforest regulations and management, regulations on size of trees allowed to cut, etc.
 - Some Thai MNEs think that in some aspects more regulations should be imposed, for example, regulations on waste disposal by people in public area (or in the river) which could improve the country image in terms of tourism matter. Some firms (especially the one already equipped with good water waste management system) also want government to impose clear regulations on

water waste management on enterprises, especially the one next to the river, and effectively enforce the regulations. In addition, some Thai MNEs mentioned that water waste management system in the country needs to be improved.

- The Ministry of Natural Resources and Environment of the Lao PDR is the key government agency responsible for the country environmental policy. However, to design and enforce environmental rules and regulations, the Ministry of Natural Resources and Environment also coordinate with various government agencies such as the Ministry of Agriculture and Forestry, the Ministry of Energy and Mines, the Ministry of Health, the Ministry of Planning and Investment, the Ministry of Industry and Commerce, etc. One government organization mentioned that the government agencies can still not be able to enforce some environmental rules and regulations throughout the country.
- Lao PDR coordinates with and receives support from various countries in terms of environmental development.

Business operation

○ Financial access

While some large MNEs or MNEs with various subsidiaries have been financed by their parent firms, many MNEs, especially small and medium size ones, have problems in terms of access to finance.

- Difficult to access to finances in the Lao PDR (mainly based on required collateral assets). However, small and medium size firms invested in agricultural sector can access to finance via Agricultural Promotion Bank and the Policy Bank of Lao PDR. One of Thai firms stated that since the firm has Lao investor as business partner, getting finance from those banks in the Lao PDR is quite convenient.
- One Thai commercial bank mentioned that the bank would like to provide more credits to Thai MNEs invested in the Lao PDR. However, there are some problems based on limitations of the investors themselves, such as collateral

assets matter, or the business are not in the target business groups based on the overall bank strategic policy.

- To access to finances in the home country (Thailand) sometimes MNEs encounters problem in terms of collateral assets (such as ownership of land or right on land use in the Lao PDR cannot be used as collateral assets to acquire loans from financial institution in Thailand).
- In general interest rates of local banks are higher than foreign banks. Interest rates in the Lao PDR are normally higher than interest rates in Thailand. Some Thai commercial banks mentioned that if Thai MNEs have choices they may try to acquire loans from banks in Thailand rather than banks in the Lao PDR due to lower interest rate on loans in Thailand.
- Since capital market in the Lao PDR is small and there are limitations in terms of financial products and service available by commercial banks and other financial institutions in the Lao PDR financing Thai MNEs investment through capital market in the country is difficult or almost impossible. Besides, lack of secondary market for debt securities in the Lao PDR is another limitation of money market and capital market in the country.

○ Financial transaction

- Some Thai MNEs mentioned that they spend a lot of time (longer than they supposes to) to do any transactions in some commercial banks in the Lao PDR and some transactions take longer time than regular standard.
- Most Thai MNEs hold bank accounts in three currencies including Baht, Kip, and US dollars. Some MNEs mentioned that it is sometimes costly to repatriate profit to home country or use source of fund from outside the Lao PDR based on currency convertible basis and various transaction fees. Some firms mentioned that sometimes there are too many documents required from commercial bank to be able to transfer money to other countries and some limitations in terms of maximum amount transfer so that it is quite difficult to do international financial transactions. However, one Thai commercial bank in the Lao PDR mentioned that current fees regarding money transfer are a lot lower than fees charged in the past. The bank also stated that sometimes investors may prefer to carry cash

across border rather than transfer money through banking system to avoid transaction fees and tax related matters such as import tax since the price declared in the import document could be different (lower than) actual payment value to avoid high import tax, etc.

- Some firms mentioned that applications of rules and regulations and regulations in different banks are sometimes different, especially in terms of level of restrictiveness. In addition, sometimes applications of rules by different staffs within the same bank are differed. This, then, sometimes creates confusion in terms of appropriate procedures and document preparation the firm shall follow.
- Some firms raised issues regarding securities of financial transactions and operating systems. For example, one firm mentioned that while using ATM card to withdraw money, he/she does not receive the money but the account balance has already declined. It took he/she more than three months to get money refund. In terms of deposit money, the maximum amount guaranteed per account in the Lao PDR are quite low (approximately 36,000 Baht), but no limits on number of accounts per bank one person or enterprises can hold and receive the guaranteed right.
- Thai MNEs located in other provinces outside Vientiane stated that their choices of banks are quite limited, especially the branches of Thai commercial banks which most of them are located in Vientiane, except one branch of Bank of Ayudhya Public Company Limited (Krungsri Bank) in Savannakhet province. Some firms mentioned that although there are many commercial banks in the Lao PDR, the credibility of some commercial banks are not internationally recognized so that the third party enterprises or banks in other countries are sometimes reluctant to guarantee the credit line of the MNEs. This could create problems for the MNEs in terms of financial transaction such as payment and receive from their suppliers and customers to and from other countries, etc.
- Some Thai MNEs mentioned that doing some projects in the Lao PDR, the MNEs sometimes have to advance their payment first. The MNEs mentioned that this could be one of the reasons why Chinese MNEs has more chance to invest in the country with their large and low cost of capital. Some firms also stated that

when they sell products they may not receive payment immediately because they have to sell on credit. They sometimes receive the payment late while they still have to pay their suppliers on time. Therefore, large firms with more capital or flexible financial management tend to have advantages over small firms with low financial flexibility.

- Financial products and financial instruments available in the Lao PDR are quite limited. For example, services in terms of forward and swap products or exchange rate hedging products are still not available in the Lao PDR. The MNEs still have to bare their own risk with their international transactions. According to Thai commercial banks operating in the Lao PDR, sometimes Thai or foreign investors in the Lao PDR ask for some financial services available in other countries (but might not be available in the Lao PDR), but some small local firms or customers still have to learn about existing financial products. That is, there are still gaps in terms of needs for the advance financial products for some customers and customers who need to be educated on currently available and new financial products that might be available in the future.
- One Thai commercial bank in the Lao PDR mentioned that in order to prevent offshore Baht speculation, the Bank of Thailand announces regulations that for each Thai commercial bank, lending Thai Baht to non-residents in the form of Thai Baht O/D or buying FX against Thai Baht for value same day/value tomorrow, the outstanding balance (in all kinds of lending activities) must not exceed 300 million Baht per group of non-residents. In that bank representative opinion, this amount is too low and would like the Bank of Thailand to reconsider the regulations.

○ Equipment and raw material

- Domestic raw material sometimes cheaper than import materials, but in many cases quality of those materials cannot meet with the firm production standard
- For agricultural sector or agri-business:
 - ✓ Although many MNEs own land to grow crops themselves (some of them under concession contracts), the MNEs also buy agricultural products (such as sugar cane for sugar industry, coffee bean, etc.) from local

people either in the form of general purchase or purchase under contract farming systems. One firm mentioned that the government used to use policy to support local farmers to sell specific agricultural product to local producer. This drove the price of that agricultural product down. Then, the government asked MNEs to help buying the crop to increase market price.

- ✓ The Lao PDR governments try to encourage MNEs to support local farmer to grow crops. However, there still exist problems in terms of quality of land, the way farmers nurturing the crops and choices of farmers to sell their crops to other firms which are not their contract farming MNE, etc.
- ✓ Although most key research and development (R&D) process is conducted in the home country of Thai MNEs, some R&D procedures are conducted within the Lao PDR to better suit local weather and environment. In addition, there are some collaboration between Thai and Lao related parties, for example, in terms of paddy seed development, etc. However, once the seeds have been developed there exist problems of mixing developed seeds and other seeds in the fields reducing quality of rice.
- Imported equipment and raw materials (such as from Thailand)
 - ✓ Import of raw materials is sometime costly, especially from logistic costs (especially costs related to international transportation). Some firms mentioned that based on distance and road condition sometimes logistic time to transport equipment and raw materials is long. In addition choices of logistic service providers are quite limited.
 - ✓ It sometimes incurs some problems regarding custom procedures, such as take longer time than it supposes to. This could incur lots of problems and loss if imported raw materials are perishable and/or imported equipment, machines or raw materials are crucial for the MNEs production of goods and services in timely basis. Some of them mentioned that in some cases they have been taxed on imported

products higher than what specified by law due to misunderstanding of the officers (due to high transaction cost, it might be too costly to correct the import tax rate rather than paying import duties the officers request for). Some firms mentioned that even they have followed all procedures and pay all relevant taxes and fees specified in the regulations they sometimes cannot bring their products out of the cargos unless they pay under the table money to relevant government personals.

- ✓ Some MNEs do not directly import equipment or raw materials from Thailand (or from other countries), but some firms buy imported products available in local market. Most of the MNEs mentioned that those kinds of products are expensive.
- ✓ The MNEs now have to submit importing plans to Ministry of Finance office instead of Ministry of Planning and Investment office. This is a new task for officers at that local office of Ministry of Finance. Therefore, it is possible that in the beginning of the transition process there might incur some problems for changes in procedures and responsible government agencies.

○ Human resource

- Overall situation

- ✓ The government of the Lao PDR tends to encourage firms to use Lao workers.
- ✓ In general, it is inadequate amount of labor in all levels including professionals (such as managers, engineers, accountants, lawyers, etc.), skilled and unskilled labor in the Lao PDR (for most sectors, including service sector, agricultural sector, and industrial sector).
- ✓ For most Thai MNEs, managerial level staffs or professional workers are Thai or foreigners (based on other foreign partners) rather than Lao. However, most Thai MNEs mentioned that it is quite costly to hire Thai people to work in the Lao PDR since Thai workers normally require extra compensation to work abroad. Though many MNEs mentioned that they want to employ more Lao workers at managerial and professional levels,

not many such labors in the market are available. Besides, Lao professionals with required professional licenses in the fields (such as engineers, lawyers, accountants, etc.) are limited. If the MNEs recruit Lao workers at this level (managerial level and professional level), they normally provide intensive in house training for those workers. Some MNEs send them to receive training in Thailand (one of the benefits of similar language between the two countries). Some of them support and encourage their workers for license application and test.

- ✓ Most of the production (of goods or services) level labors are Lao workers.
 - Many firms mentioned that although costs of labor per unit are low, the productivity of labor is also quite low. Discipline of labor (for example come to work on time) is also another concerned issue. Some firms mentioned that some of the cultures hinder workers work effort, for example, to come to work in the weekend or unable to come to work during the weekday due to various family reasons, etc. Local workers are also normally lack of confidence to do things that they are not used to. This leads to slow innovation process in the organization.
 - Turnover rate of Lao workers are quite high. Sometimes the workers have been trained by one company, but once the skills have been improved, Lao workers can easily move to other firms if they are offered higher compensations.
- ✓ For Thai employees work in the Thai MNEs in the Lao PDR, some firms mentioned that they encounter some problems to apply work permits for their Thai workers. The problems include length of time for workers to receive work permits and confusing procedures. Some MNEs use some kinds of agents to apply work permits for their Thai workers which incur additional costs.
- ✓ Many firms stated that based on all levels of education, they expect better capability of Lao workers. One firm mentioned that there might be

a problem of fraud education certificate. The government should monitor this problem closely.

- ✓ Many MNEs mentioned that medical care in the Lao PDR in general does not meet international standard, especially based on the perception of Thai employees. Therefore, if there are any health problems for Thai employees, the MNEs sometimes have to send their Thai employees to Thailand for medical care. This adds up the MNEs costs on employee welfare support.
- Special characteristics of some sectors
 - ✓ Service sectors:
 - Most of the workers at management level of various service Thai MNEs are Thai.
 - Lao labors with professional licenses (such as licenses for lawyers, accountants, engineers, etc.) are limited.
 - Some Thai MNEs mentioned that service minded attitude of most Lao workers is needed to be improved. The workers are also normally required intensive training for better service skills. Some MNEs mentioned that Thai service firms tend to require more service skills from their works than the local firms.
 - ✓ Agricultural sector and agri-business sector
 - Based on life cycle of some crops, large amount of labor might be needed in some periods (such as during the harvesting period). With limited amount of labor in the country, labor shortage in some periods of time is still a problem for the sector. Some Thai MNEs mentioned that they need to use foreign workers or use more machines to replace labor due to Lao labor shortage in the time needed (such as during the harvesting periods). They also need to report the government of the Lao PDR for such changes.
 - Some firms mentioned that in the early years of their investment or initiating contract farming agreements, Lao labors or farmers

still lack skills to grow some specific crops (could be because labor in the area did not grow those crops before foreign firms invest or set up contract farming agreements in the area).

✓ Manufacturing or industrial sector

- In general inadequate amount of production labor and sometimes has to compete with labor in agricultural sectors.
- In general, the labor productivity is low.

