



AEC

ASEAN
Economic Community

BUSINESS NEWS

Newsletter of the European Chamber of Commerce and Industry in Lao PDR

ASEAN Economic Community

When the Lao PDR joins the AEC in 2015, this will have a major impact on businesses in the country.

What will it mean for your business?

What does it really mean for Laos?

Is Laos ready for the AEC?



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This issue is mostly dedicated to the forthcoming AEC due to start in 2015.

As the future doesn't belong to anyone but God, we don't claim to know what the future holds, but we want to give you some insights into what our experts, Lao as well as International, foresee about the ASEAN Economic Community.

How will Laos cope with it, what will it mean for this country, will the tax situation be improved or degraded, what about competition when being part of a bigger market, what will be the impact on our legal environment?

In a nutshell will AEC be good or bad for Laos?

A lot of food for thought indeed...

Bon Appétit.

Guy Apovy

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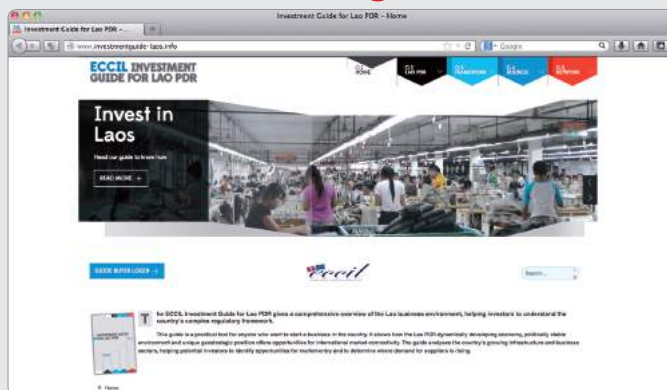
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Breakfast meeting Bangkok

Laos – what you need to know about the economy and how to do business there

As one of its investment promotion activities ECCIL presented the Lao economy on July 9 in Bangkok. The event was organised by ECCIL and the German Thai Chamber of Commerce (GTCC) in cooperation with the European ASEAN Business Centre, the Netherlands-Thai Chamber of Commerce and the Thai-Italian Chamber of Commerce. ECCIL

and GTCC are linked since 2012 by a Memorandum of Understanding and have already jointly implemented a number of bilateral projects. About 80 business people participated in the event which was chaired by Mr. Phongsakdi Chakshujej, the President of GTCC, in which Dr. Ramon Bruesseler, Executive Director of ECCIL, gave an overview about the Lao economy and the business framework conditions. The impressive attendance showed that the European business com-



© ECCIL

munity in Thailand is definitely interested in the Lao PDR as a place to do business. A European-Thai business delegation later this year is planned as a follow-up activity.

#Tweets from Members

#Villa Deux Rivières, Luang Prabang

This hotel was built in 2010 in the old town. The place offers 17 rooms in 3 room categories.

Vientiane Geomatic Services and Vientiane Hydrographic Services

These companies recently merged producing one of the most versatile and highly professional survey companies in Lao PDR, producing all forms of survey and mapping work, from satellite imagery to LIDAR and digital aerial photography, survey on the ground and underwater, VGS/VHS offers it all.

Mandalay designs

Supply and install any decoration project from private residence to 5-star hotels in Laos, Burma, Vietnam, France, such as: Accor, Aman Group, Victoria Hotels, Orient Express, Vichy Group...

Auto Lao Company

Auto Lao is a general distributor and certified service centre for Mercedes-Benz in Laos.

Riverside Boutique Resort

Voted second best hotel in Laos in TripAdvisor's 2014 Travellers' Choice Awards, Riverside Boutique Resort is the first luxury hotel in Vang Vieng. With its stylish restaurant and large conference room, it provides an exclusive venue for meetings, seminars and retreats, just a short ride away from Vientiane.

Lao Tobacco Limited

This company is a joint venture between Imperial Tobacco plc, S3T and the Lao government. Their two areas of business are growing local tobacco leaf, which contributes around 90 billion kip to alleviate rural poverty, and the manufacture and sale of cigarettes from the world class factory in Vientiane. All their cigarettes are made with 100% Lao grown tobaccos.

Essilor Lao

Offices Savannakhet Lao, Essilor Lao, the world's leader in ophthalmic optical products, offers prospects for professional

development in a dynamic and motivating working environment. Share your talents with them! In 2013, they opened their latest factory in Laos (at SavanPark free trade zone in Savannakhet province) in order to manufacture world class ophthalmic optical products for export.

Beeline

Beeline Fibre: Super speed internet up to 100Mbps reliable broadband.

KPMG

This global network of professional firms provide audit, tax audit, tax and advisory services.

Thai Biogas Energy

This company's subsidiary TBEC Laos builds, owns, operates and transfers to host factories (BOOT) wastewater to energy biogas plants. Company has built first large scale plant for LIG starch factory in Lao PDR and several other projects are under way in the region.

China Investment Presentation

Investment Presentation – China, Guangzhou, Shunde for the American Chamber of Commerce in South China (AmCham)

Paul Simcock (Vice President, ECCIL) and Gerald Walewijk (Board Member, ECCIL) gave a presentation to AmCham members and guests in Guangzhou on July 29th 2014.

To an audience of 50, most of whom were young Chinese entrepreneurs being sons and daughters of very influential Chinese members of AmCham, Paul presented all the latest facts and figures regarding investing in the Lao PDR whilst Gerald presented some of the potential pitfalls in the Lao legal system.

In the question and answer period several people asked about stability in Laos, from the security and financial aspects, while others were more focused on communications, in particular mobile phone networks (3G/4G), the internet and various chat lines such as 'line' and 'whatapps'.

