

LAO PDR

Foreign Investment Survey

—
Q4 | 2021





FOREWORD

COVID-19: UNPRECEDENTED CHALLENGES & OPPORTUNITIES

GENESIS OF THE JOINT FOREIGN CHAMBER SURVEY

This survey was initiated as a joint initiative between five of the major foreign business Chambers in Lao PDR, including the Australian Chamber of Commerce, the British Business Group Lao PDR, the European Chamber of Industry and Commerce, the Japanese Chamber of Commerce and Industry and the Malaysian Business Chamber. With this initiative, the Chambers aim, every quarter of the year, to gain a snapshot view of foreign investor's experience of doing business in the Lao PDR, and over time, through comparison of these snapshots, identify trends. This analysis will provide a strong evidence-based advocacy tool.

Foreign business chambers represent the business interests of their members to government and non-government agencies and provide support in the business community to aid growth in the economy across Lao PDR. Most of the Chambers have a tradition of carrying out annual surveys to gather feedback from their members. This number of surveys increased during the COVID-19 pandemic, where many businesses had to close or run at a reduced capacity and may have needed extra support from the chambers.

While these surveys may contain Chamber-specific questions, they also often overlap largely in the information gathered and tend to compete for members' attention, who may be involved in several chambers.

In order to collect information from a larger respondent group, while preventing survey fatigue, a unified survey was designed and implemented across all Chambers, allowing for a diverse range of data to be collected. This also gives more comparable results of which can be used to recognise trends over time.

It is our hope that more Chambers will join, and more members participate in the survey every quarter. The next survey will be launched at the end of the first quarter of 2022.

Mette Boatman
Member of ECCIL EuroCham Executive Committee

EXECUTIVE SUMMARY

A New Data Source

The foreign business community in Laos is a diverse group, with investors from around the globe. These businesses are represented by multiple different Foreign Chambers of Commerce, and this survey marks the first time these Chambers have worked together to gather data on the needs of the foreign business community as a whole. This new data source will facilitate greater communication and collaboration between the different chambers, as well as presenting us with the opportunity for more effective advocacy in our combined relationships with the Government of Lao.

Respondent Insights

"The goal is to turn data into information, and information into insight." – Carly Fiorina, former executive, president, and chair of Hewlett-Packard Co.

The inaugural foreign investment survey has provided us with a number of unique insights into the needs of foreign businesses in Lao PDR. These insights were as varied as the respondents themselves, however when viewed as a cohort they tell a similar story. There are a number of warning signs across multiple measures of business activity, due in no small part to the global pandemic. Despite facing a difficult two years, the outlook is generally positive. While there are no doubt significant hurdles to overcome, the majority of respondents indicated a positive 12 month forecast on six out of the seven business sentiments surveyed.

Looking Ahead

The last two years have been difficult for many businesses, especially those with an international focus. However with all indicators suggesting a return to a "new

normal", business sentiment is quite bullish. A majority of respondents expect to increase their spending on capital expenditure, and a significant majority of respondents are forecasting an increase in sales. While this positive outlook is certainly a great sign of business confidence, it should be taken with a grain of salt. Much of the expansion and improvement slated for next year is due to deferrals and backlogs as a result of COVID restrictions.

There is still significant work to be done to increase the ease of doing business in Lao PDR. 'Transparency of Government regulation and corruption' was the highest reported priority among respondents, and will no doubt continue to be an issue going forward. The government has made progress in this area, but it remains an area of concern for many businesses. Additionally labour related issues are a significant concern for respondents, which will require long term solutions. Similarly, there has been progress in this area, but there is more work to be done.

This inaugural survey will be an important benchmark for the ongoing monitoring of business sentiment in Lao PDR. As this survey is repeated, we will be able to index the data to more easily see trends in business sentiment. We believe that this report will become a valued source of information for the public sector, economists, journalists and interested business people to discuss the investment climate in the Lao PDR.

As the joint Chambers of Commerce continue to deepen their strategic partnerships, it is clear that they must continue to build on this momentum. This survey is a testament to the great work that can be done when the foreign business community come together as a whole. The joint chambers look forward to continuing this fruitful partnership.

