



LAO PDR IS POISED TO BOOST COMPETITIVENESS AND EMERGE AS A KEY ECONOMY IN SOUTHEAST ASIA, AND TRANSFORMING ITSELF INTO ONE OF THE MOST DYNAMIC COUNTRIES IN THE REGION, OFFERING DIVERSE BUSINESS OPPORTUNITIES TO BOTH DOMESTIC AND FOREIGN INVESTORS. BECOMING THE PREFERRED GATEWAY TO ASEAN MARKETS

- **Land Area :** 236,800 sq. km
- **Capital :** Vientiane Capital
- **Population :** 6.901 Millions (2017)
- **Population Density** 25 people/sq km
- **Population Growth:** 2.3 %
- **Rural population:** 69 %
- **Literacy:** 85%
- **Labor Force :** 2.9 Millions
- **Religion:** Buddhism
- **Average GDP Growth:** 7.8-8 %
- **Per Capita Income** 2.468 US\$
- **Language:** Lao
- **Currency:** Kip

## *I. Emerging economy and strategic gateway to ASEAN markets*

### *i. At the heart of regional integration*

- Lao PDR is at the heart of ASEAN, one of the most dynamic regions in the world. It has strong bilateral trade and investment ties with key economies in the region and beyond, leveraging on the establishment of the ASEAN Economic Committee (AEC), as well as ASEAN's trade and investment partners.
  - China: 65% of total FDI inflows in 2016; second largest trade partner
  - Thailand: 14% of FDI in 2016; largest trade partner
  - Vietnam: 2% of FDI in 2016; third largest trade partner
- Lao PDR has the strategic geographic advantage of being land-linked, bordering key ASEAN markets including Thailand, Vietnam, Cambodia, and Myanmar. It also borders China in the north and is a key node in the One Belt, One Road Initiative.
- To date, Lao PDR has bilateral investment treaties with 27 countries and has been a member of the World Trade Organisation (WTO) since 2013.

### *ii. Outstanding progress in the last 20 years*

- Lao PDR is eligible to graduate from Least Developed Country (LDC) status and is on track for full graduation by 2024. Lao's positive growth trajectory thus far has been due to its continued focus on realising its strategic reform agenda that was introduced by the Government to drive inclusive, sustained economic growth; develop human assets; and protect its natural resources.
- Lao PDR has enjoyed remarkable GDP growth per capita, averaging 5.65% from 1996 to 2016, with similarly impressive GNI per capita growth averaging 6.57% from 2013 to 2016. In 2015, it attracted a total of US\$1.26 billion in FDI.

- The Lao government is committed to liberalising the economy and opening up to the private sector through the amended Investment Promotion Law (IPL) of 2017 and reinvigorated avenues for public-private engagement such as the Lao Business Forum (LBF).
- Seizing this momentum, Lao is gearing up to transform into an upper middle-income economy through Vision 2030 which aims to:
  - Quadruple per capita GDP and GNI;
  - Increase FDI by shifting to new areas of comparative advantage and creating new enabling environments for new foreign and domestic partnerships;
  - Reduce poverty and hunger as well as improve access to education and health outcomes.

### *iii. A dynamic and resilient economy*

- Lao PDR is a dynamic economy, with GDP averaging between 7.8 and 8% in the last 10 years. Its resilience and increasing competitive environment have created attractive investing opportunities.
- Sound planning underpins Lao PDR's economic growth. Short, medium and long-term planning are key elements of this, with the 8<sup>th</sup> National Socio-Economic Development Plan (NSED) 2016-2020 guiding policy priorities across government in line with the country's economic and development transformation targets.
  - As a result of its effective reform agenda, the International Monetary Fund (IMF) signalled its confidence in the Lao economy by projecting 6.8% real GDP growth for 2018, the second highest in Southeast Asia (after Myanmar and Cambodia with 6.9%).
- The economy is diversifying and becoming less reliant on resource-intensive sectors, with sustainable and higher value-added industries being a key focus. The diversification strategy is built on three key pillars, namely: (i) enhancing enterprise competitiveness, (ii) creating a business-friendly environment, and (iii) deepening economic integration.
  - Programs such as One District, One Product (ODOP) are enhancing the competitiveness of local businesses and bringing quality, handcrafted Lao products to global markets.
  - The government has made it a priority to improve the business environment by enhancing Ease of Doing Business (EODB) through a Prime Minister's Decree issued in February 2018 that set targets for improving on indicators.
  - In trade, Lao PDR continues to deepen economic integration by strengthening established ties with core export markets in the region as well as expand in key growth markets and frontier destinations. In terms of products beyond traditional exports of electricity and mining, food represented 30% of total exports in 2017. Apparel and clothing including woven textiles have also seen demand potential in overseas markets.
- Meanwhile, diversification is supported by investment flows into various sectors and contributions to GDP are becoming increasingly service-driven.
  - Between 1988 to 2018, Lao PDR continued to see FDIs focused around the energy sector (30%), mining (22%), construction (11%), agriculture (10%) and services (9%). However, as of 2016, non-resource-based industries accounted for substantial shares of investment such as include services (11%), handicrafts (8%), hotel & restaurant (4%), construction (4%), banking and trading (3%), and telecommunications (3%).
  - Additionally, in 2016, the services sector contributed 38.9% of GDP, outpacing the growth of industry at 28.8% and agriculture at 23.3%.