AmCham has a huge following in the Guangzhou/Shunde area, home to many wealthy and influential business people and a wide range of different industries.

Harley Seyedin, President of AmCham South China, gave Paul and Gerald a private presentation of some of the many aspects of humanitarian aid that the Chamber is involved in, such

as medical help and treatment in remote Chinese villages, the construction of sports centres for young athletes and other such worthwhile projects.

AmCham also puts on endless events each month, bringing together entrepreneurs from all walks of life.

Paul & Gerald enjoyed an evening's entertainment with several businessmen and their sons at a local restaurant. After wide-ranging discussions the Chinese businessmen were considering raising a delegation of 15 or so to visit Laos with the prospects of investing or expanding their businesses in one of the many Special Economic Zones that are becoming popular throughout the country.



*Gerald Walewijk and Paul Simcock (centre)
with Harley Seyedin (right) and local business people*

ECCIL Investment Guide Launch

The ECCIL has launched its Investment Guide on Laos on 13th December 2013

The launch took place at the Settha Palace Hotel in Vientiane, with welcoming remarks by Dr. Bounthavy Sisouphanthong, Vice-Minister of the Ministry of Planning and Investment, followed by a speech by the German Ambassador, H.E. Robert von Rimscha.

ECCIL presented the contents of the Investment Guide and its corresponding website followed by a speech from Mr. Brennan Coleman of DFDL. After a discussion period Mr. Guy Apovy, president of ECCIL, presented the Investment Guide to the



From left to right: Mr. Dr. Laohua Cheuching, MoIC, Mr. Michael Goffin, chargé d'affaires of the EU, Mr. Philip Malone, British Ambassador, Mr. Robert von Rimscha, German Ambassador, Mr. Guy Apovy, President ECCIL, Dr. Bounthavy Sisouphanthong, Vice Minister of MPI

Lao government, the EU and the German Embassy. The event as well as the creation of the Investment Guide was supported by a Lao-German development

cooperation programme aimed at improving the conditions for private sector development in Laos.

Joint networking event of ECCIL, AmCham and ANZBA



In the evening of September 3rd ECCIL, AmCham and ANZBA celebrated their 3rd joint networking cocktail at the Mercure Hotel. With about two hundred participants, among them the presidents of the three chambers, the ambassadors of the UK and of Kuwait, senior embassy officials of Germany and Australia, representatives of

the Lao National Chamber and of dozens of companies, it was one of the biggest events of its kind. The networking cocktail was sponsored by the ANZ Bank (Lao) Limited which is a subsidiary of ANZ Banking Group. ANZ began operating in Laos as ANZ Vientiane Commercial Bank Ltd in September 2007 with the purchase of a majority

shareholding in the Vientiane Commercial Bank Ltd, a privately owned bank that had been operating in Laos for 14 years. ANZ moved to 100% ownership in August 2010.

The next networking cocktail of ECCIL is scheduled for November 20 on the occasion of a visit by a Belgian business delegation.

Prevention of price dumping in AEC

Lao businesses are aware they might face price dumping as a challenge when the AEC comes in 2015. For many products the import tax will drop or will be delayed until 2018, to allow Laos to cope with competition that has greater production capacity and lower cost. With the AEC, the ASEAN region offers progressively free flow of goods, investment, services and labour.

Tourist arrivals exceed expectations

The number of tourists visiting Laos has increased from more than 3.3 million visitors in 2012 to more than 3.7 million visitors in 2013. The official target for 2013 of 3.4 million visitors was exceeded,

counting neighbours from Thailand with more than 1.9 million. Tourist arrivals from Europe went from 185,000 in 2012 to 212,000 in 2013. Revenue of US\$595 million was earned in 2013 which increased 13% compared to the past year. To cope with the growing number of tourists and attract more high-end visitors, infrastructure and services need to be improved.

AEC integration demands suitable preparation

To become a member of the ASEAN Economic Community some steps have to be taken. Preparations to integrate with the AEC framework are currently focused on four fields of activity. One purpose is to generate an understanding of the AEC in relation to the region and

economy. Another aim is to create mechanisms to shape coordination between different government sectors and local authorities. Increasing support to Small and Medium Enterprises (SMEs) and studying commercial production projects, goods lists and service systems as well as improving rules and regulations related to open business operations are further objectives to be conducted by the Government's ASEAN Department. Laos faces challenges to integrate with ASEAN, as infrastructure for products, transportation and services, trading and banking systems and financial regulations are not adequately strong or stringent compared to other ASEAN nations. There is also a lack of trading and economic knowledge and expertise from key people.

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Tax Harmonisation in the AEC

Businesses in ASEAN are preparing for the advent of the ASEAN Economic Community which seeks to establish the region as an integrated market and production base. But even as they map their commercial strategies to benefit from the creation of the AEC, they often find that there are still legal and regulatory barriers to integrating their own operations throughout the region

One of the areas that needs further work from ASEAN is tax harmonisation. All throughout the region, business leaders are justifiably very interested in, perhaps even excited at, the prospect of having the tax regimes of each member-state move towards greater harmonisation in the same way that regional customs policies have progressed in the past 10 years. Unfortunately, the best that the region's business community and tax professionals can do now is to speculate on how (or even whether) such harmonisation can be achieved. ASEAN's aspiration, according to the AEC Blueprint (the Blueprint), is to "transform ASEAN into a region with free movement of goods, services, investment, skilled labour and free flow of capital."

