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“The Potential of the Indochina Economic Zone”

**Foreign Direct Investment (FDI) and Special Economic
Zones in Lao PDR**

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Introduction

Macroeconomic indicators

Macroeconomic Indicator	2011-2013	2006-2010	2001-2005	1996-2000	1990-1995
Population growth (%)	2.04	2.16	1.58	2.07	2.71
GDP growth (%)	7.98	7.98	6.24	6.17	6.28
GDP per capita (constant 2000 US\$)	1329	841	371	302	243
GDP per capita growth (%)	6.10	5.90	4.58	4.00	3.44
Money supply growth (%)	31.90	38.34	20.18	66.04	30.92
Inflation, CPI (%)	5.92	4.98	10.31	57.00	15.27
Trade balance /GDP (%)	-0.30	-0.59	-10.43	-17.03	-13.02
External debt stock (% of GDP)	76.50	101.10	129.86	152.99	160.25
Budget deficit/GDP (%) -including grants	-2.85	-2.53	-4.13	-4.87	-7.95
Budget deficit/GDP (%) -excluding grants	-9.26	-6.05	-6.04	-8.88	-11.52
Exchange rate (kip per US\$)	8018	9056	10164	4094	727

Sources: World Bank online database 'World Development Indicators. Asian Development Bank (ADB).

Introduction

- Laos has maintained high economic growth for about two decades.
- However the current trend of economic growth presents a risk in the long term because it is based on natural resources (mining and hydropower sectors).
- Laos might face “Dutch disease” or the “Resource curse” in the long-run.

Introduction

- It is important to increase competition among enterprises in Laos in order to have long-run development.
- Promotion of spillover effects from foreign firms is also Important for long-run development.
- Diversified FDI is also important.

Introduction

There are two main objectives of this presentation

1. Review the current FDI situation and its impact on the Lao economy
2. Highlight the current situation of SEZs and review opportunities and challenges of SEZs

FDI Promotion and FDI Trends

New Economic Mechanism:

1986: Shifting from a planned economy to a market oriented economy

Privatization of state enterprises

Open for FDI: - FDI Law 1988

- FDI Law (1st revised) 1994
- FDI Law (2nd revised) 2004
- FDI Law (3rd revised) 2009

FDI Promotion and FDI Trend

New Features of Investment Law

- Combined the domestic investment law and foreign direct investment law into one to create a “level playing field” for both domestic and foreign investors
- Shorten procedures to open new businesses
- No terms of investment for promoted activities
- Extended investment incentives: Education and Health care sectors are top priorities
- Foreigners can have access to local financial sources
- Foreign Invested Companies can own a piece of land for building their offices/residences (Certain conditions to be applied)
- Foreigners can invest in the real estate sector
- Promotion of the development of SEZ and Industrial Park

FDI Promotion and FDI Trend

Terms of Investment:

- No terms of investment for general business activities (Article 20)
- Terms of the concession projects are up to 99 years (Article 28)
- Access to Credits
- Both foreign and domestic investors can access credits at commercial banks and financial institutions in Lao PDR and abroad (Article 53)

Real Estate Investment:

- Foreign investors can invest in the real estate sector by leasing land from the Government or private sector (Article 58) and can buy/sell that real estate.

