2nd HALF 2023

LAO PDR FOREIGN INVESTMENT SURVEY

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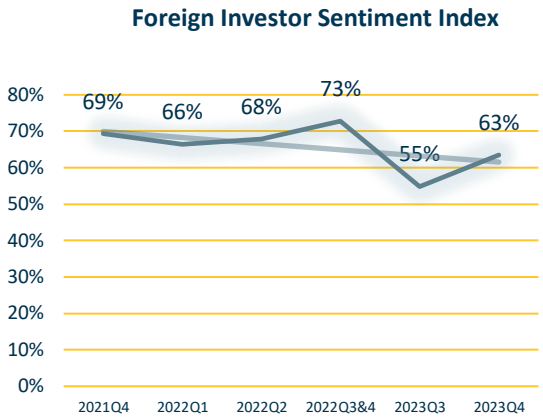
Introduction



The foreign investor business sentiment index increased in the 2nd half of 2023. The measures introduced by the government in the first of half of the year to address economic headwinds appear to be taking effect, with inflation easing form 28.64% at the end of the first half to 24.37% by the end of the second half, according to the Bank of Laos.

While concerns over the LAK's value persist, there is a notable decrease in concerns regarding interest rates, indicating a softening of major economic worries from the previous period.

The government's measures to improve its finances, control expenditures, and increase domestic revenues have likely contributed to the improved sentiment. These actions demonstrate a commitment to fiscal responsibility and economic stability, creating a more favorable environment for foreign investment.

While challenges like inflation, currency depreciation, and debt remain, the positive aspects of the economic outlook, coupled with the government's proactive measures and potential for future growth, appear to have outweighed these concerns for foreign investors resulting in an overall sentiment of 63%.

The improving sentiment suggests that they are taking a long-term view of the Lao economy, recognizing its potential despite the current challenges.

Foreign Investor Sentiment Index

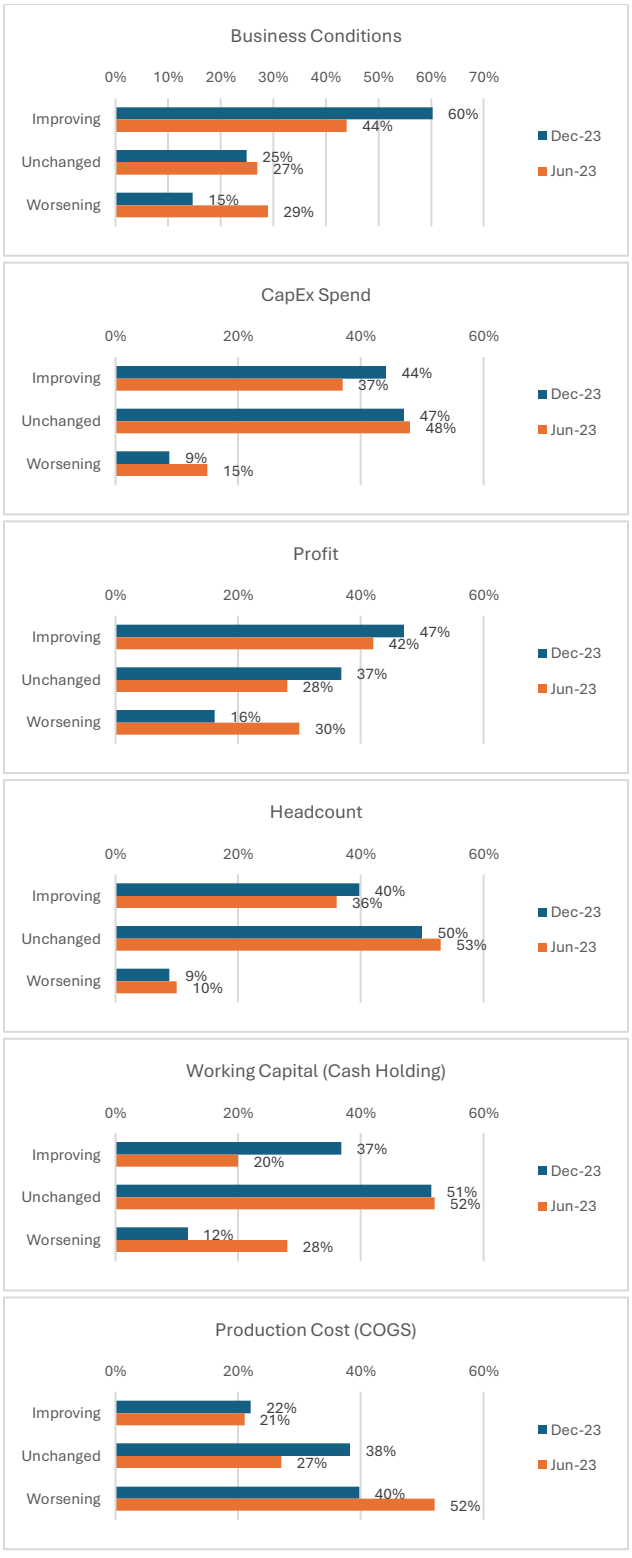
Business sentiment is improving across all categories, including business conditions, capital expenditure, profit, headcount, working capital, production, and sales. The outlook is particularly positive for overall business conditions and working capital flows.

