

## Overview

Lao PDR's business environment is diversifying and as its economy has opened up over the last few years. As a result, more investment opportunities in various economic sectors have surfaced. There is a somewhat challenging business climate, but despite this, entrepreneurs and early adapters can find investment opportunities in several sectors. These include agriculture and forestry, hydropower, tourism, infrastructure, mining and logistics.

In terms of the internal market, 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 is still dependent on foreign aid.

## Forms of business entities

A person, Lao or foreigner may engage in business in the form of a sole proprietorship, limited liability company (including foreign-owned company and joint venture company), partnership, branch of a foreign corporation, a representative office, or a business cooperation by contract.

The most common form of entity used in Lao PDR is the limited liability company.

Under Lao law, a branch office can be established to carry on only specific business (e.g. commercial banks, airlines, etc.), while a representative office cannot generate any income in Lao PDR. This model of representative office is a great model to come and test the waters of Laos. It is relatively low cost and allows one to test the waters and see how business could be generated. The conversion from representative office to another business license is a relatively simple process.

It should be held in mind that certain businesses require approvals or licenses from relevant authorities and this is not always straight forward. The availability to FDI for specific sectors should be the first area of research to ensure the market allows for FDI in your respective field. For example, a foreigner is restricted from carrying on certain types of business activities in Lao PDR such as accommodation of less than 3 stars, wholesale and retail business with registered capital not exceeding LAK 4 billion. Foreigners are prohibited from owning freehold land in Lao PDR. Long-term lease is allowed.

Business in Laos is often accompanied with a concession agreement with Lao Government, which can grant tax incentives to investors based on negotiation. Tax incentives include exemption of corporate income tax on the net profit and dividends derived from the relevant project, and/or exemption/reduction of import duties and/or value added tax.

## Challenges

There have been multiple economic reforms which show the government acknowledges the challenges for overseas investors. These changes also highlight the desire from within the country to attract more FDI. Despite these changes, Laos ranks 150 out of 190 economies on the World Bank's 2020 Doing Business Report; Laos scores lower than most other countries in the region.



The reasons behind this low ranking, according to the World Bank report, 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 whom arrive in some cases with strong governmental backing

## Positives

Despite its challenging business climate, the Lao economy has been growing 7 percent per year for the last two decades. Laos has a young labour 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 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 country is politically stable, offers low cost labour, 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.

## Opportunities

Laos is a member of WTO and ASEAN, which 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 companies with the ambition to produce labor-intensive goods focused on export within the Southeast Asian region and/or beyond. In addition, entrepreneurs can find business opportunities in several sectors, in particular agriculture and forestry, hydropower, tourism, and infrastructure and logistics

## Services

As the Laos market is relatively new, there are gaps across all sectors and space for service and goods providers to enter where in some cases there may be no other competitors. This is particularly true for high-level skill-based services or those that leverage on new or complex technologies.

## Rail

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'. The soon to arrive railway project has the potential to change Laos in a multitude of ways, and the potential to position Laos as a central trading location for the region is there to be seen.

### 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. The SEZs offer special conditions for business and each SEZ offers different incentives to incoming investors. It is worth exploring the potential benefits of each area, noting on the plus side that T&Cs are often open to negotiation, which can be both a positive and a negative depending on the outcomes and the framework to business is not always black and white.

### Agriculture and Forestry

**Agriculture & forestry** Agriculture employs more than 70 percent of the Laotian workforce, mostly in small scale farming. Although rice constitutes 72% of agricultural production, the Lao government encourages farmers to shift their focus to more commercially viable crops. Laos is blessed with sunshine, rainfall and fertile land. With a low population density, there is land availability which can be acquired at relatively low costs. There are FDI's in high yielding cash crops such as flowers and avocados, as well as managed forest projects such as Eucalyptus. The biggest challenge to agriculture is access to market, with a small domestic market and a tricky route to ports. Opportunities in this sector also arise from green growth, including the ability to cope with natural disasters and climate change.

### Hydropower

Laos has set the goal to become the "Battery of Southeast Asia". Since creating the policy and legal framework to allow for Built-Operate-Transfer (BOT) projects, foreign investment in this sector has flooded in. Largely dominated by Chinese and Vietnamese finance, there are projects owned and operated by Thai, American, Malaysian, French, to name but a few. There exists opportunities throughout the supply chain from pre-engineering works through to Operation and Maintenance and many European companies have a presence here and impact significantly on the sector. There is a skill shortage on the ground, opening doors for high level and specialised service providers to access the market.

### Tourism

It is difficult to discuss tourism in the post-Covid world. The recent pandemic will no doubt completely change this sector and it is anyone's guess as to how the sector will recover and rebuild in the coming months and years. Tourists numbers steadily increased over the past 10 years, 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. The Lao government encourages foreign investments in the tourism sector. The two main areas of opportunity in tourism would be high-end accommodation and expertise in the eco-tourism sector.

### General Tips

Above all, flexibility and patience are required to do business in Laos. Trying to follow written policy and law to the word is difficult, with information often contradicting itself. A strong local partner or collaboration with another already established foreign company can ease the learning curve. It is often challenging to collect reliable data and market sector analysis and the data sets used often proving unreliable. Therefore, there will be plenty of trial and error and a flexible, patient approach is essential.



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.

Laos has its own business customs and ways of doing business that are surprisingly quite different from those of its neighbours Vietnam and China. It is best to arrive in Laos with an open-mind and without any preconceived views. From those of us who have conducted business in Laos for a long time, we know that a very pleasant work environment exists and also understand that business may not rank #1 amongst the priorities of our partners and colleagues, and should therefore bare this in mind when operating here. Corruption can pose a serious barrier for doing business in Laos and this aspect should be navigated carefully, patiently, and with the advice and support of local partners.

Whilst finding skilled workers may pose a challenge, the workforce is generally motivated, keen to learn, quick to grab opportunities and provide a great working atmosphere. There are challenges, but there are also great rewards for those who take the time to understand the mindset.