FDI Promotion and FDI Trend

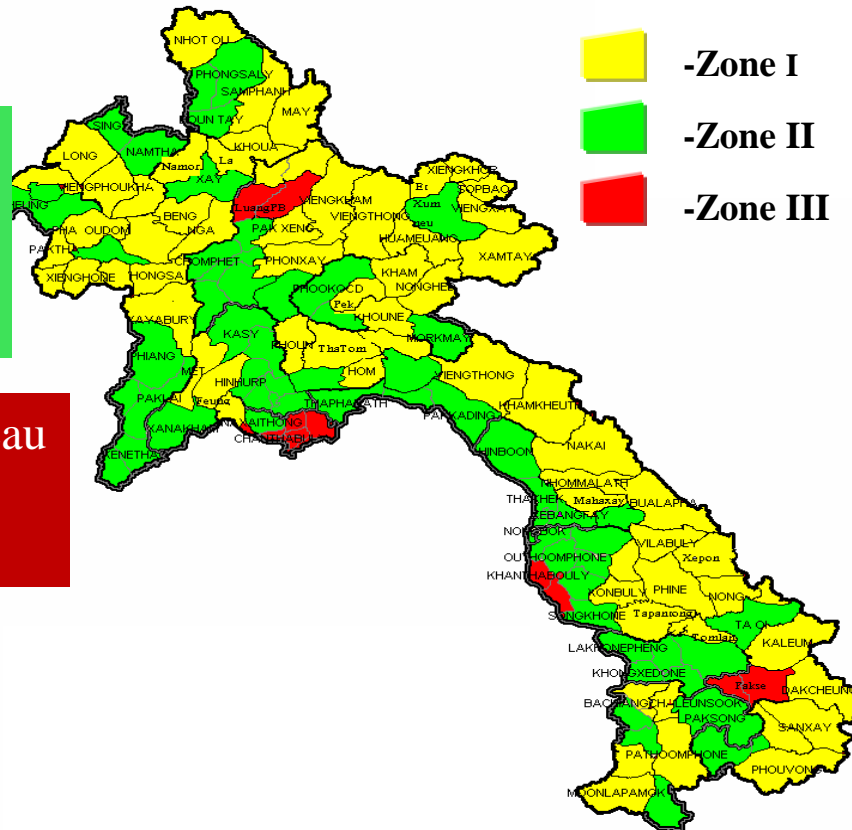
Rights of land used for residential purposes:

- Investor will be granted rights on purchasing rights of land use for residential purposes (Article 58), if the following conditions are satisfied:
 - Import of registered capital (in cash) at least US\$ 500,000.
 - Must be government owned land and designated by the government
 - Certificate on location of investment which is issued by local authority.
 - Provide land use rights not than 800 m² to build facilities for residential or business purpose.
 - The government will allocate land to investors for a duration consistent with the investment duration.

Investment Promotion Zoning

Zone II: Mountainous, plateau zones with a moderate level of economic infrastructure.

