

# BUSINESS CONFIDENCE ASSESSMENT LAO PDR

(LAO AND EUROPEAN BUSINESSES)

JULY - DECEMBER 2016



Jointly published by the Lao National Chamber of  
Commerce and Industry and the European Chamber of  
Commerce and Industry in Lao PDR



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Vientiane, July 2017

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# 1. EXECUTIVE SUMMARY

With a survey of 419 enterprises (395 Lao and 22 Laos based European businesses) over the period of July to December 2016, the present assessment builds on the previous Business Confidence Assessment with the same objectives as before: to provide (i) an insight into the business environment for the second half of the year 2016, (ii) a comparison between Lao and European enterprises, and (iii) developments since the first half of the year 2014 in the business sector, in the form of indices. The situation of the businesses can be described as stable. Overall, the assessment of the situation for both Lao and European companies is continuing to get more congruent compared to earlier surveys:

- For Lao companies, the perception of the overall economic situation improved a little while at the same time, European firms have had a more pessimistic view. This is a change from the last survey where European firms were optimistic and Lao firms pessimistic.
- European firms are finding their own business situation to be worse than before. Lao firms are also seeing a slight decrease. Overall, the assessment is becoming more uniform. Expectations for the future development of business have remained nearly the same for Lao firms while it has increased for European firms.
- Turnover developments during the past six months remain almost unchanged for Lao companies. For European firms, turnover has increased.
- Profit development has again declined slightly for Lao firms. European firms are experiencing an increase in profit development.
- The overall financial situation did not change significantly for Lao firms. European firms have noticed a slight improvement.
- Expectations concerning the financial situation have decreased for Lao firms but European firms still continue to be more pessimistic than Lao firms.
- For both Lao and European businesses the number of those who invested in the past six months increased. For European firms this share has been higher than for Lao firms. This also means that European firms are again investing more than Lao firms compared to the previous survey.
- Lao firms have not increased their employment while European firms have.
- Expectations towards the impact of the ASEAN Economic Community (AEC) have continued to dampen, especially for the Lao business community.
- The trend in development of Exports differs for Lao and European companies. Lao firms continue to experience negative development while European firms experience a lot of improvement.



# PART I: BACKGROUND

## 2. INTRODUCTION

During the peak of the World Economic and Financial Crisis, the Lao National Chamber of Commerce and Industry (LNCCI) implemented three half-yearly Business Confidence Assessments (June 2009, December 2009 and June 2010). Aiming to supplement existing publications, these reports provided real time qualitative information on the business environment in Lao PDR, as well as up-to-date perceptions of the expected and actual short-term developments by the businesspersons themselves.

In 2014, the European Chamber of Commerce and Industry in Lao PDR (ECCIL) and LNCCI revived the series and published a fourth Business Confidence Assessment for the period January to June 2014, this time with a twofold objective: (i) assessing the current business situation and expectations for the first half of the year 2014, and (ii) comparing the business environment for Lao and European enterprises located in Lao PDR. This report gave an insight into the economic development in the first half of 2014 and expectations from the business sector for the second half of the year. Since then, the survey was repeated another six times in a row. This report contains the results of the sixth Business Confidence Assessment since its revival in 2014.

For the current survey, LNCCI in cooperation with ECCIL invited their members again to take part in the 2016 second half-year Business Confidence Survey.

## 3. OBJECTIVES

The current Business Confidence Assessment aims to provide representative information on the business environment for the second half of 2016 and to compare this information with the previous six months. In particular, the present assessment aims to provide (i) an insight into the business environment for the second half of the year 2016, (ii) a comparison between Lao and European enterprises, as well as (iii) developments since the first half of 2014 in the business sector in the form of indices.

The survey consisted of 20 questions grouped under 9 topics:

- Economic situation in Lao PDR
- General business situation (size of company, company existence, business situation)
- Turnover
- Profit
- Financial situation
- Investment
- Employment situation
- AEC awareness
- Export

The present report provides an up-to-date representation of the business sector's situation for the second half of 2016, by the businesspersons themselves. It can be used as a reference material for all stakeholders interested in the current business environment in the Lao PDR, particularly for policy makers and investors.

The report provides a quantitative assessment and is based on perceptions of the members of LNCCI and the Lao based members of ECCIL. They provide real-time information about the current sector, in each province of Lao companies, as well as short-term future expectations. With the survey of European businesses conducted at the same time, this assessment also compared the situation of local and European firms, providing an insight for those who are willing to set up in the country. The report does not substitute other surveys by the government, multilateral organizations or development agencies but rather supplements them with experiences and assumptions from the business sector.

## 4. METHODOLOGY

Up-to-date information on the current total number of businesses in operation in the country is not available and different source are providing different estimates. The base was therefore defined following the last official Economic Census of 2013, which surveyed 124,873 economic units operated in the country<sup>1</sup>. LNCCI together with provincial Chambers of Commerce and Industry have conducted the surveys for Lao companies in regions where an operational chamber is located. In Xekong there is no provincial chamber, the ones in Attapeu, Saravan and Phongsaly are in their infancy and not yet fully operational. However, the number of companies in these regions is very limited (a combined total of 9,515 enterprises is assumed)<sup>2</sup>. These three provinces were therefore not taken into account, and the total number of enterprises stated in the Census was reduced accordingly. Hence the base was defined at 115,358 enterprises.

Representativeness was defined as follows:

Confidence interval (Z):	1.96 (95%)
Variance (p):	0.5
Margin of error (ε):	0.05
Base (N):	115,358

To determine the size of the sample which matches the above-mentioned criteria the formula

$$n_0 = \frac{Z^2 \times p(1-p)}{\varepsilon^2}$$

was used and corrected with  $n^* = \frac{n_0}{1 + (n_0 - 1)/N}$

The resulting sample population is 397 Lao enterprises with a confidence level at 95% and a margin of error at 5%. These companies, which have been questioned by LNCCI and the provincial chambers, are referred to as “Lao” companies, notwithstanding whether their actual ownership is 100% Lao, in form of a joint venture or even foreign.

1 Report of the Economic Census, 2013. p. 5

2 *ibid.*

The European business sector was defined as the organized European business sector, i.e. Lao based corporate members of ECCIL, which are 99 enterprises (as of December 2016). Questionnaires were sent out to all of them. Given the low number of responses from the ECCIL Members (22 out of 99 members), the study for the European firms is rather indicative than representative with a margin of error at 16% and a confidence level at 90%.

This leads to the following statistical framework:

**Lao companies**

Confidence level:	95%
Margin of error:	5%
Base:	115,358
Resulting sample size:	383 or more (397 surveys were received)

**European companies**

Confidence level:	90%
Margin of error:	16%
Base:	99
Resulting sample size:	22

All surveyed enterprises have received the same questionnaire. LNCCI collected the data in 12 provinces and the capital, altogether a total of 397 enterprises, which were randomly sampled. A team in each provincial Chamber of Commerce and Industry collected the data through interviews based on the aforementioned questionnaire. ECCIL conducted the survey among its members via electronic communication.

The spatial distribution was also determined by the findings of the Census. According to the share of the provinces in the overall number of enterprises in the country, it was defined how many companies to select in which provinces (the above-mentioned three provinces had to be excluded for technical reasons). If for instance 12% of the base population was located in one particular province according to the Census, 12% of the companies to be surveyed (sample population) were taken from this very province.

Being representative for the “Lao” business sector, i.e. the business community as a whole, there are still limitations, in particular regarding the representativeness of the findings on more disaggregated levels such as for particular industries or provinces. This is mathematically not avoidable since a sample is representative for the base population, not necessarily for subgroups of the base population. Otherwise, the sample population would have had to be exponentially higher.

All statements in regard to particular provinces or industries therefore have a lower confidence level and must be regarded as indicative rather than representative.

No industries with a number of respondents below 10 are considered in the industry perspective analysis. Thus, the 9 leading industries in the Business Confidence survey are the following: Wholesale and Retail Trade and Repair; Manufacturing; Agriculture, Forestry and Fishing; Accommodation and Food Services; Other Service Activities; Construction; Electricity and Gas; Mining and Quarrying; and Education.

This survey is limited to enterprises that are registered on provincial or national level and thus may give somewhat of a different picture when it comes to the share of the different subsectors. The Census states that almost two thirds of the business units belong to the Wholesale and Retail Trade and Repair subsector whereas in this survey their share is around 23%. This difference may be explained by the fact that most of the trade and repair businesses are very small and tend to register on the local level, not with the provincial or central authorities. The 2014 GIZ study, which uses the financial registers as a basis, estimates the trade sector's share at about 44%<sup>3</sup>.

## 5. THE SURVEYED ENTERPRISES

The sample size of this survey is 419 enterprises of which 397 are Lao firms and 22 are European firms. Lao firms were surveyed over 12 provinces and Vientiane capital, while the surveyed European firms are mainly located in Vientiane capital<sup>4</sup>.

With around 27% of the total surveyed enterprises, Vientiane capital still remains the main hub for all business activities in the country followed by Savannakhet, Vientiane Province, Champasack, and Luang Prabang. In terms of industries, 80% of the Lao surveyed firms are concentrated in six sectors: wholesale, retail trade and repair (23%), accommodation and food service (18%), agriculture, forestry and fishing sector (12%), manufacturing (12%), construction (8%) and other services (8%). Compared to the previous survey which had a concentration level of 79%, this concentration level is very similar. The leading industries have remained the same, while the shares have changed slightly. The 22 surveyed European firms are spread over all different industry sectors.

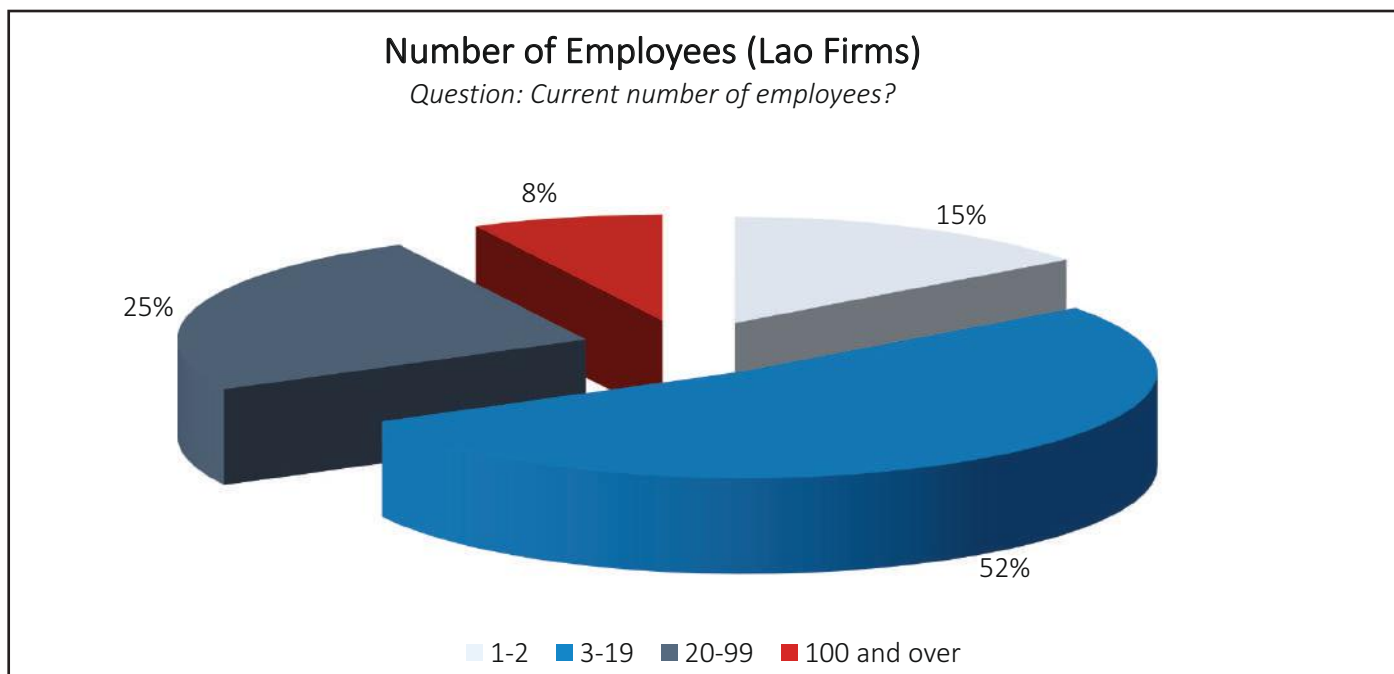


Figure 1: Number of Employees (Lao Firms)

As Figure 1 shows more than half of the Lao firms (67%) are small business with less than 20 employees. Compared to previous surveys, this distribution has not drastically changed. The percentage of firms with 1-2 employees has increased again by 5% in contrast to the previous survey.

<sup>3</sup> GIZ (Ed.): HRDME Survey 2013 for Lao PDR, Vientiane, July 2014, p. 46

<sup>4</sup> As for the previous three surveys, the provinces of Attapeu, Phongsaly, Xekong and Salavan are not covered in the survey. However, the necessary panel size is fulfilled to guarantee the representativeness of the data-set.

### Number of Employees (European Firms)

Question: Current number of employees?