○ Land and real estates

- For some real estate or property such as building, some Thai investors invest in hotel business mentioned that in the case that they cannot buy the building and have to rent it from the owner or from the government, they have to pay rent in advance for the whole or most of the contract period. This incurs extremely high cost for initial investment.
- Some Thai MNEs mentioned that land rents, not in the promoted zone or under promoted business, are high, especially in the urban or business area.
- For agricultural sector or agri-business, especially large enterprises, major problems are related to area of land that can actually be used to grow crops are less than area specified in the concession contracts due to various reasons; for example, some areas have already been occupied by local people (while the survey team prior to the investment did not realize); in some cases people invade concession land both developed and undeveloped areas (the MNEs incur more costs to protect the area by building fences, sometimes the MNEs have to compensate invaded people to be able to use the land that the MNEs actually have the right to use based on concession contracts, etc.); there are overlaps in terms of land rights of more than one enterprise; the concession areas include forest area and swamp, etc. which cannot be used to grow crops; the MNEs sometimes encounter problems of fire set by local people in nearby area expands to the MNEs land destroying the MNEs crops, etc. Besides, for some crops in the early cultivation years, the land needs to be treated for better soil quality to grow each specific crop. This incurs additional costs on soil treatment.

○ Utility

- Some firms stated that utility costs are in acceptable range. A construction MNE stated that utility costs on the construction site in the Lao PDR are not expensive, but some service MNEs (such as hotel business) mentioned that utility costs are high.
- Some firms mentioned that water management in the country or in some regions needs to be improved both in terms of water supply (especially water supply in the city with crowded tourists in some seasons) as well as water waste management.
- In terms of agricultural production, some MNEs choose areas to grow crops based on land level and weather condition which suitable for each crop. Therefore, for such firms they do not have much problem in terms of water supply for agricultural productions. However, some firms also need to buy products from local farmers which their lands may not be located in the irrigated areas or may be in the areas that still have problems in terms of water supply (sometimes costly water supply due to cost of pumping water to the land).

○ Tax

- Some firms mentioned that there is some confusion in tax procedure, especially tax filing procedure.
- Some firms think that profit taxes are quite high.

○ Export

- Some firms mentioned that international logistic costs are quite high. Choices of international logistic service providers in the Lao PDR are also quite limited. Some firms export their products to other countries through ports in Thailand (such as the Klong Toey port) or in Viet Nam. Some of them stated that some regulations on goods in transits hinder or slower logistic process to export products. One of the MNEs mentioned that rules and regulations regarding border logistic have changed too frequent.
- It sometimes incurs some problems regarding custom procedures. Some of the problems related to the application of laws and regulations by government

officers. In addition, some firms mentioned that to export products there are various official and unofficial fees. Corruption problems still exist.

- Intellectual property rights

- Some firms mentioned that they sometimes face situations that their intellectual property rights have been violated. However, they normally proceed with negotiations with the violators rather than directly use law enforcement procedure. Sometimes the problems occur with the MNEs dealers that use other products to sell under the MNEs brand. Some MNEs try to use some technology to help detect such problems and provide some incentive for dealers if they do follow the MNEs regulations.

Business network

- Many Thai MNEs mentioned that to establish and conduct business in the Lao PDR, business networks, especially with government officers and related local businesses, are crucial.
- In general business clusters tend to be natural clusters rather than formal clusters.
- Clusters of or business networks among Thai MNEs in the Lao PDR are quite weak and rather informal. Accordingly, it is quite difficult for Thai MNEs, especially for the small and medium size ones, to drive any changes in policy and regulations in the Lao PDR. Some MNEs mentioned that there are hardly any concrete benefits receive from current existing formal clusters.
- Some Thai MNEs mentioned that Thai MNEs tend to come to invest in the Lao PDR on their own (build their own business network) while MNEs from some other countries such as Viet Nam, China, Korea and Japan their governments seem to play more roles to support or facilitate the investment.

Other business environment

○ Attitude of people in the Lao PDR toward foreign investors and foreign products

- In some Thai MNEs opinion, people in the Lao PDR seem to have better attitude on investors from China and Vietnam than Thai investors. They believe that this could be based on historical reasons. However, some Thai MNEs mentioned that in terms of Lao workers, especially in service businesses, they tend to like Thai employers better because they think that Thai people are more compromised and less fussy.
- In terms of consumer products, many Thai MNEs believe that in the eyes of people in the Lao PDR, Thai products are perceived as high quality.

○ Safety environment

- According to many Thai MNEs, the Lao PDR generally has safe environment to run business (low crime level). However, there are still some burglars in some areas.
- For developed countries investors and tourists, food standard (food sanitary) needs to be improved.
- For some MNEs opinion, safety of road transportation in terms of road conditions, rules and regulations and their enforcement need to be improved

○ Cost of living

- It is quite expensive if eat out (compared to price in Thailand).
- Vegetable and fruits available locally are not expensive, but the imported ones are quite expensive.
- Consumer products in the Lao PDR are more expensive than in Thailand since most of the products are imported products and many of them are from Thailand.
- Accommodation costs (rental costs) are high, especially in the urban area or developed zones.

Reasons for discontinue business and reduce or stagnate investment in the Lao PDR⁷

- (1) Entrepreneur personal or family reasons
- (2) Unable to make profits or achieve investment goals due to
 - Misunderstanding about the nature of the market and business environment.
 - Wrong expectation on future market situation or ability to inappropriate application of the company core competencies (such as technology, business management strategies, etc.) into business operation and production in the Lao PDR.
 - Unable to use some factors of production in the country as expect or inadequate some factors of production to continue business or increase size of the business.
 - ✓ Land and production and service facilities (such as buildings): for example, inadequate size of land to grow crops as planned, unable to continue contracts to rent land or necessary production and service facilities.
 - ✓ Labor: in adequate amount of labor in the time needed.
 - ✓ Capital: unable to finance further investment due to various reasons.
 - ✓ Entrepreneurship: sometimes investors may invest in various enterprises in the Lao PDR and unable to manage all of them then they decide to discontinue some businesses.
- (3) No intention for actual investment. Some investors apply the rights to invest in order to somehow further make profits from transferring the rights.
- (4) In a rare case, termination of concession agreements such as the case of the Thai-Lao Lignite (Thailand) Co., Ltd. with the termination of agreements upon the Coal Mining Prospecting and Exploitation Agreement to survey and distribute the lignite reserves in Hongsa district, Xayabouly province and the Project Development Agreement to exploit the lignite reserve and to conduct a feasibility of the power plant project (Ministry of

⁷ Summarize from information and opinion provided by Thai MNEs invested in the Lao PDR from in depth interviews with those MNEs.

Planning and Investment, 2013c). According to Ministry of Planning and Investment (2013c) this is due to the reason that the Thai-Lao Lignite (Thailand) Co., Ltd. was not able to start the implementation of the concession agreements due to the difficulties from the company itself.

CHAPTER 7: ANALYSIS OF COMPETITIVENESS OF THAI MNEs IN THE LAO PDR

Employing information regarding the Lao PDR background and the country rules and regulations development and the country trade and investment agreement with other countries in Chapter 4 and Thailand outward FDI situation, investment situation in the Lao PDR and competitiveness of the Lao PDR in a global market based on the Global Competitive Index in Chapter 5 and outward FDI situation of Thai MNEs in the Lao PDR and information from in depth interviews with various types of Thai MNEs and related parties (especially the Lao PDR and Thai government agencies) in Chapter 6, this chapter aims to analyze competitiveness of Thai MNEs in the Lao PDR based on the FSAs/CSAs framework (explained in Chapter 2 and Chapter 3) in section 7.1 and to provide policy recommendations for policy makers related to outward FDI from Thailand and inward FDI to the Lao PDR as well as Thai MNEs invested in or plan to invest in the Lao PDR in section 7.2.

7.1 FSAs and CSAs of Thai MNEs in the Lao PDR

This section provides analysis of the firm-specific advantages (FSAs) and country-specific advantages (CSAs) of Thai MNEs in the Lao PDR.

FSAs of Thai MNEs in the Lao PDR

The firm-specific advantages (FSAs) of Thai MNEs analyzed in this study covered (1) the MNEs expertise and technology (2) products/services and market capabilities (3) networks and relationships (4) organizational structure and business culture

(1) Thai MNEs expertise and technology

- Based on the interviews, most Thai MNEs assign Thai managers or the investors themselves to manage business in the Lao PDR. Those managers or the business owners normally have some experiences managing similar kind of business in Thailand or abroad, especially in the Lao PDR or in other ASEAN

countries, or might have prior experience working in related business in the Lao PDR. They, therefore, are quite familiar with business environment in developing countries. This creates some advantages of Thai MNEs over some MNEs from other countries, especially MNEs from developed countries assigning managers from their home countries to manage business in the Lao PDR. Besides, Lao people can understand Thai language. Therefore, Thai managers or Thai business owners are able to communicate with Lao staffs easier than managers or owners from other countries who cannot speak Lao or Thai language.

- MNEs from Thailand in different industries possess different advantages in terms of expertise and technology.
 - High technology sector: Although Thai MNEs may have less advantages in terms of possession of technology in some high technology sector, such as high speed train, compared to other developed countries or some other developing countries (such as China), Thai MNEs in some sectors, such as telecommunication sector, equipped with technology and expertise in the region that can be applied to the investment in the Lao PDR conveniently.
 - Agricultural sector: with similar weather and location of the country, technology to grow crops in the Lao PDR and Thailand could be quite similar. However, with inadequate amount of labors in many regions in the country where Thai MNEs in agricultural sectors and agri-business are located, some Thai MNEs in the sector have to alter their strategy by employing technology or production procedure with less labor and more machines for some activities (for example for cultivation activities and production activities in factory for agri-business sector).
 - Service sector: although in general Thailand has higher income per capita than the Lao PDR, there are some middle to high income people in the Lao PDR, such as some high rank government officials, some private business owners, expatriates, tourists, etc., willing to pay high price for consumer services. Therefore, the expertise of some of those Thai MNEs used to operate in Thailand can be adapted to suit the need

of those high income people in the Lao PDR (such as in hotel and restaurant business, beauty business, etc.). For non-direct consumer services, such as construction of infrastructure, with some certain level of similarity in terms of concession procedures, the Thai MNEs in the sector already familiar with the procedures in Thailand might be able to manage similar kind of business in the Lao PDR quite well.

(2) Products/services and market capabilities

- Lao people are quite familiar with Thai consumer products and normally consider Thai products as higher quality (especially compared to products from other countries such as Chinese products or domestic products).
- Another clear advantage of Thai products or services over products or services from other countries in the Lao PDR is related to the fact that TV programs in various TV channels broadcasted in Thailand are also broadcasted in the Lao PDR. Lao people can receive all information from Thai TV channels. They know Thai movie stars well. This clearly creates advantages for some Thai MNEs regarding their marketing capability. That is, the advertisement in those Thai TV channels can also be consumed by Lao people. Popular Thai movie stars can also be a great choice of presenters for Thai products distributed in the Lao PDR or service provided by Thai MNEs in the Lao PDR.
- Since market size in the Lao PDR is small, many products produced in the Lao PDR are for export. Thai MNEs establish subsidiaries in the Lao PDR normally already had markets for their products based on their prior establishment in Thailand or in other countries. This creates advantages of such firms compared to business of new established firms (with no parents firm) in the Lao PDR.

(3) Networks and relationships

- Many Thai investors have invested in the Lao PDR at the early stage of foreign investment in the Lao PDR. Throughout the time period, they normally have already established relationships with various related parties such as responsible government officers or politicians in related agencies, distributors,

suppliers (local, Thai or international suppliers), buyers (local, Thai or international buyers or customers), etc. With comparatively stable political situation, establishing relationship with persons with political power could provide a long term advantages. This is also applied to the relationship with responsible government officials. With existing infrastructure, logistic channels, and market distribution characteristics, distribution of some products may be required unique channels. Establishing relationship with existing distributors at early stage can also provide advantages for Thai entrepreneurs that have been invested in the Lao PDR for a long time. Besides, those Thai MNEs may have already established long term relationships with domestic and foreign buyers (for exporting products). This also provides advantages of those firms over newly established firms. In general, Thai MNEs invested in the early stage of foreign investment in the Lao PDR can enjoy certain level of first mover advantages. However, this networks and relationships are themselves somewhat dynamic over some time periods. For example, in some occasions there could be rotations of responsible officers among government agencies and overtime old personals in power might be retired with new people in position. Distribution channels or distributors in the Lao PDR have also been altered overtime. Demand for the existing market can also change and some new market possibilities have been created. These imply that those Thai MNEs even have invested in the Lao PDR for long time period and have already been established relationships with various parties still have to update their networks or establish new relationships necessary to keep up their advantages from those networks. The ability to keep up with those networks is considered as part of the MNEs dynamic capabilities.

- Thai MNEs in general have to establish networks and relationships with relevant parties on their own. As mentioned in the interview results, business clusters among Thai MNEs invested in the Lao PDR are quite weak and rather informal. Thai government also does not have clear strategic plan to support or help Thai MNEs invested in the Lao PDR to establish necessary networks. In contrast, government from some other countries such as Viet Nam, China, Korea, and

Japan seem to play more roles to support or facilitate the investment and help their MNEs establishing essential networks, especially with the Lao PDR government.

- See more information in Chapter 6 under business network part under section 6.2 (Interview results).

