

1st HALF 2023

LAO PDR FOREIGN INVESTMENT SURVEY



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INTRODUCTION

The foreign investor business sentiment index declined sharply in the 1st half of 2023 [1], with the positive tones echoed by survey respondents in the last survey reversed.

The decline in sentiment was underpinned by a lack of confidence given the LAK continued to weaken against the main trading currencies of Thai Baht and US Dollar; and despite a reduction in headline inflationary numbers, the reality of rising production costs has truly sunk in, which will ultimately lead to a reduction of profits for businesses and higher expenses for consumers.

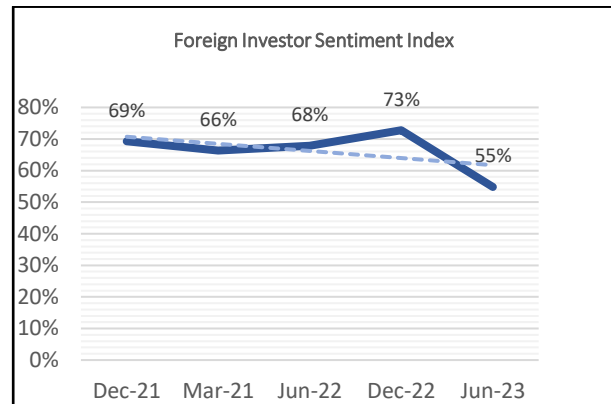
Respondents in key industries voiced concern amongst certain themes, including capability constraints, the exodus of skilled labor and escalating import costs which shifted the sentiment toward a more negative outlook. This led to feedback from some respondents who felt that more government support through tax relief or additional regulation may aid in the improvement of overall market conditions.

It is noted that a raft of new regulations was introduced in the 1st half of 2023 to combat the economic headwinds. The introduction of these regulations is intended to assist with monetary stability, strengthen foreign exchange reserves and preserve the value of the Kip. Whilst the success of such regulatory change would have been too early to determine during the survey period, it will be interesting to reflect (in due course) whether regulating out of adversity is the best antidote to addressing economic challenges.

The combination of these concerns resulted in an overall sentiment of 55%, this represents an 18-point reduction since the last period and marks the lowest sentiment score since the inception of this survey.

[1] This survey was conducted between July to August 2023.

Figure 1: Foreign Investor Business Sentiment Index



FOREIGN INVESTOR SENTIMENT INDEX

All business sentiment categories consisting of Business Conditions, Capital Expenditure, Profit, Headcount, Working Capital, Production and Sales revealed a retracement of positive sentiment, the outlook for all seven categories deteriorated with notable worsening outlooks in the categories of overall business conditions and working capital flows.

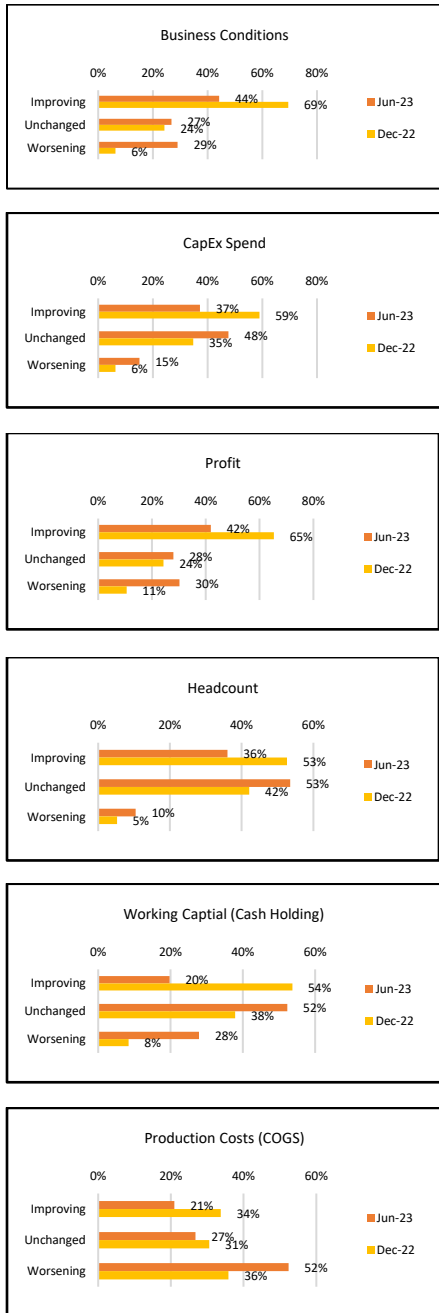
To support the sentiment index, respondents are also asked if they plan to accelerate or decelerate investment plans within their business over the next 12 months. Interestingly, despite the worsening sentiment outlook, 66% of respondents indicated they would accelerate investment plans, whereas 32% planned to decrease investment plans.