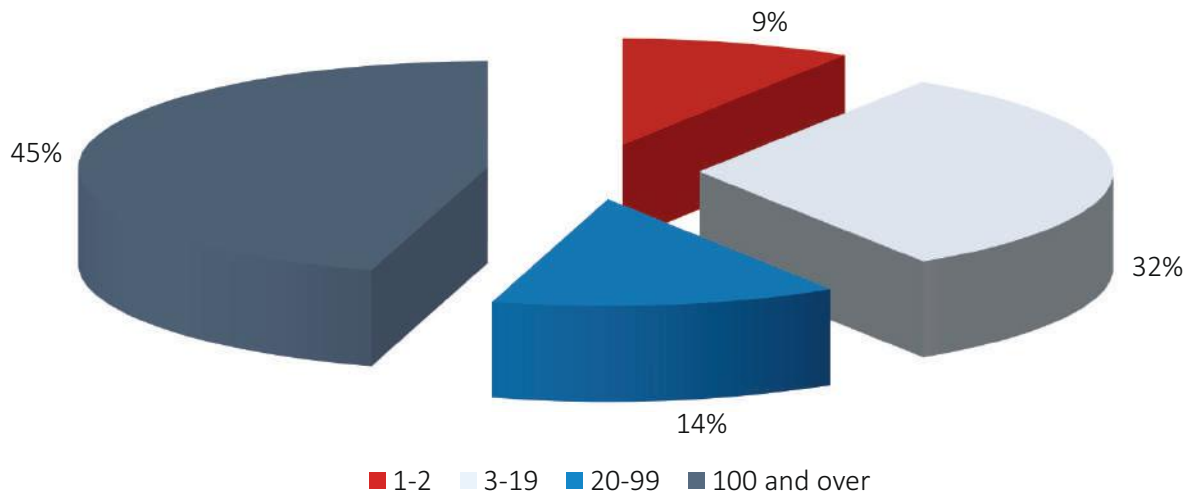


Figure 2: Number of Employees (European Firms)

From the representation in figure 2 it can be seen that the European firms have a larger percentage (59%) of more than 20 employees compared to Lao firms. Large companies with 100 or more employees has increased by 11% in the past half year. Otherwise the shares have not changed drastically from the last survey.

### Age of Business (Lao Firms)

Question: How many years is your business old?

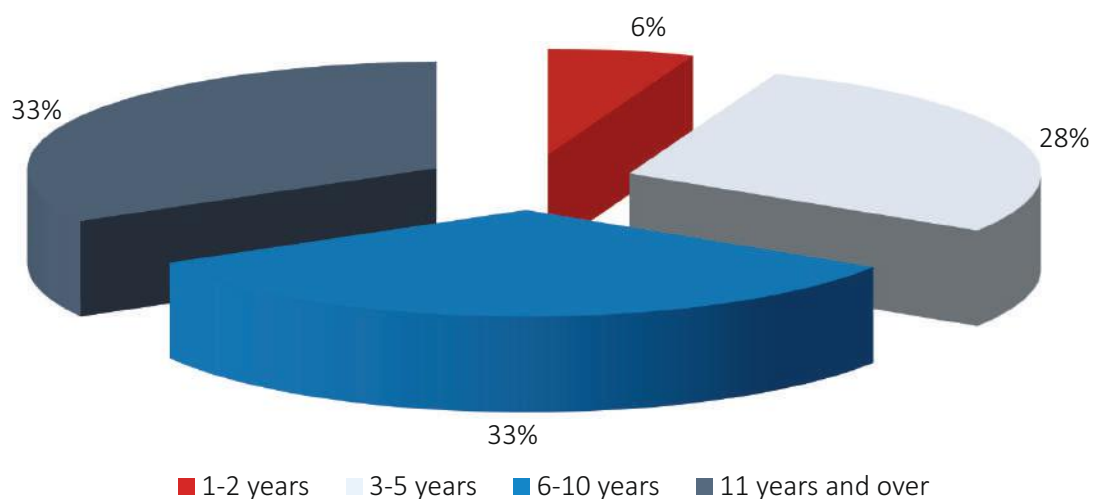


Figure 3: Age of Lao Businesses

The share of Lao businesses 1 to 2 years old has increased by 3% to 6% in the last 6 months. Furthermore, the shares of 6 to 10 years and 11 years and over have decreased as well by 4% and 5% respectively. The share of firms 3 to 5 years old have increased by 6%.

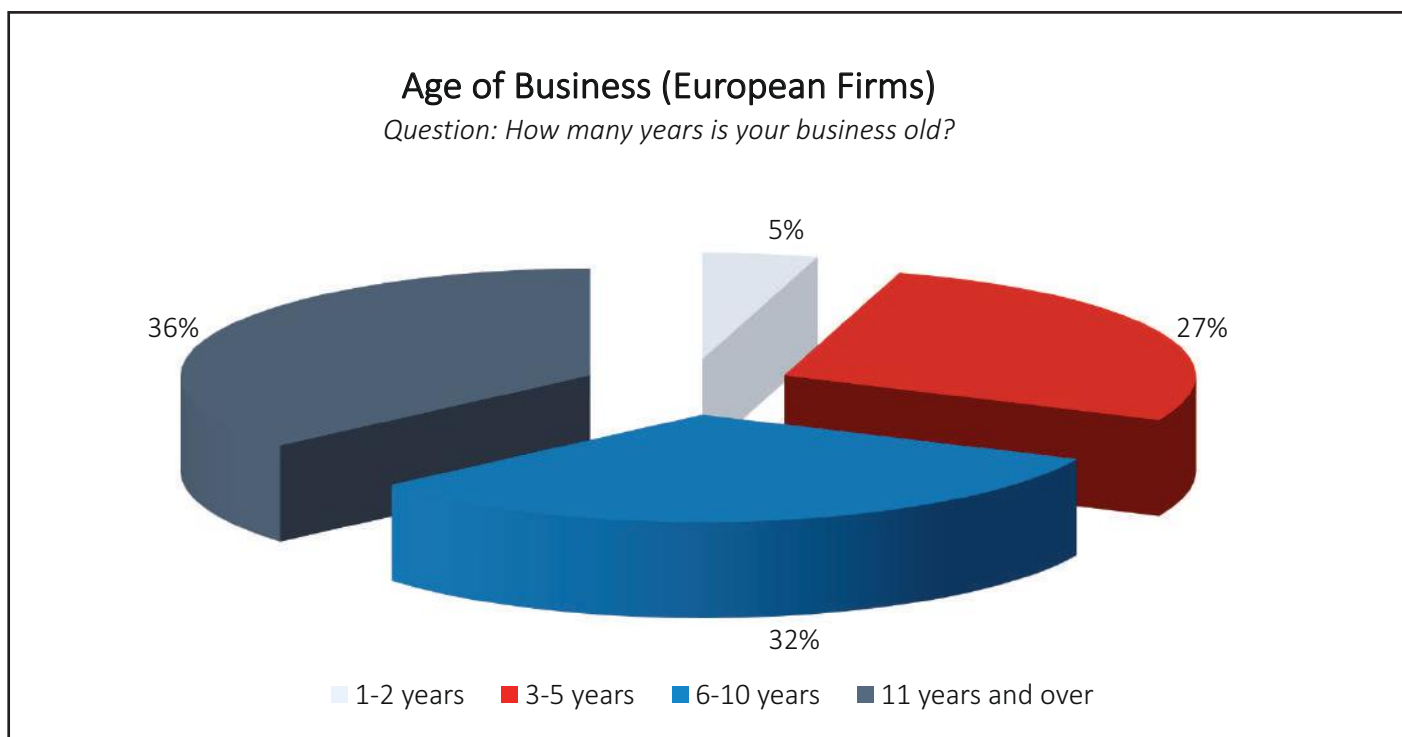


Figure 4: Age of European Businesses

Figure 4 shows that there is not much difference between the age of Lao and European firms. The main difference visible is that the share of European firms 11 years and over is slightly higher (3%) than the share of Lao firms. Compared to the previous survey, the share of firms which are between 6 and 10 years old has increased by 10% and the share firms 11 years and over has decreased by 8%.

## PART II: BUSINESS CONFIDENCE 2ND HALF OF 2016

### 6. OVERALL ECONOMIC SITUATION

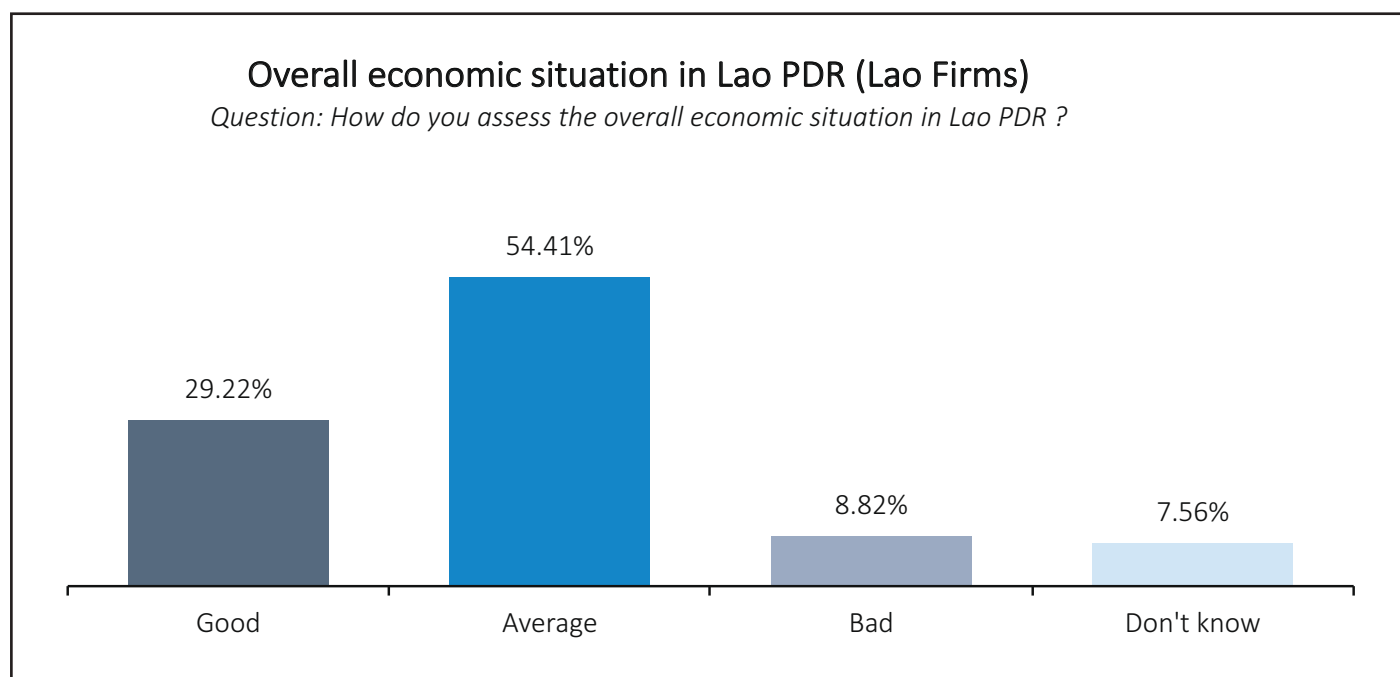


Figure 5: Overall Economic Situation Perception (Lao Firms)

The share of Lao firms which assess the economic situation as “good” has increased by about 3% since the last half year, and the share of “average” has also increased by 5%. Overall the trend has stayed similar over the years. Around 30% rate the situation as “good”, 50% as “average”, 10% as “bad” and the last 10% as “don’t know”.

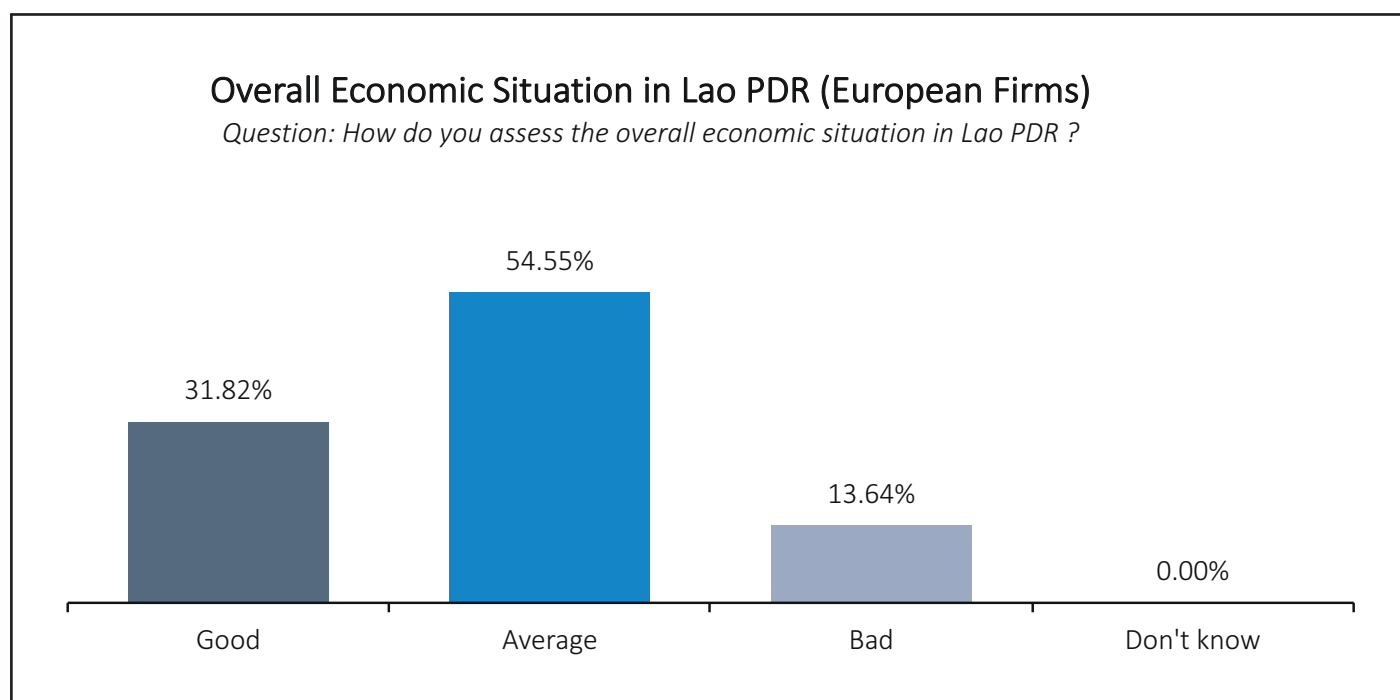


Figure 6: Overall Economic Situation Perception (European Firms)

European firms seem to find the overall situation worse than Lao firms do. 14% of European firms rate the economic situation as “bad” compared to 9% of Lao firms. Adding to this, none of the European firms do not know what the situation is like in contrast to the 8% of Lao firms. Differently from 6 months ago, the European firms have become more pessimistic. The percentage of firms who see the situation as “good” has decreased slightly while the firms which find the situation as “average” has decreased by 7%. The number of firms which see the situation as “bad” has increased by 8%.