One would think that the elimination or reduction of tax friction costs would be a priority area, especially since tax friction costs directly impact the free movement of investment and free flow of capital. They also undoubtedly affect the movement of goods, services and skilled labour. Not much attention has been given to tax matters in the Blueprint which makes reference only to two tax-related action plans: to "work towards establishing an effective

network of bilateral agreements on avoidance of double taxation among ASEAN countries;" and the "enhancement of withholding tax structure, where possible, to promote the broadening of investor base in ASEAN debt issuance."

The tax action plans are noticeably vague, very general and limited in scope. There does not seem to be much urgency in moving the ASEAN member states to complete the Double Taxation Agreement network between all of the ASEAN states. While the target of 2010 is mentioned, this is followed by the qualifier, "to the extent possible." With regard to the enhancement of withholding structures, the mandate is limited to debt issuances and does not address the equally significant issue of how withholding taxes on dividends affect flows of equity. It is also noticeable that the tax-related action plans do not mention important tax issues that affect the movement of goods and services such as the harmonisation of value-added tax rules. While most ASEAN states have adopted taxes on turnover (Myanmar's turnover tax-equivalent, the Commercial Tax, is similar in a limited sense to VAT and Brunei does not impose consumption taxes, Malaysia imposes a sales/

service tax) member-states have different interpretations in place of supply rules, different turnover tax coverage, and different documentary requirements to support input VAT credits. VAT or turnover tax harmonisations should promote greater trade within ASEAN.

Another significant tax issue that has been left out is transfer pricing. Most, if not all ASEAN jurisdictions have accepted the desirability of adopting arm's length principles, but not all have detailed transfer pricing rules and methodologies. In a more integrated regional economy, transfer pricing adjustments would likely lead to double taxation, but there is currently no effective mechanism to address this regionally.

And what about regional mergers? Addressing capital gains tax issues involved in the merger of companies that are tax residents of different countries should encourage consolidation and create more globally-competitive ASEAN businesses. It is clear from the foregoing that tax harmonisation in ASEAN will lag behind other regional integration initiatives.

*By Jude Ocampo
– Regional Tax Director, DFDL*

Business Confidence Assessment

On 31st August ECCIL joined with the Lao National Chamber of Commerce and Industry (LNCCI) to present a unified summary of business confidence in the Lao PDR

Survey work over the six-month period January to June 2014 undertaken by LNCCI in July covered 383 companies and enterprises in 12 provinces plus Vientiane. For its part, ECCIL surveyed 46 European firms so that comparative data could be assessed. In both surveys the focus was on the expansion, or contraction, that had occurred in the first half of the year and the general expectations of future growth. The bulk of the respondents in both cases were small to medium sized enterprises although a number of larger Lao companies were also contacted. The overriding sentiment was one of positive development in both surveys with optimistic predictions for the near future although disparity in some areas did show up. All of this is detailed in the report being issued by the two chambers. Almost one month later, on September 30th, the official launch of the Business Confidence Assessment took place to a gathering of some 60 business leaders and representatives of Lao and international governments and organisations with presentations made by Oudet Souvannavong, Vice President of LNCCI, Paul Simcock, Vice President of ECCIL and Armin Hofmann Director of the GIZ programme on Human Resource Development for a



Mr Oudet Souvannavong (centre), Mr Paul Simcock (left), and Mr Armin Hofmann (right) co-chair at the launch ceremony.

Market Economy and Vocational Education in Laos. For about 45 percent of the Lao and European companies their business situation has improved in the first six months of 2014 but only about 21 percent of the Lao companies had hired more staff whereas four out of ten European companies saw their staff numbers increase. "This exercise has been a coordinated one that we conducted with the ECCIL and we wanted to continue because this is the third of its kind and in 2014 we hope to start a series of publications

every six months," Mr Oudet said. He hoped that the information they would provide would not just be a duplication of official publications provided by the government and international organisations in Laos but also provide an insight into the views of the private sector. This publication will help to provide the view of the private sector and indicators for investment and trade. It is of course very important for all of us who are doing business in Laos, Mr Oudet said.



Government to improve management of expenditure

New regulations in order to bring state expenditure under control should be completed within 2014. In the 2011/2012 audit report the State Auditing Organisation exposed that large amounts of the budget (4,242 billion kip) were spent on several projects without the approval of the National Assembly. They also uncovered additional revenue of 449 billion kip after auditing 73 state organisations, banks, enterprises and state investment projects.

The parliament states that these offences are a "chronic issue" and officials warned that any breaches bypassing the treasury system could entail severe punishment.

US\$3.7 billion needed to maintain growth in Laos

To keep the economic growth rate at 8% Laos is urged to receive

additional investment and funding from foreign investors and business partners amounting to US\$3.7 billion during this fiscal year. Local and foreign investors are expected to account for 54.41% with the main contribution of US\$2.1 billion. The Lao government will contribute US\$412.5 million which makes 10.96% of total investment funds and development partners are expected to grant US\$600 million, adding another 15.95%. A further US\$702 million (18.68%) should be financed through bank credits.

Bridge improves services

In order to support the Asean Economic Community in 2015, the first Lao-Thai Friendship Bridge linking Vientiane and Nong Khai will improve its services. Besides better parking areas for trucks the bridge offers four lanes instead of two to get ready for the increasing traffic. It has also made efforts to train

and employ more staff to speed up customs. Scanning machines for passports and border passes are being installed. An increased emergency service to operate border crossings from 10pm to 6am is also offered.

5th Lao-Thai Friendship Bridge set for construction in 2015

A fifth Lao-Thai Friendship Bridge is planned to cross the Mekong river, linking Bolikhamxay province with Bung Kann province in Thailand. The bridge will be financed by Thailand.

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AEC 2015: What does it really mean for Laos?