The top three categories of investment plans include business acquisition, capital expenditure and customer experience and behaviors. Some explanations to support such a high percentage of businesses planning to accelerate investment plans could include:

- given the low point in the economic cycle, this could be seen as an opportunity to acquire businesses or assets at discounted valuations.
- given the low point in the economic cycle, some businesses may use this opportunity to reinvest by improving plant and machinery and/or customer experience to take advantage of market conditions when the economy eventually recovers.
- expectation of further currency devaluation. As such, investment in the current environment may insulate businesses from future cost increases (due to further currency depreciation and ongoing inflationary pressures).

Conversely the top three categories of deceleration stated include withdrawal/sale, downsizing production, and staff reduction. With one third of respondents citing a plan to decelerate investment, if this statistic were to be reflective of the wider business sector, then the overall economic impact would be profound and will without doubt add to inflationary pressures and currency depreciation concerns, thus delaying the anticipation of an earlier economic recovery.

Figure 2: Business Sentiment Categories – 12 Month Outlook



OWNERSHIP & PARTICIPATION BY INDUSTRIES

A total of 86 respondents participated in the 1st half 2023 Business Sentiment Survey. A diverse range of industries were represented, and participation was well covered across major industry sectors. Notable increases were evident in manufacturing, diverse industries and agriculture sectors when compared to the last survey.

88% of respondents are from businesses that are foreign owned (with at least 10% or more foreign ownership) and remained largely static compared to the last survey.

Investors from a diverse range of countries were represented. Japanese businesses ranked the highest by percentage terms followed by Lao, Australian and European firms.