## 7. BUSINESS SITUATION OF THE ENTERPRISES

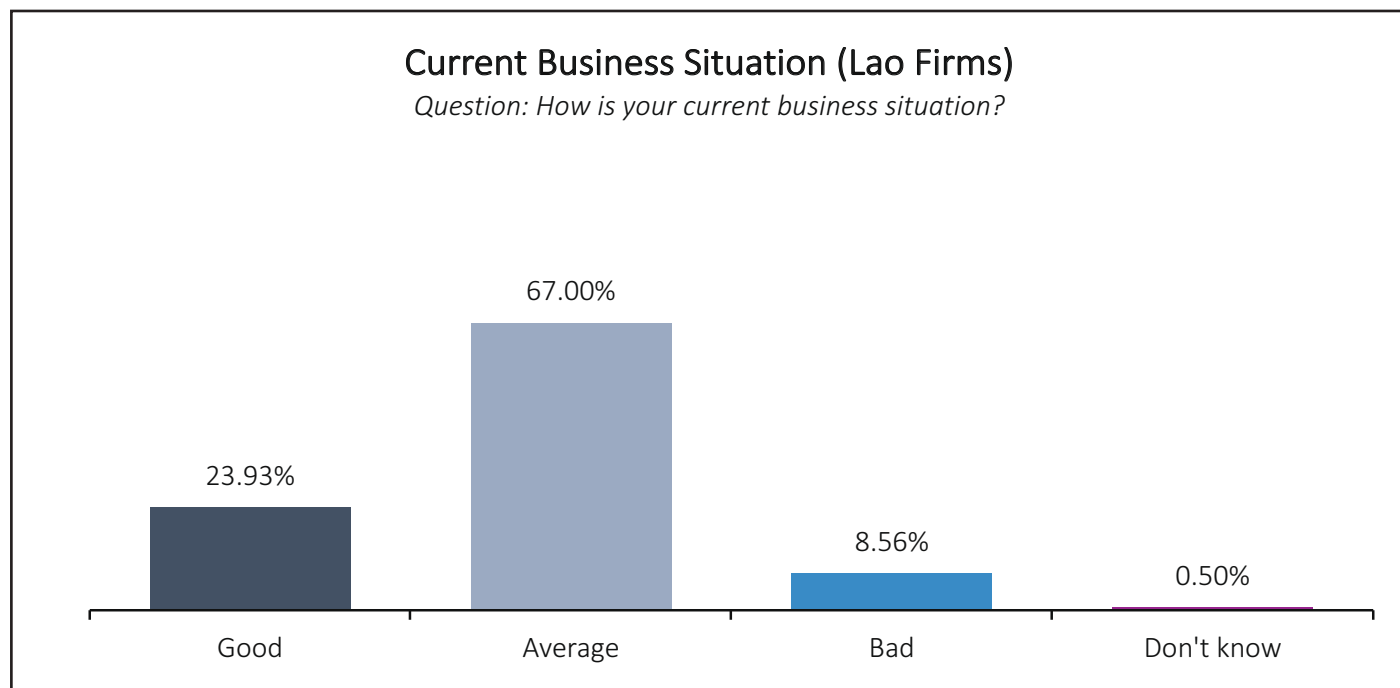


Figure 7: Current Business Situation (Lao Firms)

Compared to the last year, the firms which see their situation as “good” has decreased by 3% and the percentage which see the situation as “average” has increased by 3%.

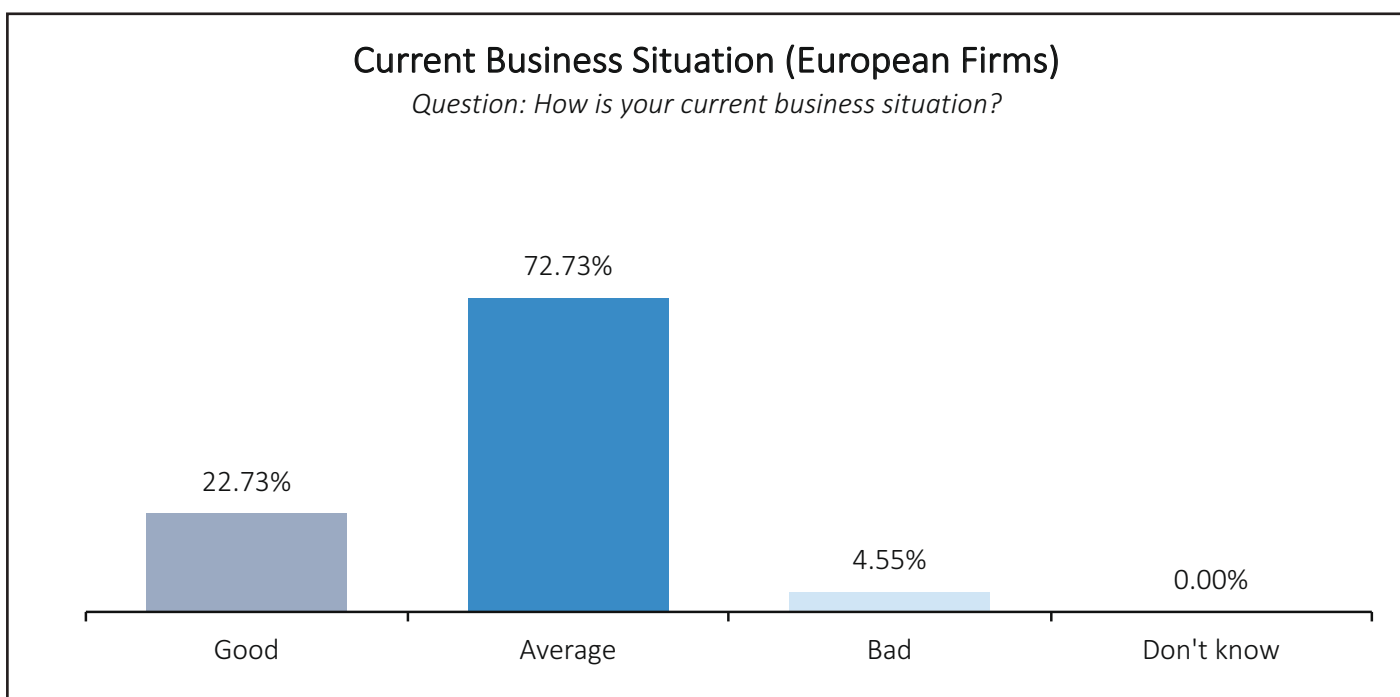


Figure 8: Current Business Situation (European Firms)



As for European firms, the share of firms which find their business situation “good” has decreased drastically from 39% to 23%. As a consequence, the percentage that find the situation as “average” has increased from 56% to 73%. The percentage of firms which find the situation “bad” has decreased by around 1%. Interestingly, the Lao and the European outlook at their business situations is becoming more unified.

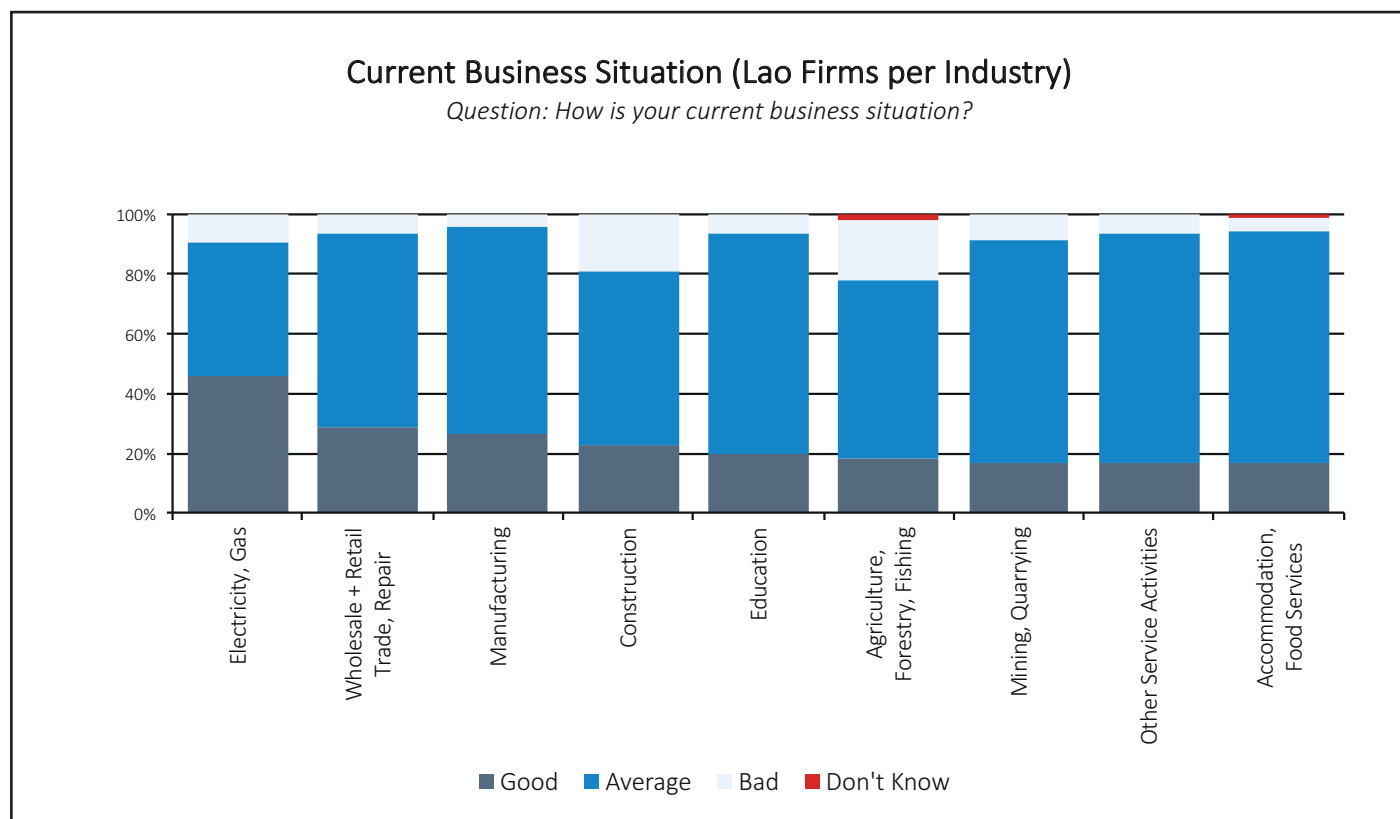


Figure 9: Current Business Situation (Lao Firms per Industry Perspective)

A closer look at the specific sectors provides a more detailed picture. The industry Electricity and Gas is currently experiencing the best business situation, as has been the case in the previous survey. However, six months ago around 50% in the Electricity and Gas sector answered that their current business situation was good. This has decreased by 5% meaning that only 45% of the Electricity and Gas industry are experiencing a good business situation. Accommodation and Food Services has moved to being the industry with the lowest number of firms stating that their business situation was good. Furthermore, the sector of Education had had the least percentage of firms answering “good” in the last survey. While Education is no longer in last place, the percentage of firms answering “good” has nearly stayed the same at 20%. While it is important to look at the percentages of firms which find their situation as “good”, it is also important to look at the answers of “bad.” In the previous survey the sector Agriculture, Forestry and Fishing had the highest share at around 15% of firms answering that their current business situation was “bad”. This industry still has the highest share of firms answering “bad” and which has even increased to 20%.

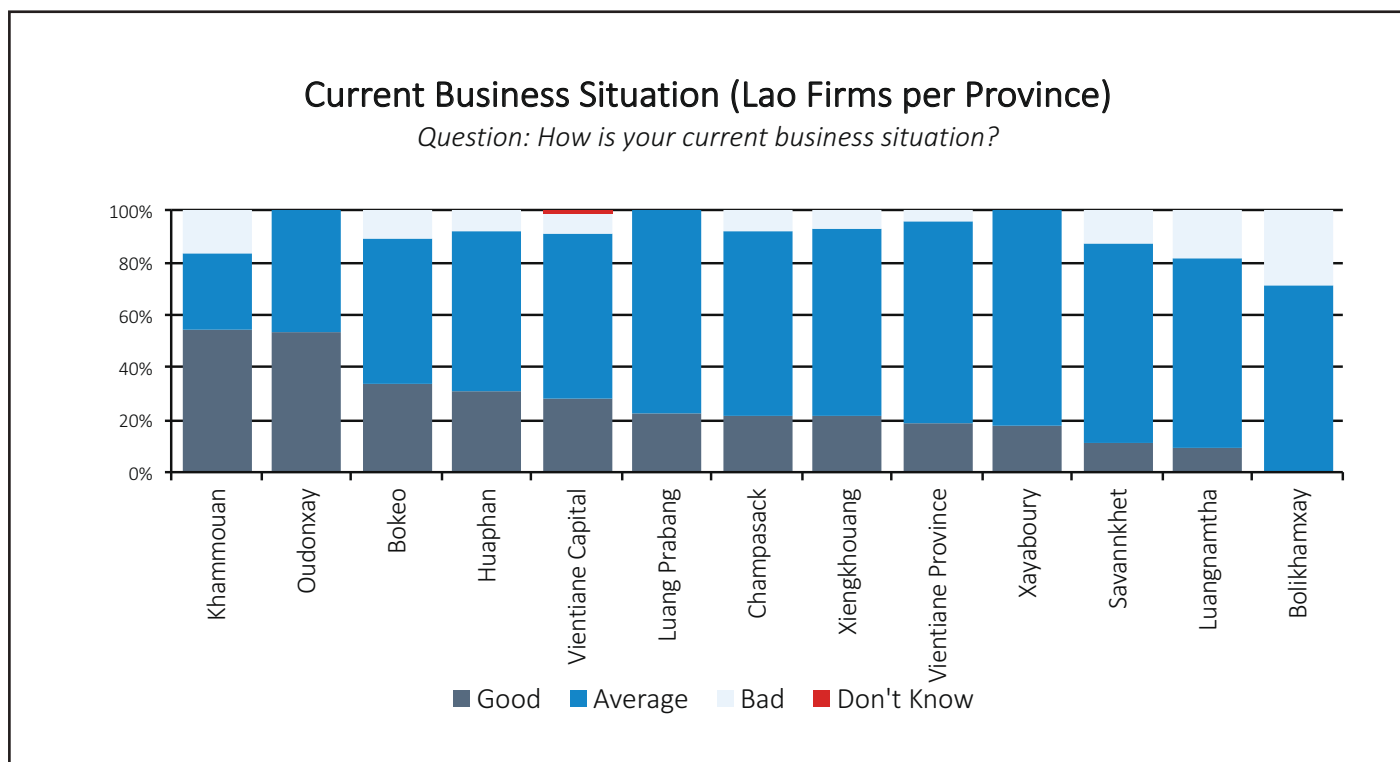


Figure 10: Current Business Situation (Lao Firms per Province)

When assessing the current business situation through looking at the provinces, it can be seen that the situation has not improved overall. There has however been a shift between the provinces. Khammouan which was in 5th place last time with 25% answering “good” has now moved to the first place with 54% answering “good”. While this is a strong improvement, it must also be said that in the time period between July to December 2015 Khammouan had 60% of firms answer that their business situation was “good”.