Investment promotion zoning



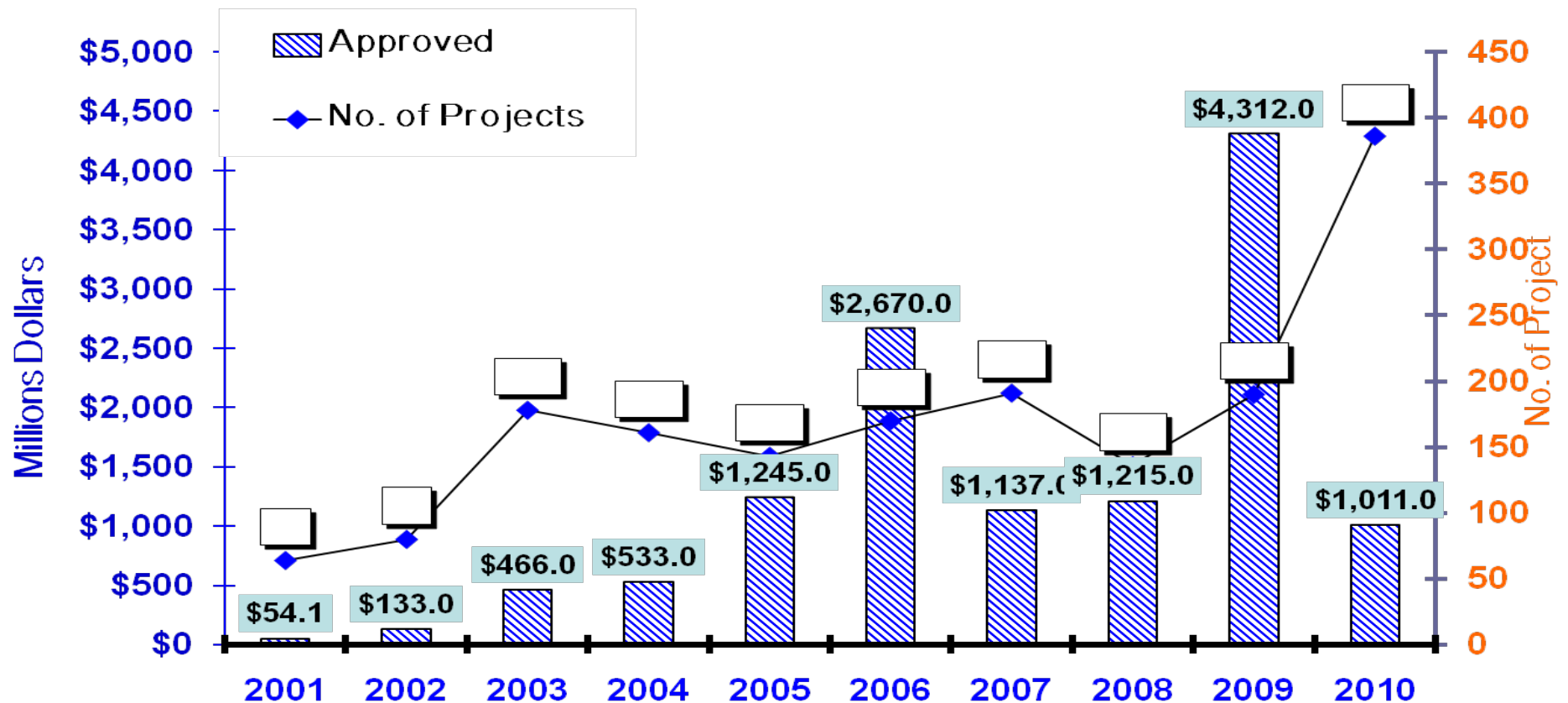
FDI Promotion and FDI Trends

Incentive on Cooperate Profit tax

Promoted Sectors	Zone	Level	Period of exempt (years)
Industry Agriculture Service	1	1	10
		2	6
		3	4
	2	1	8
		2	4
		3	2
	3	1	4
		2	2
		3	1

FDI Promotion and FDI Trend

Investment Inflows, 2001-2010



FDI Promotion and FDI Trends

Top Ten FDI by Countries, 2000- 2010

No.	Country	Number of Projects	Total Invest. Value, US\$
1	Vietnam	265	2,972,339,324
2	China	412	2,845,674,318
3	Thailand	276	2,693,565,843
4	R. Korea	160	515,782,912
5	France	78	469,537,586
6	Japan	46	439,184,403
7	India	8	359,087,000
8	Australia	34	335,658,528
9	Norway	4	230,165,000
10	Malaysia	45	156,417,974

FDI Promotion and FDI Trend

FDI by sector 2000-2010

Sector	Project	Capital	
		mil. US\$	%
Energy & Hydropower	38	5,184	54.4
Mining	139	1,747	18.3
Agriculture	257	523	5.5
Industry & Handicraft	291	502	5.3
Services	269	487	5.1
Construction	53	287	3.0
Telecommunication	17	263	2.8
Hotel & Restaurants	115	173	1.8
Banking	16	134	1.4
Wood Industry	60	101	1.1
Trade	160	64	0.7
Garment	67	50	0.5
Consultants	69	10	0.1
Total	1551	9,526	100.0

