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Ease of Doing Business and Challenges for Foreign Direct Investment in Laos

by Mr. Rufus Pinto, Austcham Lao, President

12<sup>th</sup> Lao Business Forum

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- H.E. Mr. Thongloun Sisoulith, Prime Minister of Lao PDR;
- Mrs. Khemmani Pholsena, Minister of Industry and Commerce;
- Ministers, Deputy Ministers, Directors General, Deputy Directors General;
- Their Excellencies, Ambassadors, Representatives of diplomatic delegations and international organizations;
- Representatives of the domestic and foreign business communities:

It is indeed my privilege today in addressing you and all our attendees at the 12<sup>th</sup> Lao Business Forum. My name is Rufus Pinto and I am the President of the Australian Chamber of Commerce (Austcham) in the Lao PDR. We at Austcham are grateful to President Mr. Oudet Souvannavong and his team at LNCCI for giving us this opportunity to present on behalf of the American Chamber, British Business Group, European Chamber and Japanese Chamber amongst the international Chambers here in the Lao PDR. Austcham is one of the oldest international chambers in Laos and our 120+ members include a mix of international and Lao businesses. Our goal as a chamber is to be the international chamber of choice, upholding our Australian values in the way we operate.

On behalf of the international chambers I would like to congratulate the Government of the Lao PDR, and LNCCI for holding today's Lao Business Forum. Public-Private dialogue is not always easy, it can be slow and challenging, however it is essential to achieving the kinds of business reforms that this government has committed itself to.

Today we have been asked to discuss the **"Ease of Doing Business and Challenges for Foreign Direct Investment in Laos"**.

Your Excellency and attendees,

My speech today has 3 parts. I will begin by **1)** making a few comments on the current global economic situation and where Laos sits within that – noting that while global trends are becoming more challenging, Laos sits within a dynamic and growing region and has many assets and opportunities. **2)** Our focus is then on what is our value proposition, that is, why invest in Laos? and finally **3)** I will discuss key challenges currently faced by investors.

**Current Global environment:**

The economic environment globally is seeing a structural shift. This is not another industrial revolution such as what we have experienced in the past. I believe today, if you spin a globe and point at any country we would notice there are significant challenges; the US – China Trade war; the Brexit debate engulfing UK and Europe; the political concerns in South America; civil wars in several African nations; or the slowing growth and lower return of investments in Oceania.

Foreign direct investment plays a pivotal role in the economic development of developing countries such as Laos. As well as providing capital which is typically not available domestically, the associated transfer of technology, knowledge and skills through training is vital in helping the recipient economy develop. FDI has played a pivotal role in Laos' economic development.



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Due to the US-China trade tensions, more multinationals are looking at diversifying their production and supply chains out of China. Southeast Asia is typically seen as a preferred destination. While there is currently a strong push factor, it is also important that countries are able to provide strong pull factors to attract FDI. Laos' geographical limitations and small population mean it is vital that the business environment is more welcoming than its neighbours to gather attention. Especially when countries like Vietnam, Thailand and India, have instituted reforms that have seen it jump in its ranking in the World Bank's Ease of Doing Business index over the last few years.

Against the above backdrop, I want to continue our comments today in understanding

➤ **why do investors invest in other countries?**

A study published at the "Australian Securities & Investment Commission" addresses this topic of Australian investors looking at investing overseas. They find that the three key reasons are:

- **Added diversification** - Spreading their investments over different countries and markets can mean that a slowdown in one country will have a smaller impact on their overall portfolio.
- **Higher growth** - International investing lets companies take advantage of potential growth in foreign countries, especially in emerging markets.
- **More options** - They can invest in companies, industries and assets that are not available or are difficult to invest in domestically.

➤ **So why invest in Laos?**

To answer the question requires us to articulate Laos' value proposition statement. This means identifying clearly why foreign investors invest in Laos and then communicating this across the globe. We see the value proposition in investing in Laos as currently being:

- Strategic location.
- Stable Government
- FDI focused nation, committed to an open economy
- Young population dynamic
- One of the highest per capita available land amongst ASEAN countries.

The value proposition needs to include matters that are the country's strengths, which will benefit local and foreign investors and emphasize why they should select Laos over any of our neighboring nations. As the Lao government has already identified, three sectors which are a key to attracting FDI are 1) energy; 2) tourism; and 3) food, beverage and agriculture. We believe a continuing focus on these sectors will set Laos apart from its neighboring countries and attract further FDI in these sectors. For example, Vietnam has successfully focused on its manufacturing and tourism and as a result its total exports are now equivalent to 100% of GDP, compared to just 27% of GDP in 1995. A similar focus on a select few sectors could create a niche for the Lao PDR in the region and attract investment.



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## **What are the current challenges for Foreign Direct Investment in Laos?**

### ***1) Policy certainty***

Globally investors look for consistent application of laws, strong implementation of rules and regulations and policy certainty.