The AEC, which is set to come into force at the end of 2015, represents a key first step towards the establishment of a single market among ASEAN member states. However, what does it really mean for Laos? The country is already closely integrated with the ASEAN region. Can we really expect to see the free movement of goods, capital and labour across the region? Will all restrictions of cross-border investment and non-tariff measures actually be lifted?

In fact, the 2015 AEC milestone should really only be seen as a first and important step towards establishing a single market, but many more steps will be required in the following years if ASEAN member states are to truly benefit from an economic community. This short note takes us through the four key aspects of the AEC that most affect Laos: trade in goods, trade in services, cross-border investment, and trade facilitation.

Trade in Goods

What will happen in 2015?

The ASEAN Trade in Goods Agreement (ATIGA) provides the rules and regulations for the import and export of physical merchandise within ASEAN member states. The key AEC commitment is that all trade within ASEAN will be duty free by 2015. In fact, all tariffs including those on sensitive, unprocessed agricultural imports were eliminated in 2010 by the six original member countries (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand). The remaining, and less developed,

countries (Cambodia, Laos, Myanmar and Vietnam) have more time to comply and have progressively removed more than 80 percent of all import tariffs, with the remaining tariffs still applied on sensitive goods, such as unprocessed agricultural commodities. Vietnam reduced all import tariffs for agricultural products to between 0 and 5 percent in 2013, Lao PDR and Myanmar will need to do the same by 2015, and Cambodia by 2017. The CLMV countries are committed to eliminating all remaining tariffs, including on sensitive goods, by 2018. In theory, lower tariffs should see lower cost imported goods across the region. This will benefit consumers and firms requiring imported materials to process into other products, but will also expose businesses to more intense price competition. Governments which receive a significant share of tax revenues from tariffs on imports will also see a loss in revenue.

At the same time, under the AEC, countries are also committed to the elimination of non tariff

barriers (these include, for example, quotas, unreasonable standards, licenses or restrictions at the border). All ASEAN member states were required to meet this commitment by 2010, with the exception of the Philippines in 2013 and the CLMV countries in 2015. In fact, progress has been rather more slow and as tariffs have moved closer to zero, countries have increasingly started to apply non tariff measures as an alternate control measure on imports. Many are formulated without clear and legitimate policy objectives.

What does it mean for Laos?

Laos will see lower cost imports coming into its economy when most remaining import tariffs are eliminated in actual terms during 2015-18. This will help improve the efficiency of firms that use imported materials and benefit consumers of imports. Domestic producers who compete with imported products will, however, face tougher competition.

In 2015, Laos expects to eliminate all import tariffs except for around 900 sensitive

tariff lines (about 10 percent of total tariff lines) which will remain at 0-5 percent tariff rates and 63 highly sensitive tariff lines (about 1 percent of tariff lines) which will remain above 5 percent. These remaining tariffs will need to be eliminated by 2018. As of February 2014, some 79 percent of all Lao tariff lines are at zero, 17 percent are at 0-5 percent, and the remaining 4 percent are above 5 percent.

These remaining tariffs are mostly applied to unprocessed agricultural commodities, including rice. As these remaining tariff reductions are phased in, the government will also lose significant customs revenue, most notably on imported vehicles from within ASEAN. In expectation of tariff reductions, the government is therefore increasingly shifting taxes of vehicles from tariffs (which are applied on imports) to excise taxes (which are applied on sales of vehicles).

On exports, Laos already gained duty free access to the original six ASEAN members in 2010, and will progressively see remaining tariffs on Lao exports applied by Cambodia, Vietnam and Myanmar reduced during 2015-18. Given that Lao exports to ASEAN did not jump substantially when tariffs were reduced in 2010, it is likely that the most significant constraints are actually associated with supply side capacity and the competitiveness of the Lao private sector, rather than the effect of tariffs. Similarly many Lao exporters struggle to comply with non tariff measures applied in export markets. These challenges take much longer to be addressed.

Trade in Services

What will happen in 2015?

Rules regarding trade in services within ASEAN countries are provided in the ASEAN Framework Agreement on Services (AFAS). This governs the supply of services across borders, foreign investment in services and migration of persons across borders to provide services. ASEAN member states have been progressively attempting to reduce barriers to services trade in line with AEC objectives, but in reality actual implementation lags behind commitments. While there are now very few restrictions on supplying services across borders, there are still limits on the maximum amounts that foreigners can invest in services within many ASEAN countries. Contrary to expectations, ASEAN is also still a long way from having free movement of labour across the region.

The key AEC 2015 commitments on the movement of labour are for the temporary entry of business visitors, intra-company staff transfers and for the free movement of persons providing some professional services only. Professional services in the AEC context covers nurses, architects, engineers, medical practitioners, dental practitioners, accountants and surveyors only. For example, from 2015 a Lao engineer can temporarily travel to provide his/her services in Thailand upon the mutual recognition of his qualifications and experience by the Thai authorities. The movement of unskilled labour within ASEAN is still restricted by domestic laws of member states, and there are no AEC commitments on unskilled labour.

What does it mean for Laos?

Laos is committed under the AEC, as well as under other obligations such as at the WTO, to progressively increase the number of service sectors where foreign firms can invest. By 2015 the country is committed to raising the cap on the maximum share that foreigners can invest in services to 70 percent across all sectors. In many sectors there are no limits at all, meaning that 100 percent foreign investment is permitted. However, as with trade in goods, the most significant constraints to attracting increased foreign investment in diversified sectors are associated with Laos being a small market and having a high cost business environment. Increasing the volume and quality of foreign services investment into Laos can be best seen as a means of improving the competitiveness of other firms in Laos, including manufacturers which depend on the availability of support services.