This positive sentiment is further supported by respondents' investment plans for the next 12 months. A significant majority (74%) plan to accelerate investments in their businesses, while only 26% plan to decrease investments.

The top three categories of investment plans include operational expansion or improvement, capital expenditure, and workforce. This marks a clear shift from the first half of 2023, with companies moving away from acquisitions and focusing more on internal growth. The continued emphasis on capital expenditure, albeit at a slightly lower rate, indicates that businesses are still willing to invest in long-term assets, but may be taking a more measured approach to be wary of economic situations. The greater emphasis on optimizing existing resources and developing employee skills suggests a more confident outlook on the economy and a focus on long-term sustainability.

In contrast, the top three categories of deceleration stated include downsizing production, reducing staff, and withdrawal/sale, which is consistent with the first half of 2023. Downsizing production remains a concern for 38% of businesses, potentially impacting output and employment. However, there's less emphasis on staff reduction compared to last year. Overall, the economic outlook is mixed, with businesses facing challenges but also adapting to the changing landscape.

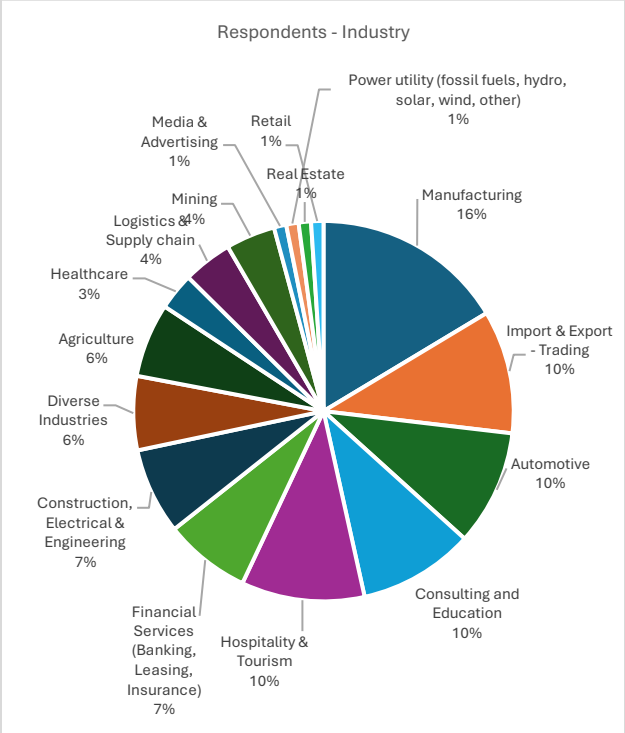
Figure 1: Business Sentiment Categories – 12 Month Outlook



Ownership & Participation by Industries

The 2nd Half 2023 Business Sentiment Survey received responses from 68 participants, representing a diverse range of major industries in Laos. Notably, sectors like Import & Export Trading and Automotive saw increased participation compared to the previous survey. However, the Agriculture sector experienced a significant decline in representation, dropping from 12% to 6% in the second half.

Figure 2: Respondent Industries



The vast majority (88%) of survey respondents represent businesses with at least 10% foreign ownership, a figure that has remained largely consistent with the previous survey. However, there was a notable decrease in the proportion of respondents from businesses with more than 10% foreign ownership, falling from 10% in the first half of 2023 to 5% in the second half.

The survey attracted investors from diverse countries, reflecting a wide range of international interest in Laos. While Japanese businesses constituted the largest group of respondents by percentage, followed by Lao and British firms, there were notable shifts in representation compared to the first half of 2023. British businesses increased from 2% to 12% and the proportion of Japanese and Lao businesses declined.

