



Doing business in Laos

Laos has a population of 7.2 million and an average income per capita of USD 1730.40 (2017). Its economy has been expanding by 7 percent on average over the last two decades, but the landlocked country is still heavily dependent on foreign aid. Despite the challenging business climate, Dutch entrepreneurs can find investment opportunities in several sectors. These include agriculture and forestry, hydropower, tourism, infrastructure and logistics.

Laos is an one-party Socialist Republic in Southeast Asia, bordered by Myanmar and China to the northwest, Vietnam to the east, Cambodia to the south and Thailand to the west. Its economic model bears some relation to its Chinese and Vietnamese counter parts, in that it has implemented market-based economic practices while maintaining a very high degree of political control.

Despite economic reforms, the business climate in Laos is still challenging. Ranking 141 out of 190 economies on the World Bank's 2018 Doing Business Report, the country scores lower than most other countries in the region. Factors affecting business climate include corruption and red tape, opaque custom procedures and tax regulations, a lack of skilled manpower, poorly developed infrastructure and a weak judicial system and the absence of a proper framework to govern public-private-partnership projects. Another factor making it more challenging to access the Lao market in sectors such as infrastructure, hydropower and mining, is the relative dominance of several Asian investors, most notably from China and Vietnam. As a landlocked country, Laos is strongly dependent on its neighbouring countries for foreign trade, but has the ambition to go from 'landlocked to land linked'.

Despite its challenging business climate, the Lao economy has been growing 7 percent per year for the last two decades and is expected to grow at 7-8 percent annually through 2020. Agriculture still accounts for almost 21 percent of GDP, but due to rapid urbanization and industrialization, industry and services now account for 33 and 46 percent of GDP respectively. Trade has also rapidly increased, as exports now

account for more than 33 percent of GDP. On top of economic development, Laos boasts a young accelerating labor force, with more than half the country below 23 years old.

Since 2006, national income has doubled due to the investment boom, based on natural resources and fuelled by mining and exports of hydropower. Continuing foreign direct investment (FDI) inflows to the mining and hydropower sector are likely to sustain economic growth in the coming years. Recently, a considerable number of foreign companies have invested in Laos, including investment from Europe. The politically stable country is among Asia's lowest labour cost countries, and due to its Least Developed Country (LDC) status it enjoys 100 percent duty-free, quota-free access for most goods to many export markets including the EU. Having met the criteria to be removed from the LDC list this year, Laos will most likely be upgraded to non-LDC in 2024. Laos became WTO member in 2013 and its membership of the Association of Southeast Asian Nations (ASEAN) provides businesses in Laos the advantages of the ASEAN Economic Community, a single market of over 600 million people covering 10 countries in the region.

The relatively low labour costs and the recent establishment of Special Economic Zones (SEZs) may offer opportunities to Dutch companies with the ambition to produce labor-intensive goods focused on export within the Southeast Asian region and/or beyond. In addition, Dutch entrepreneurs can find business opportunities in several sectors, in particular agriculture and forestry, hydropower, tourism, and infrastructure and logistics.

Foreign Direct Investment (FDI)

The Netherlands is one of the largest EU investors in the country. Laos and the Netherlands signed a bilateral investment treaty, containing various benefits and protective provisions for Dutch investors.

Since 2011 Laos has increasingly been trying to attract foreign investors. The NSEDP targets an ambitious annual GDP growth of at least 7.5 percent of which 54-57 percent is to be generated by domestic and foreign private investments. Laos markets itself as a politically stable and safe country with low labour costs and an abundance of natural resources. The government strongly encourages investors to invest in the Special Economic Zones, the Export Processing Zone, industrial parks, tourism and ICT.

The 2010 Law on Investment Promotion includes shortened procedures, access to local financial capital and combined legislation for both domestic and foreign investors. After being amended in 2017, the law brings greater clarity to promoted business sectors and highlights eligible rights and incentives for companies.

Special Economic Zones (SEZs)

The SEZs in Laos offer potential opportunities for foreign enterprises. The SEZs in the northern part of the country are largely utilized by Chinese investors, whereas the SEZs in the Savannakhet region seem to attract some European investors.