- The government is leveraging on the country's 12 Special Economic Zones (SEZs). Some including the Savan Seno SEZ have shown great success in promoting EODB, including services for start-up, aftercare, logistics and linkage with key neighbouring markets promoting value chain advancement and backward linkages to the local economy.

## II. A trade and investment destination of choice

### i. Powering a conducive business environment with synergy across all levels

- In order to achieve greater investment growth, the government recognises the need for clear guidelines, frameworks and policies for the global and local investment community to better understand the advantages of investing in Lao PDR.
- It also acknowledges that, to ensure sustainable progress and revenues, a multi-sectoral approach is essential. This will achieve maximum impact, especially when engaging with foreign and local investors as well as the business community on policy (e.g. Lao Business Forum).
- In addition, resources have been mobilised to put in place a solid strategy to promote FDIs that will lead to long-term growth and a robust investment climate through its 8<sup>th</sup> National Socio-Economic Development Plan. The Government has targeted to attract FDIs amounting to US\$3 billion for 2018.
- To further accelerate progress and economic policy reforms such prioritising improved EODB, clear targets and timelines have been established.
- As part of its continued focus on realising its reform agenda, Lao PDR rebalanced its economic development by liberalising its economic structure and opened up further investment opportunities by amending the Investment Promotion Law (Amended IPL) in April 2017, as follows:
  - Seamless processes for business applications, licenses, government transactions
  - Creation of Investment Promotion and Supervision Committee (IPSC) to speed up bureaucratic processes and approvals
  - Lowering capital requirements
  - Restructure of incentives
  - Reorganisation of One-Stop-Service (OSS), unified under the Ministry of Planning and Investment (MPI)

### ii. Accelerating growth through SEZs

- Lao PDR created Special Economic Zones (SEZs) as a platform to bring in new opportunities and drive stronger economic growth. The SEZs help in creating clusters of emerging industries, drive innovation and stimulate consumption in line with economic globalisation and regional integration.
- SEZs foster thriving ecosystems that allow locals and foreigners to turn innovative ideas into businesses and raise competitiveness. Here, partnerships, ideas and innovations have resulted in substantial investments while some have even made their mark globally.
- Lao PDR's strategic location as a land-linked country bordering China, Thailand, Vietnam and Cambodia, allows companies located in SEZs to lower production costs while being accessible.
- Against this backdrop, Lao PDR's SEZs are focused on attracting domestic and foreign investments by providing favourable incentives, creating a robust infrastructure network to support operations and export (e.g. first dry port built in 2017 in Savan Seno), providing supply chain linkages, being strategically located providing easy access to neighbouring markets, and developing talent to support businesses. Lao PDR aims to have 25 SEZs throughout the country by 2020.

- There are currently about 380 foreign and domestic companies located in SEZs. More than half are from China (181 businesses), Thailand (28) and Japan (30). Notable ones include Aeroworks, Essilor, Nikon, Toyota, Mascot and others.
- In terms of employment, SEZs have helped generate new employment opportunities. Between 2002 to March 2018, more than 20,000 jobs have been created across the 12 existing SEZs.
- Since 2003, these well-planned SEZs have brought in actual investments of up to US\$1.83 billion, increased government revenue up to more than US\$20 million and increased exports to more than US\$815 million. The SEZs' accumulated investment increased by 30% from US\$1.2 billion in 2015 to US\$1.8 billion in 2017.

### iii. *Facilitating ease of doing business through One-Stop-Service (OSS) centres*

- Lao PDR created One-Stop-Service (OSS) centres to provide investors, both current and potential, access to comprehensive support and centralised information on investing in Lao PDR.
- Backed by tailored policies and frameworks, the OSS centres are managed by a knowledgeable workforce trained to communicate the country's investment opportunities, address queries and troubleshoot challenges, and provide seamless end-to-end service delivery to facilitate incoming investment from local and foreign investors alike.