(4) Organizational structure and business culture

- Information on investment type (wholly foreign own or joint venture with Lao investors) of Thai MNEs approved to invested in the Lao PDR is shown in Chapter 6 under section 6.1 (Outward FDI of Thai MNEs in the Lao PDR) including data shown in Table 6.7 and 6.8 (and Table 6.3 to Table 6.6).
 - During 1990-2000 and 1991-2010 , based on total number of firms, the majority of firms in the two period tend to be in the type of wholly-foreign owned (either Thai investor only or with other third countries rather than investors from the Lao PDR) (56 and 53 per cent of total number of Thai MNEs, respectively in each period). However, if consider value of investment during the two periods, the majority of the investment value of Thai MNEs in the two time periods were in the type of joint venture (with Lao PDR as one of the joint venture partners) (70 and 76 per cent of total value of investment of Thai MNEs in the Lao PDR).
 - Mode of entry strategy (between wholly foreign own strategy and joint invest with the Lao PDR strategy) of Thai MNEs varies in different investment sectors. For example,
 - ✓ Investment in telecommunication sector of Thai MNEs in the Lao PDR had always been in the type of joint venture with Lao PDR.
 - ✓ Investment of Thai MNEs in the Lao PDR in banking sector had always been in the form of wholly-foreign owned.
 - ✓ There was no investment of Thai MNEs in this electricity generation prior to 2002. However, during 2002-2010 investment of Thailand in the sector has surged and mostly (83 per cent of

total value of investment) in the form of joint venture with the Lao PDR.

- ✓ In terms of value of investment, according Table 6.8, some sectors still show consistent investment type choice during the two time period (1990-2000, 2001-2010). For example, Agricultural, banking, construction, garment, trading and wood industry sectors for the wholly foreign owned type. Hotel and restaurant and telecom sectors for joint venture type. However, the strategy of investment of Thai MNEs in some sectors has changed. For example, from joint venture type with Lao investors to wholly foreign owned type for the consultant, education, industry and handicraft and service sectors. In addition the change from wholly foreign owned type to joint venture type with Lao investors for mining sector.
- ✓ The choice of joint venture type with Lao investors over wholly foreign owned type of investment of Thai MNEs in some sectors such as hotel and restaurant, telecom and mining sectors during 2001-2010, one of the reasons could be because those sectors are quite highly regulated, especially telecom sector and mining sector. For hotel and restaurant sector, in some region of the countries such as in Luang Prabang the investment in hotel and restaurant sector is also highly regulated because the central area of the city is designated as the world heritage area. For investment in the sectors that is highly regulated, Thai investors may find that jointly invest with Lao investor (s) either private or public sectors could facilitate investment better. Besides with language similarity Thai investors can communicate with Lao investment partner (s) easier than investors from other countries.
- ✓ In some cases, according to the interviews, Thai MNEs mentioned that they change their entry choice from joint venture to wholly foreign owned since they may have already learned

from their local partners from prior investment. Then, they are confident enough to invest on their own (in current or new investment) without local partner (s). On the other hand, some Thai MNEs mentioned that they chose wholly foreign owned type of investment to avoid conflicts with local partners they faced from previous investment experience or from what they have heard from other investors. These particular cases show that Thai investors actually learned from experience of prior investment and sometimes from other investors in the market to make current investment decision. This follows learning perspective mentioned in Chapter 2.

- The information regarding other choices of investment mode of entry, such as mergers and acquisitions and green field investment are not available for the analysis in this study.
- In terms of organizational structure between investors and managers, as mentioned earlier for most Thai MNEs assign experienced Thai managers or the investors themselves to manage business established in the Lao PDR. Thai investors in general may have some advantages over investors from other countries in terms of ability to monitor their managers and business based on the following reasons. First, Thailand and Lao PDR are neighboring countries. In the case that investors or business owners want to come and check upon their business they can travel quite easily to the country with comparatively low cost of traveling compared to investors from many other countries located far away from the Lao PDR. Second, with similar speaking language between the two countries, the investors can cross check management capabilities of their managers with relevant stakeholders, such as with other staffs or workers, suppliers and consumers or buyers, easier than investors from other countries. In terms of the relationship between managers and staffs or workers. Thai managers of Thai MNEs also have some advantages over non-Thai managers (and non-Lao managers) pertaining to lower language barrier between managers and other staffs or workers. Besides, in terms of monitoring ability,

similar to earlier argument in terms of monitoring capability of Thai investors and their managers, Thai managers can monitor their staffs or workers capabilities by crossing check with relevant stakeholders, such as with other staffs or workers, suppliers and consumers or buyers, easier than managers from other countries. Furthermore, as reported earlier in the interview results section (section 6.2), most of the staffs or workers (especially non-professional level one) of Thai MNEs tend to be Lao workers. Besides lower language barriers between Thai managers and Lao workers, with similar culture (such as culture based on religious belief, sharing the same traditional New Year celebration period, etc.) Thai managers tend to understand Lao workers culture better than managers from other countries.

- It is also worth noting that although Thai and Lao cultures are quite similar, business cultures between the two countries are still somehow different. For example, according to the interviews with Thai MNEs in the Lao PDR, in general Lao staffs may come to work late or absent from work without prior notice more than what Thai MNEs may face when they operate in Thailand. Lao workers also tend to value family matters so high that in some cases affect working productivity (such as request to leave work to attend cousin wedding, take care of relatives visit town, etc.) and the cases are probably occurred more compared to similar cases in Thailand. This implies that business model in terms of organizational structure and management employed by business in Thailand might not be able to directly apply to business of Thai MNEs in the Lao PDR. The success business in the Lao PDR is the one that be able to adapt or create appropriate business culture based on the existing conditions of various stakeholders.

Home country (Thailand) CSAs for Thai MNEs in the Lao PDR

- (1) Location proximity: Location proximity between Thailand and the Lao PDRs give various kinds of advantages to Thai MNEs invested in the Lao PDR.

- Logistic advantages for import of inputs, materials, equipment or machines from Thailand and to export products produced in the Lao PDR. As mentioned in the interview results that many Thai MNEs in the Lao PDR in various sectors, even service sector such as hotels and restaurants and construction business, import a lot of raw materials or essential equipment from Thailand due to lack of various inputs or not up to standard raw materials of what Thai MNEs needed available in the Lao PDR market. Also as mentioned in the interview results, due to small market size in the Lao PDR, a lot of products produced by Thai MNEs in the Lao PDR are for export. Some of the products have been exported to Thailand, but many of them have been exported to other countries within or outside the region. With the location of the Lao PDR, the country has no access to the sea so that various products have to be transported on land to sea ports either in Thailand or in Vietnam. So location proximity provide advantages for Thai MNEs both to import necessary inputs or raw materials for production of their goods and services in the Lao PDR and the advantages to be able to export their products produced in the Lao PDR through the sea port in Thailand. Thai MNEs should be more familiar with input markets and logistic situation, especially when export products through Thai sea ports, in Thailand compared to MNEs from other countries. Therefore, the location proximity of the two countries provides logistic advantages for Thai MNEs in the Lao PDR.
- As mentioned in the Thai MNEs advantages in terms of expertise and technology part under the FSAs section, as the Lao PDR and Thailand are located next to each other similar crops and wood can be grown within the two countries, such as sugar cane, rubber tree, coffee beans, rice, etc. The location proximity of the two countries provides advantages for Thai MNEs especially in agricultural sector and agri-business and wood industry to exercise some of their expertise and technology when they invest in the Lao PDR.

(2) Language and Cultural proximity

- Thailand is the only country that Lao people in general can understand speaking language. Thai people also in general can also understand Lao language since

the language is very similar to that of Thai people in the northern part of the country. This provides superior advantages of Thai investors to investors from other countries (who cannot speak Thai or Lao) to communicate with various stakeholders related to investment in the Lao PDR, ranging from Lao investment partners (if they do have one), staffs or workers working for the business, government officials, local suppliers, domestic buyers or customers, etc.

- The fact that Lao people can understand Thai speaking language and as mentioned earlier under FSAs section that Lao people can watch Thai TV programs which also broadcasted in the Lao PDR, Lao people can receive information and learn about all kinds of situation and culture in Thailand easily. Thai investors can use these advantages (be able to watch the same TV channels and understand the language) to predict or understand consumer demand influenced from the media (for example, in fashion business, the way Thai movie stars dress and products and services shown or mentioned in various TV program may affect consumer preference in the Lao PDR). However, although in rare occasions, it is possible that some contents in the media can possibly or unintentionally create conflicts between the two countries. Accordingly, media providers in Thailand shall proceed with much caution since this can also affect Thai MNEs as a whole.
- Although the culture of people in the Lao PDR and Thailand are not exactly the same, they share certain level of similarities. Similar to language similarity, the cultural proximity of the two countries can create some advantages for Thai MNEs so that they may understand needs and know proper ways to deal with related parties such as Lao business partners, workers, government officers, suppliers and customers better than investors from other countries.

(3) Institutional proximity and other competitiveness elements

- Based on the Global Competitiveness Index (GCI) 2013-2014, out of 5 groups in terms of stage of competitiveness, the Lao PDR is in Group 1 (stage 1 or factor driven country group) while Thailand is in Group 3 (stage 2 or efficiency driven

country group)⁸. The overall GCI competitive rank of the Lao PDR was 81 while Thailand was ranked 37 out of 148 countries.

- The Lao GDP per capita was 1,158 US dollars in 2012, while GDP per capita of Thailand was 5,678 US dollars.
- According to Table 7.1, in all three categories of the GCI 2013-2014 competitiveness measures (Category 1: Basic Requirements; Category 2: Efficiency Enhancers; Category 3: Innovation and Sophistication Factors), Thailand was in a better rank in all categories than the Lao PDR.
- If considering all 12 pillars of competitiveness measured in the GCI (Table 7.1),
 - Thailand seems to be in a better rank in almost all pillars except for pillar 1 (institutions) and pillar 7 (labor market efficiency) which the Lao PDR was in a better rank.
 - Except for pillar 3 (macroeconomics environment) and pillar 10 (market size), in all other pillars the different of the GCI score of each pillar in absolute value is between 0 and 1. That is although in general, Thailand macroeconomic environment tend to be better than the Lao PDR and the market size in Thailand is much larger than the Lao PDR, there are also many competitiveness elements that Thailand and the Lao PDR share some similarities. These create some advantages for Thai MNEs compared to investors from other countries in the sense that Thai investors might be more familiar with somewhat similar competitive environment between investing or doing business in their home country (Thailand) and in the host country (the Lao PDR).

⁸ Based on the Global Competitiveness Index (GCI) 2013-2014, 148 countries in consideration have been divided into five country groups which are Group 1 (stage 1 or factor driven country group), Group 2 (transition from stage 1 to stage 2 country group), Group 3 (stage 2 or efficiency driven country group), Group 4 (transition from stage 2 to stage 3 country group) and Group 5 (innovation-driven country group).

Table 7.1: The Lao PDR and Thailand Global Competitiveness Index (GCI) 2013-2014

	The Lao PDR		Thailand		Lao PDR – Thailand	
	Rank (out of 148)	Score (1–7)	Rank (out of 148)	Score (1–7)	Different rank	Different score
GCI 2013–2014	81	4.1	37	4.5	44	-0.4
GCI 2012–2013 (out of 144)	n/a	n/a				
GCI 2011–2012 (out of 142)	n/a	n/a				
Basic requirements (60.0%)	83	4.4	49	4.9	34	-0.5
Pillar 1: Institutions	63	4	78	3.8	-15	0.2
Pillar 2: Infrastructure	84	3.7	47	4.5	37	-0.8
Pillar 3: Macroeconomic environment	93	4.4	31	5.6	62	-1.2
Pillar 4: Health and primary education	80	5.6	81	5.5	-1	0.1
Efficiency enhancers (35.0%)	107	3.6	40	4.4	67	-0.8
Pillar 5: Higher education and training	111	3.3	66	4.3	45	-1
Pillar 6: Goods market efficiency	54	4.4	34	4.7	20	-0.3
Pillar 7: Labor market efficiency	44	4.6	62	4.3	-18	0.3
Pillar 8: Financial market development	91	3.8	32	4.6	59	-0.8
Pillar 9: Technological readiness	113	3	78	3.6	35	-0.6
Pillar 10: Market size	122	2.6	22	5.1	100	-2.5
Innovation and sophistication factors (5.0%)	74	3.5	52	3.8	22	-0.3
Pillar 11: Business sophistication	78	3.9	40	4.4	38	-0.5
Pillar 12: Innovation	68	3.2	66	3.2	2	0

Source: provided based on information in World Economic Forum (2013)

(4) Thailand outward FDI plan and policy

- Thailand put more effort to liberalize Thai foreign investment (as mentioned in section 5.4: Thailand outward FDI policy) compared to the past, for example, with the “Capital Account Liberalization Master Plan” (since 2012) by the Bank of Thailand and other liberalization measures prior to the plan and investment facilitation and support by some other agencies such as the Thailand Board of Investment (BOI), the Export-Import bank of Thailand. However, policies regarding direction of Thailand foreign investment are still unclear. No direct authority or government agency responsible to design and decide on Thailand appropriate foreign investment policy. In terms of promotion of outward investment in neighboring countries and to Southeast Asia region although mentioned in the 11th Social Economics and Development Plan 2012-2016, some efforts had been made in the past and continue to have been in current years, direction and methods of promotion are still indistinct.
- As mentioned in the FSAs section regarding network capability of Thai MNEs based on opinion of Thai MNEs invested in the Lao PDR from interviews, Thai government also does not have clear strategic plan to support, facilitate or help establishing necessary networks (with the Lao PDR government, suppliers and possible buyers or consumers or even the networks among Thai MNEs themselves) for Thai MNEs invested in the Lao PDR. Many Thai investors mentioned that they have to establish networks on their own while MNEs from some other countries such as Viet Nam, China, Korea and Japan their governments seem to play more roles to support or facilitate the investment.