David Ormsby

Executive Director of AustCham Lao

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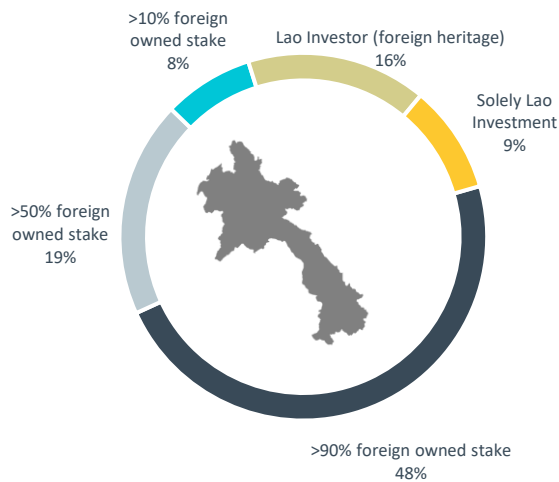
FOREIGN BUSINESS COMMUNITY

Lao PDR’s foreign business community exhibits great diversity. Survey respondents vary in their size, sector and operational role.

OWNERSHIP

Respondents mostly consist of foreign controlled businesses with over a 50% stake (67%), although there is also a large proportion on Lao-invested local businesses which have foreign heritage and align with foreign business chambers (16%).

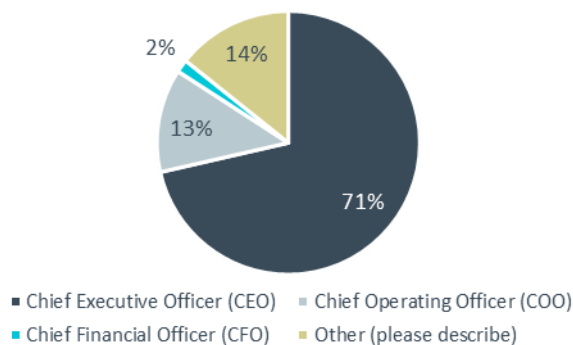
Figure 1: Ownership Structure



OPERATING STRUCTURE

The majority of firms (86%) were local private companies and more than two thirds (71%) of respondents held CEO or equivalent roles in their local operations.

Figure 2: Respondent Titles

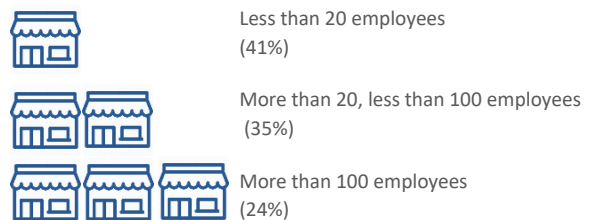


SIZE OF RESPONDENT BUSINESSES

Foreign investors responding to this survey reflect the Lao PDR business skew towards smaller businesses and emerging corporates.

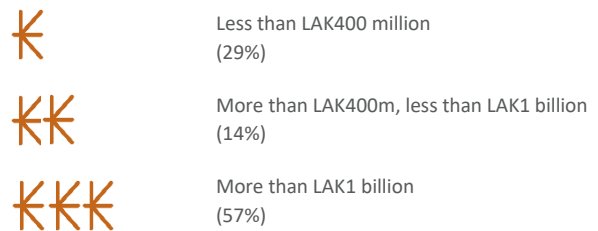
In future surveys, the foreign business community may look to better understand aggregate invested capital and explore the relationship between employee numbers, annual turnover and invested capital.

Figure 3: Employee Numbers



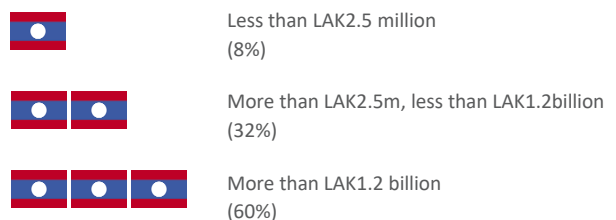
However, over half of respondents (57%) earned more than LAK 1 billion in the past 12 months in local revenue.