However, the business climate remains difficult and unpredictable. Rules are not applied equally to all, there is a high level of corruption and rules are subject to random changes. Moreover, infrastructural deficits (including roads, energy and telecommunication) contain a high risk for doing business. Land and electricity rates in the SEZs tend to be high and skilled labour is not always available.

Dutch business opportunities

Agriculture & forestry

Agriculture has recorded a modest but steady average growth of 2-3 percent per year and employs more than 70 percent of the Laotian workforce, mostly in small scale farming. 72 percent of agricultural production is related to rice, but other crops, including maize, coffee, rubber, sesame, cotton and tobacco, are important agricultural products as well.

The Lao government encourages farmers to shift their focus to more commercially viable crops. The policy of providing agricultural concessions to FDI has enhanced agricultural exports, but simultaneously contributed to concerns of land and forest depletion.

The 8th National Socio-Economic Development Plan (NSEDP) for 2016-2020 emphasises green growth as an element of the long-term forestry and agriculture development strategy. This includes the ability to cope with natural disasters and climate change. Moreover, it mentions small and medium enterprises as the main engine for materializing the strategy.

Hydropower

Laos has set the goal to become the “Battery of Southeast Asia” in the next few years. Today, the Mekong River generates more than 20,000 Megawatts of electricity for Laos, but has been largely left untapped. The large growth potential of the hydropower sector is expected to attract more foreign capital in the years to come. Although the lethal collapse of the Xe-Pian Xe-Namnoy Dam in July 2018 suspended the construction of new dams and called for stricter inspections, the government has continued pressing for its hydropower strategy. Laos has accepted many Chinese loans to fund building the dams.

The negative environmental impact of these projects have resulted in strong concerns from neighbouring countries about Laos’ electricity ambitions. Despite these regional headwinds, the Asian Development Bank (ADB) is supporting the Lao government financially and economically. Together with other regional banks it provides Laos with a loan of US\$ 50 million and US\$ 72 million for the construction of the two dams in the Mekong River. Moreover, the ADB will provide technical assistance pertaining to the sustainability of projects. The implementation of safe and sustainable water management and expertise on water technology can provide interesting business opportunities for Dutch companies.

Tourism

The number of tourists visiting Laos has been increasing over the last decade, but has been fluctuating recently, with 4.7 million tourists visiting the country in 2015 and 3.9 million in 2017. The government has set the ambitious goal to welcome 7.5 million tourists in 2025. Although Laos has obvious infrastructural deficits, there are regular domestic flights between provincial capitals, and international flights connecting Laos to the outside world.

The Lao government encourages foreign investments in the tourism sector. Since 2012, the tourism industry is open to FDI with foreign equity of up to 70 percent until 2015 and several natural tourist sites are welcoming FDI.



Infrastructure & Logistics

As mentioned above, Laos needs to improve its infrastructure. The country ranks 82nd (out of 160 countries) on the World Bank's Logistics Performance Index and 102nd (out of 137 countries) on the infrastructure sub index in the Global Competitiveness 2017/18 Report. Through a public-private-partnership program the Lao government encourages and co-finances infrastructure projects by making it easier to set up businesses, tax registration and permits.

Do's and Don'ts in Laos

Be prepared

Good preparation is essential before exploring your business opportunities in Laos. Get to know the country and its culture, as well as the economic and political climate. Make good use of the knowledge and services available from branch organizations and government authorities. Talk to entrepreneurs with experience in doing business in Laos.

Build relationships

Building and maintaining personal relationships is essential for doing business in Laos. Personal relationships can be the key to successful business commitments. A reliable local partner can speed up the preparatory work considerably and could be the most effective way to reach Laotian counterparts.

Understand business etiquette

The traditional Lao gesture of greeting is the “nop”, “phanom” or “wai”, where the palms are placed together in a prayer-like gesture in front of the face. Nowadays, however, the handshake is becoming increasingly common for both men and women, particularly during the conduct of business. The safe dress code is to go formal, with conservative colours. Don't show your temper and do avoid loss of face. Always be polite and show respect to your business counterpart. Be patient, very often things do not move at the same pace as in the West.