(5) Trade and investment agreement

- Thailand and the Lao PDR have agreed on various agreements and collaborations with each other (bilateral agreements) and also with other countries (multilateral agreements) in terms of trade, investment and other regional development (such as logistic and infrastructure development). This has opened trade and investment opportunities between the two countries. In other words, it provides some advantages of Thai MNEs over MNEs from

countries in other regions in terms of investment opportunities in the Lao PDR. However, the Lao PDR has also signed bilateral trade and investment agreements with other countries (see more information in Chapter 4). The comparative advantages based on agreements and collaborations in various forms between the Lao PDR and Thailand for Thai MNEs as opposed to advantages the MNEs from other countries have acquired from the agreements and collaboration of the Lao PDR with other countries are still needed to be further explored.

Host country (the Lao PDR) CSAs for Thai MNEs in the Lao PDR

- (1) Current and the development of the Lao PDR investment rules and regulations and other relevant regulations, bilateral and multilateral trade and investment agreements are described in details in Chapter 4.
- (2) The detailed information regarding competitiveness of the Lao PDR based on the Global Competitiveness Index (GCI) 2013-2014 is described in Chapter 5, section 5.6
- (3) Various insight information and opinion from Thai investors invested in the Lao PDR, representative from relevant the Lao PDR and Thai government agencies regarding investment and other rules and regulations, implementation of the regulations, motive of investment, mode of entry choice, factor markets situation, logistics and infrastructure situation, other business environment, attitude of Lao people toward Thai investors and Thai products (in the eyes of Thai MNEs investors or managers), etc. are demonstrated in Chapter 6, section 6.2 (Interview results).
- (4) This part summarizes and analyzes the Lao PDR CSAs based on the information and analysis mentioned in (1), (2) and (3).
 - Although the market size of the Lao PDR is small, investors invested in the Lao PDR can enjoy advantages to be able to penetrate into other larger markets. Based on the Generalized System of Preferences (GSP) scheme and other tariff

preferences, the Lao PDR as one of the least developed countries (LDCs) has received special and preferential treatment for wider coverage of products and deeper tariff reductions for products exported from the Lao PDR to some other countries (especially the developed countries and some developing countries). This gives opportunities for investors invested in the Lao PDR to penetrate into the markets of those GSP or preferential granted countries with lower barriers compared to the products exported from the investors' home countries that have not been granted GSP or the GSP in relevant products or sectors have been removed.

○ Rules and regulations⁹

- Improvement of rules and regulations overtime
 - ✓ The Lao PDR has pursued more open market policy since the comprehensive reform program, the New Economic Mechanism (NEM), in 1986.
 - ✓ Foreign investment laws and regulations have been improved overtime, especially with the promulgation of the Law on Foreign Investment Promotion and Management in 1994 with major revision in 2004. Then, the Law on the Investment Promotion in the Lao PDR was launched in 2009. This law levels playing fields between domestic investment and foreign investment.
 - ✓ Beside investment rules and regulations development, other relevant rules and regulations have also been improved especially during the time period before and during the Lao PDR has become a member of the ASEAN in 1997 and a new full member of the World Trade Organization (WTO) in 2013.
- Although many rules and regulations have been improved, there are still problems in terms of the enforcement, implementation and application of rules and regulations proclaimed. The examples of the problems are some unclear procedures, some lengthy and unnecessary process, the

⁹ See more detailed information in Chapter 6, section 6.2 (interview results).

consistency of regulations implemented in different government agencies and within each agency, corruption problems, changes in rules and regulations without adequate time informing investors, unable to comply with concession contract (for example, actual land available to grow crops much less than amount of land agreed in the concession contracts), etc.

○ Factor markets and input markets¹⁰

- Natural resources

- ✓ There are plenty of opportunities based on available natural resources in the Lao PDR such as mining sector, hydropower, agricultural and agri-business sector (available land to grow crops), tourism sector, etc.
- ✓ Although with plenty of opportunities investment in natural resource intensive sectors have normally been highly regulated.

- Human resources

- ✓ In general, it is inadequate amount of labor in all levels including professionals (such as managers, engineers, accountants, lawyers, etc.), skilled and unskilled labor in the Lao PDR for most investment sectors. The turnover rate of Lao workers is also high.
- ✓ For most Thai MNEs, managerial level staffs or professional workers are Thai or foreigners (based on other foreign partners) rather than Lao. Although in general considered as more efficient and productive than Lao managers or workers, it is quite costly to hire Thai people to work in the Lao PDR. Other problems are, for example, regarding obtaining working permits, health cares for Thai staffs, turnover of Thai workers (sometimes they want to go back to Thailand after encounter some difficulties working in the Lao PDR), etc.

¹⁰ See more detailed information in Chapter 6, section 6.2 (interview results).

- ✓ Based on all levels of education, many investors or managers of Thai MNEs (from the interviews) expect better capability of Lao workers.
- Inputs, raw materials, or intermediate goods
 - ✓ Although some input and raw materials needed for production of products and services of Thai MNEs in the Lao PDR are available domestically, many Thai MNEs mentioned that there are still inadequate amount of many inputs and raw materials needed or the quality of those intermediate products is not up to the standard of the firms.
 - ✓ Many Thai MNEs import raw materials or intermediate products from Thailand or in some occasions from other countries. Although there are advantages in the sense that the two countries are located next to each other, there are still some problems regarding logistic and custom procedures to transport those intermediate goods.
- Financial access and financial transaction
 - ✓ Based on opinion of many Thai MNEs, it is difficult to access to finances in the Lao PDR (mainly based on required collateral assets).
 - ✓ In general interest rates of local banks are higher than foreign banks. Also, interest rates in the Lao PDR are normally higher than interest rates in Thailand. Therefore, financing investment of Thai MNEs in the Lao PDR through financial sources in the Lao PDR is general more costly than financing the investment from financial sources in Thailand.
 - ✓ Thai MNEs in general are financed their investment from access of financial sources in Thailand or through parent firms.
 - ✓ Financial products and financial instruments available in the Lao PDR are quite limited (for example no financial products for future market).

- ✓ Many Thai MNEs mentioned that financial services of domestic banks are in general not really impressive (especially in terms of lengthy and time consuming procedures). Most Thai MNEs use financial services from Thai banks or other international banks.
 - ✓ The capital market in the Lao PDR is small and no secondary markets for debt securities. Financing Thai MNEs investment through capital market in the Lao PDR is difficult or almost impossible.
- Attitude of people in the Lao PDR toward foreign investors and foreign products (the information based on opinion of Thai MNEs investors and managers from in depth interviews reported in Chapter 6, section 6.2)
- In some Thai MNEs opinion, people in the Lao PDR seem to have better attitude on investors from China and Vietnam than Thai investors. They believe that this could be based on historical reasons. However, some Thai MNEs mentioned that in terms of Lao workers, especially in service businesses, they tend to like Thai employers better because they think that Thai people are more compromised and less fussy.
 - In terms of consumer products, many Thai MNEs believe that in the eyes of people in the Lao PDR, Thai products are perceived as high quality.
- Infrastructures and logistics¹¹
- Although there are some improvements in terms of the Lao PDR infrastructure (such as railroad, road, telecommunication, airport, etc.), further development is still needed.
 - Choices of the logistic providers in the Lao PDR are still quite limited.

¹¹ See more detailed information in Chapter 6, section 6.2 (interview results).

7.2 Policy recommendations and recommendations for Thai MNEs

This section is divided into three parts. The first part provides policy recommendations for relevant Thai government agencies, followed by policy recommendations for relevant government agencies of the Lao PDR in the second part. The last part provides recommendations for Thai MNEs invested in or plan to invest in the Lao PDR.

Recommendations for Thai government

- (3) Policies regarding direction of Thailand foreign investment are unclear. No direct authority or government agency responsible to design and decide on Thailand appropriate foreign investment policy. Accordingly, this study proposes that Thailand may assign the task to responsible government authority or set up a committee consisting of representatives from relevant government agencies (who also have authorities to implement the policy in their own or relevant agencies) to
 - Decide on direction of Thailand foreign investment policy which shall be coincided with overall macroeconomic policy goals of the country.
 - Design strategic plan to achieve foreign investment policy goals, for example
 - Appropriate strategies for the overall outward FDI policy.
 - Appropriate strategies for investment of Thai MNEs in each specific region or country.
 - Appropriate strategies for investment of Thai MNEs in each specific sector.
 - Appropriate strategies for investment of Thai MNEs in each specific sector within each region/country
 - Authorizes relevant government agencies to implement the strategic plan
- (4) Improve custom procedures and logistic infrastructures as well as adjustment of relevant rules and regulations (which shall be comply with the country bilateral and multilateral agreements) to facilitate goods export to and import from the Lao PDR (and other countries) and goods in transit through Thailand. The implementation and

application of rules and regulations shall also be monitored and evaluated for better service and further policy decisions.

Recommendations for the Lao government (some of the suggestions could be implemented with assistance or collaboration with other countries)

(7) Evaluate laws and regulations which have already been implemented. This includes some specific regulations; for example, regulations regarding

- Cease to grant new investment license to some sectors such as mining sector, rubber plantation, and eucalyptus plantation, etc.
- Changes in authorities of government agencies and/or relatively new government authorities.
- Specified period prior MNEs receiving investment licenses after submitting the application.
- Etc.

(8) Human resource management and development

- If the country has goals to promote some economic sectors such as some service sectors, relevant trainings and education to create more labors to work for the sectors should be promoted. This can also enhance labor productivity for the sectors in the future.
- Encourage labor to improve their productivity via various measures such as higher education, trainings, acquiring licenses needed (professional licenses such as licenses for engineer, accountant, lawyer, etc.)
- According to the problem of labor shortage in most economic sectors, in some cases, the country may allow or even attract more foreign workers to work in the country. This may also create skill transfer (technology or knowledge transfer) from foreign workers to Lao workers.
- Due to some problems regarding the interpretation and application of some laws and regulations by government officers (such as different interpretation by

officers in different organizations or even within the same organization, application of the same regulations differently to different MNEs, etc.),

- The government may develop some procedures for mutual understanding, interpretation and application of laws and regulations.
- Evaluating and monitoring system of laws and regulations application in practice shall be implemented. This can help assessing quality of services provided by the officers and moderate corruption problems.

○ Enhance collaboration with other countries in terms of human resource development, for example

- Higher education collaboration: such as scholarships for Lao People to study abroad, development of education institutions in the Lao PDR, etc.
- Trainings collaborations: could be for private personals and officers from public sector, including trainings in the country and trainings abroad.
- Due to language similarity, further collaborations between the Lao PDR and Thailand regarding the Lao PDR human resource development shall be enhanced.

(9) Logistic development

Based on various collaborations, the Lao PDR has developed infrastructures for better logistic within the country such as the development of local and regional road network, airports, high speed trains, etc. The following recommendations are to complement the existing effort and increase efficiency of the logistic service within the countries

- Encourage more competition in logistic service providers market for better services and at reasonable prices.
- Improve the enforcement of some rules and regulations such as the ones regarding road transportation, etc.
- Further develop or improve logistic infrastructures such as road conditions, etc.
- Based on various international bilateral and multilateral logistic agreements, the Lao PDR may prepare to launch or implement rules and regulations comply with those agreements for transportation of goods, people and vehicles as well as for transportation service providers.

(10) Custom procedure improvement

Since there are some problems in terms of implementation of custom rules and regulations, some confusion on import duties imposed, length of time for custom procedures, additional payments (formal and informal fees), the followings are some suggestions to improve the procedures.

- To accelerate the custom process, trainings for related personals for better understanding of rules and regulations and their applications as well as new techniques and technology for the custom procedures might be needed.
- Find the ways to moderate or eliminate corruption problems such as implementing monitoring system, etc.
- Based on various bilateral and multilateral custom agreements, the Lao PDR may prepare to launch or implement rules and regulations comply with those agreements for import and export goods and goods in transit.

(11) Financial sector development

- Development of capital markets and money markets. This could benefit both domestic enterprises and foreign MNEs as their sources of fund and investment opportunities.
- There are rooms for financial products and financial instruments to be improved, such as new financial products regarding exchange rate hedging and other products for future markets such as swop, forward and option.
- Considering measures to improve services of commercial banks such as to
 - Shorten time customers spend for their financial transactions with the banks.
 - Provide new financial products and services (allowed by the Bank of Lao PDR).
 - Train staffs for better understanding of rules and regulations and new financial products and other relevant trainings to provide service more efficiently.
 - Clearly state documents and procedures required for each financial transaction.

Etc.

- Monitor levels of interest rates (compared to other countries) and use appropriate monetary policy (and other policies) to gear toward appropriate level of interest rate (based on short term and long term macroeconomic policy goals).