Figure 4: Lao PDR Annual Turnover



As we look at Invested Assets, it’s clear that the foreign business community are predominantly skewed to the larger end (60%). To better understand mean and median investment levels of the foreign business community, this survey may look to include larger degrees of difference between the levels reflected in the chart below.

Figure 5: Locally Invested Assets



HOME DOMICILES OF LAO PDR FOREIGN BUSINESS COMMUNITY

Investors from across Asia, Europe, Australia and the US are represented in the survey, with Japanese businesses the largest single country grouping.

This represents a sampling of the members aligned to foreign chambers participating on this survey. As the volume of respondents to this survey increases, the authors expect to gain further insights on sub-sets of investors, such as using home domicile as one key driver.

In terms of observations for the largest country respondent groups:

- **90%** of Japanese company respondents operated in Lao PDR as a majority investor;
- **64%** of Australian company respondents operated in Lao PDR as a majority investor; and
- **50%** of European company respondents operated in Lao PDR as a majority investor.

Sample size is not large enough to draw conclusions, but does raise some considerations on investment preferences that organisations in Lao PDR could further investigate as they target foreign investment.

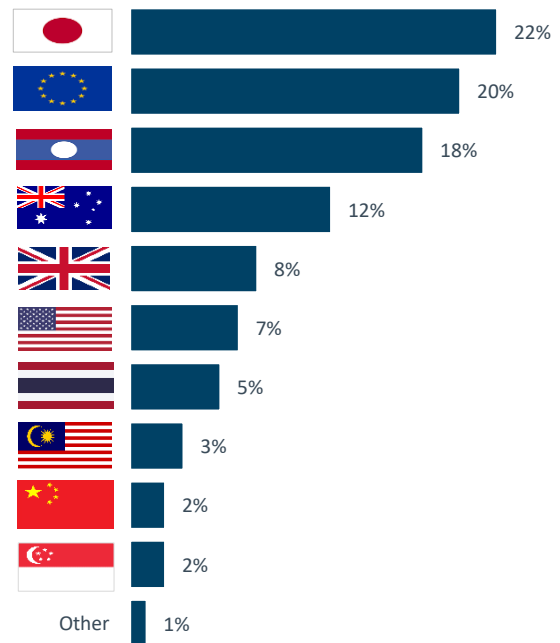
INDUSTRY REPRESENTATION

Respondents operate across a wide spread of sectors. In this inaugural survey, the largest industry groups represented were Manufacturing (16%), Hospitality & Tourism (13%) and Financial Services (12%). It's no surprise that a large majority of industries represented in the survey are internationally focused, be it on services export, goods export or international financial markets.