Figure 3: Ownership Structure

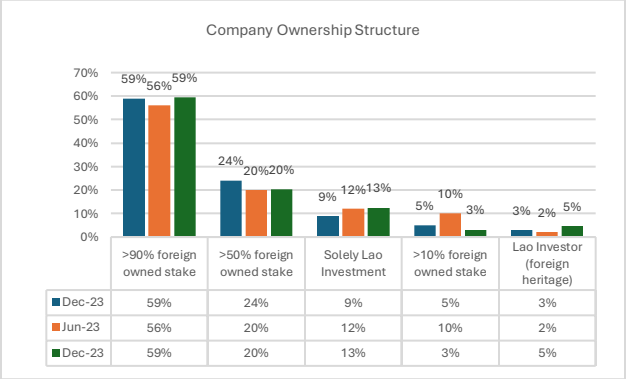
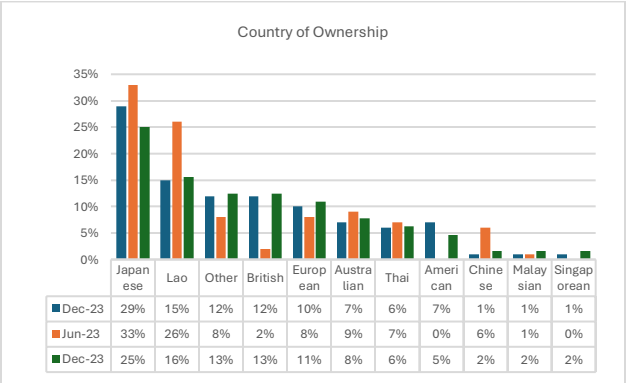


Figure 4: Country of Ownership



Organization Size, Asset Value, and Turnover

Businesses with fewer than 20 employees represented a smaller share of respondents in this survey (32%), down 17 percentage points from the last survey. On the other hand, larger businesses with over 100 employees accounted for 26% of respondents.

The majority (42%) of businesses surveyed in Laos have assets exceeding USD 1 million, while smaller businesses with assets under USD 50,000 account for 14%.

Figure 5: Business Asset Value and Turnover

(000's)	Asset Value	Turnover
< USD 50	14%	15%
USD 50 – USD 250	14%	18%
USD 251 – USD 500	18%	9%
USD 501 – USD 1000	12%	7%
> USD 1000	42%	51%
Total	100%	100%

Priorities that will Support Foreign Direct Investment

The survey provides respondents with an opportunity to select three factors that can materially improved their business. The factors have been grouped into two overarching themes to compile an index to measure the emphasis which business places on Market Asset Factors and Governance & Regulatory Factors.

1. Market Asset Factors are factors associated with bringing goods and services into the marketplace, they include but are not limited to quality and cost of transportation, depth of labor pool and availability of raw materials.

2. Governance & Regulatory Factors are factors associated with legislative, regulatory and sound operational process. They include but are not limited to efficiency of legal and regulatory processes, ease of moving capital and transparency of government regulations.

In the second half of 2023, the relative importance attributed to Market Access Factors (51%) and Governance & Regulatory Factors

(49%) by businesses operating in Lao PDR remained relatively balanced, suggesting both are crucial in fostering foreign direct investment. Although there has been a slight shift towards Market Access Factors compared to the previous survey (52% Market Access, 49% Governance & Regulatory), the overall emphasis on both areas remains consistent, highlighting the need for continued efforts to improve both aspects to attract and retain foreign investment.

Concerns about government transparency and corruption have decreased, along with a slight decrease in concerns about the efficiency of legal and regulatory processes. Additionally, businesses appear less concerned about the labor pool's talent and skill level. Conversely, the domestic market size has emerged as a growing concern. These shifts suggest that while the overall balance of concerns hasn't drastically changed, investors are increasingly focusing on practical market access issues like labor costs and raw material availability, as well as financial and regulatory concerns like capital movement and tax rates.