Figure 3: Ownership Structure

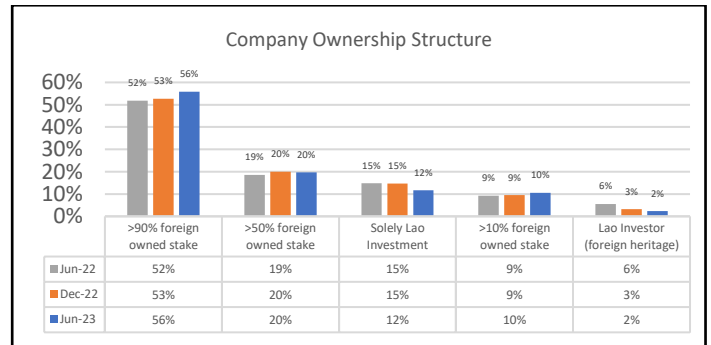


Figure 4: Country of Origin

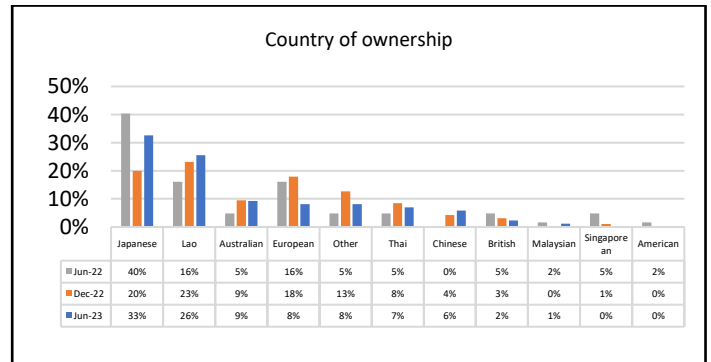
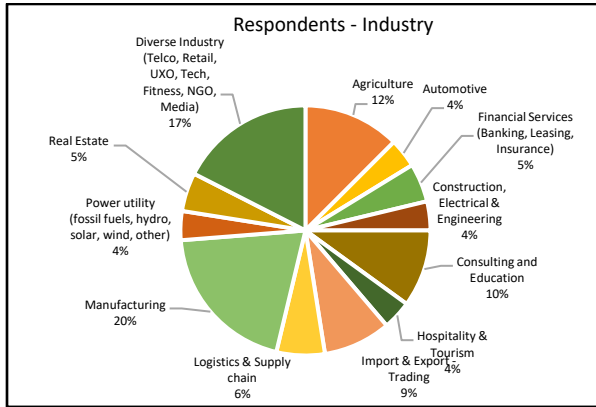


Figure 5: Respondent Industries



ORGANISATION SIZE, ASSET VALUE AND TURNOVER

In this latest survey, 49% of respondents had < 20 staff. This is a slight increase of 2 percentage points compared to the last survey. Large businesses who employed greater than 100 staff accounted for 26% of total respondents.

It was noted in the last survey that the thresholds to measure turnover and asset value were too low, as such the thresholds were revised in this survey to provide more granularity on both measures, Figure 6 shows the breakdown of asset value and turnover of each respondent.

Figure 6: Business Asset Value and Turnover

(000's)	<u>Asset Value</u>	<u>Turnover</u>
< US\$50k	12%	20%
US\$50 - US\$250	16%	17%
US\$251 - US\$500	8%	12%
US\$501 - US\$1,000	9%	3%
> US\$1001	55%	48%
Total	100.00%	100.00%

PRIORITIES THAT WILL SUPPORT FOREIGN DIRECT INVESTMENT

Priorities that will Support Foreign Direct

The survey provides respondents with an opportunity to select three factors that can materially improve 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.

The weighting attributed to both factors have remained stable since the last survey with Market Asset Factors recording 52% and Governance and Regulatory Factor recording 49%.

The relatively equal weighting for both factors suggests that at this survey, both factors are equally important to encourage greater levels of foreign direct investment into Lao PDR.

When considering the individual factors that make up this index, the most notable shifts since the last survey are attributed to transparency of government regulations, talent & skill levels, tax rates and ease of payments, government incentives for investors, cost of labor, availability of raw materials and availability of land. These factors are deemed to be the most meaningful to businesses in order to materially change their business.