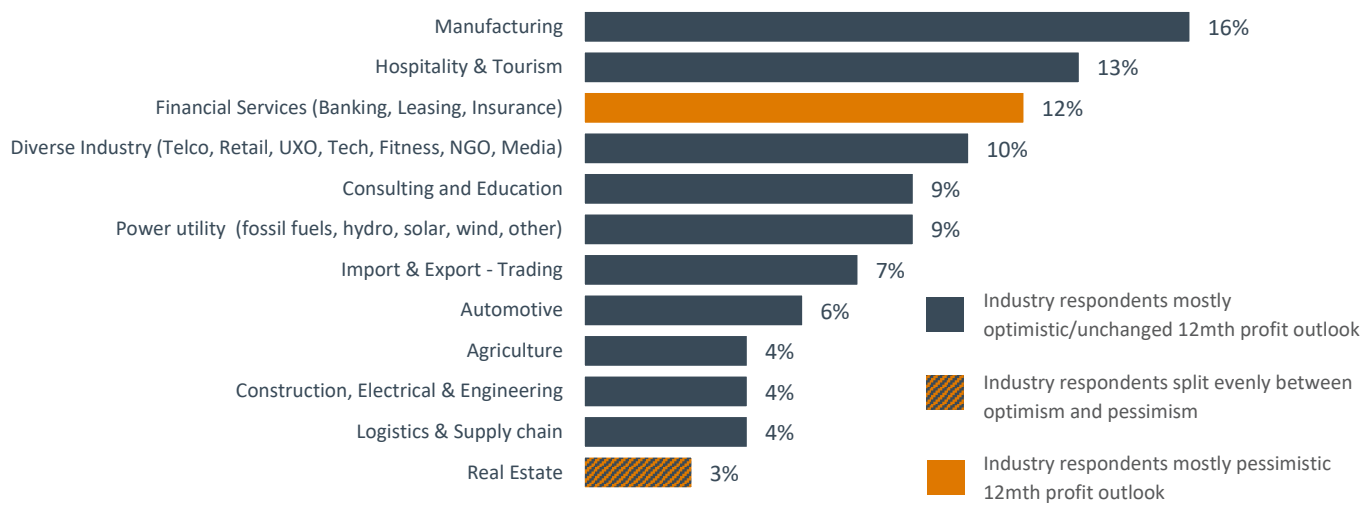
Many industries operating across international supply chains and in international travel have been adversely impacted by border closures in Lao PDR. However, most industries were optimistic about their company having improved profitability over the next 12 months, with the exception of two respondent industries (marked orange) who expect diminished forward 12 month profitability: Financial Services (57% negative profit outlook); and Real Estate (50% negative profit outlook).

Figure 7: Respondent Industry

Figure 6: Country of Origin



Note that some respondents identified more than one home domicile.



SHAPING A CONDUSIVE BUSINESS ENVIRONMENT

Business advocacy is a common goal of foreign development agencies in Lao PDR. However, it is difficult for individual companies to feed into Government consultations and likewise challenging for the Government to prioritise issues based on business need, effectiveness and ongoing investment considerations.

Lao PDR has vibrant foreign chamber communities who are taking action every day, both as community partners and as principal advocate for business at the national and to a lesser extent, district/provincial levels.



We advocate for public policy that will encourage economic growth and foster a healthy business climate. We also connect our members with other community leaders, so that together, we can develop innovative ideas to help the Lao-based business community thrive and support further foreign investment.



LOCAL PRIORITIES TO SUPPORT FDI

Designing a survey to identify the most important issues for business chambers to raise with Government was harder than it looks! The survey provided respondents with an opportunity to select up to three factors that could materially improve their locally invested business. It was interesting to the survey designers that neither air quality, nor transport infrastructure rated a mention from respondents. Figure 8 (over page) shows the breadth and spread of challenges that are meaningful to respondents, with just two issues common to over 10% of respondents, and a fairly even split between 'Governance & Regulatory Factors' and 'Market Asset Factors'.

'Transparency of Government regulation and corruption' ranks as the highest mention (18%) from respondents. These respondents may be pleased to learn that the Prime Minister has recently endorsed semi-annual public private Business Forums, and will be inviting foreign chamber co-chairs for two industry working groups to escalate and resolve regulatory challenges. All foreign chambers fall under the administration of the Lao National Chamber of Commerce and Industry (LNCCI) as mandated by the Ministry of Industry and Commerce (MoIC), and we look forward to using tangible guidance from our members, including via this survey, to improve business ease for members as well as Lao PDR more broadly.



The second highest rated issue was 'talent and skill level of the labour pool' (15%). However if conjunctive issues relating to a labour skills shortage, such as 'technological and innovation capabilities', 'cost of labour' and 'research and developmental capabilities', are taken together, then labour related issues account for ~30% of responses.

It's a clear message that our Foreign Business Chambers should continue partnering with members to provide training, across a breadth of business and industry topics, as well as working with higher education and Government agencies to continue to improve capacity in Lao PDR.