(12) Data collection and provision of data

- To be able to design appropriate policy, available and reliable data for assessment are crucial. The following data shall be useful if the government can gather and arrange systems to collect them
 - Actual investment value VS. approved investment value
 - Number of projects discontinue to invest from the Lao PDR
 - Divesture value, especially from foreign disinvestment
 - Amount of profit tax and other custom duties exemption or reduction based on investment incentives provided by the government and actual payment by local firms and MNEs.

Etc.

- Even though each government agency may be assigned different task and responsibility, the coordination of data between government authorities could enhance policy regulations and implementation and application of those rules and regulations.
- Some data are useful for foreign investors to consider investment in the country. The government may consider which data and information shall be available for public.

Recommendations for Thai MNEs invested in or plan to invest in the Lao PDR

Although Thai MNEs possess several advantages based on the FSAs and CSAs as mentioned in section 7.1 (FSAs and CSAs of Thai MNEs in the Lao PDR) many of those advantages are dynamic by nature, for example improving experiences of investors and managers and changing in network capability advantages (under FSAs), changing rules and regulations of home country outward FDI policy and other relevant policies (under home country CSAs) and changing rules and regulations of host country inward FDI policy and other relevant policies and changes of other business environment in the investment host country (under host country CSAs). Thai MNEs already invested in the Lao PDR or plan to invest in the Lao PDR have to update its FSAs or create new ones, for example

- (3) Update information regarding changes of relevant rules and regulations, the implementation and application of the regulations and other useful information such as each industry investment situation, product market situation, input market situation, etc. so that Thai MNEs can be able to exercise their existing FSAs based on the home and host country CSAs and be able to seek for opportunities to better enhance the strength of their business or create new advantages based on those changes.
- (4) Based on all sources of information acquired, Thai investors shall use the information for their business decision and may consider update their FSAs, for example to
 - Update technology, productivity and expertise suitable for input and product markets situation. For example,
 - Due to shortage of labor in the Lao PDR in many investment sectors such as in agricultural sector or agribusiness sector, industrial sector and service sector Thai MNEs may consider using technology or production procedures that rely less on number of labors. Moreover, with tight supply of all skill levels of labor in the Lao PDR labor market, especially the professional and skilled labor, Thai MNEs may consider ways to attract those workers. For example, they may consider hiring or accepting college students in relevant fields to work as interns in their

companies so that when those students graduate they may consider working with the companies. Thai MNEs themselves also have a chance to recruit experience personals to work with the enterprises and be able to explore capability of those students while they work as interns before the MNEs actually recruit them to work.

- Due to some problems regarding level of labor productivity of workers (Lao workers and inexperienced Thai workers), Thai MNEs may consider upgrade knowledge or skills of those laborers through various methods such as providing more trainings for workers or collaborating with relevant institutions to upgrade labor expertise. Besides, in some service sector providers, professional license of workers (such as for lawyers, accountants, architectures, engineers, etc.) are required. Thai MNEs may encourage their staffs, especially the Lao ones, to acquire necessary licenses. Moreover, the MNEs also need to design strategy to be able to keep those qualified labors in the firms since there could be tendency that those workers may move to other firms offering better compensation or benefits.
- Update products and services based on existing consumer demand and prediction of consumer needs in the future. As mentioned in the section 7.1 (FSAs and CSAs of Thai MNEs in the Lao PDR), Thai MNEs may have some advantages regarding perception of Lao people on Thai products and some advantages related to marketing capability. In general Thai consumer products have been perceived by Lao people as high quality. People in the Lao PDR are also already quite familiar with Thai consumer products and some services. However, although equipped with those advantages, competition in the market has become more intense over time since the Lao PDR has pursued open market policy. Consumer needs in different groups of consumers in the Lao PDR have also changed over time. For example, there are needs for better service, higher product quality or demand for new types of products and services for middle to high income people in the Lao PDR (including some high rank government officials, expatriates, tourists, etc.), better banking services and

probably new financial products for corporate customers and individuals, etc.

Thai MNEs still need to evaluate their product or service position in the Lao PDR market and prepare strategic plan for future product or service positioning. This is also applied to export product produced in the Lao PDR with product positioning strategy in the target markets. Thai MNEs shall also reap benefits and advantages from all kinds of trade and investment agreements of the Lao PDR with other countries (especially as the GSP recipient country and benefits from other tariff preferences granted by other countries) for their export products.

- Update existing networks with relevant parties or establish new relationships with related parties such as government officials, local or international buyers, suppliers, logistic providers, other Thai investors, local investors, or investors from other countries, and financial institutions (in the Lao PDR and in Thailand) etc. Based on information from the interviews, most Thai MNEs tend to establish their business network on their own with less support from Thai government or any business clusters. In terms of clusters among themselves, although there are a few formal clusters, most business clusters among Thai MNEs are informal and quite weak. This study proposes that beside building or updating the networks of their own Thai MNEs shall also enhance business collaboration among themselves so that they can act as a group to provide comments or suggestions to Thai and the Lao PDR government regarding investment regulations and other relevant matters and enjoy other cluster benefits such as experience and information sharing from the cluster participants, etc. In this case, Thai MNEs not only upgrade their FSAs based on network capability advantages but also might be able to further improve home country CSAs and host country CSAs in the future.
- Update business organizational structures and business culture to fit well with changes in business environment over time. For new Thai MNEs, they have to make decision on appropriate mode of entry (such as consider between a wholly foreign owned type or joint investment with the Lao PDR investors) and organization structure (such as management team, staff recruiting, etc.) within

the company based on all information acquired from various sources (such as consider investment experience of other Thai investors or other foreign investors, etc.). From the interviews, some existing Thai MNEs mentioned that some new Thai firms do not succeed in their investment in the Lao PDR due to wrong information or wrong perception (regarding market characteristics, business culture, ways to build business networks, factor markets situation, etc.). Similarly, Thai MNEs already invested in the Lao PDR may evaluate their past and current business situation (all the problems they have faced and benefits they have gained from the investment) then make decision on their future investment, for example, decide on whether they should invest more, maintain the size of their business, reduce their level of investment or discontinue their investment in the Lao PDR and decide on whether they should adjust their organizational structure and business culture within the firms based on changes in business environment, etc. However, it is worth noting that appropriate organizational structure for each Thai MNE could be differed based on various reasons. For example, some Thai MNEs may find that joint investment with trusted Lao investors is best for their business to reduce many transaction costs while doing business in the Lao PDR. However, some Thai MNEs may not have good experience with Lao investment partners and may decide to switch their existing investment type to wholly foreign owned one if they have a chance to do so or for their new investment in other enterprises. In terms of organizational structures, although most Thai MNEs tend to hire Thai managers and Thai management team to manage their business (or the investors take care of the business themselves), some Thai MNEs find that training Lao personals to work in the management team should be a good strategy for their businesses in the long run since in many cases some Thai staffs or Thai management team are assigned to work in the Lao PDR only for temporary or only for some time period.

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APPENDIX 1: INVESTMENT LAWS FOR FOREIGN INVESTORS IN THE LAO PDR

Table A1.1: Comparison of key issues in investment laws related to foreign investors in the Lao PDR

Issues	Law on the Investment Promotion in the Lao PDR (2009)	Law on Investment Promotion and Management (revised 2004)	Law on Investment Promotion and Management (1994)
Date Promulgated	8 July 2009	15 November 2014	21 April 1994
1. General provision	Part I General provision	Chapter 1 General provision	Section One General provision
Purpose	Part I, Article 1 <i>Purpose</i>	Chapter 1, Article 1 <i>Objectives</i>	Section One, Article 1
Definitions	Part I, Article 3 <i>Definitions</i>	Chapter 1, Article 2 <i>Definitions</i>	Section One, Article 1 Defining “foreign investor”
Investment promotion	Part I, Article 2 <i>Investment promotion</i> Part I, Article 4 <i>Government policies on investment promotion</i> Part I, Article 5 <i>Principles of investment promotion</i>	Chapter 1, Article 3 <i>Promotion of foreign investment</i>	Section One, Article 2
Investment protection	Part I, Article 5 <i>Principles of investment promotion</i>	Chapter 1, Article 4 <i>Protection of foreign investment</i>	Section One, Article 3
Scope of law application	Part I, Article 6 <i>Scope of law application</i> This Law applies to individuals or legal entities involved in all types of investments to carry out production and conduct business operations aiming at creating added value, except for family-based business and retailers.		
2. Investment forms	Part II <i>Investment forms</i>	Chapter 2 <i>Forms of foreign investment</i>	Section Two <i>Forms of foreign investment</i>
Forms of investment	Part II, Article 8 <i>Investment forms</i> Investors may directly or indirectly invest in the following forms: 1. A wholly domestic or foreign-owned investment 2. A joint venture between domestic and foreign investors 3. A business cooperation by	Chapter 2, Article 5 <i>Forms of foreign investment</i> Three forms of investment 1. Business cooperation by contract 2. Joint ventures	Section Two. Article 4 Two forms of investment 1. A Joint Venture with one or more domestic Lao investors 2. A Wholly Foreign-Owned Enterprise

Issues	Law on the Investment Promotion in the Lao PDR (2009)	Law on Investment Promotion and Management (revised 2004)	Law on Investment Promotion and Management (1994)
	contract	between foreign and domestic investors 3. One hundred percent (100%) foreign-owned enterprises	
A wholly domestic or foreign-owned investment	Part II, Article 9 <i>A wholly domestic or foreign-owned investment</i>	Chapter 2, Article 8 <i>One hundred percent (100%) foreign owned enterprises</i>	Section Two, Article 7 A Wholly Foreign-Owned Enterprise
A joint venture between domestic and foreign investors	Part II, Article 10 <i>A joint venture between domestic and foreign investors</i> Foreign investors in the joint venture shall contribute at least ten percent (10%) of the total capital	Chapter 2, Article 7 <i>Joint ventures</i> Foreign investors investing in a joint venture must contribute at least thirty percent (30%) of the (joint venture's) registered capital	Section Two, Article 6 A Joint Venture with one or more domestic Lao investors Foreign investors who invest in a Joint Venture must contribute a minimum portion of thirty percent (30%) of the total equity investment in that venture
Business cooperation by contract	Part II, Article 11 <i>Business cooperation by contract</i> The domestic legal entity shall be declared to Ministry/Department of Industry and Commerce, Ministry/Department of Planning and Investment for the purpose of being managed in conformity with the regulations The agreement of the business cooperation by contract shall be certified by the Court's Notary Authority.	Chapter 2, Article 6 <i>Business cooperation by contract</i>	
Branch or representative offices	Part III, Chapter 7 Representative office and branch Part III, Chapter 7, Article 47 <i>Representative offices</i> A foreign legal entity wishing to establish its representative office in Lao P.D.R. shall submit the application to the One-stop-service office of the Ministry of Planning and Investment for consideration. The certificate of the establishment	Chapter 2, Article 10 <i>Representative offices</i> Representative offices or agents which operate for commercial purposes do not come under this law	Section Two, Article 8 A Lao branch or representative office of a foreign company.....subject to approval of Foreign Investment Management Committee of the Lao PDR (FIMC)

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	<p>of a representative office shall be issued within five (5) working days after receipt of the application.</p> <p>Part III, Chapter 7, Article 48 <i>Branches of foreign legal entity</i></p> <p>A foreign legal entity wishing to establish its branch in the Lao P.D.R. shall submit application to the One-stop-service office in the Ministry of Industry and Commerce for consideration. The certificate of branch establishment shall be issued within fifteen (15) working days after receipt the application.</p>		
Determination of registered capital	<p>Part II, Article 12 <i>Determination of registered capital</i></p> <p>The registered capital of concession businesses shall not be less than thirty percent (30%) of its total capital. For general businesses, the registered capital shall comply with Law on Enterprise.</p>	<p>Chapter 2, Article 9 <i>Registered capital</i></p> <p>The registered capital of a foreign investment enterprise must not be less than thirty percent (30%) of its total capital</p>	<p>Section Two, Article 9</p> <p>The incorporation and registration of a foreign investment shall be in conformity with the Enterprise Decree of the Lao PDR.</p>
Terms of investment	<p>Part III, Chapter 2, Article 20 <i>Term of Investment (General Business)</i></p> <p>The investment in general business has unlimited term of investment except for a business where the term has been determined in separate regulations and laws of relevant authorities</p> <p>Part III, Chapter 3, Article 28 <i>Term of Investment (Concession Business)</i></p> <p>The term of investment in concession depends on the type, size, investment value, and conditions of the concession activities based on concerned regulations and laws; it shall not exceed ninety nine years and may be extended with the approval of the Government or provincial authorities, especially in the case where the project has generated</p>	<p>Chapter 2, Article 11 <i>Terms of authorized investment</i></p> <p>The investment term of a foreign investment enterprise depends on the nature, size and conditions of the business activities or project but shall not exceed fifty years and may be extended with the approval of the government. However, the investment term of a foreign investment enterprise shall be for a maximum of seventy-five years.</p>	