Looking at the answers of “bad,” Bolikhamxay has the highest share of firms answering that their situation is “bad” at 29%. Adding to this, Bolikhamxay is also the province where no firms have answered that their situation is “good”. This shows a worsening of the situation in Bolikhamxay as the previous survey still had 10% “good” answers.

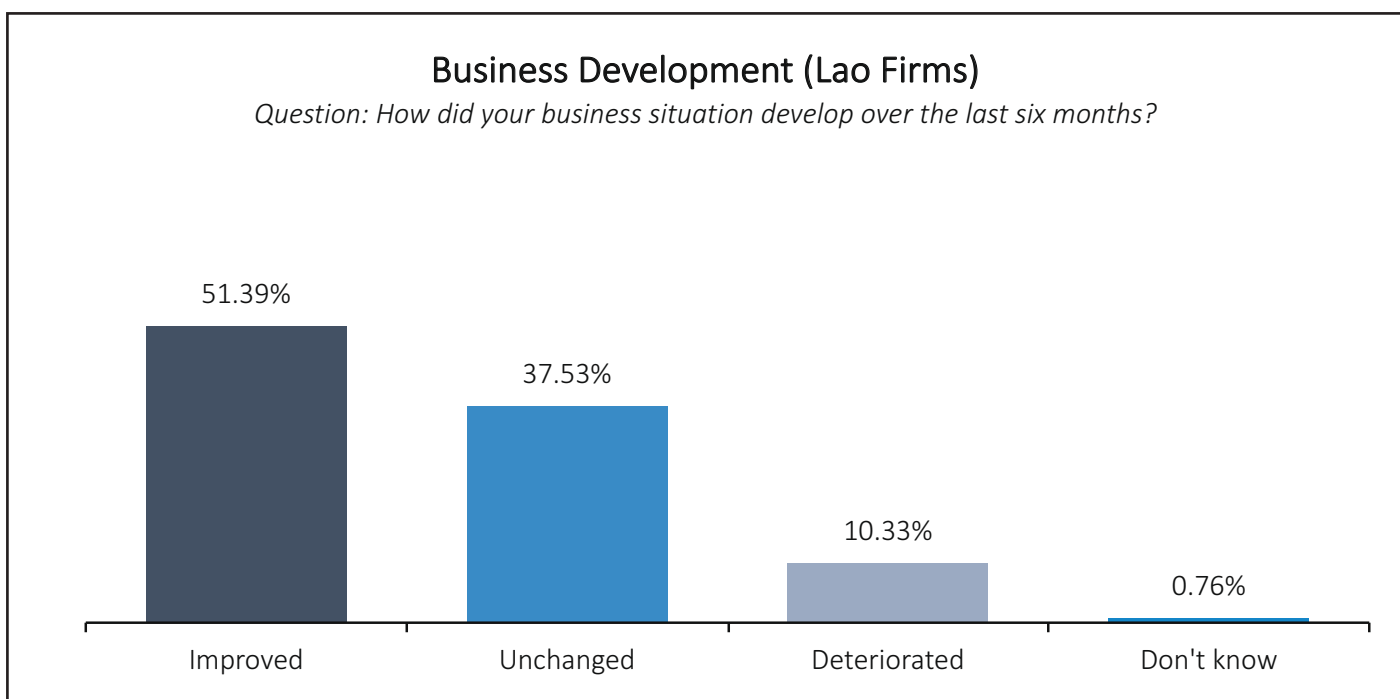


Figure 11: Business Development (Lao Firms)

Respondents were also asked to state how their business situation developed over the last 6 months. More than half (51%) of Lao firms regard their business development to have improved. Overall the Lao situation does not seem to have changed drastically. The share of firms answering “unchanged” has increased by 2% and the share of firms answering “deteriorated” has decreased by nearly 2%.

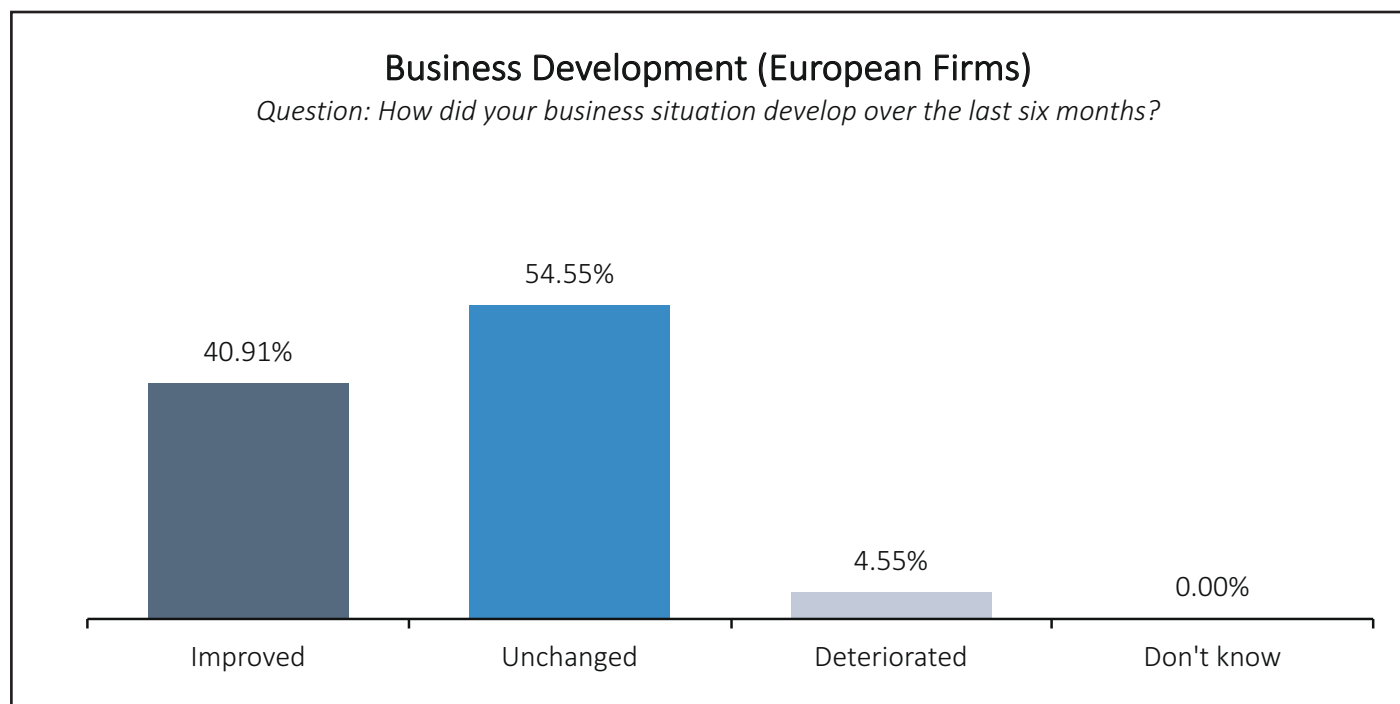


Figure 12: Business Development (European Firms)

Looking at European firms, it is 41% percentage of firms which state that their situation has “improved”. This is an increase of 2% since 6 months ago. However, it must also be stated that the share of firms answering that their situation has “deteriorated” has increased from 0% to nearly 5%. Therefore, overall there does not seem to be an improvement.

The assessment of the business development still differs quite strongly between Lao firms and European firms. The main difference is that while more Lao firms than European firms state that their business has “improved,” there are also more Lao firms which state that their business has “deteriorated.”

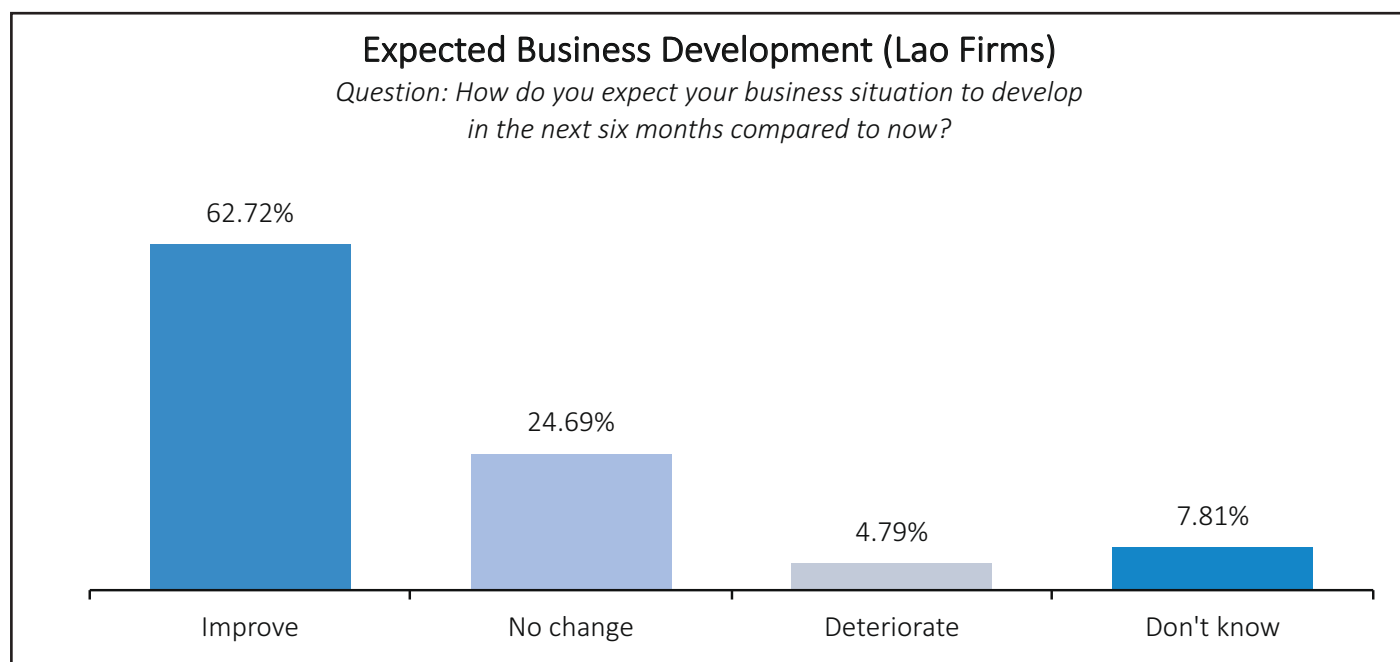


Figure 13: Expected Business Development (Lao Firms)

Optimism still prevails in the Lao business community when it comes to the prospects for the coming six months. Compared to the last survey, the share of firms which expect their business to “improve” has decreased by a little more than 1%. However, this does not seem to be a drastic change as it is the firms which have answered “don’t know” which has increased by 2%.

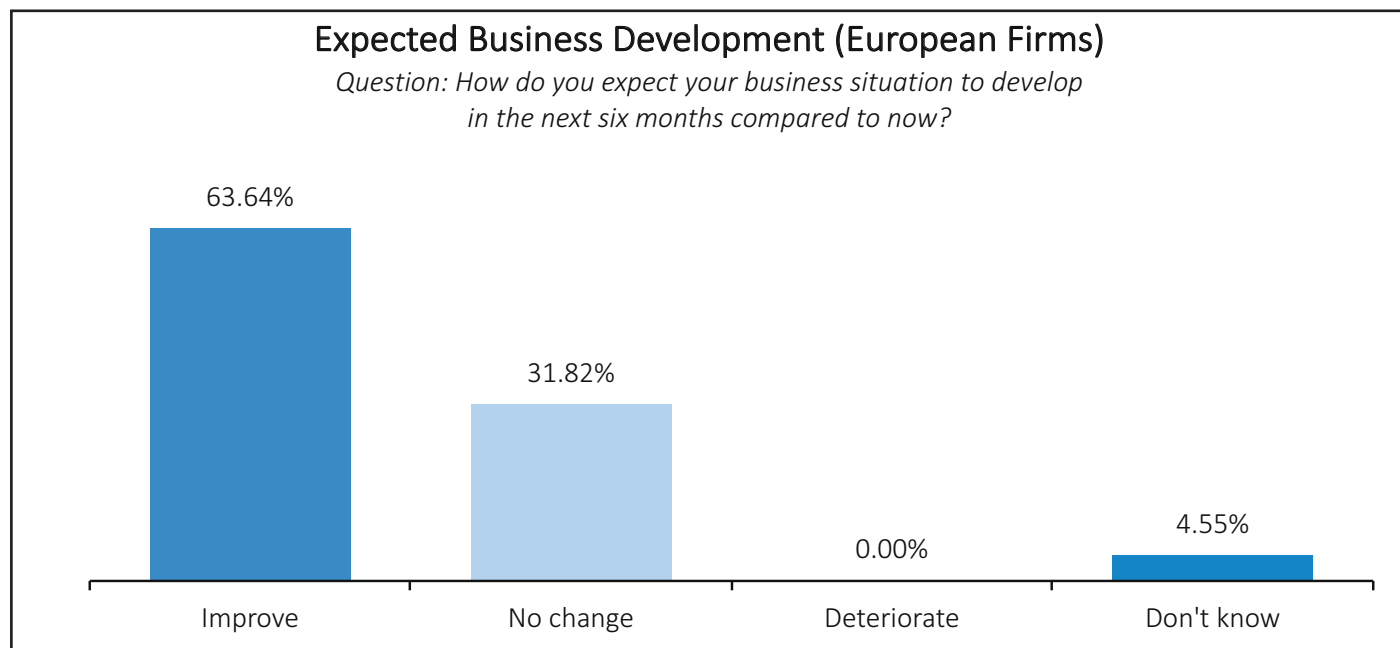


Figure 14: Expected Business Development (European Firms)

Looking at the European firms, the share of firms which believe that their business will “improve” has increased by 8% to 64%. Firms stating that they will experience no change has decreased slightly. Furthermore, the percentage of firms which believe that the situation will “deteriorate” is still at 0% from the last survey. The second major change here is the reduction in firms which answered “don’t know”. This has decreased from 11% to 5%.