Figure 8: Improvements in which of the listed factors would be most meaningful to your investment in Lao PDR?¹

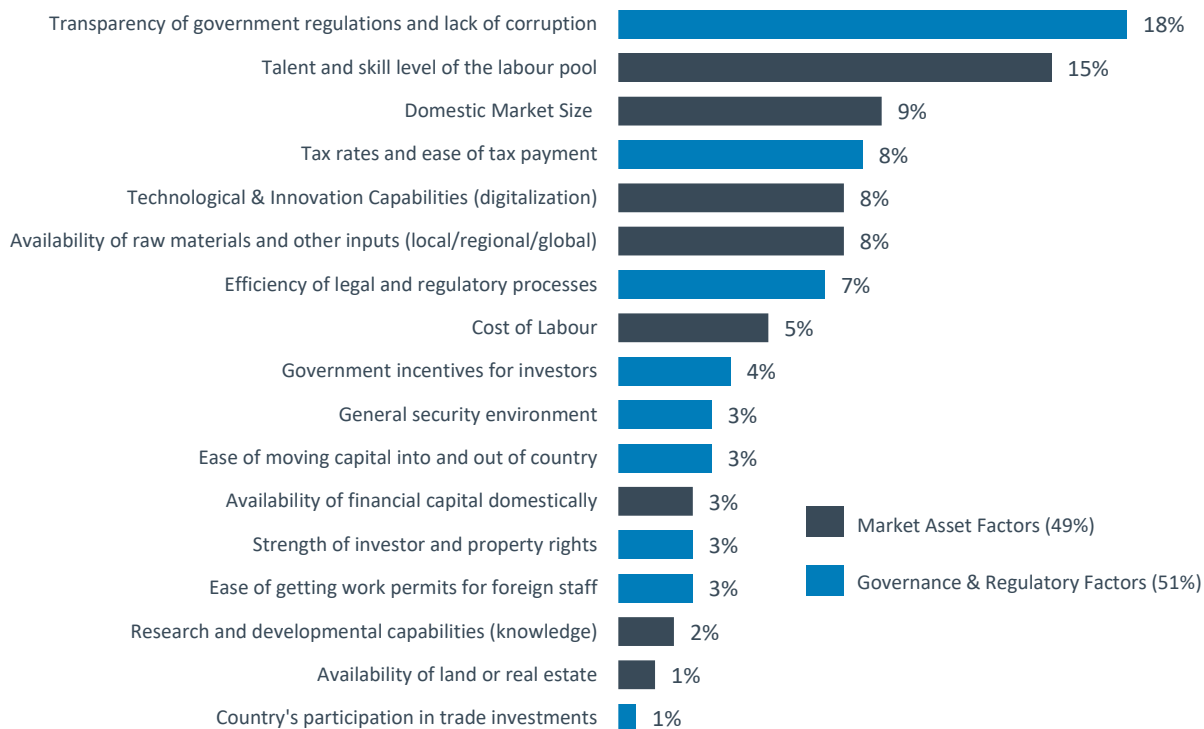
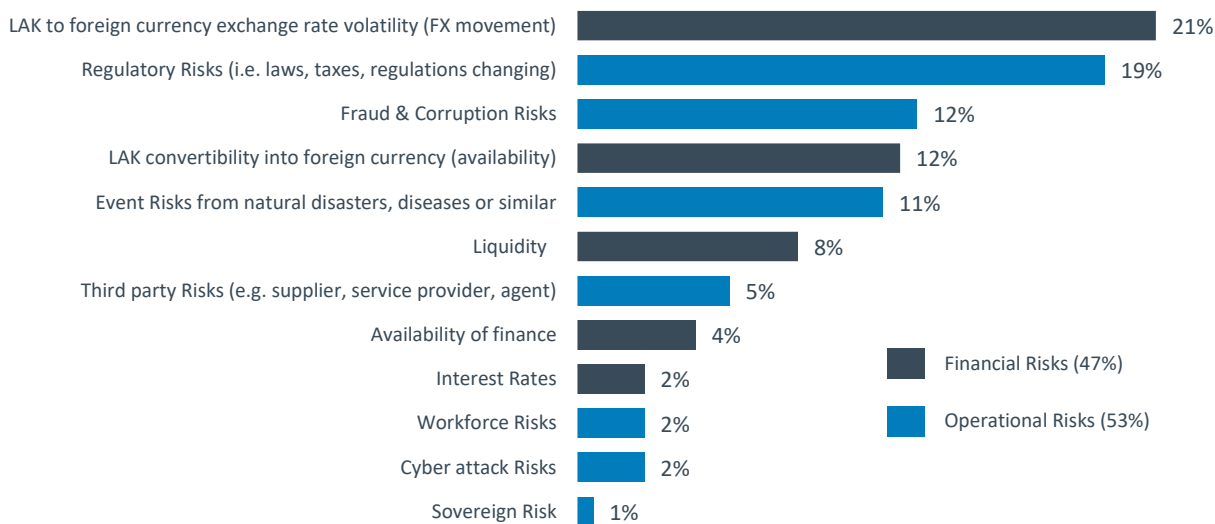