### iv. *Leveraging on distinct advantages*

- **Wealth of natural resources**
  - Lao PDR's traditional engine of growth has been its vast reserve of natural resources, in electricity, agriculture and forestry, and minerals among others.
    - ✓ Lao PDR is a major exporter of electricity with about two thirds of electricity generated is exported to Thailand, Vietnam and Cambodia, where demand continues to rise.
    - ✓ Harnessing the energy from its 10 operational hydropower dams will help realise "Battery of ASEAN" vision, Key landmark projects include NT2 and the EDL-GE Projects.
    - ✓ Leveraging on growing need for energy, Lao PDR will boost its hydropower from the current installed capacity of 6,000 MW to 12,000 MW by 2020, and double this figure by 2030.
  - Another sector that has supported Lao PDR's growth and employs a substantial portion of the population is agriculture which contributed 29% of the country's GDP in 2017 and employed 75% of the population.
    - ✓ Lao PDR has potential to increase exports of quality, high value-added agricultural products. For example, Coffee is Lao's oldest and leading export, with revenues amounting to US\$74 million (1H 2017) and is steadily gaining worldwide prominence.
  - As such, the focus of Lao PDR has been to promote moving up the value chain through processing and entering niche, high value markets (i.e. organic and fair-trade produce).
- **A budding tourism sector**
  - Tourism is increasingly becoming a growth driver for Lao PDR, contributing around US\$2 billion or 13.7% of GDP in 2017. The government expects this to rise to US\$3.3 billion by 2028.
  - Given the increasing number of tourist arrivals and receipts, Lao PDR has recognised tourism as a cornerstone for growth, and allows up to 70% foreign equity as part of its incentives to attract foreign investments.

- Blessed with lush and dramatic landscapes, rich tradition and culture, many tourists visit Lao PDR's flagship destinations such as the Mekong River, the UNESCO World Heritage sites at Luang Prabang, Vat Phou, and the Xiangkhoang Plateau. Many of these attractions have been listed as leading destinations globally including in:
  - ✓ Top of "Places to Go" list in 2008 by the New York Times;
  - ✓ "The best city in the world to visit" by the Wanderlust, a leading British travel magazine;
  - ✓ "Top City" Award in 2006-2012 (except in 2009 being in top 10);
  - ✓ "World Best Tourist Destination" in 2013 by the European Council on Tourism and Trade; and
  - ✓ "Wanderlust Travel Awards" in 2015 Lao PDR is top 10 while Luang Prabang is No.1.
- Tourism has not only led to the introduction of new infrastructure projects, including hotels, transportation services, roads as well as expansion of the Vientiane International Airport, but has also been a catalyst for employment and business opportunities for locals.

### *III. A solid foundation to unlock future growth*

#### *i. Strengthening political and socio-economic governance*

- Lao PDR is one of the most politically stable countries in the region, aware of the importance of good governance which in turn shapes positive decisions and outcomes.
- In line with the reform agenda, the government is focused on creating a well-regulated and liberalised pro-business environment to maintain the country's positive macroeconomic outlook and graduate from least developed country status by 2024. To realise this, Lao PDR is taking a whole-of-government approach to introduce strong policies with clearly defined provisions and institutionalised mechanisms that are aligned throughout ministries and local governments.
- The government is focused on putting in place robust monitoring systems, improving tax administration, expanding tax base, modernising tax revenue collection and conducting ongoing revision of laws to ensure higher revenue collection.
- In addition to the strong governance and rule of law framework which will be put in place by 2020, the Lao PDR government has taken proactive measures to improve economic governance as well as strengthen legislative and regulatory policies to achieve its Vision 2030 targets, with the implementation of the following:
  - Amended IPL
  - 8<sup>th</sup> five-year National Socio-Economic Development Plan (NSEDP)
  - Prime Minister's Decree on Improving EODB
  - New Commercial Bank Law and Capital Adequacy plan
  - Public Debt Management Law was introduced in 2018 and the reorganisation of the Ministry of Finance), with a focus on accountability, good practices and capacity building efforts
  - Agriculture Sector: Strategy of Agriculture 2025 and Vision 2030 and National Organic Agriculture Strategy of Lao PDR
- While Lao PDR continues to move forward in driving a positive investment climate, it is also cognisant that development entails more than just economic growth. The successful transformation will only be realised if this is inclusive and impacts society as a whole. As such, investments in education, healthcare, and communities, as well as the pursuit of environmentally sustainable growth are key priorities.