Overall, there does not seem to be a stark difference between Lao and European firms when assessing the expected business development. The main difference is that while European firms do not believe that their situation will deteriorate, 5% of Lao firms do believe that their situation will deteriorate.

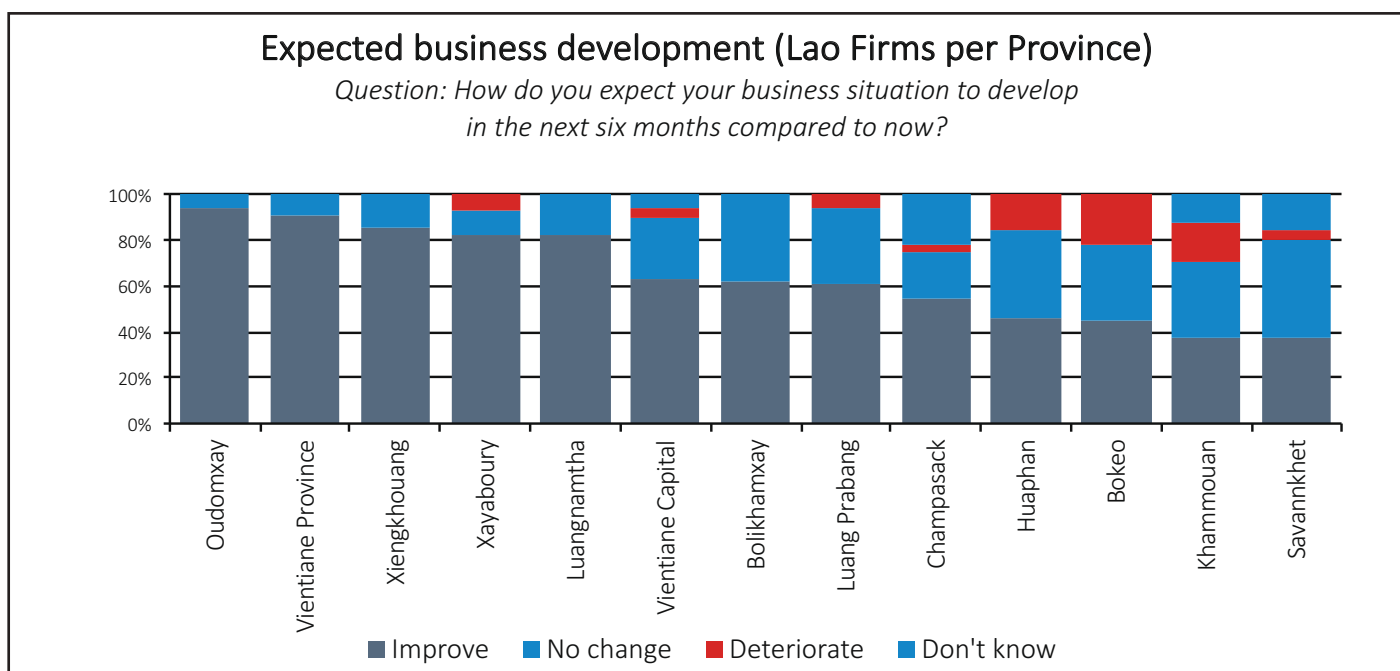


Figure 15: Expected Business Development (Provincial Perspective)

Figure 15 shows how the answers are divided between the provinces. While Oudonxay and Vientiane Province are in similar situation compared to 6 months ago, Bokeo, which was previously in the first place, has now moved to the 3rd last place with a high share of firms answering that their situation will “deteriorate”. It must be said that predictions are always difficult to make and therefore it is understandable that there is a shift in the ranking of provinces in each survey.

## 8. TURNOVER

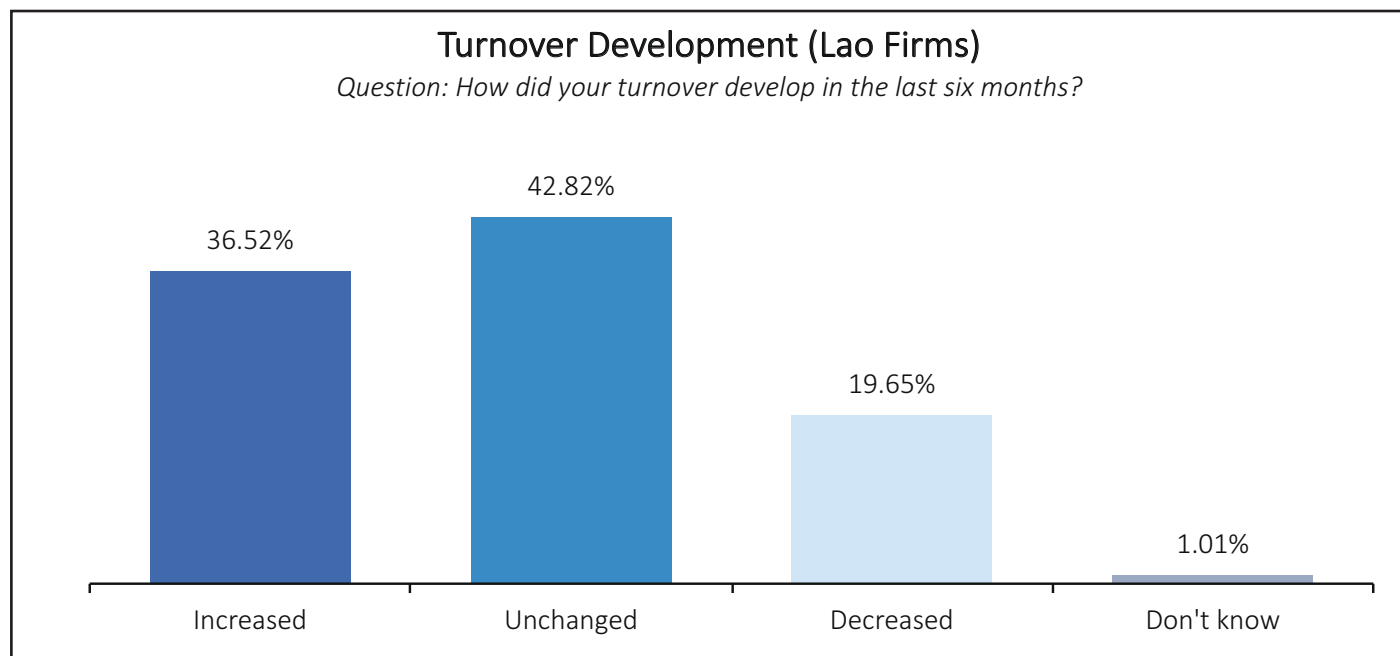


Figure 16: Turnover Development (Lao Firms)

The trend for the turnover development for Lao companies has not changed dramatically. The share of firms which answered “increased” has fallen by nearly 2%. Furthermore, the share of firms which answered “decreased” has risen by nearly 3%. While these changes are small, they do show a decrease in the overall turnover for Lao firms.

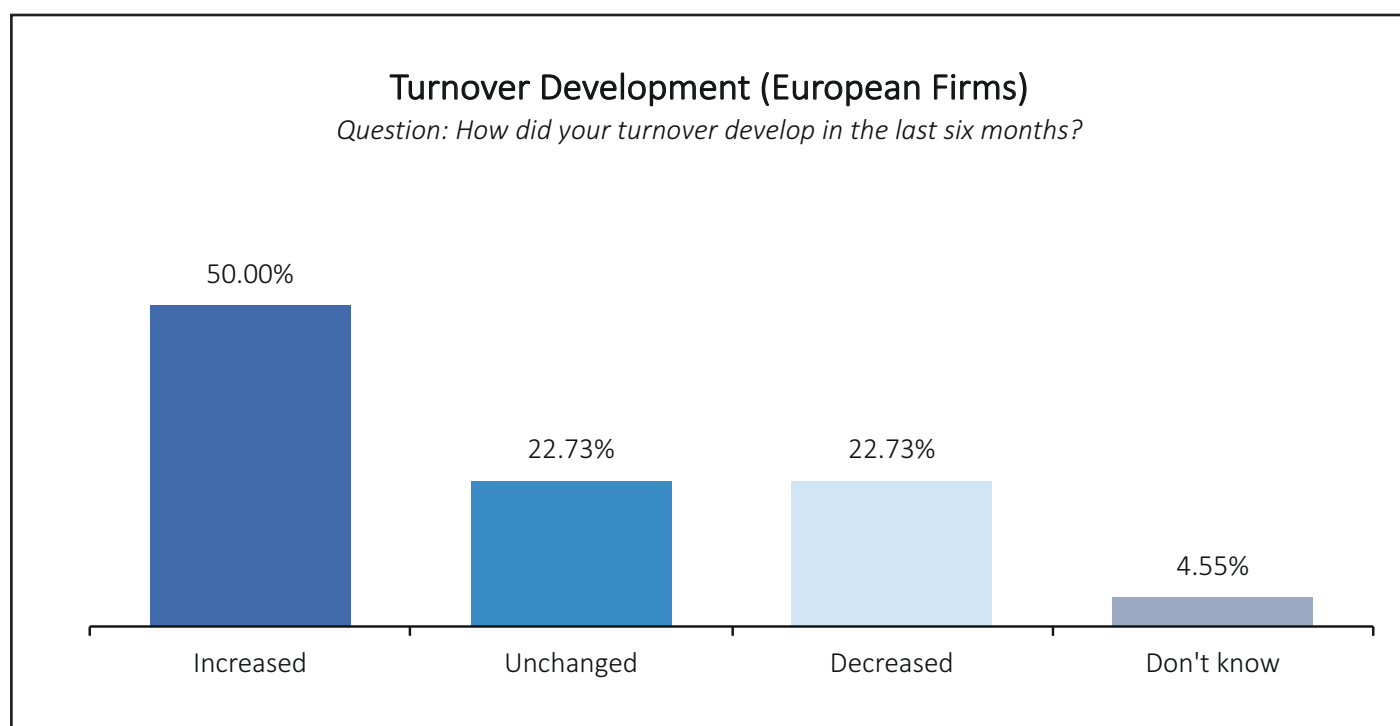


Figure 17: Turnover Development (European Firms)

The turnover development for European firms has changed drastically compared to the previous survey. The percentage of firms where the turnover has increased has risen to 50% from 28%. Furthermore, the percentage of “unchanged” has decreased to 23% from 44% previously. The less significant change here is that the share of firms which state that their turnover has decreased went down by 5%. The firms which state that they don’t know has also increased by nearly 5%.

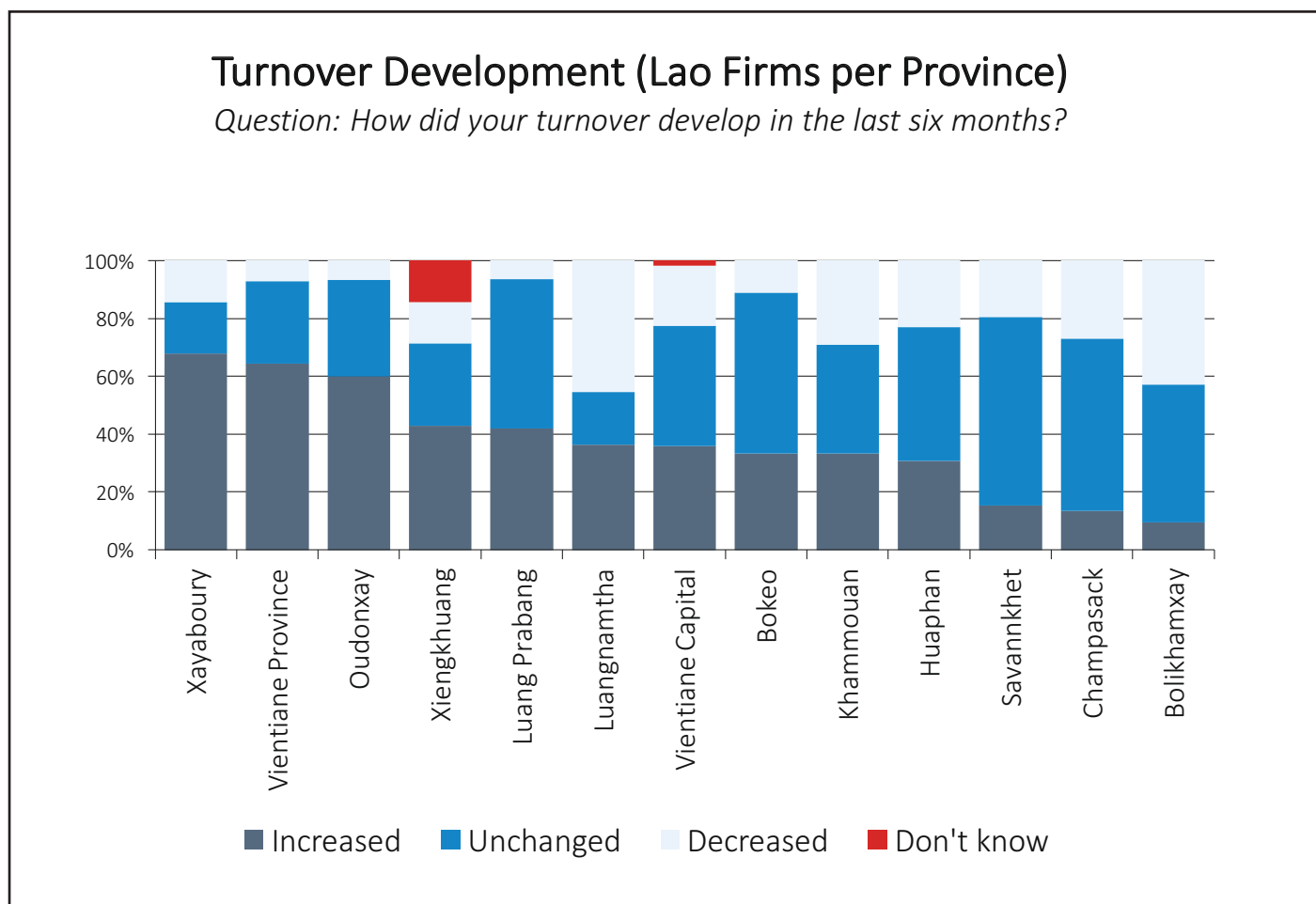


Figure 18: Turnover Development (Lao Firms per Province)

On the provincial level, Xayaboury, previously ranking fifth, took over the pole position from Vientiane Province. Oudonxay which had been in first place a year ago is now in third. However with 7% “decreased” it has the second lowest value of firms whose turnover has decreased. While Luangnamtha has an average share of firms stating that their turnover has increased, it also has the highest share (45%) of firms whose turnover has decreased.