Figure 9: What do you see as top risks for your business in Lao PDR in the next 12 months?¹



¹ Note that respondents could choose up to three factors

RISK FACTORS FOR INVESTORS

The risks cited by respondents were more concentrated across five top risks.

It will not surprise many that in a year where the parallel foreign exchange (FX) market differential to the official FX rate touched over 20% - AND the official Lao Kip exchange rate dipped by 19% - respondents cited FX volatility as the biggest risk to business (21%). Notably, 76% of respondents who cited FX volatility as a top risk, also expected their costs of production to rise over the next 12 months.

The continued depreciation of the Lao Kip continues to cause inflationary pressure on Lao-based businesses. Indeed, FX convertibility and FX volatility account for a third of risk-related responses!

The next two risks cited were Regulatory Risks (19%) and Fraud & Corruption Risks (12%) aligning very closely to the factors most meaningful to respondents' investment in Laos.

This may indicate that respondents are more focused on defending their investments against risks than investigating new opportunities.

FOREIGN INVESTOR EXPANSION

Following a prolonged border closure it is concerning, though not surprising, to see warning signs flashing across almost all measures of business activity and confidence. This inaugural survey will build from Quarter 4 2021 as a baseline – is the only way up from here?

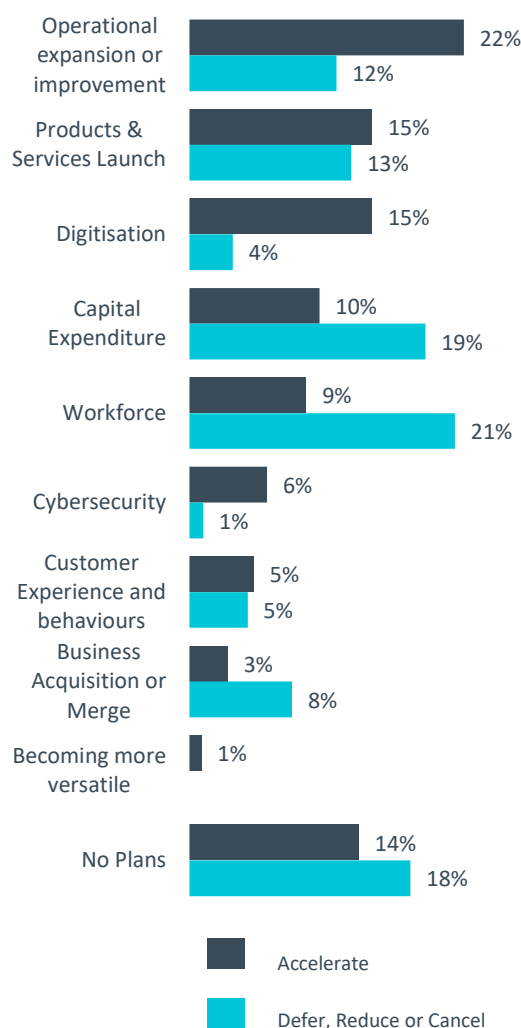
The bullishness of respondents comes through in the forward looking survey questions, yet our evaluation of risks and material investment factors from respondents has indicated that management focus is predominantly on mitigating downside.

INVESTMENT PLANS

Businesses are accelerating their operational expansion or operational improvement (22%) over the next 12 months. Additionally, after project deferrals and prolonged lockdowns, it's no surprise that businesses have a backlog of roll-outs with 15% of respondents accelerating products and services launches next year. That also translates to very positive sentiment on sales projections² (+63%).