AEC commitments on the movement of skilled professionals are unlikely to have a major impact in Laos as the country has significant skills shortages in all of the (limited) areas where free movement will be allowed. In theory it may be somewhat easier, and lower cost, for firms to import these professional services after 2015 helping to boost competitiveness, but it is unlikely that Laos will be exporting such professional services in the immediate future. However, implementation will involve not only simplification and streamlining of visa and work permit approval processes, but also reforms to domestic

AEC 2015: What does it really mean for Laos?

laws and regulations to allow for the mutual recognition of qualifications gained from across ASEAN within Laos.

Investment

What will happen in 2015?

Under the ASEAN Comprehensive Investment Agreement, member states are committing to putting in place an investment regime that is free, open, with no restrictive or discriminatory measures imposed on flows of investment across the region. Foreign investment is to be facilitated through more transparent, consistent, and predictable rules, regulations and procedures. Investment applications and approvals are expected to be streamlined, simplified and transparent in order to attract and facilitate foreign investment across ASEAN. Outside of the services trade, this covers manufacturing, agriculture, fishery, forestry, mining and quarrying. Investors are to be properly protected through transparently established conflict settlement procedures and mechanisms that conform to international standards and practices.

What does it mean for Laos?

Laos is committed to establishing a free and open investment regime conforming to AEC requirements, and efforts have been made to put in place a revised investment promotion law, removing all discriminatory measures, abolishing the need for an investment license and ensuring that foreign and domestic investors are treated in the same way. However, in practice there are still significant gaps and

a general lack of transparency that affects the quality of foreign investment that Laos receives. Numerous licenses and permits are required at the sector level, often taking considerable time for the necessary paperwork to be completed. Few processes are as yet automated. Investor protection and dispute resolution mechanisms remain weak due to lack of transparency, and procedures for insolvency are still very basic.

Trade Facilitation

What will happen in 2015?

Under the AEC, countries are committed to the free flow of trade through single, harmonised and standardised trade and customs processes and procedures that aim to lower the transaction costs of trade. At the country level, customs clearance and declaration processes are to be streamlined and automated with the use of risk management systems and integrated with simplified and harmonised processing of regulatory requirements, including customs clearance issuing of licenses and permits via a National Single Window. However, in practice it is unlikely that all member states will have fully functioning systems prior to AEC establishment in 2015. Similarly, countries are committed to establishing electronic trade portals or repositories containing all trade laws, regulations, procedures governing and process maps for imports and exports. At the regional level, all National Single Windows will eventually be integrated into one ASEAN Single Window.

What does it mean for Laos?

Laos has made some good progress on trade facilitation, but the country's landlocked status keeps trade costs high. Most of the benefits from better trade facilitation, such as faster and simpler border procedures, are beneficial in themselves, although AEC commitments help to some extent. Laos was actually one of the first ASEAN countries to establish an electronic trade portal, the Lao PDR Trade Information Portal in 2012 as a national trade repository. The portal provides information to the public on all trade related laws, regulations, procedures and processes. Laos is also progressively introducing automated customs systems to streamline border management, and has commenced work on the design of a national single window. However, much still needs to be done to bring costs down and performance standards up to those seen elsewhere in the ASEAN region.

*Konesawang Nghardsaysone and
Richard Record*

Staff of the World Bank,
Vientiane branch.

*Further information on the economy of Lao PDR can be found at:
www.worldbank.org/en/country/laos*

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EU-Asean aviation cooperation proposed

The possibility of negotiations for an air transport agreement was discussed in Singapore, where about 300 EU and Asean transport ministers, political and business leaders met in February. Greater market access and integration in air services and aviation industry, efficiency of air traffic management, alignment of safety and security standards as well as trade, investment and tourism enhancement are some of the expected benefits from an 'open skies' agreement between the EU and Asean. The negotiations could start after authorisation from the EU Council.

Obligation for state employees to declare assets

As a measure to reduce corruption and promote transparency the government issued a decree on asset declaration which demands state leaders, state employees and their immediate family members declare their entire assets. Incomes, debts and all assets will be officially recorded by the Government Inspection Authority and have to be declared and reviewed every two years. The 2013 figures show that logging and tax avoidance top the list of corrupt activities.

Laos aims to become rule of law state

Laos is striving to build a rule of law state in order to facilitate national

development, transparency and ensure social justice allowing equal access to legal services to all people. Recently the Ministry of Justice and its development partners launched a new US\$3.9 million programme funded by the EU and the US to support these plans after past funding from UNDP and France. Until 2020 Laos wants to focus on building a legal system as a foundation to transform into a rule of law state, according to the Ministry of Justice. So far 30 new laws have been passed, which is 30% of the 92 laws that were originally intended to be approved by 2015 as per the five-year plan from the National Assembly set in 2011.

Corporate Social Responsibility workshop

With the support of the British Embassy and the Lao National Chamber of Commerce and Industry, ECCIL organised a workshop on CSR (Corporate Social Responsibility) on October 17. The event, which took place at the Mercure Hotel, Vientiane, was attended by about 60 participants. It consisted of the presentation of a recent study on CSR, the Baseline Assessment of Social and Environmental Regulations and Standards, which was implemented by Earth Systems on behalf of the German Development Service GIZ, and a consecutive panel discussion, followed by a reception. On the panel, which was moderated by Mr. Pedersen from Mascot, were Mr. Richard Taylor (Phubia), Mr. Andy Schroeter (Sunlabob), Mr. Chris Smithies (Earth Systems), and Lord David Puttnam, the British Prime Minister's Trade Envoy for Cambodia, Laos, Vietnam and Burma. Lord Puttnam was on his

third official visit to the Lao PDR and can already be considered as a regular guest in ECCIL events. He visited Laos to promote UK-Laos business opportunities.