Impact of Foreign Capital Inflows in Mining on the Lao Economy

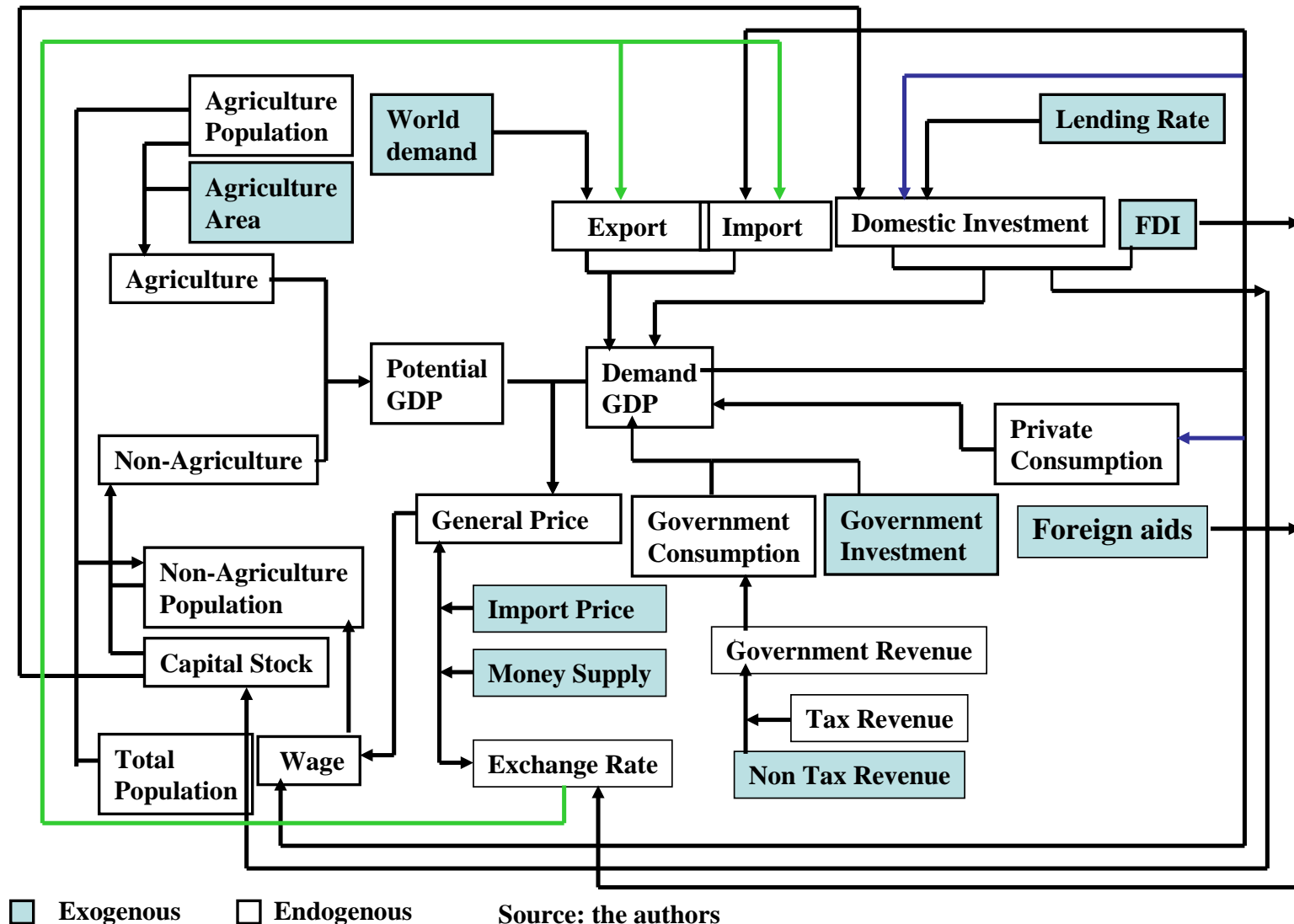
- Foreign capital inflows are important sources of investment finance for low-income, developing countries.
- However, the mining sector could have a negative impact on the Lao economy in the long term if non-booming sectors such agriculture and industry contract due to an appreciation of the real exchange rate.

Impact of Foreign Capital Inflows in Mining on the Lao Economy

- Our main objective in this study is to use a macro-econometric approach to quantify the potential impact of foreign capital inflows in the mining sector and to look for evidence of Dutch Disease.
- We focus on the capital inflow effect, rather than the effects of government spending of resource-sector windfalls or factor movements

Impact of Foreign Capital Inflows in Mining on the Lao Economy

Model flowchart



Source: the authors

Impact of Foreign Capital Inflows in Mining on the Lao Economy

Simulations

- Our simulations were done as follows. First, we conducted a base-line simulation without any shocks (B).
- The mining sector accounted for about 50 percent of total FDI during 2003 to 2006. Therefore, for the shock case we assumed zero foreign capital inflows in mining, so that FDI decreased by 50 % from the base year during this simulation period, which was called shock case (C).
- It is important to note that we use nominal FDI as a shock variable. The difference between the base case (B) and shock case (C) reveals the impact of foreign capital inflows: the impact of capital inflows = $(B - C) * 100 / C$.