#### *ii. Shaping inclusive and sustainable growth*

- **Future-oriented education and human capital development programmes**

- The Lao PDR government believes that it is important to invest in its greatest resource – its people. In order to unleash economic growth that will uplift lives and boost development, Lao PDR has increased its focus on creating future-oriented education programmes that will ensure young people are equipped with the right skill sets [vocational/technical] and knowledge to support Lao PDR’s economic growth and reduce poverty.
- With a relatively young population with 32% aged 14 years and below, Lao PDR leveraging growth to deliver better education outcomes, build skilled talent and increase organisational capacity-building measures. This not only helps achieve inclusiveness, it will also contribute to sustainable economic growth in the longer term supporting attainment of its goal to become an upper-middle class income economy.
- Initiatives are also being undertaken so that talent created meets the demands of regional integration, as such, promotion of technical/vocational skills is a top priority.
- As the population is expected to increase by 38% from 6.4 million in 2010 to 7.8 million in 2030, with an estimated 96,000 young people joining the workforce, education at all stages is key. The government remains committed towards unlocking the transformative power of education by increasing the standard of learning for pupils of all ages, regardless of where they come from (city or rural areas). In line with this, Lao PDR has created the Education Sector Development Plan (ESDP) 2016 and 2020 which aims to improve equity, improved learning outcomes, better quality teachers, realign education sector to growing labour markets. It has also established the English Language Training (ELT) national framework as well as promote university-to-university linkages in order to build a workforce that is competent, knowledgeable and with the right skill sets in the long-term.
- Lao PDR’s ability to realise these plans will enable the country to move up the value chain, help the younger generation harness the power of technology, adapt to the industrial transformation, drive entrepreneurship and broaden employment channels – all of which will lead towards strong growth and a robust economy.

- iii. ***Working towards achieving the Sustainable Development Goals (SDGs)***

- The Lao government is strongly committed to the 2030 Agenda for Sustainable Development and the implementation and achievement of the SDGs. Already, it had halved its poverty rate by 2015 as part of its drive to achieve the then-Millennium Development Goals.
- Lao PDR was among the earliest countries to localise the SDGs and integrate them into its national planning framework.
- To that end, the Laos government has initiated a suite of landmark changes to steer its development programme and medium-term strategy toward greater sustainability and green growth.
- The government believes that in order for growth to be sustainable, the right choices on utilizing natural resources need to be made today. As such, it is exploring policies to protect natural resources, and introduced the National Environment Strategy 2020 to protect forests and ecosystems, manage water resources and protect land use to preserve biodiversity.
- In an effort to embrace reforms that will improve the lives of its people, in an inclusive and sustainable manner, plans have been established to encourage reforestation, the classification of land management (at macro and micro levels), sustainable mine management and harness hydropower for renewable electricity as well as better manage water resources.

- In its 8<sup>th</sup> National Socio-Economic Development Plan, Lao PDR has set out a strategy for clean and green growth, accelerating the pace of poverty reduction, and addressing rising inequality by improving service delivery and building a safety net for the bottom 40% of the population.
- Recognising the importance of building a solid foundation for future generations, the Lao government has also taken on a multi-sectoral approach to reduce malnutrition among children through the National Nutrition Strategy 2015-2023 and Plan of Action 2016-2020. It is also gearing up to implement universal health coverage with technical support from development partners such as the World Bank.
- Through these efforts, Lao PDR will take a step towards realising its development goals so that more people can benefit from lasting and inclusive economic growth and development.
- The Ministry of Planning and Investment and the Laos Statistics Bureau have developed a results-based Monitoring and Evaluation Framework, with 60% of its indicators aligned to tracking progress toward the SDGs.

#### *iv. Promoting the development of small and medium-sized enterprises (SMEs)*

- The Laos government recognises the fundamental role of SMEs to the country's economic development, employment and income generation. Within ASEAN, SMEs account for 50% to 85% of domestic employment, 30% to 53% of GDP contribution, and 19% to 31% of exports.
- Since 2004, the Lao government has begun efforts to support the growth of SMEs, starting with the legislative framework governing the promotion of SMEs, and the establishment of the SME Promotion and Development Office and SME Development, Promotion and Productivity Committee under this framework.
- The SME Development Plan (2016-2020) builds on and complements existing SME promotional efforts through: (i) to improving the enabling environment for SMEs; (ii) enhancing the competitiveness and sustainable growth of Lao SMEs; and (iii) enabling their integration into regional (especially the ASEAN Economic Community) and international markets.

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