### Turnover Development (Lao Firms per Industry)

Question: How did your turnover develop in the last six months?

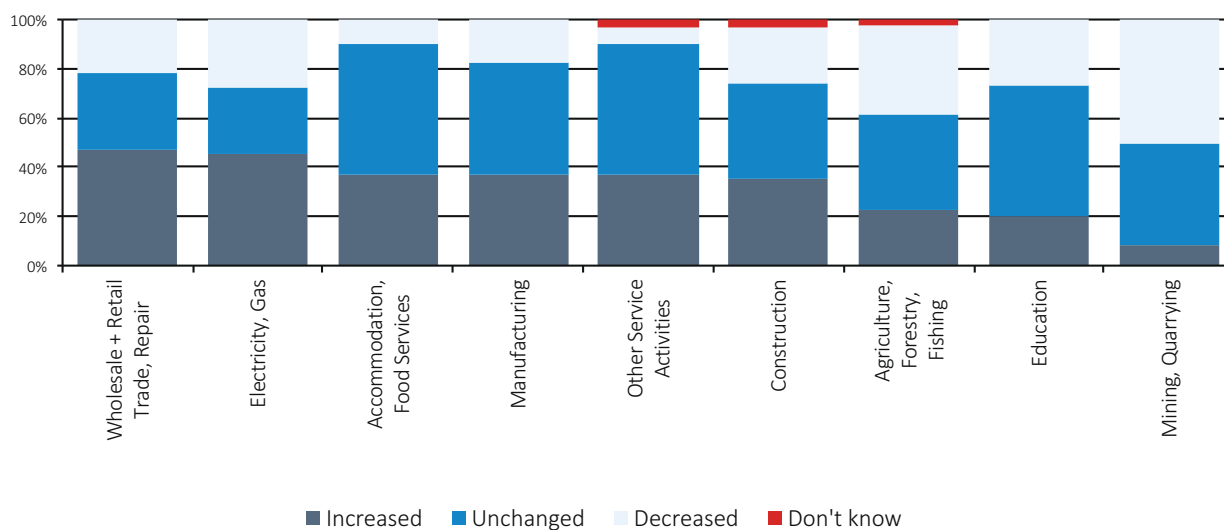


Figure 19: Turnover Development (Lao Firms per Industry)

The Wholesale and Retail Trade and Repair sector has the most share of firms which have experienced an increase in the turnover. This industry is leading the way with 47% of firms in the industry stating that their turnover has increased. Previously, Electricity and Gas had had the most positive turnover with more than nearly 60% in sector stating that their turnover had increased. Now it is only 45%. The share of firms in this sector which state that their turnover has decreased has also increased from below 20% to above 27% leading to this sector being the third highest percentage of “decreased.” Suffering the most is however the Mining and Quarrying and Agriculture, Forestry and Fishing sectors with a “decreased” percentage of 50% and 37% respectively.

### Expected Turnover Development (Lao Firms)

Question: How do you expect your turnover will develop in the next six months?

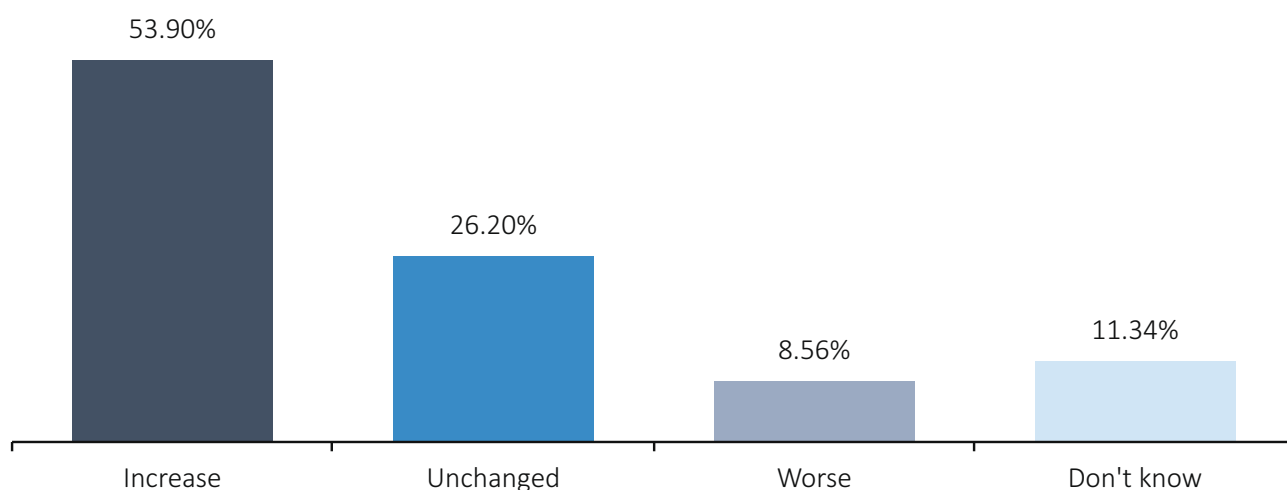


Figure 20: Expected Turnover Development

Although the usual trend is that only around 40% of Lao firms experience an increase in turnover, 54% of firms expect an increase to occur in the next 6 months. While this shows high optimism, this optimism has decreased over the years. In the survey of July to December 2015, 64% expected an increase, in the last survey from January to June 2016, 57% expected an increase and now 54% expect an increase. This shows a downward sloping trend. As a consequence to the decrease in the expectation of an increased turnover, the percentage of “unchanged,” “worse,” and “don’t know” have all increased slightly.

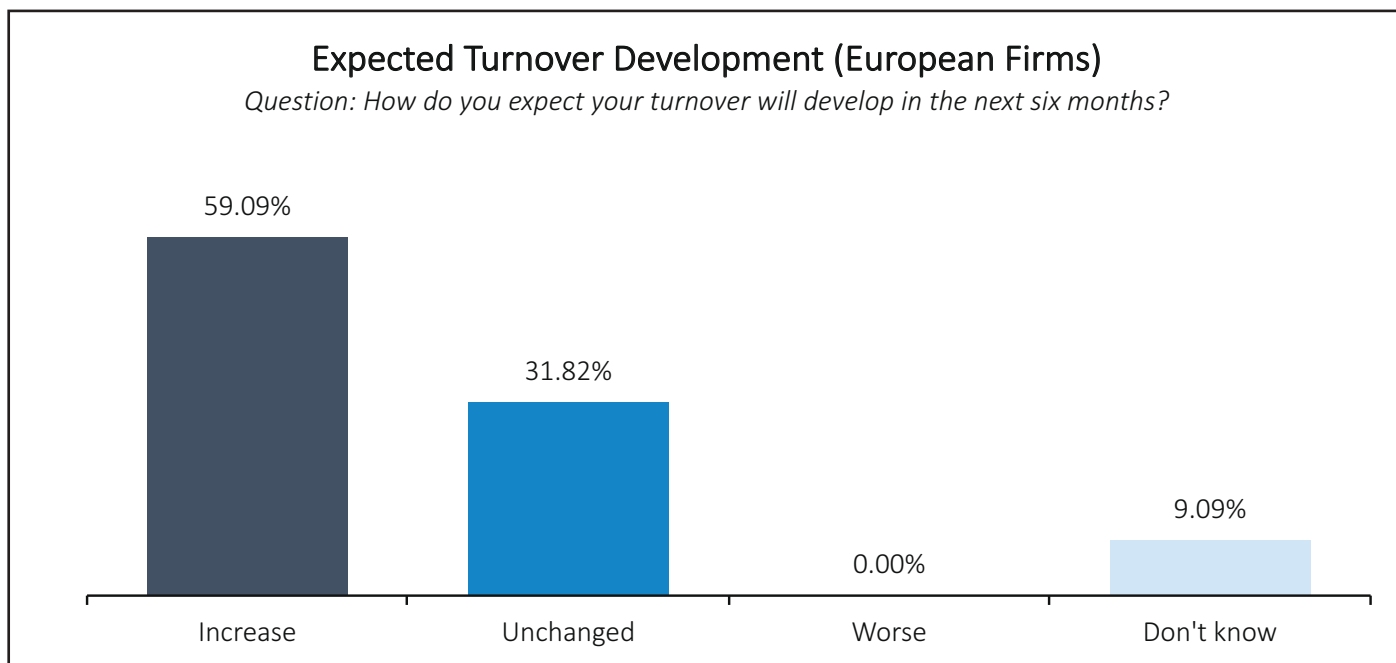


Figure 21: Expected Turnover Development (European Firms)

The expectation of European firms have increased over the years. One year ago 46% envisaged increased turnover, six months ago 56% envisaged increased turnover and now this figure is 59%. There are still no European firms which believe that their turnover will worsen in the next six months.

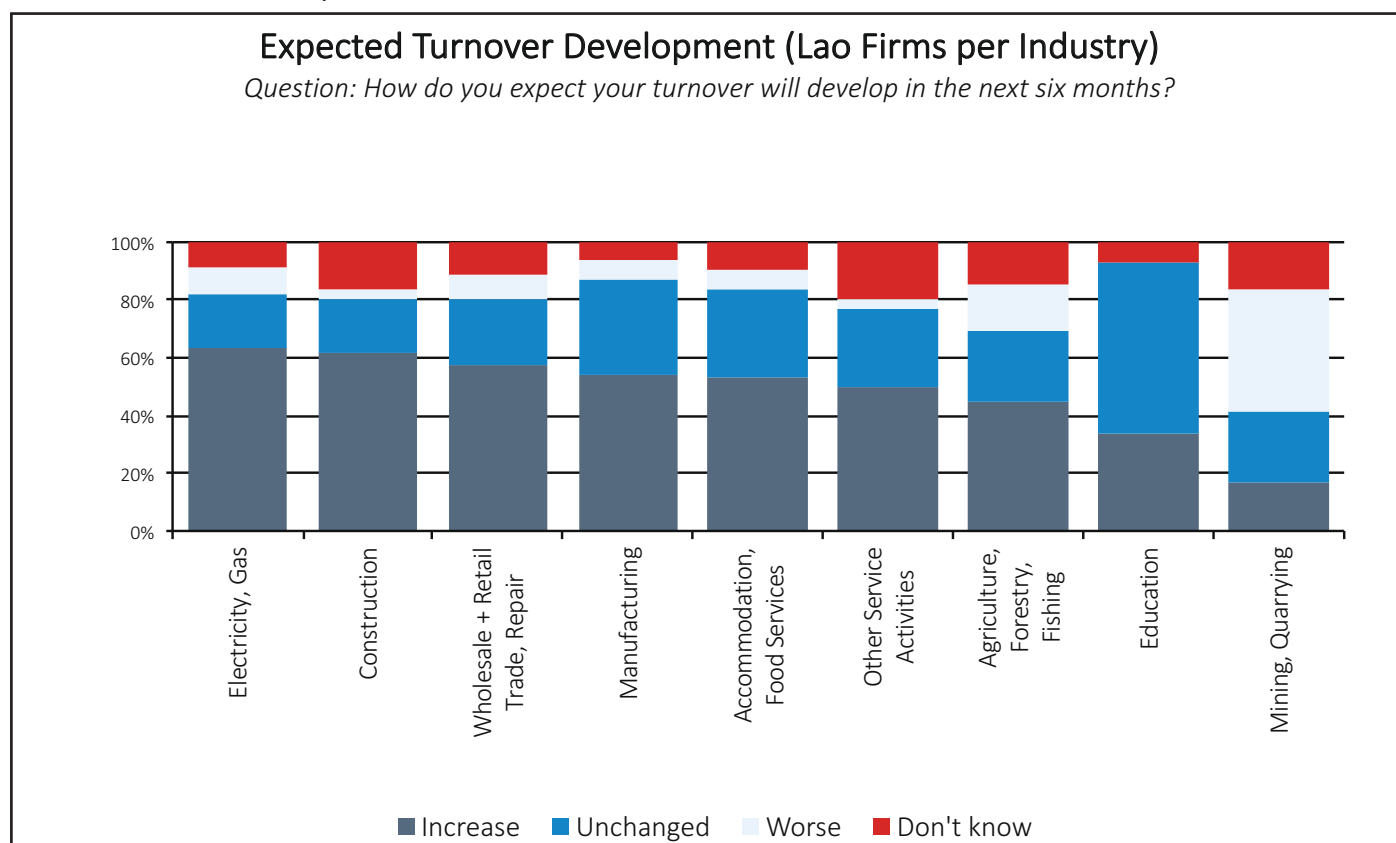


Figure 22: Expected Turnover Development (Lao Firms, Industry Perspective)



As visible in the graph of figure 20, expected turnover has decreased for Lao firms compared to six months ago. Previously, Finance and Insurance (which is not represented here) had the highest hopes for an increase in turnover with over 80%. In this survey Electricity and Gas are the most optimistic with 64% of firms expecting an increased turnover. Before, this sector had not been too optimistic with only a little bit more than 40% expecting a turnover. The Mining and Quarrying Industry which has experienced a decreased turnover, is also expecting a decreased turnover with 42% of firms stating that they are expecting their turnover to decrease.