COVID-19 lockdowns accelerated many businesses' digitisation plans. This trend seems set to continue over the next 12 months with 15% of respondents citing acceleration of their digital agenda. It can also be symptomatic of the cost/efficiency focus that many businesses needed to offset revenue declines due to the COVID-19 economic disruption.

Figure 10: What are the top investment types you are considering to defer or accelerate due to COVID19?¹



DEFERRALS AND DIVESTMENTS

Pleasingly 18% of respondents have no plans to defer, reduce or cancel investments in Lao PDR. However, with almost a quarter of the population unemployed, it will be somewhat disappointing for many to see the high level of respondents (21%) who expect to either defer hiring or reduce headcount. However, be heartened that 59% of businesses still expect their overall headcounts to rise².

Capital expenditure also has a high rate of respondents looking to defer, reduce or cancel (19%), however 44% expect overall higher levels².

Interestingly, those businesses that are bucking the trend and accelerating workforce hires and CapEx seemingly have limited similarity – diverse industries, diverse home domiciles, and diverse sizes.

² Refer Business Sentiment section

BUSINESS SENTIMENT³

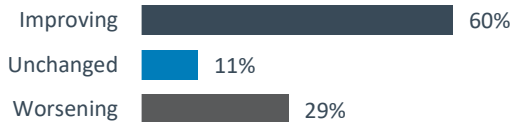
As the inaugural survey, we do not yet have the data to provide trends and index results, however future surveys will have a large build-out on the business sentiment.

It is our ambition that the Foreign Investor Confidence Index (to be launched next quarter) will become a reliable data point for the public sector, economists, journalists and interested business people to discuss the investment climate.

In the meantime, we have included point-in-time 12 month forecasts across a range of business drivers that will form the baseline constituents of the Index.

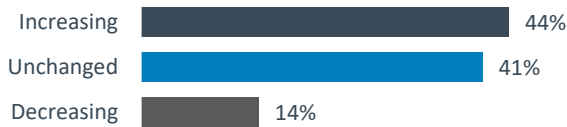
12MTH FORECAST: BUSINESS CONDITIONS

Figure 11: **71%** either unchanged or improving



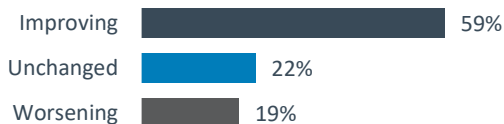
12MTH FORECAST: CAPEX SPEND

Figure 12: **85%** either unchanged or increasing



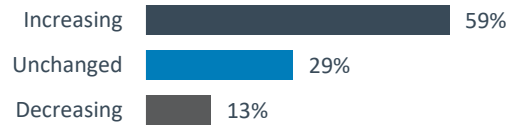
12MTH FORECAST: PROFIT

Figure 13: **81%** either unchanged or improving



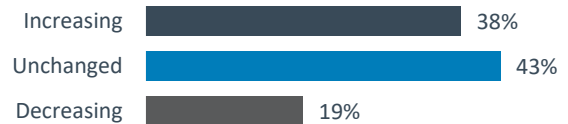
12MTH FORECAST: HEADCOUNT

Figure 13: **87%** either unchanged or increasing



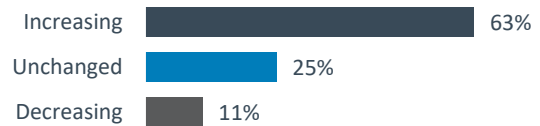
12MTH FORECAST: WORKING CAPITAL

Figure 15: **62%** either unchanged or decreasing



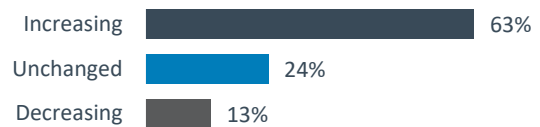
12MTH FORECAST: PRODUCTION COSTS (COGS)

Figure 16: **37%** either unchanged or decreasing



12MTH FORECAST: SALES PROJECTION

Figure 17: **87%** either unchanged or increasing



³ Note that percentages have been rounded, but all sum to 100%. Green is positive/bullish; Red is negative/bearish

RESPONSIBLE BUSINESS CONDUCT

Corporate Social Responsibility (CSR) is still a relatively new concept in Lao PDR, and businesses who are aware of and implement CSR activities often tend to be international corporations (GIZ and BGR (2015))⁴. A genuine CSR programme contributes towards sustainable business growth and wider stakeholder benefits.