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	<p>maximum benefits for the country, been effectively implemented and has recorded good performance in contributing to local development.</p> <p>Part III, Chapter 5, Article 42 <i>Term of investment in the Special Economic Zones and the Specific Economic Zones</i></p> <p>The term of investment in the special economic zones and specific economic zones depends on the type, size and conditions of each special economic zone and specific economic zone; it shall not exceed ninety nine (99) years and may be extended on a case by case basis with the approval of the Government, especially in the case where the project has generated maximum benefits to the country, the investor has effectively implemented the signed agreement and has recorded good performance in contributing to local development.</p> <p>Part III, Chapter 5, Article 43 <i>Application for investment in special economic zones and specific economic zones by other investors</i></p> <p>The investment terms of other investors in the special economic zones and specific economic zones is not limited, except for those investments whose terms of investment are specified in the regulations of relevant sectors</p>		
3. Investment activities	Part III Investment activities		
Types of Investment	<p>Part III, Chapter I <i>Types of Investment</i></p> <p>The investor may invest in the following types of investment;</p> <ol style="list-style-type: none"> 1. General business 2. Concession business 3. Activities for development of special economic zones and specific 		

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	economic zones		
Investment in general business	Part III, Chapter 2 <i>Investment in general business</i>		
Investment in concession business	Part III, Chapter 3 <i>Investment in concession business</i>		
Investment in the projects or activities listing in Investment Calling List	Part III, Chapter 4 <i>Investment in the projects or activities listing in Investment Calling List</i>		
Investment in the Special Economic Zones and Specific Economic Zones	Part III, Chapter 5 <i>Investment in the Special Economic Zones and Specific Economic Zones</i>		
One-Stop-Service for investment	Part III, Chapter 6 <i>One-Stop-Service for investment</i> The offices of one-stop-service are established in 1. Ministry/Department of Planning and Investment 2. Ministry/Department of Industry and commerce 3. Special economic zones and specific economic zones	Chapter 5, Article 19 <i>Application for (foreign) investment</i> An application for foreign investment in the Lao People's Democratic Republic must go through the one stop service of the Committee for Promotion and Management of Investment ("CPMI").	Section Four, Article 23 All foreign investments established within the Lao PDR shall be assisted, licensed and monitored through the "1-stop-service" of the FIMC, acting as the central focal point for all Government interactions with the investors, with the collaboration of the concerned ministries and the relevant provincial authorities
4. Investment application	Part III, Chapter 2 <i>Investment in general business</i> Part III, Chapter 3 <i>Investment in concession business</i> Part III, Chapter 4 <i>Investment in the projects or activities listing in Investment Calling List</i> Part III, Chapter 5 <i>Investment in the Special Economic Zones and Specific Economic Zones</i>	Chapter 5 Application for a foreign investment license	Section Four, Article 23
Application for investment	Part III, Chapter 2, Article 17 <i>Application for investment (in general business)</i> Investors wishing to invest in general business shall submit their application to the one-stop-service of Ministry/Department of Industry	Chapter 5, Article 19 <i>Application for (foreign) investment</i> An application for foreign investment in the Lao People's	Section Four, Article 25 A foreign investor which seeks a license for a foreign investment shall submit to the FMC an application and such supporting

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	<p>and Commerce in order to register the enterprise in conformity with Law on Enterprise</p> <p>The total capital of the foreign investors in general business shall not be less than one billion kips (1,000,000,000 kips)</p> <p>Part III, Chapter 3, Article 21 <i>Application for investment (in concession business)</i></p> <p>Investors wishing to invest in concession shall submit their application to the one-stop-service of Ministry/Department of Planning and Investment for appraisal before submission to the Government or provincial authorities for further consideration.</p> <p>Part III, Chapter 5, Article 35 Zones establishment procedures</p> <p>The investor wishing to establish a special economic zone and a specific economic zone shall submit an application to the Ministry/Department of Planning and Investment for examination and subsequently submission to the Government for consideration.</p> <p>Part III, Chapter 5, Article 43 <i>Application for investment in special economic zones and specific economic zones by other investors</i></p> <p>Beside from the zone developers, other investors wishing to invest in the special economic zones and specific economic zones shall submit their applications to the one-stop-service of the concerned zone management committee of special economic zones and specific economic zones for consideration in accordance with regulations.</p>	<p>Democratic Republic must go through the one stop service of the Committee for Promotion and Management of Investment ("CPMI").</p> <p>Foreign investors wishing to invest in the Lao People's Democratic Republic must submit an application to the CPMI at the central or provincial levels with attachments, such as</p>	<p>documentation as the FIMC may prescribe by regulation</p>
Consideration of investment	Part III, Chapter 2, Article 18 <i>Investment approval procedure (in</i>	Chapter 5, Article 20	Article 25

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application or investment approval procedure	<p><i>general business</i>)</p> <p>With respect to the procedures and timeframe for considering a general business enterprise registration that is not listed as a controlled business, the enterprise registration certificate shall be issued within ten (10) working days starting from the date of submission of application form. In case of a controlled business, the enterprise registration certificate shall be issued no later than thirteen (13) working days starting from the date of submission of application form as in conformity with the Law on Enterprise.</p> <p>In the case of an application for business expansion of existing enterprise, the application shall comprise only necessary documents as stipulated in specific regulations. The consideration of the application shall be faster than that of the new investment application.</p> <p>Part III, Chapter 3, Article 19 <i>Enterprise registration certificate (general business)</i></p> <p>Upon receipt of the enterprise registration certificate, the investor can immediately start business operation</p> <p>-----</p> <p>Part III, Chapter 3, Article 22 <i>Selection of investors (concession business)</i></p> <p>Part III, Chapter 3, Article 23 <i>Consideration of an investment in concession</i></p> <p>The Ministry/Department of Planning and Investment is in charge of considering the investment in concession business</p> <p>Part III, Chapter 3, Article 24</p>	<p><i>Consideration of foreign investment application</i></p> <p>Upon receipt of an application with its attachments in accordance with Article 19 of this law, the CPMI must coordinate with relevant sectors and local authorities, when necessary, to consider and to respond in writing to the foreign investor pursuant to the following timeframes:</p> <ul style="list-style-type: none"> - Projects which fall in the list of promoted [activities]: fifteen working days - Projects which fall in the list of open activities with conditions: twenty-five working days - Projects which involve the grant of a concession: forty-five working days. <p>Foreign investors who are qualified under this law shall obtain a foreign investment license, an enterprise registration certificate and a tax registration certificate at the same time from the CPMI at the place where the foreign</p>	<p>The FIMC may grant preliminary approval-in-principle for investment projects being specially promoted by the Government</p> <p>Article 26 Upon receipt of a completed application and supporting documentation, the FIMC shall screen them, take a foreign-investment licensing decision and notify the applicant of the decision within 60 days of the application's submission date</p> <p>Article 27 Within 90 days of receiving its foreign investment license from the FIMC, a foreign investors shall register that license and commence operation of its investment in conformity with the implementation schedule contained in the investment's feasibility study and with the terms and conditions of the license granted by the FIMC, and in accordance with the laws and regulations of the Lao PDR</p>

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	<p><i>Issuance of a concession business registration certificate</i></p> <p>The Ministry of Planning and Investment is charged with issuing the concession registration certificate within its scope of responsibilities after the approval of the government.</p> <p>The Department/Office of Planning and Investment are charged with issuing the concession registration certificate within their scope of responsibilities after the approval of the concerned local authorities</p> <p>Part III, Chapter 3, Article 25 <i>Concession certificate (concession business)</i></p> <p>Upon receipt of a concession certificate, the investor can immediately start business operations and the investor must start business activities within ninety (90) days. If the investor does not conduct activities within the mentioned timeframe, Ministry/Department of Planning and Investment shall issue a written warning. If the investor does not start business operations within sixty (60) additional days, the concession certificate will be revoked and the project guarantee funds will be confiscated by the government.</p> <p>-----</p> <p>Part III, Chapter 4, Article 31 <i>Consideration of projects or activities listing in investment calling list</i></p> <p>In the case of a concession investment in investment calling list, the approval shall be issued no later than forty five (45) official working days starting from the date of receiving the application</p> <p>Part III, Chapter 4, Article 32 <i>Approval of a project or activity</i></p>	<p>investors are licensed; thereafter they shall be considered as enterprises established in conformity with the laws of the Lao People's Democratic Republic</p> <p>Within 90 days from the date of receipt of an investment license, the foreign investment enterprise must commence business activities in accordance with the steps in the feasibility study stipulated in the foreign investment license and in conformity with the laws and regulations of the Lao People's Democratic Republic. If such timeframe is not followed, the foreign investment license shall be terminated</p>	

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	<p><i>listing in investment calling list</i></p> <p>Ministry/Department of Industry and Commerce or Ministry/Department of Planning and Investment, upon examining the conditions and ability of the investors in accordance with regulations, approve projects and activities in the investment calling list</p> <p>-----</p> <p>-</p> <p>Part III, Chapter 5, Article 35 <i>Zones establishment procedure</i></p> <p>The approval of the establishment of special economic zones and specific economic zones shall be carried out in the same manner as the approval of the concession business. Furthermore, a committee responsible for the establishment of special economic zones and specific economic zones shall be formed</p> <p>Part III, Chapter 5, Article 43 <i>Application for investment in special economic zones and specific economic zones by other investors</i></p> <p>Beside from the zone developers, other investors wishing to invest in the special economic zones and specific economic zones shall submit their applications to the one-stop-service of the concerned zone management committee of special economic zones and specific economic zones for consideration in accordance with regulations.</p>		
5. Promotion of investment	Part IV <i>Promotion and protection of investment</i>	Chapter 4 <i>Incentive for foreign investment</i>	
Promoted sectors, Promoted activities	<p>Part IV, Chapter 1, Article 49 <i>Promoted sectors</i></p> <p>The promoted sectors are agriculture, industry, handicraft and services. Details of promoted activities under the sectors are</p>	<p>Chapter 4, Article 16 <i>Promoted activities</i></p> <p>The government defines promoted activities as follows: 1. Production for</p>	<p>Section One, Article 2</p> <p>Foreign investors may invest in and operate enterprises in all fields of lawful economic activity such as agriculture and</p>

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	<p>determined by the Government and classified into three different levels based on prioritized activities of the Government, the activities related to the poverty reduction, the improvement of living conditions of people, construction of infrastructure, human resource development, jobs creation, etc.</p> <p>There are three levels of promotion:</p> <p>Level 1: Activities with highest level of promotion Level 2: Activities with moderate level of promotion Level 3: Activities with low level of promotion</p>	<p>export</p> <p>2. Activities relating to agriculture or forestry, and agricultural, forestry and handicraft processing activities</p> <p>3. Activities relating to industrial processing, industrial activities using modern techniques and technology, research and development, and activities relating to the protection of the environment and biodiversity</p> <p>4. Human resource development, skills development and public health</p> <p>5. Construction of infrastructure;</p> <p>6. Production of raw materials and equipment to be supplied to key industrial activities; [and]</p> <p>7. Development of the tourism industry and transit services.</p>	<p>forestry, manufacturing, energy, mineral extraction, handicrafts, communications and transport, construction, tourism, trade, services and others.</p> <p>Section Three, Article 18 In highly exceptional cases and by specific decision of the Government of the Lao PDR, foreign investors may be granted special privileges and benefits which may possibly include a reduction in or exemption from the profit-tax rate prescribed by Article 16 and/or a reduction in or exemption from the import-duty rate prescribed by Article 17, because of the large size of their investments and the significant positive impact which those investments are expected to have upon the socio-economic development of the Lao PDR. In the event of the establishment of one or more Free Zones or Investment Promotion Zones, the Government shall issue area-specific or general regulations or resolutions.</p>
Promoted zones	<p>Part IV, Chapter 1, Article 50 <i>Promoted zones</i></p> <p>Based on the socio-economic infrastructure and geographical conditions of the country, investment zones are classified into three promoted zones, as follows:</p> <p>Zone1: Zones having least socio-economic infrastructure</p>	<p>Chapter 4, Article 17 <i>Promoted zones</i></p> <p>The government determines 3 promoted zones for foreign investment based on geographical location and socio-economic conditions. The zones are as</p>	<p>Section Three, Article 18</p> <p>In the event of the establishment of one or more Free Zones or Investment Promotion Zones, the Government shall issue area-specific or general regulations or resolutions.</p>

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	<p>development in facilitating investments. The zones are mainly mountainous remote areas.</p> <p>Zone2: Zones having moderate socio-economic infrastructure development, enabling partial facilitation to the investments, and having less difficult geographical situation compared to Zone 1</p> <p>Zone3: Zones having good socio-economic infrastructure development in supporting investments</p>	<p>follows:</p> <p>Zone 1: Mountainous, plain and plateau zones with no economic infrastructure to facilitate investments</p> <p>Zone 2: Mountainous, plain and plateau zones with a moderate level of economic infrastructure suitable to accommodate investments to some extent</p> <p>Zone 3: Mountainous, plain and plateau zones with good infrastructure to support investments</p> <p>The details of the promoted zones for foreign investment shall be determined by the government</p>	
Customs duty and tax incentives	<p>Part IV, Chapter 1 <i>Customs duty and tax incentives</i></p> <p>Based on promoted sectors and promoted activities stated in Part IV, Chapter 1, Article 49</p> <p>The promoted sectors are agriculture, industry, handicraft and services.</p> <p>Three levels of promoted activities:</p> <p>Level 1: Activities with highest level of promotion Level 2: Activities with moderate level of promotion Level 3: Activities with low level of promotion</p> <p>Based on promoted zones stated in Part IV, Chapter 1, Article 50</p> <p>Zone 1: The zones will enjoy</p>	<p>Chapter 4, Article 18 <i>Incentive related to duties and taxes</i></p>	<p>Section Three, Article 16 Section Three, Article 17 Section Three, Article 18</p>