Figure 7: Market Asset Factor and Governance & Regulatory Factor Index

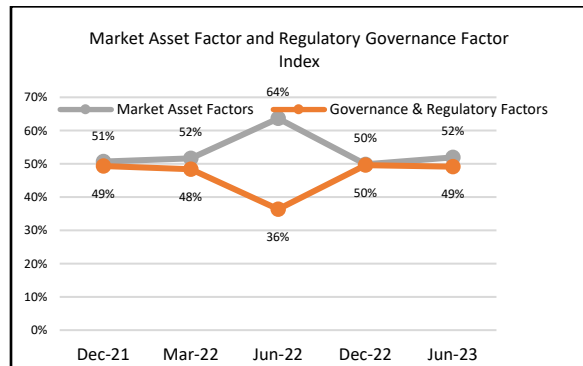
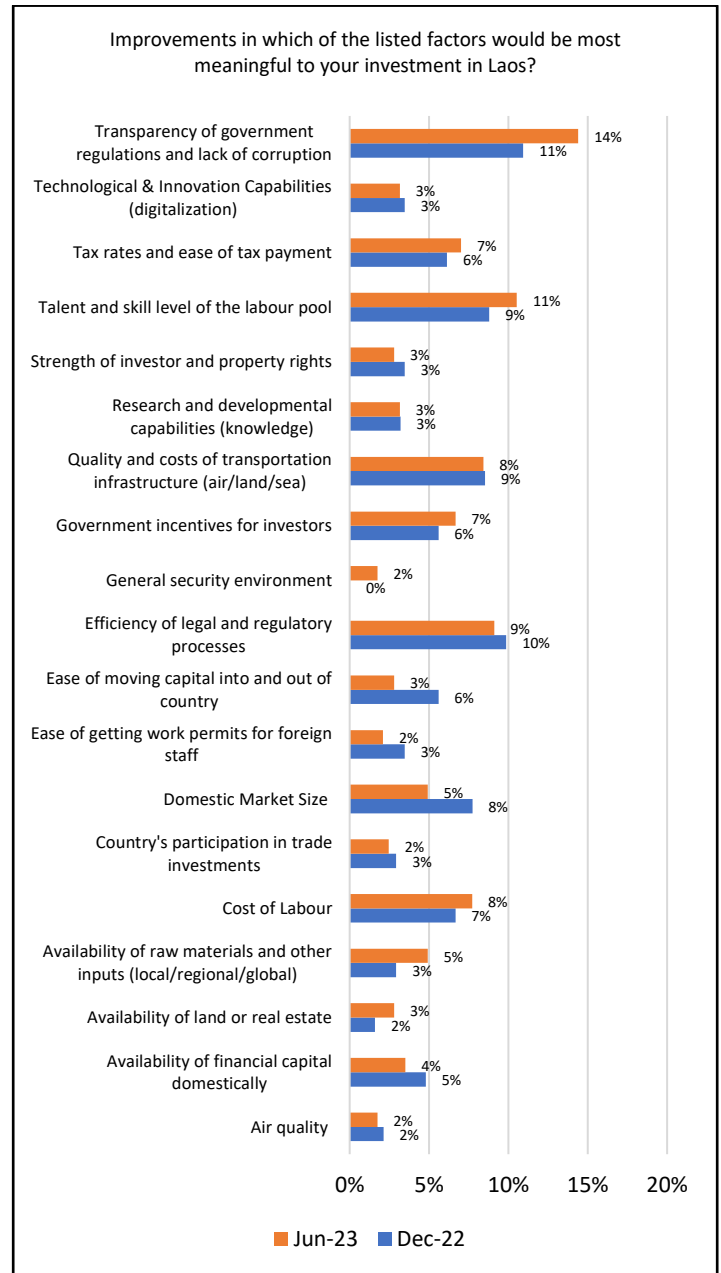


Figure 8: Most meaningful improvement factors to your investment in Lao PDR



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 61% to 59% in the current survey. Financial risks associated with foreign exchange (volatility) and interest rates contributed the most toward the financial risk rating. Given the level of overall economic uncertainty this finding is considered to be in line with general expectations.

Operational risks have increased from 39% to 41% 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 9: Financial and Operational Risk Index