Figure 18 below shows the importance surveyed businesses place on CSR activities and the majority say that CSR is of the highest importance whilst only 4% give limited or little importance to CSR. This shows that foreign owned companies are committed to contributing to the development and sustainable economic growth of Lao PDR and offers opportunities for leveraging their actions as inspiration for wider adoption of CSR across the Lao business community.

Indeed, the inaugural Lao CSR Awards launched in September 2021 offers an ideal platform from which to share experiences and profile CSR efforts of leading businesses from across the Chambers

As shown in Figure 19, there is a roughly even split between areas of CSR focus, with slightly more companies focussing on environmental or philanthropic programmes, however the categories are fairly evenly distributed showing that businesses are not prioritising one area over others.

Figure 18: How important is Corporate Social Responsibility for your company?

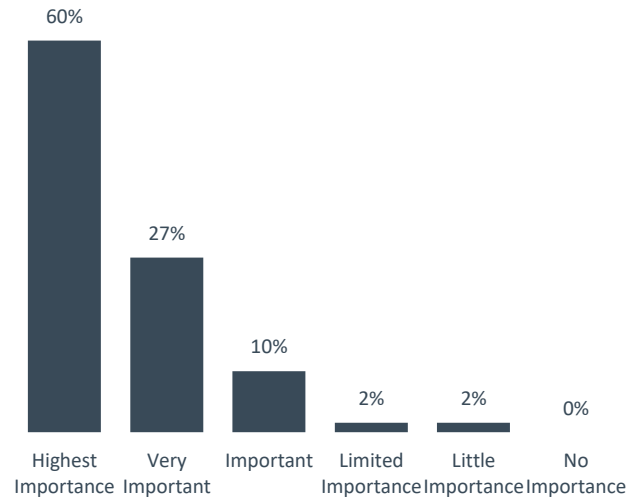
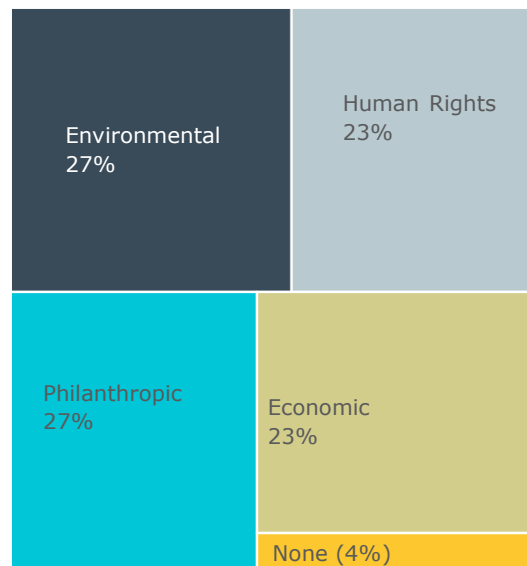


Figure 19: What type of CSR initiatives have our company implemented in the present fiscal year?



⁴ : GIZ and BGR (2015) CSR in Lao PDR: Baseline Assessment of Social and Environmental Regulations & Standards, Vientiane, February 2015

ACKNOWLEDGMENTS

A note of thanks to the Australian Chamber of Commerce, the British Business Group Lao PDR, the European Chamber of Commerce and Industry, the Japanese Chamber of Commerce and Industry and the Malaysian Business Chamber in Lao PDR for creating this joint initiative.

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Finally, thank you to the survey respondents who provided their time and feedback.

PARTICIPATING BUSINESS CHAMBERS