Impact of Foreign Capital Inflows in Mining on the Lao Economy

Impact of foreign capital inflows (foreign capital inflows decline by 50%)

Variables		Year 1	Year 2	Year 3	Average
GDP	Gross domestic product	-3.46	-3.17	-4.04	-3.56
PL	General price	0.55	0.79	1.48	0.94
RRATEU	Real exchange rate	2.31	3.38	5.91	3.87
RATEU	Nominal exchange rate	2.88	4.19	7.48	4.85
EX	Export	3.69	4.42	6.16	4.76
IM	Import	-3.99	-3.62	-4.61	-4.07

Source: authors' estimates from model.

SEZ Development

National Committee for Special Economic Zone -NCSEZ

- NCSEZ is a specialized agency of the Government with the mandate of assisting and helping the works of the Government in leading and managing the SEZ in the whole country
- NCSEZ is the focal point of coordination with all local and foreign parties concerned in order to ensure the implementation of State policy relating to SEZ activities.

SEZ Development

The roles and function of NCSEZ as follows:

- Lead and manage the SEZ countrywide
- Consider and approve the policies and legal acts pertaining to the development and management of SEZ activities in the whole country
- Formulate the strategic plan for development of SEZ in the whole country

SEZ Development

The personnel structure of NCSEZ is comprised of:

1. Deputy Prime Minister in charge of Economic Portfolio as Chair;
2. Minister of Government's Office as Deputy Chair and Standing Member;
3. Minister of Planning and Investment as Deputy Chair Member;
4. Minister of Industry and Commerce as Deputy Chair Member;
5. Minister of Public Works and Transport as Deputy Chair Member;
6. Minister of Finance as member;
7. Minister of Justice as member;
8. Minister of Information and Culture as member;
9. Vientiane Capital Mayor, Provincial Governors where Special and Specific Economic Zones are located as member;
10. Deputy Minister of National Defense as member;
11. Deputy Minister of Public Security as member;
12. Deputy Minister of Foreign Affairs as member;
13. Deputy Minister of Labor and Social Welfare as member;
14. Deputy Minister of Home Affairs as member;
15. Deputy Minister of Natural Resource and Environment as member;
16. General Secretariat of NCSEZ as member;

SEZ Development

The Secretariat to National Committee for Special Economic Zone (S-NCSEZ)

- S-NCSEZ is the standing agency of NCSEZ, is attached to the organizational machinery structure of the Government's Office, has the role of assisting NCSEZ; liaises with both local and foreign parties regarding SEZ works and ensures the administration and management of daily tasks of NCSEZ.

SEZ Development

The Secretariat to National Committee for Special Economic Zone (S-NCSEZ)

- Assist NCSEZ in the development and management of SEZ countrywide
- Research, formulate the strategic plan and define land area for SEZ development in each period; draft the policy on promotion of investment in the development and management of SEZs in Lao PDR for submitting to NCSEZ or to the Government for consideration
- Encourage, advise and follow-up on the implementation of One-Stop Service in SEZs throughout the country

SEZ Development

Legal acts on development of SEZ (awkward wording)

- Law on Investment Promotion
 - Resolution of the National Assembly's Standing Committee on the Adoption of Decree on Special Economic Zone and Specific Economic Zone in the Lao PDR
 - Decree on Special Economic Zone and Specific Economic Zone in the Lao PDR
 - Decree on the Organization and Activities of Lao National Committee for Special Economic Zone
 - Decision on the Organization and Activities of the Secretariat to Lao National Committee for Special Economic Zone
 - Development Strategy for Special and Specific Economic Zone in the Lao PDR, 2011-2020
- One-Unit Service Guideline for the Development and Management of SEZ (Edition 2011).