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	highest level of investment promotion incentives Zone 2: The zones will enjoy moderate level of investment promotion incentives Zone 3: The zones receive lower level of investment promotion incentives		
Incentives related to profit tax	<p>Part IV, Chapter 1, Article 51 <i>Incentives related to profit tax</i></p> <p>Zone 1: - Activities classified under the investment promotion of level 1 shall receive profit tax exemption for a period of 10 years - Activities classified under the investment promotion of level 2 shall receive profit tax exemption for a period of 6 years - Activities classified under the investment promotion of level 3 shall receive profit tax exemption for a period of 4 years</p> <p>Zone 2: - Activities classified under the investment promotion of level 1 shall receive profit tax exemption for a period of 6 years - Activities classified under the investment promotion of level 2 shall receive profit tax exemption for a period of 4 years - Activities classified under the investment promotion of level 3 shall receive profit tax exemption for a period of 2 years</p> <p>Zone 3: - Activities classified under the investment promotion of level 1 shall receive profit tax exemption for a period of 4 years - Activities classified under the investment promotion of level 2 shall receive profit tax exemption for a period of 2 years - Activities classified under the investment promotion of level 3 shall receive profit tax exemption for a period of 1 year</p>	<p>Chapter 4, Article 18 <i>Incentive related to duties and taxes</i></p> <p>Zone 1: Investments in Zone 1 shall be entitled to a profit tax exemption for 7 years and thereafter shall be subject to profit tax at the rate of ten percent (10%)</p> <p>Zone 2: Investments in Zone 2 shall be entitled to a profit tax exemption for 5 years, and thereafter shall be subject to a reduced profit tax rate of half of fifteen percent for 3 years and thereafter a profit tax rate of fifteen percent (15%)</p> <p>Zone 3: Investments in Zone 3 shall be entitled to a profit tax exemption for 2 years and thereafter shall be subject to a reduced profit tax rate of half of twenty percent for 2 years and thereafter a profit tax rate of twenty percent (20%).</p> <p>Profit tax exemption starts from the date the foreign investment enterprise carries out operations. For tree</p>	<p>Section Three, Article 16</p> <p>Foreign investments subject to this law shall pay a Lao PDR annual profit tax at a uniform flat rate of twenty percent (20%), calculated in accordance with the provisions of the applicable laws and regulations of the Lao PDR.</p> <p>Other Lao taxes, duties and fees shall be payable in accordance with the applicable laws and regulations of the Lao PDR</p> <p>For foreign investments involving natural resources exploitation and energy generation, sector-specific taxes and royalties shall be prescribed in project agreements entered into between the investors and Lao Government.</p> <p>Section Three, Article 18 In highly exceptional cases and by specific decision of the Government of the Lao PDR, foreign investors may be granted special privileges and benefits which may possibly include a reduction in or exemption from the profit-tax rate prescribed by Article 16 and/or a reduction in or exemption from the import-duty rate</p>

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	<p>Profit tax exemption commences from the first commercial operational date.</p> <p>For the manufacturing of new products, and research and development of new technology activities, the profit tax exemption commences from the first profit-making year.</p> <p>After completion of the period of profit tax as mentioned above, the enterprise shall pay profit tax in accordance with Tax Law</p> <p>Tax exemption for mining, hydropower and tree plantation concession shall comply with specific laws on the above-mentioned sectors</p>	<p>plantation activities, profit tax exemption commences from the date the enterprise starts making a profit.</p> <p>Once the profit tax exemption period is over, the foreign investment enterprise must pay profit tax in accordance with the laws and regulations.</p>	<p>prescribed by Article 17, because of the large size of their investments and the significant positive impact which those investments are expected to have upon the socio-economic development of the Lao PDR.</p>
Incentives related to other customs duty and taxes	<p>Part IV, Chapter 1, Article 52 <i>Incentives related to other customs duty and taxes</i></p> <p>In addition to the profit tax incentives</p> <p>1.Exemption from profit tax in the next accounting year, if the net profit derived from business activities is used for business expansion</p> <p>2. Exemption from import duties for the importation of raw material, equipment, spare parts and vehicles which are directly used for production. However, exemption of import tax shall comply with specific regulations</p> <p>3. Exemption from export duties for exportation of general goods and products. The exportation of natural resources and natural resource-made products shall comply with concerned regulations and laws. The importation of all types of fuel is not exempted from duties and taxes</p> <p>4. If an investor suffers losses after completion of tax finalization with the tax office, the investor shall be permitted to carry the losses forward to three consecutive</p>	<p>Chapter 4, Article 18 <i>Incentive related to duties and taxes</i></p> <p>In addition to the profit tax incentives, foreign investment enterprises shall be entitled to the following incentives:</p> <p>1. During the tax exemption period and during the tax reduction period, the enterprise is entitled to an exemption of minimum tax</p> <p>2. The profit used for the expansion of licensed business activities shall be exempted from profit tax during the accounting year</p> <p>3. Exemption from import duties and taxes on equipment, spare parts and vehicles directly used for production, on raw</p>	<p>Section Three, Article 16</p> <p>Other Lao taxes, duties and fees shall be payable in accordance with the applicable laws and regulations of the Lao PDR</p> <p>For foreign investments involving natural resources exploitation and energy generation, sector-specific taxes and royalties shall be prescribed in project agreements entered into between the investors and Lao Government.</p> <p>Section Three, Article 17 Foreign investments shall pay a Lao PDR import duty on equipment, means of production, spare parts and other materials used in the operation of their investment projects or in their productive enterprises as a uniform flat rate of one percent (1%) of their imported</p>

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	<p>accounting years. After ending of the period, any remaining losses shall not be allowed to be deducted from profit. For special economic zones and specific economic zones, the provision of incentive treatment shall be in compliance with the Decree on the Establishment and Activities of respective zone.</p>	<p>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; and 4. Exemption from export duty on export products.</p> <p>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</p> <p>Special economic zones, industrial zones, border trade areas and other specific economic zones must follow the laws and regulations of such specific areas</p>	<p>value. Raw materials and intermediate components imported for the purpose of processing and then re-exported shall be exempt from such import duties. All exported finished products shall also be exempted from export duties.</p> <p>Raw materials and intermediate components imported for the purpose of achieving import substitution shall be eligible for special duty reductions in accordance with the Government's incentive policies</p> <p>Section Three, Article 18 In highly exceptional cases and by specific decision of the Government of the Lao PDR, foreign investors may be granted special privileges and benefits which may possibly include a reduction in or exemption from the profit-tax rate prescribed by Article 16 and/or a reduction in or exemption from the import-duty rate prescribed by Article 17, because of the large size of their investments and the significant positive impact which those investments are expected to have upon the socio-economic development of the Lao PDR.</p>
Incentives related to accession of finance	Part IV, Chapter 1, Article 53 <i>Incentives related to accession of finance</i>		
Specific promotion	Part IV, Chapter 1, Article 54 <i>Specific promotion incentives</i>	Chapter 4, Article 18 <i>Incentive related to</i>	Section Three, Article 18

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incentives	<p>Specific promotion incentives are as follow:</p> <p>1. Investment in the development of hospitals, kindergartens, schools, vocational schools, colleges, universities, research centers and some public utilities are entitled to be exempted from the land lease or concession fees, provided that the land owned by the government, as follows:</p> <p>Zone 1: Exemption from land lease or concession fees for 15 years Zone 2: Exemption from land lease or concession fees for 10 years Zone 3: Exemption from land lease or concession fees for 3 years</p> <p>Investments in the development of hospitals, kindergartens, schools, vocational schools, colleges, universities, research centers and some public utilities are given and additional five years of profit tax exemption to the period described in Article 51 of this Law</p>	<p><i>duties and taxes</i></p> <p>Special economic zones, industrial zones, border trade areas and other specific economic zones must follow the laws and regulations of such specific areas</p>	<p>In highly exceptional cases and by specific decision of the Government of the Lao PDR, foreign investors may be granted special privileges and benefits which may possibly include a reduction in or exemption from the profit-tax rate prescribed by Article 16 and/or a reduction in or exemption from the import-duty rate prescribed by Article 17, because of the large size of their investments and the significant positive impact which those investments are expected to have upon the socio-economic development of the Lao PDR.</p>
Implementation of incentives related to customs duties and taxes	<p>Part IV, Chapter 1, Article 55 <i>Implementation of incentives related to customs duties and taxes</i></p>		
Other incentives applying for investment promotion	<p>Part IV, Chapter 2 <i>Other incentives applying for investment promotion</i></p> <p>Part IV, Chapter 2, Article 56 <i>Other incentives applying for investment promotion</i></p> <p>1. Providing information 2. Granting land use rights</p>		
Provision of information	<p>Part IV, Chapter 2, Article 57 <i>Provision of information</i></p>		
Granting rights on land use	<p>Part IV, Chapter 2, Article 58 <i>Granting rights on land use</i></p> <p>Foreign investors with registered capital of five hundred thousand (500,000) US Dollars or above are</p>	<p>Chapter 3, Article 12 (4)</p> <p>Foreign investors have the right to receive</p>	<p>Section Three, Article 10</p> <p>Foreign investors may lease land within the Lao PDR and transfer their</p>

Issues	Law on the Investment Promotion in the Lao PDR (2009)	Law on Investment Promotion and Management (revised 2004)	Law on Investment Promotion and Management (1994)
	<p>entitled to purchase land use rights. The Government shall allocate land to investors for duration consistent with the investment term with the consent of local authorities and according to prevailing regulations to build facilities for residential or business purposes</p> <p>The government shall formulate relevant regulations and decentralization based management mechanism for execution of land use rights of foreign investors</p> <p>Part V, Article 64 (10)</p> <p>Investors have rights to receive benefits from land lease or concession, such as land use rights for direct production/operation, rights to use as collateral with other individuals/entities or financial institutions or use for the purpose of joint venture, to sublease the land use rights, to transfer the land use rights, and take over the land lease contract in accordance with the terms of the lease agreement and other rights in accordance with the laws</p> <p>Part V, Article 64 (11)</p> <p>A land lease holder or concessionaire has the rights to use the land according to the period of leasing contract or concession agreement, own assets such as buildings or any constructions on the land, and transfer the use rights to local nationals or foreigners</p>	<p>benefits from the lease of or a concession over land, such as [the right] to use or sell the assets associated with the leased land or concession, to create security interests over such assets in favour of any persons or financial institutions or [to take such assets] for the purpose of a joint venture, to sublease the right to use land, to transfer the land lease or concession agreement in accordance with the terms of the lease, to use the [land] lease contract or concession in a joint venture or to grant a security interest [over the land lease contract or concession] in favour of other persons.</p> <p>The details of the rights, benefits and obligations of foreign investors relating to the land lease or concession must be in compliance with the Land Law and other relevant laws</p>	<p>leasehold interests; and they may own improvements on land and other moveable property and transfer those ownership interests</p>
Expanding promotion incentives	<p>Part IV, Chapter 2, Article 59 <i>Expanding promotion incentives</i></p> <p>Additional promotion incentives for particular sectors, investment areas, special economic zones and specific economic zones</p>	<p>Chapter 4, Article 18 <i>Incentive related to duties and taxes</i></p> <p>Special economic zones, industrial zones, border trade areas and other specific economic</p>	

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		zones must follow the laws and regulations of such specific areas	
6. Investment protection and investment right	<p>Part IV, Chapter 3 <i>Protection of investment</i></p> <p>Part V Rights and obligations of investors Article 63 to Article 68</p> <p>Part V, Article 63 <i>Right of investors</i></p> <p>Investors have the following right</p> <ol style="list-style-type: none"> 1.Right to invest 2.Right to manage business operation 3. Right to hire labor 4. Right to live in the Lao PDR in the case of foreign investors 5. Right to repatriate capital, assets and income in the case of foreign investors 	Chapter 3, Article 12 <i>Rights and benefits of foreign investors</i>	Section One, Article 3 Section Three, Article 10 Section Three, Article 15
Rights on investment	Part V, Article 64 <i>Rights on investment</i>	Chapter 3, Article 12 (1) Chapter 3, Article 12 (2) Chapter 3, Article 12 (3) Chapter 3, Article 12 (9) Chapter 3, Article 12 (10) Chapter 3, Article 12 (11)	Section Three, Article 10 Section Three, Article 21
Rights on administration and management of investment business	Part V, Article 65 <i>Rights on administration and management of investment business</i>	Chapter 3, Article 12 (1)	Section Three, Article 10
Rights on hiring labor	<p>Part V, Article 66 <i>Rights on hiring labor</i></p> <p>Rights on hiring labor are as follows</p> <ol style="list-style-type: none"> 1. To sign employment contracts with technicians and experts who will work for the enterprise. In case the enterprise requires to import numbers of physical laborers and technical personnel exceeding the allowed quota as described in the 	<p>Chapter 3, Article 12 (5)</p> <p>The use of foreign labourers, if necessary, must not exceed ten percent (10%) of the enterprise's labour force</p>	<p>Section Three: Article 11</p> <p>Foreign investors shall give priority to Lao citizens in recruiting and hiring their employees. However, such enterprises have the right to employ skilled and expert foreign</p>