News from the embassies



H.E. Mr. Sayakane Sisouvong

Before taking up his new appointment as Lao Ambassador to the United Kingdom, H.E. Mr. Sayakane Sisouvong met some of the members of the British Business Group earlier this year in a function arranged by British Ambassador to Laos H.E. Mr. Philip Malone. During a business lunch, Mr. Sayakane met executive members of RMA Lao, which represents British brands Jaguar, Land Rover and

JCB, Standard Chartered, Prudential, Unilever and others, as well as senior figures from the European Chamber of Commerce in Laos. Companies from the UK assist Laos in its economic development and deliver expertise across a range of sectors, in particular financial services, retail and education. UK exports to Laos, primarily pharmaceuticals, road vehicles and textiles, increased by 31% to £4.5m in 2013. UK imports from Laos are primarily in the garment sector and increased by 7% to £43m last year. The British Embassy Vientiane opened for business in late 2012 and has since been working to strengthen bilateral ties between Laos and the UK. The re-opening of the Lao Embassy in London after a 30 year absence is a significant next step in reinvigorating bilateral links. The British Embassy Vientiane will be working closely with the Foreign and Commonwealth Office's ASEAN Department in London to support Ambassador Sayakane and his staff in the process of setting up their networks in London.

Is Laos ready for the AEC?

ASEAN Economic Community will begin in 2015. The move aims to create a highly competitive economic region that will become an important player in the global economy. As the end of 2015 is only about one year from now, questions are being raised about whether Laos is ready to fully participate in the AEC

Laos has improved the business enabling environment with economic laws and regulations that are conducive to international trade and private sector development. However, Laos continues to have supply side constraints including low quality products, limited production capacity, and a shortage of skilled and unskilled labour. Laos has its own challenges in working toward AEC, a single market and production base, rather than the opportunity presented by AEC. The six original ASEAN member states eliminated all import tariffs in 2010, presenting huge opportunity and greater market access for Laos but the capacity to respond to the opportunity remains limited.

Foreign direct investment

Given ASEAN Member States present huge opportunities to Lao business, especially goods and services exporters, Laos needs to continue to improve the business environment in order to attract more foreign direct investments for not only the resource sector but also the other sectors. With the AEC in 2015, Laos expects to see growth in foreign direct investment and the effect of FDI in terms of capital inflows, technology transfer, improvement in management skills, easy access to information,

and more integration of Lao production and distribution into the regional supply chains plus stronger links to the global economy.

Playing to its strengths

To take advantages of opportunities in AEC, it is essential that Laos continues to follow but not defy any comparative advantage. For example: key areas here Laos has comparative advantages include tourism, agro-business and natural resource-intensive industries. Transforming this comparative advantage into national competitiveness certainly requires a conducive and enabling services sector including access to finance, efficient logistics and access to information including regulation, procedures and related processes.

Improving efficiency

Not distorting market conditions will help restructure the industries where Laos has comparative advantages and certainly lead to improved efficiency in resource allocation both in the public sector and the private sector.

Driving progress

Resulting from the establishment of AEC, increasing competition will reward efficient

and innovative companies in the long run regardless whether companies are Lao or foreign-owned, private or public corporations. On the other hand competition will weed out inefficient companies and technological laggards. The protection of intellectual property rights in combination with more intense market competition will help to build an engine of economic growth driven by technological progress and productivity. In particular, the opening of the service industries to foreign investors will create many new jobs.

Education and knowledge transfer

Businesses in Laos may face greater challenges as a result of the AEC due to reduction and/or elimination of tariffs and non-tariff barriers as well as increase in foreign equity participation for ASEAN investors in service sectors. Ownership limits are raised to 70% for ASEAN investors. Easier temporary movement of skilled professionals within the region will also pose both challenges and benefits to Laos. Most challenging will be that Laos will have to put in place institutional capacity and regulation in mutual recognition of skilled foreign professionals and its capacity to generate skilled professionals with equal

recognitions by other ASEAN member states. Given Lao PDR is an economy with a huge shortage of skilled professionals, easier movement of these foreign professions will support its rapid economic development needs and knowledge transfer to local Lao staff.

Short term impact

With AEC, what Laos may not be able to avoid is the short-term effect. At some points in the integration process, Laos will have to pay the cost of its less competitive companies going out of the market and the immediate effect of this cost may be increased unemployment. The transfer of resources from inefficient sectors to more efficient sectors will trigger adjustment costs for adaptation and obtaining new skills. It is essential that the government is well prepared to bear this cost.

Dr Laohoua CHEUCHING

Deputy Director General,
Department of Foreign Trade Policy
Lao Ministry of Industry
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ECCIL Salary Study 2013-2014 Launch



On 24th April 2014, the European Chamber of Commerce and Industry in Lao PDR organised the launch of the ECCIL Salary Study 2013-2014. The event not only focused on the question "how much do you have to pay your employees?" but also featured presentations from representative companies on how to find qualified employees and how to retain good staff. The event was supported by the German Development Agency GIZ. The objective of the Salary Study is to give an overview of the actual salaries paid in different industries, for different positions and in different locations in Laos, differentiated by domestic, foreign and joint venture enterprises. The study enables companies to find out if they are paying enough or, perhaps, too much. The Salary Study helps private companies, enterprises and organisations find out what is the right price for qualified staff – a key factor for success. In the Lao PDR this information had previously been anything but easy to come by. ECCIL conducted research into the average salaries being paid for different positions in Vientiane, Luang Prabang, Champassak and Savannakhet in different

industries. Results from the research were collated and companies like Banque Franco Lao and Lao Tobacco contributed their experiences in the labour market and the strategies to employ or hire and retain qualified staff. "With a low degree of transparency and high degree of variation between companies and regions, operating in the Lao labour market can be difficult" said Dr. Ramon Brusseler, Executive Director of ECCIL. "We want to give an inside view into the HR strategies of companies that have found creative ways to deal with this situation". The event was completed by a panel discussion on the implications of the upcoming ASEAN Economic Community (AEC) for the labour market in the Lao PDR. "The liberalisation of the qualified labour movement, which is part of the AEC, will have a lasting impact on the Lao labour market" added Mr. Armin Hofmann, Director of the German Development Programme that supported the study. "We think that it is important to have a public discussion about this impact. The Salary Study, which is available at ECCIL, can be a first baseline for this."