SEZ Development

Current situation of SEZs

- There are 10 SEZs that have been developed in Laos

Developers:

- 2 Lao government
- 2 Private 100 % (Chinese)
- 3 Government + Private (Chinese)
- 1 Private 100 % (Malaysia)
- 1 Private 100 % (Vietnamese)
- 1 Private 100 % (Lao)

SEZ Development

Current situation of SEZ

- Savan-Seno Special Economic Zone

Location: Savannakhet Province

Establishment Year: 2003

Land Tenure: 75 years

Investment Amount: 74,000,000 USD

Developer: Government 100%

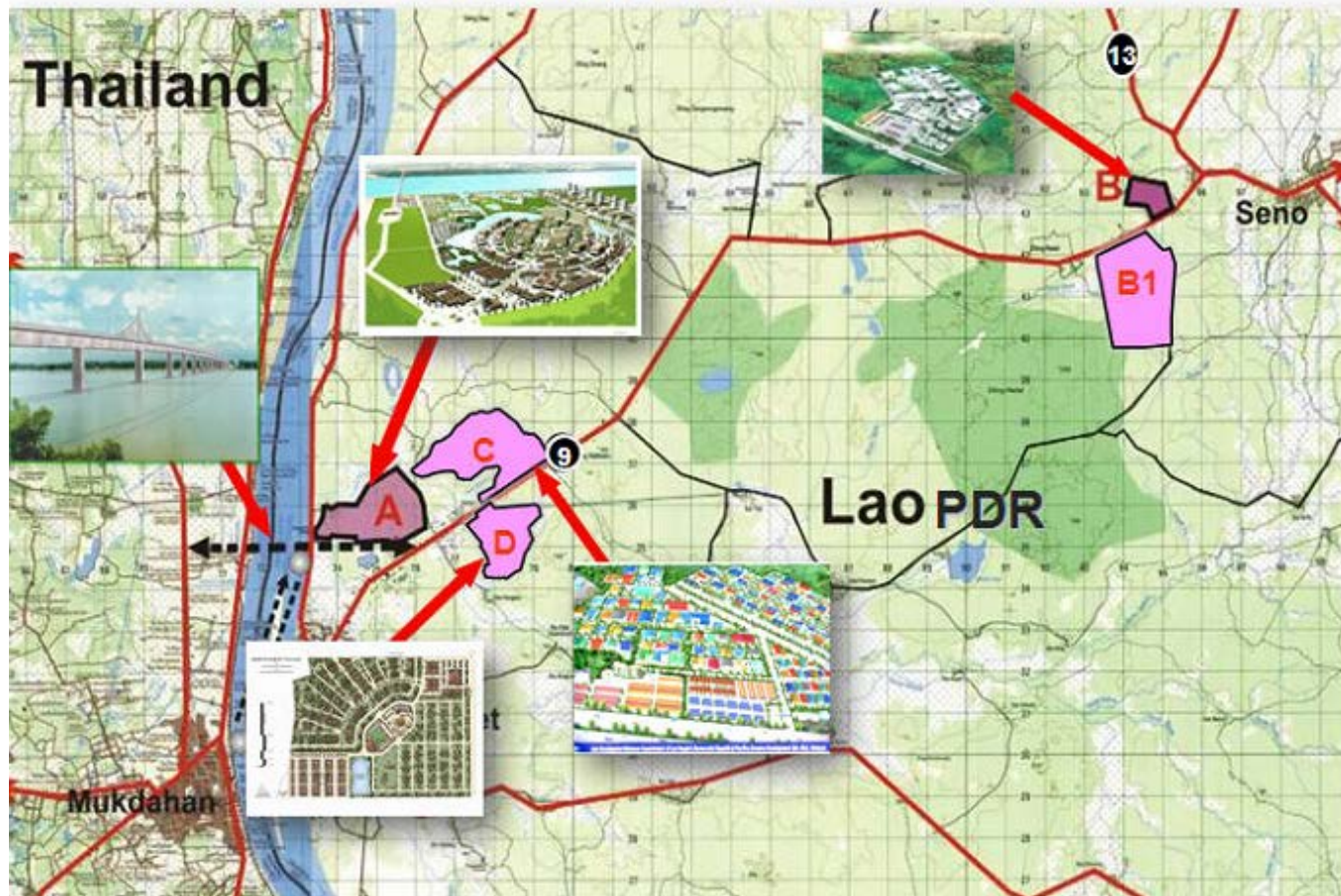
Area: 954 ha

SEZ Development

Current situation of SEZ

Savan-Seno Special Economic Zone

Location of Zone A, B, B₁, C, and D



SEZ Development

Current situation of SEZ

Savan-Seno Special Economic Zone

Layout of Zone B



SEZ Development

Current situation of SEZ

Savan-Seno Special Economic Zone

Tax Incentives

➤ **Tax Holiday:**

2–10 years starting from profit making year

➤ **Corporate Profit Tax:**

8 – 10%

➤ **Personal Income Tax:**

5% for both local and foreigners within SaSEZ

➤ **Loss carry forward 5 years**

SEZ Development

Current situation of SEZ

Savan-Seno Special Economic Zone

Tax & Customs Duties Exemption

- Taxes & customs duties *exempted* for all *export manufactured products*;
- Taxes & customs duties *exempted* for all *imported raw materials, construction materials and equipment to be used for manufacturing & construction.*
- *Import of raw materials in Lao PDR* for using in various activities of the SEZ to export good shall be entitled to receive the duty and tax privilege in accordance with the law.

SEZ Development

Current situation of SEZ

Savan-Seno Special Economic Zone

Attractive Lease Policy

Land Leasing Policy:

- Maximum 99 years lease period and extendable upon SEZA's approval;
- Enjoying 12 years lease exemption;
- Sub-leasable within lease period;

Visa:

- Registered Capital at least **US\$ 100,000** Multiple Entry VISA for period of at least **5 years** Foreigner ID card and Work permit
- Foreign investors with registered **capital US\$10 Mill.** Permanent resident ID card or multiple entry visa for more than 1 year or **Lao passport.**

SEZ Development

Current situation of SEZ

Savan-Seno Special Economic Zone

Japanese Investment



	Nikon LAO CO., Ltd
	TOYOTA BOSHOKU LAO Co ., Ltd.