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	<p>Labor Law, the investor has the rights to request the Government for consideration</p> <p>2. To allocate and assign workers for various job position as required by the enterprise</p> <p>3. To provide equal treatment policies and measures to all workers</p> <p>4. To perform other rights as set forth in the Labor Law and other regulations</p>		<p>personnel when necessary and with the approval of the competent authority of the Government of the Lao PDR</p> <p>Foreign investors have an obligation to upgrade the skills of their Lao employees, through such techniques as training within the Lao PDR or abroad</p>
Rights of foreign investor on residence in the Lao PDR	<p>Part V, Article 67 <i>Rights of foreign investors on residence in the Lao PDR</i></p> <p>Foreign investors and their families have the right to reside within the territory of the Lao PDR according to the terms of investment. Foreign technicians and experts have right to reside in the territory of the Lao PDR according to their employment contracts</p> <p>Foreign investors and their families, technicians and experts have the rights to be provided with facilities to entering into and departing from the Lao PDR including obtaining multiple entry visas with a maximum term of five years</p>	<p>Chapter 3, Article 12 (6)</p> <p>Foreign investors and their families, including foreign professionals and foreign employees of an enterprise, shall be provided with facilities such as multiple entry visas and, if approved by the government, long term residence in the territory of the Lao People's Democratic Republic, and shall have the right to request Lao nationality in accordance with the Law on Lao Nationality</p>	<p>Section Three: Article 12</p> <p>The Government of the Lao PDR shall facilitate the entry into, travel within, stay within, and exit from Lao territory of foreign investors, their foreign personnel, and the immediate family members of those investors and those personnel. All such persons are subject to and must obey the laws and regulations of the Lao PDR while they are on Lao territory.</p>
Rights on foreign investors to repatriate capital, assets and income	<p>Part V, Article 68 <i>Rights on foreign investors to repatriate capital, assets and income</i></p>	<p>Chapter 3, Article 12 (8)</p>	<p>Section Three, Article 15</p>
Right on land use	<p>Part IV, Chapter 2, Article 58 <i>Granting rights on land use</i></p>	<p>Chapter 3, Article 12 (4)</p>	<p>Section Three, Article 10</p>

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	<p>Foreign investors with registered capital of five hundred thousand (500,000) US Dollars or above are entitled to purchase land use rights. The Government shall allocate land to investors for duration consistent with the investment term with the consent of local authorities and according to prevailing regulations to build facilities for residential or business purposes</p> <p>The government shall formulate relevant regulations and decentralization based management mechanism for execution of land use rights of foreign investors</p> <p>Part V, Article 64 (10)</p> <p>Investors have rights to receive benefits from land lease or concession, such as land use rights for direct production/operation, rights to use as collateral with other individuals/entities or financial institutions or use for the purpose of joint venture, to sublease the land use rights, to transfer the land use rights, and take over the land lease contract in accordance with the terms of the lease agreement and other rights in accordance with the laws</p> <p>Part V, Article 64 (11)</p> <p>A land lease holder or concessionaire has the rights to use the land according to the period of leasing contract or concession agreement, own assets such as buildings or any constructions on the land, and transfer the use rights to local nationals or foreigners</p>	<p>Foreign investors have the right to receive benefits from the lease of or a concession over land, such as [the right] to use or sell the assets associated with the leased land or concession, to create security interests over such assets in favour of any persons or financial institutions or [to take such assets] for the purpose of a joint venture, to sublease the right to use land, to transfer the land lease or concession agreement in accordance with the terms of the lease, to use the [land] lease contract or concession in a joint venture or to grant a security interest [over the land lease contract or concession] in favour of other persons.</p> <p>The details of the rights, benefits and obligations of foreign investors relating to the land lease or concession must be in compliance with the Land Law and other relevant laws</p>	<p>Foreign investors may lease land within the Lao PDR and transfer their leasehold interests; and they may own improvements on land and other moveable property and transfer those ownership interests</p>
Intellectual property protection	Part III, Chapter 3, Article 62	Chapter 3, Article 12 (7)	
7. Investment	Part V, Article 69	Chapter 3, Article 13	Section Three, Article 11

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obligation	<p><i>Obligations of investors</i></p> <p>Part V, Article 70 <i>Obligations on protect environment</i></p>		<p>Section Three, Article 12 Section Three, Article 13 Section Three, Article 14 Section Three, Article 16 Section Three, Article 17 Section Three, Article 19 Section Three, Article 20</p>
Obligation on time frame of starting business	<p>Part III, Chapter 3, Article 19 <i>Enterprise registration certificate (general business)</i></p> <p>Upon receipt of the enterprise registration certificate, the investor can immediately start business operation</p> <p>Part III, Chapter 3, Article 25 <i>Concession certificate (concession business)</i></p> <p>Upon receipt of a concession certificate, the investor can immediately start business operations and the investor must start business activities within ninety (90) days. If the investor does not conduct activities within the mentioned timeframe, Ministry/Department of Planning and Investment shall issue a written warning. If the investor does not start business operations within sixty (60) additional days, the concession certificate will be revoked and the project guarantee funds will be confiscated by the government.</p>	<p>Chapter 5, Article 20 <i>Consideration of foreign investment application</i></p> <p>Within 90 days from the date of receipt of an investment license, the foreign investment enterprise must commence business activities in accordance with the steps in the feasibility study stipulated in the foreign investment license and in conformity with the laws and regulations of the Lao People's Democratic Republic. If such timeframe is not followed, the foreign investment license shall be terminated</p>	<p>Article 27</p> <p>Within 90 days of receiving its foreign investment license from the FIMC, a foreign investors shall register that license and commence operation of its investment in conformity with the implementation schedule contained in the investment's feasibility study and with the terms and conditions of the license granted by the FIMC, and in accordance with the laws and regulations of the Lao PDR.</p>
Personal income tax of foreign investors and foreign employees		<p>Chapter 3, Article 14 <i>Personal income tax of foreign employees</i></p> <p>Foreign employees working in a foreign investment enterprise must pay personal income tax at the rate of ten percent (10%) of their total income to the Lao government, except employees of a country with which the Lao Government</p>	<p>Section Three, Article 12</p> <p>Foreign investors and their foreign personnel working within the Lao PDR shall pay to the Lao government personal income tax at a flat rate of ten percent (10%) of their income earned in the Lao PDR.</p>

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		has signed a double taxation agreement	
8. Prohibitions	Part VI Prohibitions Part VI, Article 71 General prohibitions Part VI, Article 72 Prohibition for government staff Part VI, Article 73 Prohibition for investors		
9. Suspension, change, cancellation and termination of investment	Part VII Suspension, change, cancellation and termination of investment		Section Four, Article 29
10. Dispute resolution	Part VIII Dispute resolution		Section Three, Article 21
11. Management and inspection	Part IX Management and inspection	Chapter 6 <i>Management of foreign investment</i>	Section Four The organization of foreign investment management
Management	Part IX, Chapter 1 <i>Management</i> Part IX, Chapter 1, Article 83 <i>Principle of authority decentralization</i> Part IX, Chapter 1, Article 83 <i>Decentralization of authority for investment management between central and provincial authority</i>	Chapter 6 Management of foreign investment	Section Four The organization of foreign investment management
Management authorities	Part IX, Chapter 2 <i>Management authorities</i> Part IX, Chapter 2, Article 85 <i>Investment management authorities</i> Investment management authorities consist of: 1.Planning and Investment sector 2.Industrial and Commercial sector 3.Special Economic Zones and Specific Economic Zones Part IX, Chapter 2, Article 86 <i>Rights and duties of the Ministry of Planning and Investment and the</i>	Chapter 6, Article 21 <i>Management authorities related to foreign investment</i> Management authorities related to foreign investment are: 1. The Committee for Promotion and Management of Investment (CPMI) at central and provincial levels	Section Four, Article 22 The Government of the Lao PDR has established a State organization to promote and to manage foreign investment within the Lao PDR titled the Foreign Investment Management Committee (hereinafter called "the FIMC") The FIMC is responsible for administration of this law and for the protection and promotion of foreign

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	<p><i>Ministry of Industry and Commerce</i></p> <p>Part IX, Chapter 2, Article 87 <i>Rights and duties of the Provincial Department of the Ministry of Planning and Investment and Department of Industry and Commerce</i></p> <p>Part IX, Chapter 2, Article 88 <i>Rights and duties of the District and Municipality Office of Planning and Investment and Office of Industry and Commerce</i></p> <p>Part IX, Chapter 2, Article 89 <i>Management Committee of Special Economic Zones and Specific Economic Zones</i></p> <p>Part IX, Chapter 2, Article 90 <i>Rights and duties of Management Committee of the Special Economic Zones and Specific Economic Zones</i></p> <p>Part IX, Chapter 2, Article 91 <i>Rights and duties of the other sectors and authorities</i></p>	<p>2. Sectors and other relevant sectoral organizations</p> <p>Chapter 6, Article 22 <i>Rights and duties of CPMI at the central Levels</i></p> <p>Chapter 6, Article 23 <i>Rights and duties of CPMI at provincial Levels</i></p> <p>Chapter 6, Article 24 <i>Rights and duties of relevant sectors and sectoral organizations</i></p>	<p>investment within the Lao PDR.</p> <p>Section Four, Article 23</p> <p>All foreign investments established within the Lao PDR shall be assisted, licensed and monitored through the "1-stop-service" of the FIMC, acting as the central focal point for all Government interactions with the investors, with the collaboration of the concerned ministries and the relevant provincial authorities.</p> <p>Section Four, Article 24 Section Four, Article 25 Section Four, Article 26 Section Four, Article 27</p> <p>Section Four, Article 28 The FIMC has responsibility to coordinate with other concerned ministries and provincial authorities in monitoring and enforcing the implementation of a foreign investment in conformity with the investment's feasibility study and with the terms and conditions of the investment license, and in accordance with the laws and regulations of the Lao PDR.</p> <p>Section Four, Article 29</p>
Inspection	Part IX, Chapter 3 <i>Inspection</i>	Chapter 6 Management of foreign investment	Section Four The organization of foreign investment management
12. Awards for good performance and sanctions against	Chapter X Awards for good performance and sanctions against violations	Chapter 8, Article 28 Policies toward those who have performed well and measures	

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violations		against violators	
13. Final provisions	Part XI Final provisions	Chapter 9 Final Provision	Section Five Final Provision
Implementation	<p>Part XI, Article 98 <i>Implementation</i></p> <p>The Government of the Lao PDR shall implement this law</p>	<p>Chapter 9, Article 31 <i>Implementation</i></p> <p>The Government of the Lao PDR shall implement this law</p>	<p>Section Five, Article 31</p> <p>The Government of the Lao PDR shall, by decree, issue detailed regulations for the implementation of this law</p>
Entry into forces	<p>Part XI, Article 99 <i>Entry into forces</i></p> <p>This law shall enter into force within sixty (60) days from the date of the promulgating decree issued by the President of the Lao PDR</p> <p>This law shall replace the Law on the Promotion of Domestic Investment No. 10/NA, dated 22 October 2004 and the Law on the Promotion of Foreign Investment No. 11/NA, dated 22 October 2004</p> <p>All benefits obtained by the enterprise under previous laws or agreement signed with the Government shall remain unchanged. In the case that the enterprise wishes to obtain investment incentives under this Law, it shall have the rights to request from the relevant authority. The relevant authority shall then inform the investor immediately on the effectiveness of the implementation of the investment incentives under this Law</p>	<p>Chapter 9, Article 32 Effectiveness</p> <p>This law shall enter into force sixty days from the date of the promulgating decree issued by the President of Lao People's Democratic Republic. Thereafter, the Law on the Promotion and Management of Foreign Investment No. 01/94/NA, dated 14 March 1994 shall be abrogated without affecting the rights, benefits and obligations granted to investors under or those [rights, benefits and obligations] which need to be exercised under the Law No. 01/94/NA. Foreign investors who have been licensed under the Law No. 01/94/NA and who wish to obtain incentives provided by this Law on Promotion of Foreign Investment</p>	<p>Section Five, Article 30</p> <p>This law shall come into force 60 days after its ratification</p> <p>Upon the entry into force of the present law, the foreign investment law of the Lao People's Democratic Republic No. 07/PSA dated 19 April 1988 shall cease to have effect, without prejudice to the rights and privileges granted to, and the obligations imposed upon, foreign investments under the law No. 07/PSA. Notwithstanding this provision, a foreign investor which received its license under the prior law may elect to petition the FIMC in writing, within 120 days of the coming into force of this law, to become subject to the terms of this law. The FIMC may grant such petitions at its discretion. For a foreign investor whose petition is granted, the right and benefits previously granted, and the obligations previously imposed under the law No. 07/PSA shall</p>

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		must submit a request in writing to the CPMI within 120 days from the date of effectiveness of this law. Vientiane, 22	thereafter prospectively cease to have effect