9. PROFIT

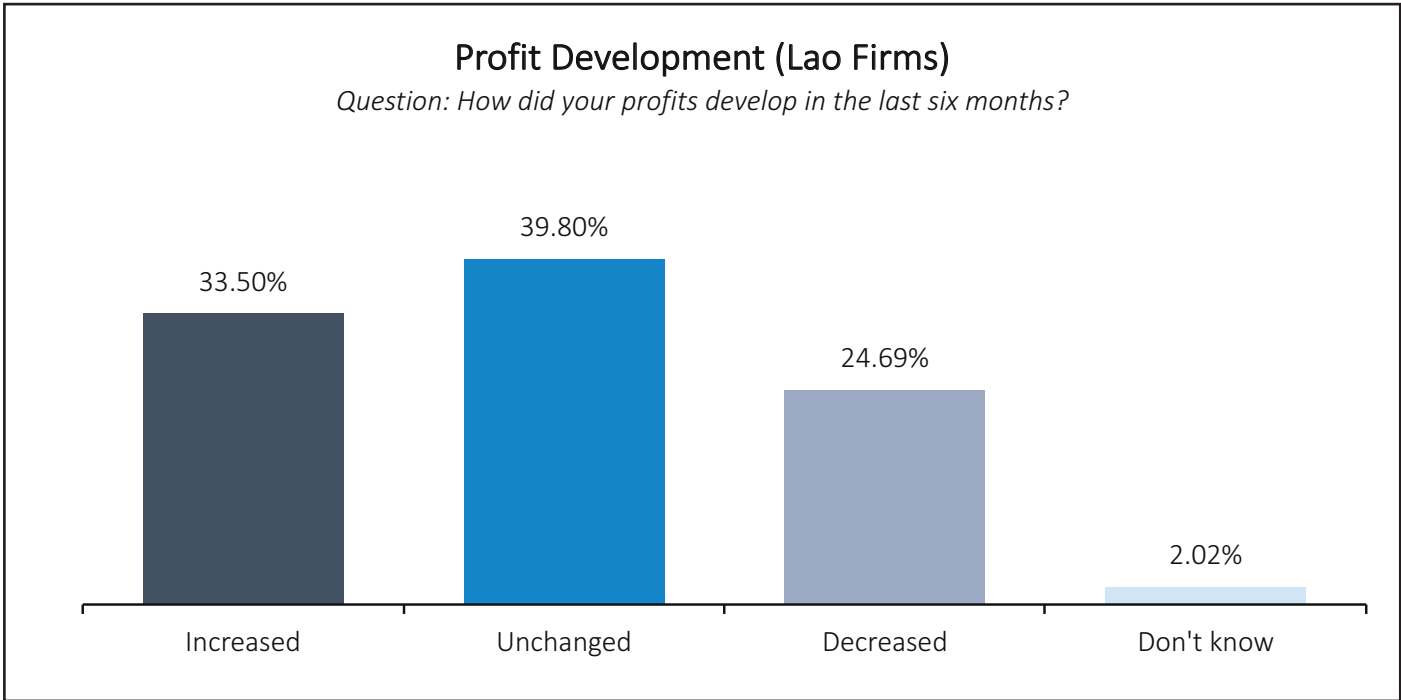


Figure 23: Profit Development (Lao Firms)

For Lao firms, profit development has changed only slightly. Compared to the answers of the last survey, profit has developed negatively, although not drastically. The share of firms which have answered “increased” has decreased by 2%. Adding to the 2% more firms have indicated that their profit has stayed “unchanged.” Consequently, the share of firms which have experienced a decrease in profit has risen by 4%.

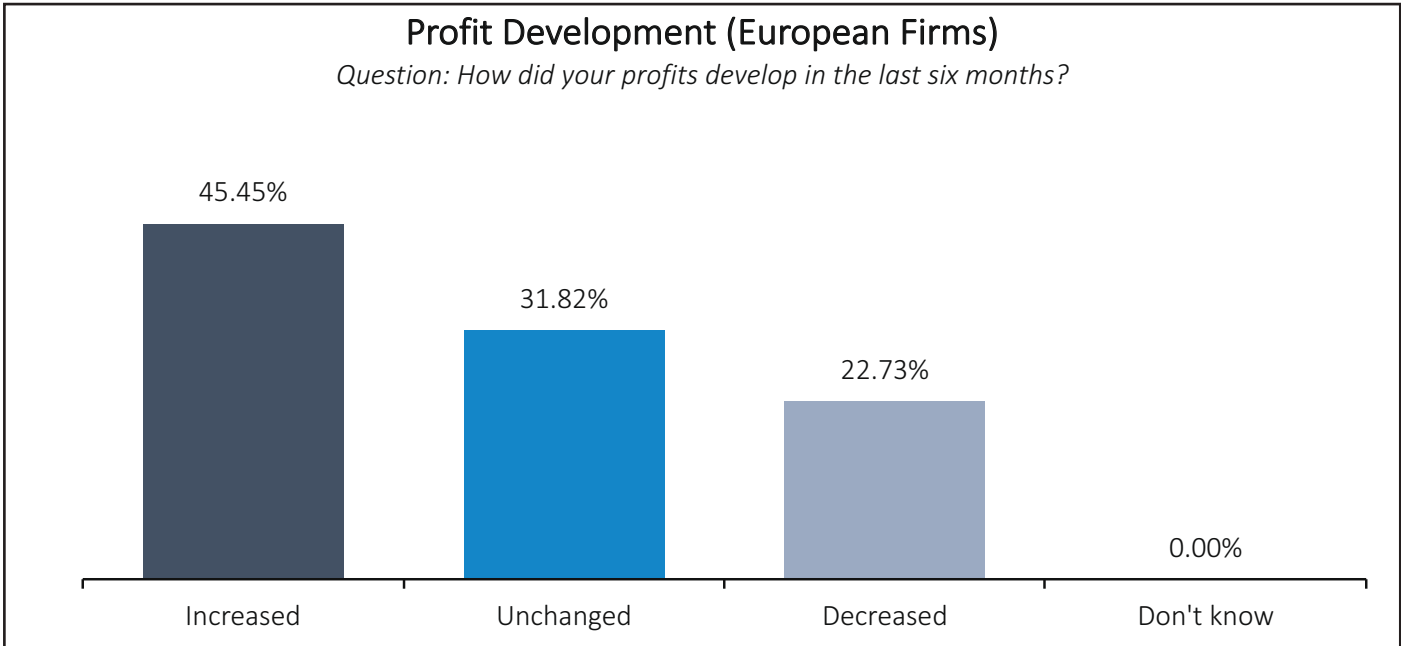


Figure 24: Profit Development (European Firms)

As for European firms, there seems to be a constant change in the profit development. Compared to the previous survey, the percentage of firms which have increased their profit has increased drastically to 45% from 22%. Therefore, the percentage of profits which have remained unchanged has decreased by 7%, the percentage of profits which have decreased has dropped by 5% and the number of firms which don't know has decreased by 11%.

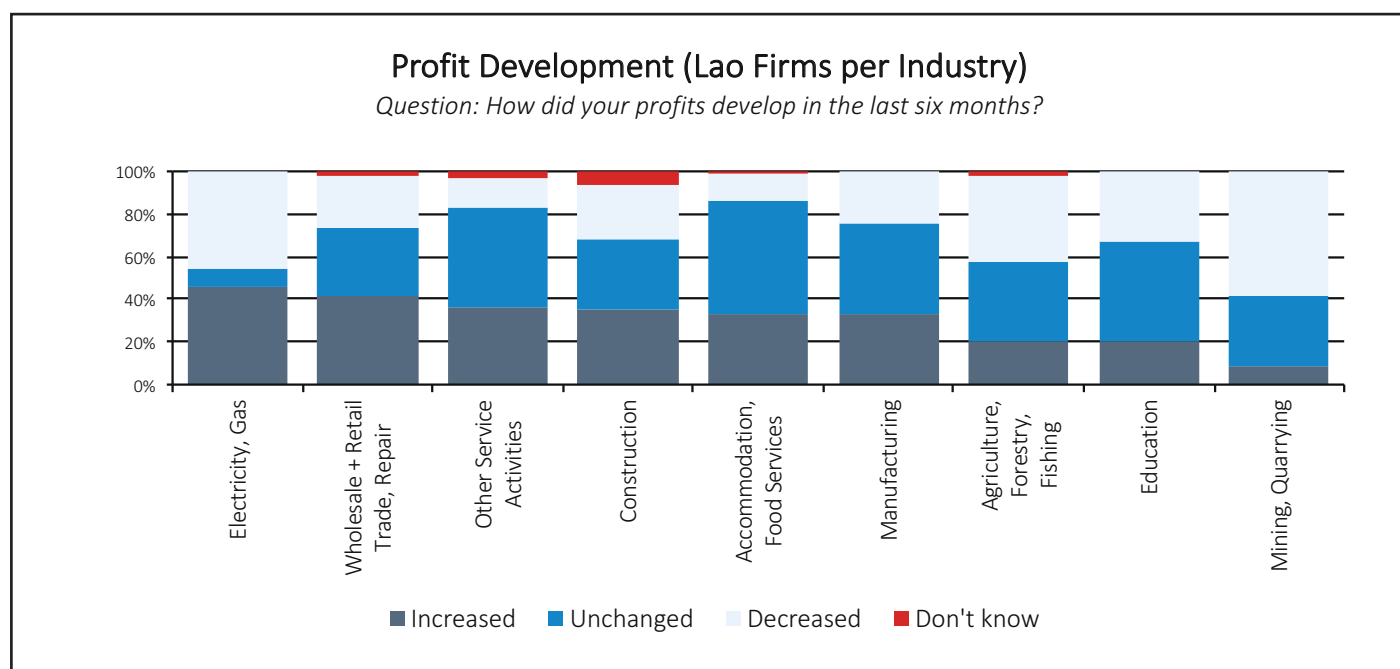


Figure 25: Profit Development (Lao Firms, Industry Perspective)

While the industry Electricity and Gas is still in the lead when it comes to increased profit it must be realized that firstly, this percentage has decreased to 45% from 57%. Secondly the percentage of firms which have experienced decreased profit in this industry has increased drastically to 45%. This makes Electricity and Gas the industry with the second highest experience of decreased profit after Mining and Quarrying which has 58% of firms experiencing decreased profits. This is in parallel to the turnover developments.

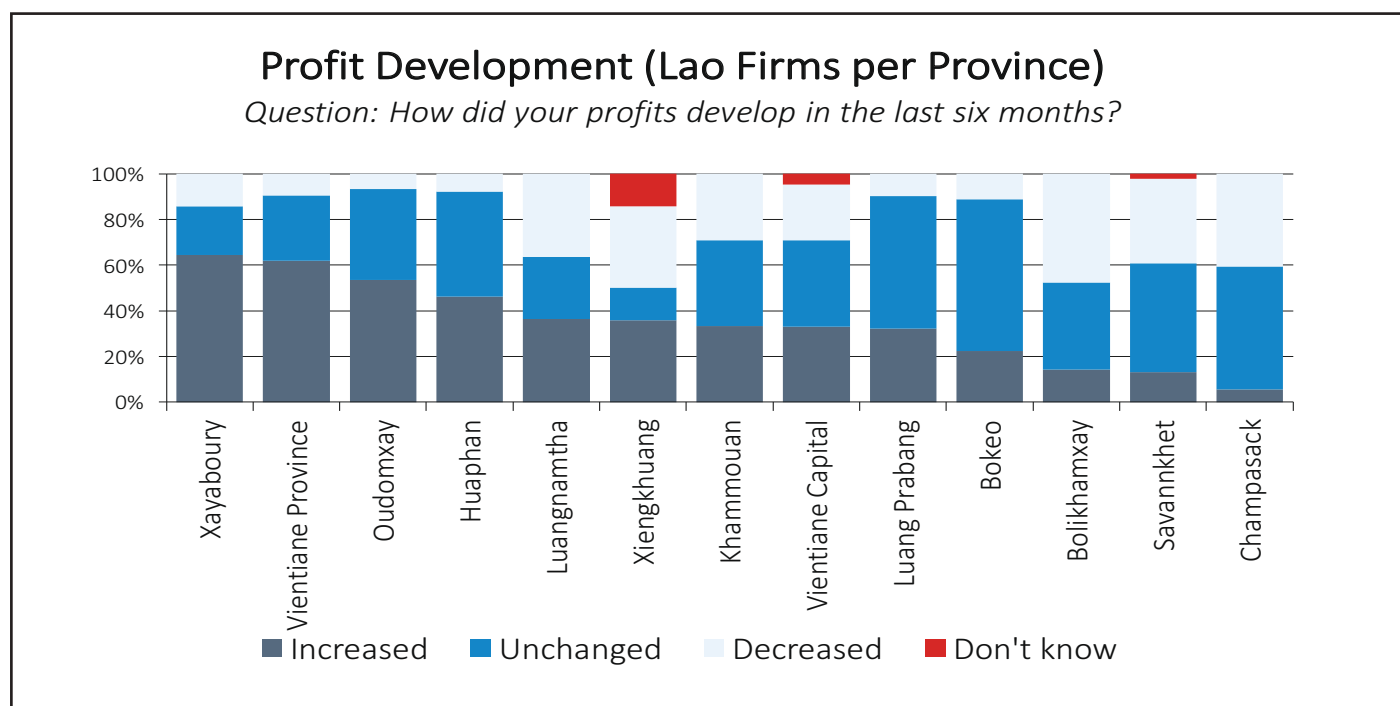


Figure 26: Profit Development (Lao Firms, Provincial Perspective)

Xayaboury is in the lead when it comes to profit development with 64% of the firms answering that their profits have increased in the last six months. While Bolikhamxay is not experiencing the smallest share of firms experiencing increased profit, it is the province which has the most firms experiencing decreased profit at 48%.