Know your challenges

Laos has a lot to offer, but there are undoubtedly many challenges in doing business here. Understand where to expect challenges: culture and language, laws and regulations, intellectual property rights, trade barriers, personnel and bureaucracy. Develop a solid business plan and do market research: set clear goals and ambitions, know your niche market and know about your competitors. Make sure you do due diligence prior to entering into contracts or other commercial arrangements. Grey areas cannot always be clarified, and should be recognized as a potential risk element. English is not widely spoken.

Act responsibly

Corruption can pose a serious barrier for doing business in Laos. The Embassy could provide advice to avoid corruption and reduce the risks of doing business in Laos. The Netherlands government supports enterprises which implement Corporate Social Responsibility (CSR). Enterprises should put in place a process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders. For more information, please see the [RVO's CSR Passport](#).

We support your business

Our main services are the following:

- Providing information on sectors and rules and regulations.
- Supporting trade missions and visiting programs.
- Organising meetings with relevant authorities at local, provincial or government level.
- Monitoring business opportunities.
- Trouble shooting and advice on resolving disputes.
- Advising on available instruments and services.
- Promoting Dutch business abroad.

If your company is in need of support, do not hesitate to contact the Netherlands Embassy in Bangkok.



Official name	Lao People's Democratic Republic
Government type	Single-party Socialist Republic
Population	7.2 million
Area	236,800 Km ² (6 times larger than the Netherlands)
Main cities	Vientiane (capital: 665,000), Pakse (88,000), Savannakhet (67,000)
Time difference	+ 6 hours (NL winter time), + 5 hours (NL summer time)
Currency	Kip (LAK) , 1 EUR = 9746 LAK (19/11/2018), US dollars and Thai Baht are accepted
GDP growth rate	6.9% (2017), 7.0% (2016), 7.3 % (2015), 7.4% (2014), 8.0% (2013)
FDI	813 million USD (2017)
Trade volume	Total exports 2017: 3.65 billion USD, Total imports 2017: 4.98 billion USD
Inflation	0.8% (2017)
Global competitiveness	rank 89/137 (2017/2018)
Ease of doing business	rank 141/190 (2018)
Global corruption perception	rank 141/180 (2018)
Memberships	WTO, ASEAN, GMS, APTA, AEC, EAS, AFTA, UNCTAD, WFTU
Main trading partners	Thailand, China, Vietnam, Japan, South Korea, UK, Germany
Major imports	Cars, planes, helicopters & spacecraft, delivery trucks, refined petroleum
Major exports	Wood products, coffee, electricity, tin, copper, gold, cassava
Dutch-Lao trade	Export to NL (2017): EUR 13 million, Import from NL (2017): EUR 3.23 million

Trade fairs

For exhibitions, it is recommended to focus on regional trade fairs. A wide variety of regional and domestic trade fairs is organised in Thailand and other countries in Southeast Asia throughout the year. Occasionally, the Netherlands Embassy organises events, such as a Holland pavilion or networking event. Please contact us for more information on relevant trade fairs and Embassy events.

Other relevant contacts

European Chamber of Commerce and Industry in Laos.
www.eccil.org

Investment Promotion Department, Ministry of Planning and Investment of Laos.
www.investlaos.gov.la

Lao National Chamber of Commerce and Industry
<https://lncci.la/about-us/>

Business support instruments

The Netherlands government has developed several instruments to support Dutch companies interested in doing business in Laos. For more information, please visit the Laos page of the Netherlands Enterprise Agency (RVO) at www.rvo.nl/Laos.

'NL exporteer' App A free export app, designed for entrepreneurs with international ambitions. It provides information on events, the do's and don'ts of doing business, economic data and financing possibilities. Download the app in the App Store (iOS) or in Google Play.

Published by:

Netherlands Embassy in Bangkok
 W. www.netherlandsandyou.nl, E. ban-ea@minbuza.nl
 Follow us on [Facebook](#) (Netherlands Embassy in Bangkok) and [LinkedIn](#)

© Ministry of Foreign Affairs | January 2019