Figure 6: Market Asset Factor and Governance & Regulatory Factor Index

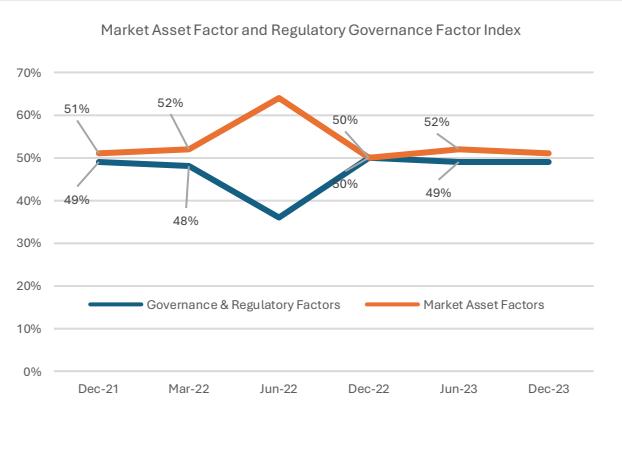
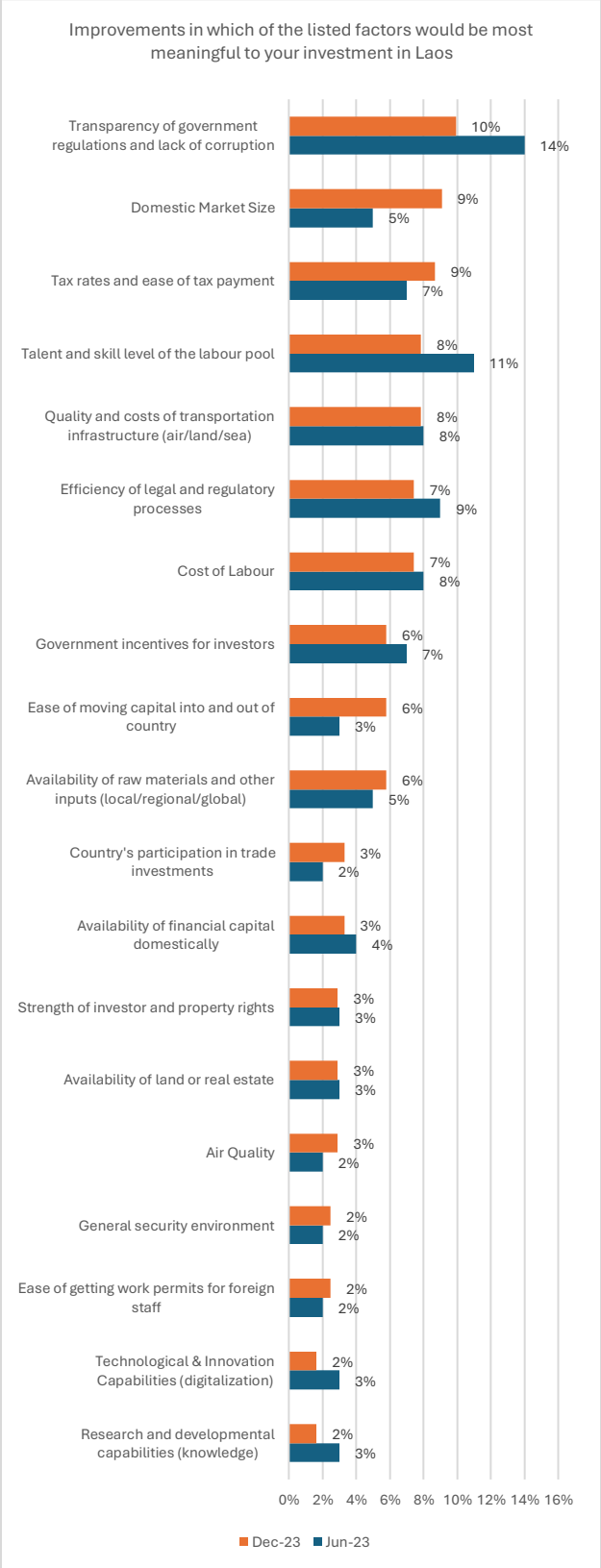


Figure 7: Most meaningful improvement factors to your investment in Lao PDR



Risk Environment

The survey provides respondents with an opportunity to select three risks which business perceives to be material in the current environment. The risks have been grouped into two overarching themes to compile an index to measure each group of risks.

1. Financial Risks are risks that include but not limited to foreign exchange risk, liquidity risks and availability of finance.

2. Operational Risks are risks that result from normal business operations, they include but are not limited to fraud & corruption, cyber risks and third-party supplier risks.

The emphasis placed on Financial Risks has decreased slightly from 59% to 58% in the current survey. Financial risks associated with foreign exchange (volatility and availability) contributed most toward financial risk rating.