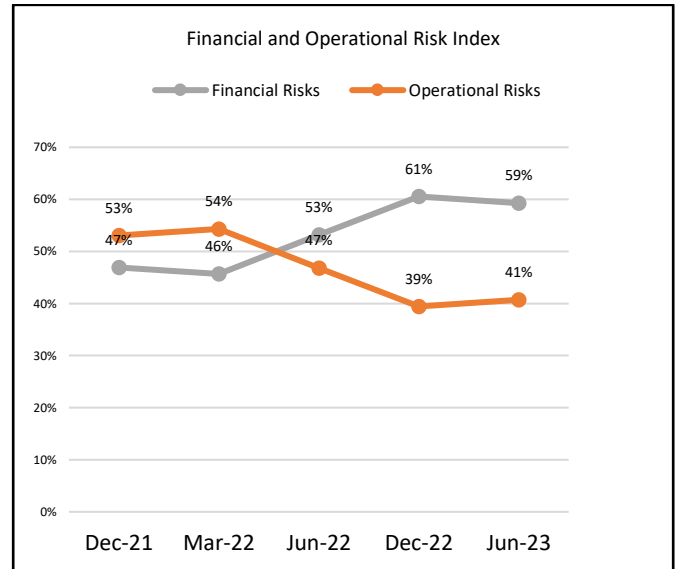
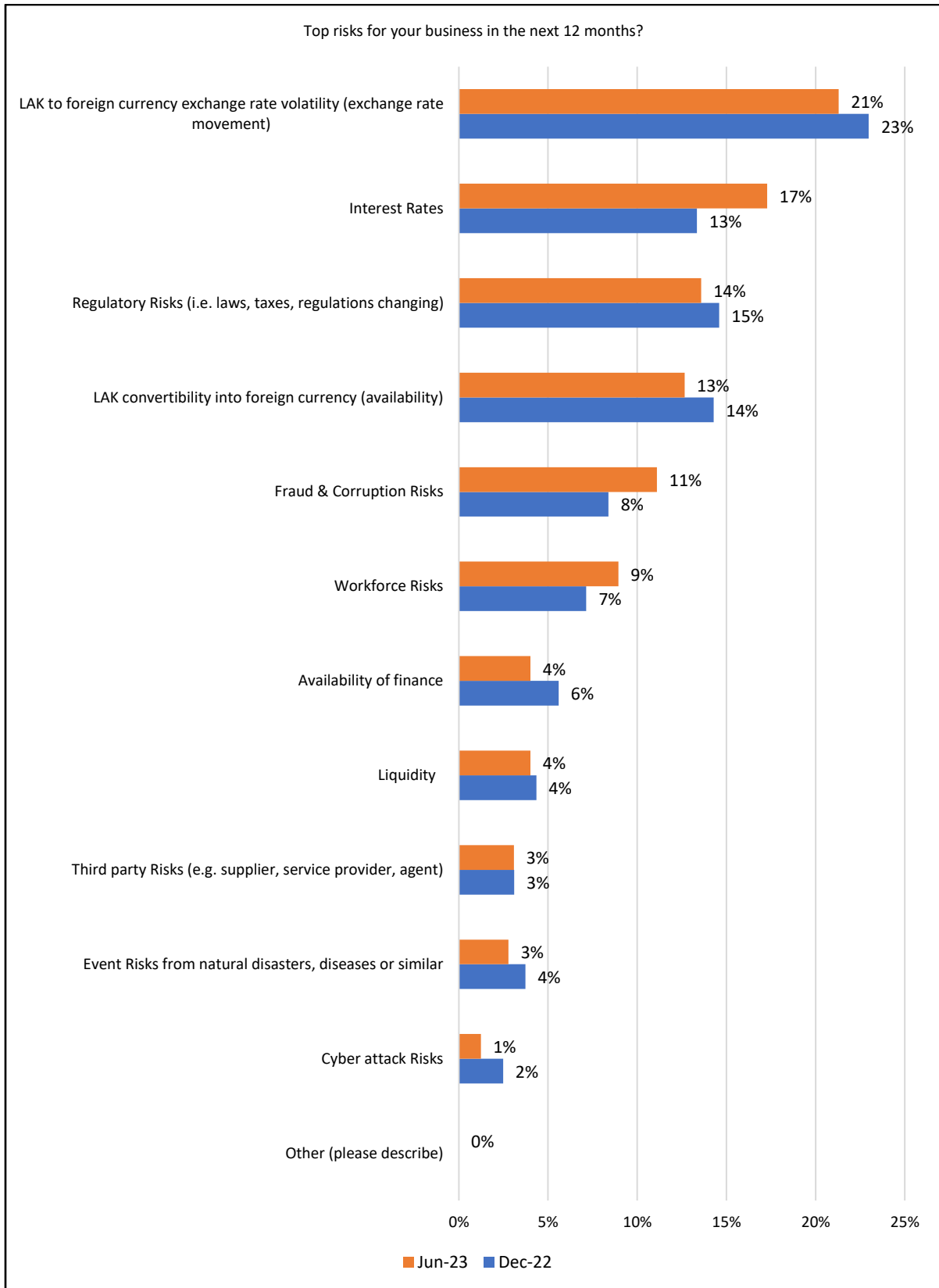


Figure 10: Key Business Risks



ACKNOWLEDGMENTS

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PARTICIPATING BUSINESS CHAMBERS