A way to integrate the AEC

Strengthen the capacities of the Lao business and public sector to make the most of regional economic integration

Integration of Lao PDR into regional markets

The Lao economy has been growing rapidly in recent years and has increasingly integrated into the regional and international markets. Laos joined ASEAN in 1997 and is only one and a half year away from becoming part of the ASEAN Economic Community. The AEC aims to transform ASEAN into a region with free movement of goods, services, investment, skilled labour and freer flow of capital. The successful establishment of the AEC is a complex process which requires a broad range of commitments to be implemented*.

ASEAN comprises a region of strategic and geographic significance for Laos. The AEC aims to set up a 'single market and production base' for its 10 member countries with 600 million inhabitants and a nominal GDP of about USD 2.1 trillion (World Bank, 2012). Especially for a small country such as Laos with a relatively small national market, cross border trade can be an important leveller for economic growth. At the same time, the increasing liberalisation of the economy may also lead to growing competition from other ASEAN member states with more productive and competitive economies. Whereas Laos has already secured wide-ranging formal market access, it needs to further improve the regulatory environment and the supply side

capacity of the private sector in order to reap the benefits of regional economic integration.

Progress of Lao PDR's implementation of AEC commitments

Laos has already undertaken a number of positive measures to enhance the process of regional economic integration. It has achieved substantial progress in the reduction of its intra-ASEAN tariffs. Laos has committed to reduce 98.86% of all its tariff lines, resulting in ASEAN entry duties of between 0-5% and has submitted its full tariff reduction schedule.

On 1st January 2014, Laos started the implementation of the second ASEAN Self Certification Pilot Project which enables authorised businesses to issue a certificate of origin themselves instead of having to apply for certification (Form D) from a government agency. The self-certification is an important step forward to simplify the administrative process for application for the certificate of origin. Thailand and Vietnam are intending to join the pilot project in the near future which will make the pilot project even more attractive for Laos-based exporters.

While progress has been made in lowering tariffs and reforming the rules of origin, Non-Tariff Measures (NTMs) and barriers require more attention to ensure smooth intra-ASEAN trading.

NTMs (such as sanitary and phyto-sanitary measures) need to be carefully reviewed in order to identify which measures are legitimately imposed to safeguard human health, plant safety or national security and how they can be further streamlined in order to reduce their negative implications for trade.

Also in the area of service liberalisation, Laos has undertaken major improvements. Laos has successfully passed 9 rounds of ASEAN service negotiations and has removed restrictions on cross border supply and consumption abroad. Foreign equity participation has been increased to a minimum of 51% on commercial presence. The big challenge is to revise the national legislation and to develop a sound regulatory framework. Services represent an important source of both output and employment in ASEAN economies. To maximise the benefits, it needs further harmonisation of the regulatory environment and the convergence of policy regimes by creating common standards and institutions.

Apart from sectorial priorities such as addressing NTMs and services integration, also numerous issues which impact a large number of stakeholders need to be tackled. Even though a number of achievements have already been undertaken, inter/intra agency coordination and

involvement of the private sector still needs to be improved. Due to the cross-sectorial character of AEC commitments, successful implementation requires the involvement of a broad range of government agencies. The private sector is crucial for providing insights on reducing trade barriers. Only when private sector representatives are involved in the policy formulation, can we ensure that their needs are adequately taken into account.

Support provided by the Lao German Development Cooperation

The Lao German Development Cooperation project 'Supporting Laos' Integration into Regional Markets' supported the Government of Laos and the private sector in upgrading technical capacity of key representatives from the

private and public sector to the end of 2013. The project was implemented by GIZ. As well as capacity development, the project promoted information exchange events among sectorial regulators and private representatives. The main objective was to improve the regulatory environment for regional trade and investment, while also directly supporting the private sector in Laos to increase its competitiveness. The support and cooperation will be further intensified through a new project "Regional Economic Integration of Laos into ASEAN, Trade and Entrepreneurship Development" also implemented by GIZ.

Petra Polgar

** The strategic plan for the establishment of the AEC can be downloaded at www.asean.org/archive/5187-10.pdf*



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2013-2014 Salary survey

gives an overview about the actual salaries paid in different industries, for different positions and in different locations in Laos.