	LOGITEM LAO CO., Ltd
	LAO TIN CO., Ltd
	KP - BEAU LAO CO., Ltd
	KOYO ORIENT LAO CO., Ltd
	MISUZU LAO CO., Ltd
Total of Value :	<u>20,850,000 \$ USD</u>

SEZ Development

Current situation of SEZ

- **Boten Beautiful Land Specific Economic Zone**

Location: Louangnamtha District, Louangnamtha Province

Establishment Year: 2003

Land Tenure: 50 years

Investment Amount: 500,000,000 USD

Developer: Private 100 % (Chinese)

Area: 1640 ha

SEZ Development

Current situation of SEZ

- Golden Triangle Special Economic Zone

Location: Tonpheung District, Bokeo Province

Establishment Year: 2007

Land Tenure: 99 years

Investment Amount: 86,600,000 USD

Developer: Government + Private (Chinese)

Area: 827 ha

SEZ Development

Current situation of SEZ

- **Vientiane Industrial and Trade Area**

Location: Xaythany District, Vientiane Capital

Establishment Year: 2009

Land Tenure: 75 years

Investment Amount: 43,000,000 USD

**Developer: Government (Ministry of Industry) +
Private (Commerce and Nam Wei Development Co., Ltd.)**

Area: 110 ha

SEZ Development

Current situation of SEZ

- Thatluang Lake Special Economic Zone

Location: Xaysettha District, Vientiane Capital

Establishment Year: 2011

Land Tenure: 99 years

Investment Amount: 1,600,000,000 USD

Developer: Private 100 % (Chinese)

Area: 365 ha

SEZ Development

Comparative advantages

- Political and economic stability
- International and regional cooperation (GMS, AEC, WTO...)
- Rich natural resources and free from severe natural disaster

SEZ Development

Major challenges

- High transportation cost (No seaport)
- Small population (about 6 million)
- Lack of skilled and unskilled labor
- Developers seem to face shortages of funding
- Finding difficulty in attracting FDI

Conclusions

- FDI is playing an important role in economic development.
- However, current FDI (resource sector) also bring costs-Dutch disease
- FDI in SEZs could promote FDI in non-resource sectors, which is important for long-run development

Conclusions

- The development of SEZs is a priority policy for the Lao government
- SEZs are important for attracting FDI to promote Lao economic development
- Development of SEZs faces various challenges and it also has opportunities

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