In Laos, there is still more to be done to ensure policies are clear, implemented consistently and effectively and that informality does not prevail over rigorous processes. Policy coordination, inter-Ministerial and Provincial co-operation is a challenge in all countries, and this has been consistently raised by investors as a priority.

### ***2) Tax and Customs***

We recognize the important reforms that the Government is currently implementing with respect to increasing tax revenue and undertaking reforms in the tax system.

Tax is a key investment decision and an issue repeatedly raised by investors is that tax incentives need to be streamlined, and there must be a rule-based and consistent application of concessionary provisions and the law.

The Government has made progress in the introduction of online portals. However, in the case of the tax portal, our members experience that although receipts are provided, in some cases when followed up documents may be missing. Similarly, with regards to the national single window for the transportation sector, whilst it was working smoothly we understand that it has suddenly been withdrawn, thereby impacting timelines for number plate registrations and customs clearance, and in turn impacting business revenues.

### ***3) Improve in-land connectivity and planning for Laos to benefit from infrastructure developments***

Only a small share of firms exports directly. Being landlocked can be a disadvantage for Laos, but due to its strategic location within the Mekong, it can be a benefit if in-land connectivity is improved, thus also providing greater economic opportunity for FDI.

Laos has many exciting infrastructure developments on its horizon which have the potential to improve economic integration and regional connectivity. In order for the private sector to also benefit from this large scale infrastructure, Laos should focus on improving in-land connectivity, planning and prioritisation of projects and ensuring that complementary reforms, for example in areas like trade facilitation, are enacted.

### ***4) Improvement in Human Capital***

Low labour productivity hinders large scale investments. While acknowledging current fiscal constraints, the Lao government should continue to prioritise public spending in the education sector and vocational training to ensure that Laos can fully reap the benefit of its dynamic young population and is able to translate that to a skilled and productive workforce.

Employers should be incentivised through tax-breaks to provide in-house employee training.



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Further, we encourage government to consider welcoming quality international providers who will assist with the provision of vocational and tertiary education which mirror the needs of Lao industry and service sectors.

### **5) Focus on improving the 'ease of doing business' in Laos**

Whilst the World Bank report will provide your Excellency with the required detailed information, our focus is to highlight the top key needs that our members have commented on for improvement for FDI. Namely:

#### **i. Starting a business:**

Starting a business takes roughly 173 days in Laos compared to 25.6 days' average for East Asia and Pacific. The process not only requires a large list of supporting documents, but also needs approvals and processing from many ministries/departments individually. Singapore serves as a successful model, with its online/automated 'three-step' process that integrates different government functions and processes for speedy and automatic approvals. This can help in reducing both the number of days and the number of procedures undertaken for starting a business.

Our members commented that although companies are quickly established at the central level through an efficient ERC process, the operating permit process is unclear and time consuming which means that the positive impacts of the shortening of the ERC process is negated as businesses still cannot operate. We would urge departments to work together, as in the example of Singapore above, in having a smooth process end to end and continue the implementation of regulatory reforms in the provinces. Provinces play an important role in Laos' economic development and hence we believe focused implementation at provincial level is key.

#### **ii. Enforcing contracts:**

Enforcing contracts remains challenging and time-consuming for businesses. This is due to judicial delays, low capacity, insufficient resources and the absence of a fast trace court for commercial disputes.

Our members especially in the financial services sector find that the appeals process for delinquent loans takes a long time and that although there is clear evidence and documentation, the process to achieving resolutions remains challenging, thus impacting non-performing loan ratios for the nation and impacting the ability of SMEs to lend further and support businesses.

### **Conclusion:**

Your Excellency, our speech today is focused on what an international investor needs and why they want to invest in Laos.

To this end we must take the opportunity to highlight, that the Public – Private forums and Trade sector working groups have been exceptional in providing the private sector with a voice in the development of both their business and to further the nation. We encourage the government and LNCCI to continue working to ensure that these forums are as effective and interactive as possible, generating real 'results' which benefit the country and the private sector.



Your Excellency it is important for me to note that the members of the international chambers are here investing in the Lao PDR because we believe in the potential of the nation and we believe that the Government is willing to work with international investors.

The role of international chambers is to communicate and facilitate business networking and create investment opportunities, our role is also to be the voice of our members and a medium to bringing the Government's vision and the expectations of business closer. We as the international chambers stand ready collectively to support and assist in any way possible. We are available for further dialogue and discussion as the Government sees fit.

We would like to thank your Excellency for your personal interest and commitment to drive business reforms together with your Ministers in also promoting public- private dialogue such as this forum. I would also like to thank both, our members at the Australian Chamber and the International chambers who assisted in formulating this speech and the LNCCI, Mr Oudet and his team for their great support and passion towards seeing stronger FDI in the Lao PDR.

We wish the 12<sup>th</sup> LBF great success!

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