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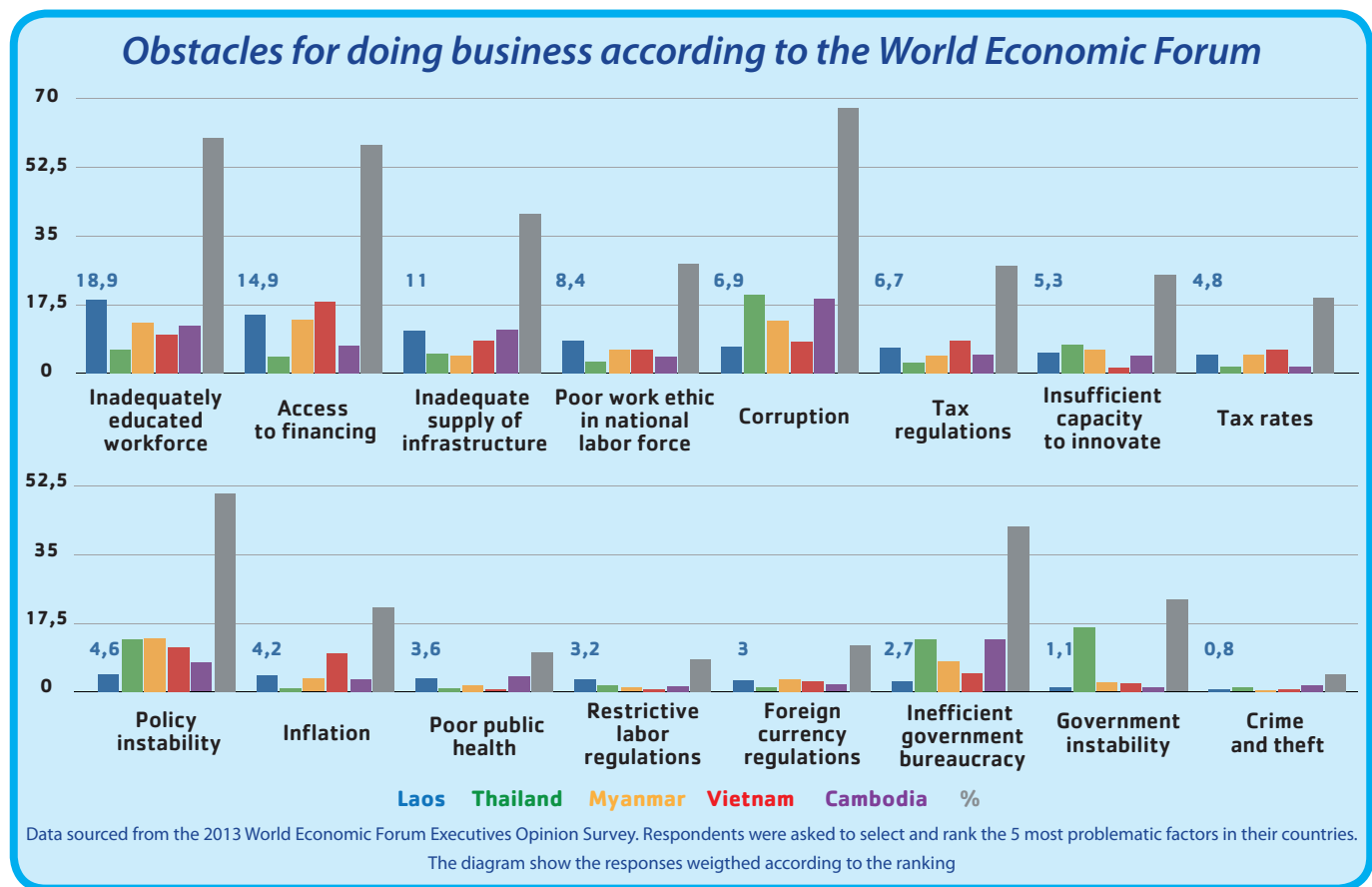
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The Geneva based World Economic Forum publishes annually its 'Global Competitiveness Report'. In the 2013/2014 edition Laos has been included for the first time. Its overall ranking in the global competitiveness is a surprising 81 out of 148 which means – at least according to the WEF – it is more competitive than Greece or Egypt; in ASEAN it ranks 7th, leaving Cambodia and especially Myanmar behind.

The chart shows those factors seen by 62 selected business executives as the most problematic for doing business in Laos. About 19% of the interviewed executives reckon that an inadequately educated workforce is the biggest obstacle for competitiveness, followed by access to finance (which seems to be a bigger problem in Vietnam), infrastructure and poor work ethics.

Acknowledgements



The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is active in the field of rural development and sustainable economic development. As a federally owned enterprise, GIZ supports the German Government in achieving its objectives in the field of international cooperation for sustainable development.



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Date	Event	Location
Nov. 04	Investment Conference on Laos	Bangkok
Nov. 17-19	Conference of Worldwide Network of European Business Organisations	Brussels, EU
Nov. 19-21	Business Delegation of Flanders Investment and Trade; Business matching and site visits	Vientiane
Nov. 20	Networking Party	Vientiane
Nov. 24	Presentation on Laos with London Chamber of Commerce	Bangkok
Nov. 26	Legal and Business Compliance update	Vientiane
Dec. 8-9	Training on office management	Vientiane LNCCI
Dec. 10	Training on reception/secretarial skills	Vientiane LNCCI
Dec. 11	Training on the most efficient change management techniques	Vientiane Mercure Hotel
Dec. 12	Training on World Class Management system	Vientiane
Dec. 15	Networking Party	Vientiane
Jan. 21	Communication & presentation skills	Vientiane
Jan. 21-23	Reception of Thai-European Business Delegation	Vientiane
Jan.	Seminar on AEC	Vientiane

For further information please write to: contact@eccil.org

Networking is not only an integral part of business but it is also a good way to inform about recent developments in the business environment, make new acquaintances, chat with friends and, last but not least, have some fun. That is why we have regular networking events in different locations to which we invite our members, friends and acquaintances. These events usually attract about 80 people, entrepreneurs, managers, ambassadors, government officials and representatives of development agencies. Sometimes we have prominent guests from overseas and sometimes we hold them together with our colleagues from AmCham or ANZBA. ECCIL's network cocktails are sponsored because we want to give companies the opportunity to make themselves known to the audience through a short presentation.

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