Operational risks have increased from 41% to 42% in the current survey, the main factors which contributed to this increase include risks associated with regulatory changes, fraud and corruption and workforce risks.

Figure 8: Financial and Operational Risk Index

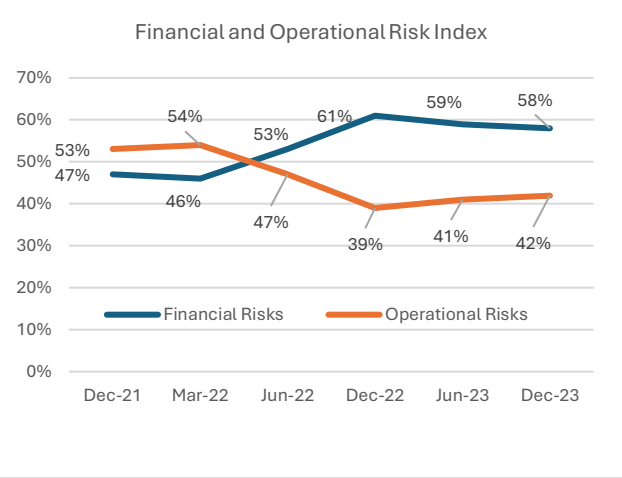
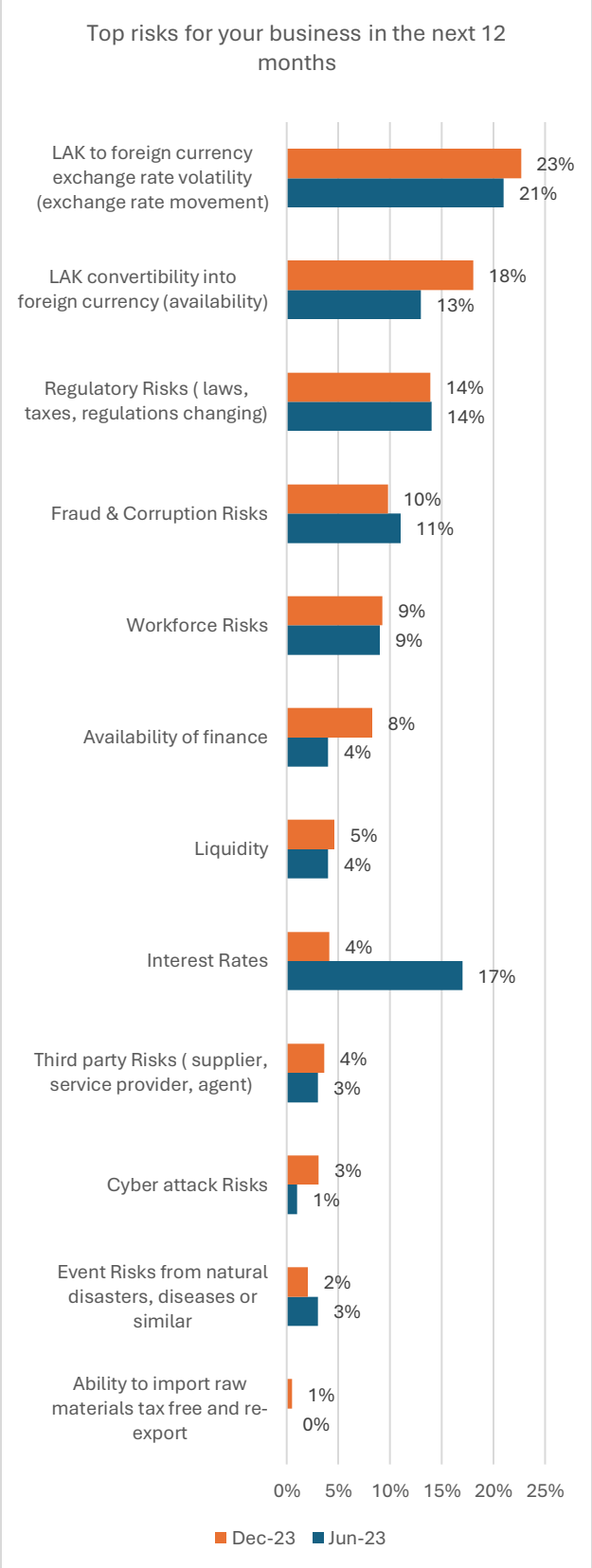



Figure 9: Key Business Risks