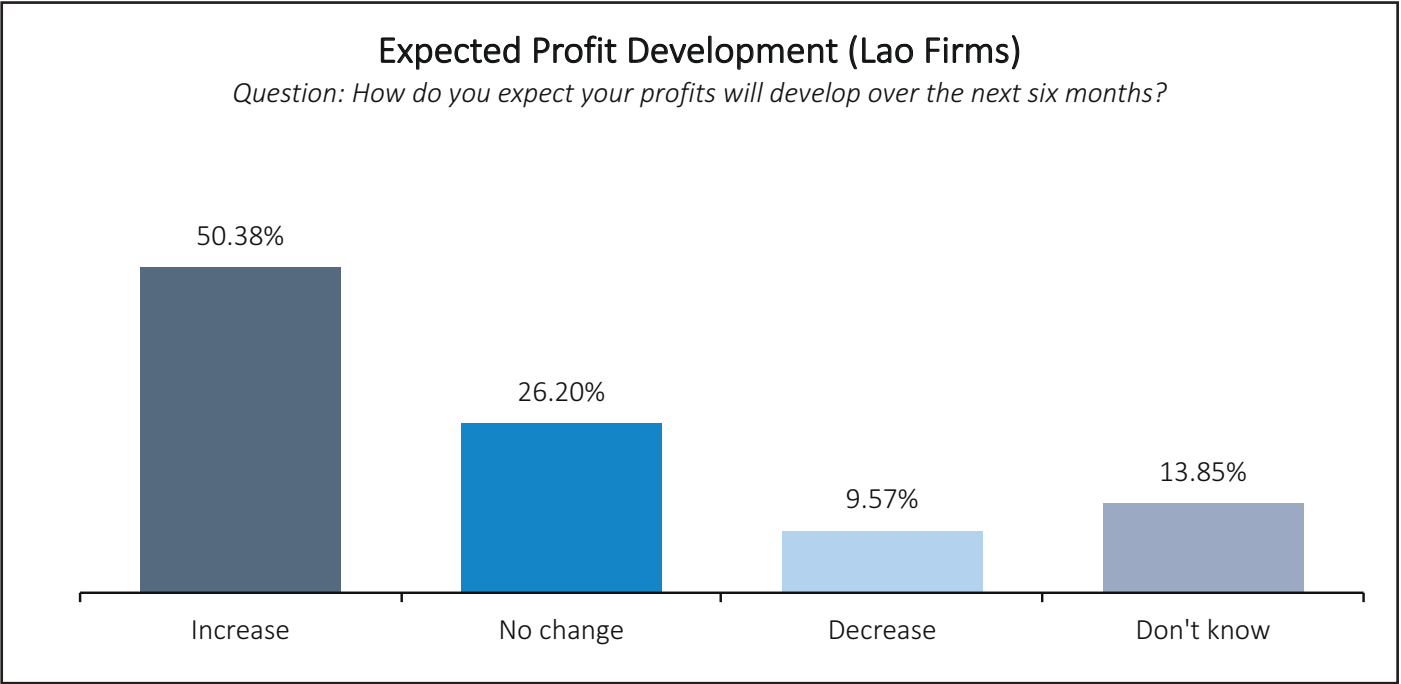


Figure 27: Expected Profit Development (Lao Firms)

While the future perception of profit growth is still very positive, there has been a falling of this positive feeling. One year ago, 58% of the firms expected their profits to increase, six months ago it was 55% and now it is 50%. The other factors have only marginally increased.

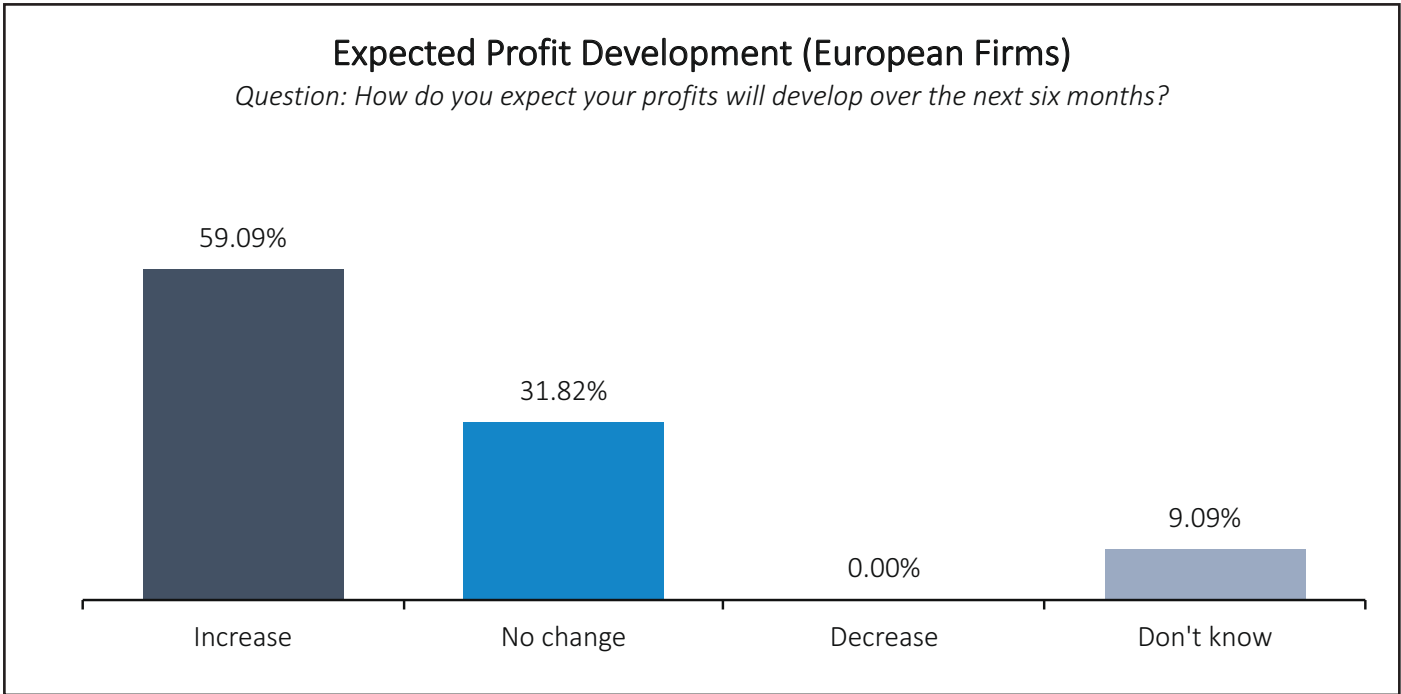


Figure 28: Expected Profit Development (European Firms)

For the European firms it can be seen that not only is the actual profit development increasing, but the expected profit development is also increasing. There has been a shift from 44% to 59% of European firms believing that their profit will increase in the next six months. Furthermore the number of firms which believe that their profit will decrease has also fallen drastically to 0% from 11%.

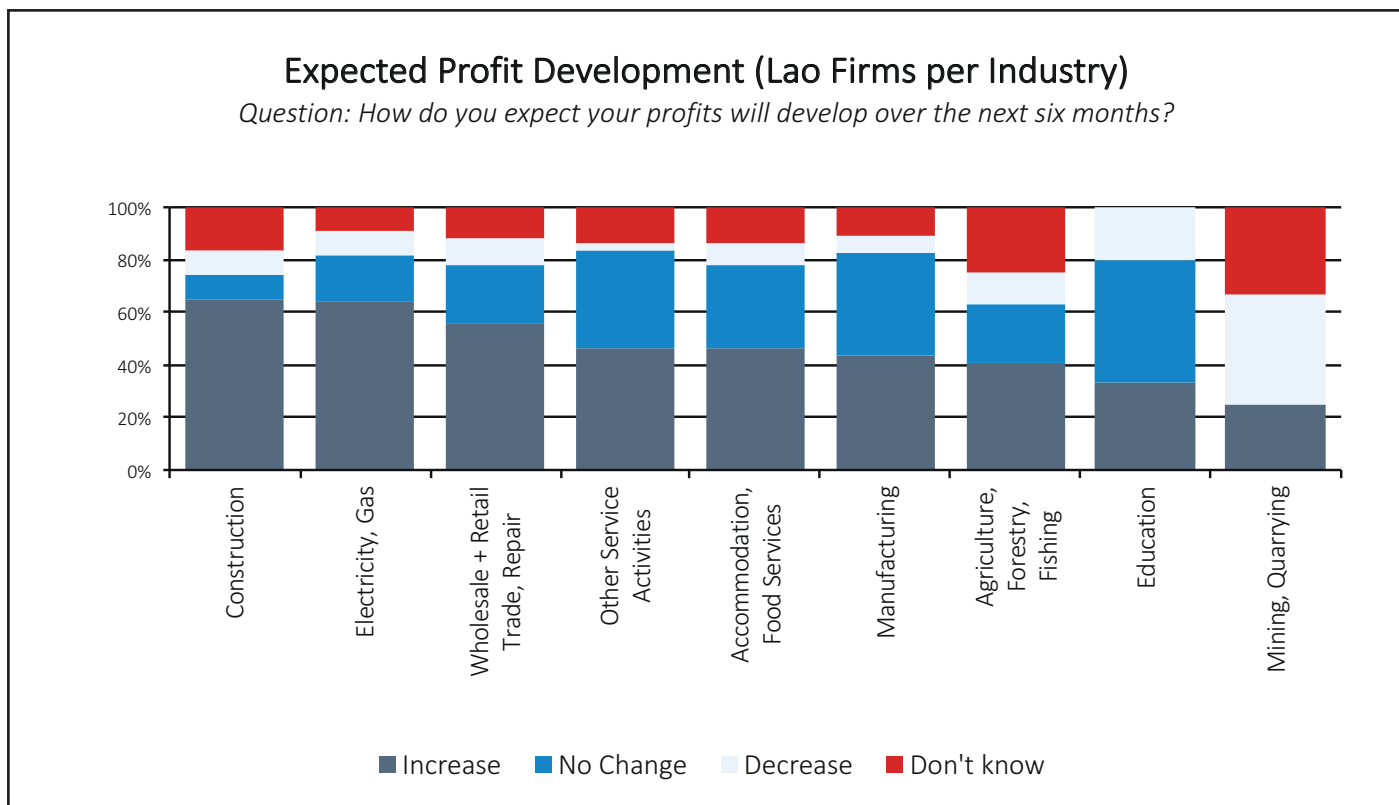


Figure 29: Expected Profit Development (Lao Firms, Industry Perspective)

The Construction and Electricity and Gas industries are leading the way with the highest prospects of profitability compared to other industries. The prospects in the Education and Mining and Quarrying industries are not looking too good. Both industries have the lowest percentage of firms believing that profit will increase as well as the highest percentage of firms believing that profit will decrease in the next half year.

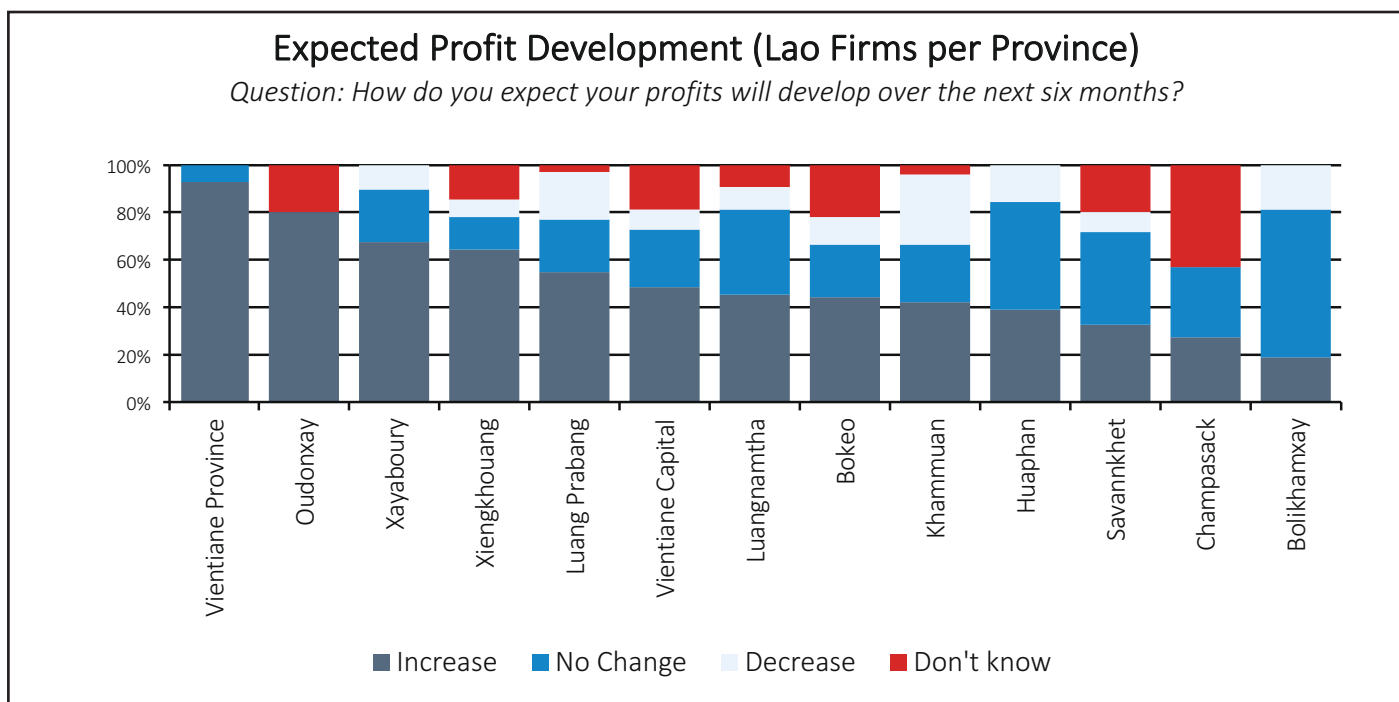


Figure 30: Expected Profit Development (Provincial Perspective)

There seems to be a relatively strong correlation between actual profit development and expected profit development. Firms in provinces which have already done well, expect to continue doing well. While firms in provinces which have not done so well do not believe that their situation will improve.

## 10. FINANCIAL SITUATION

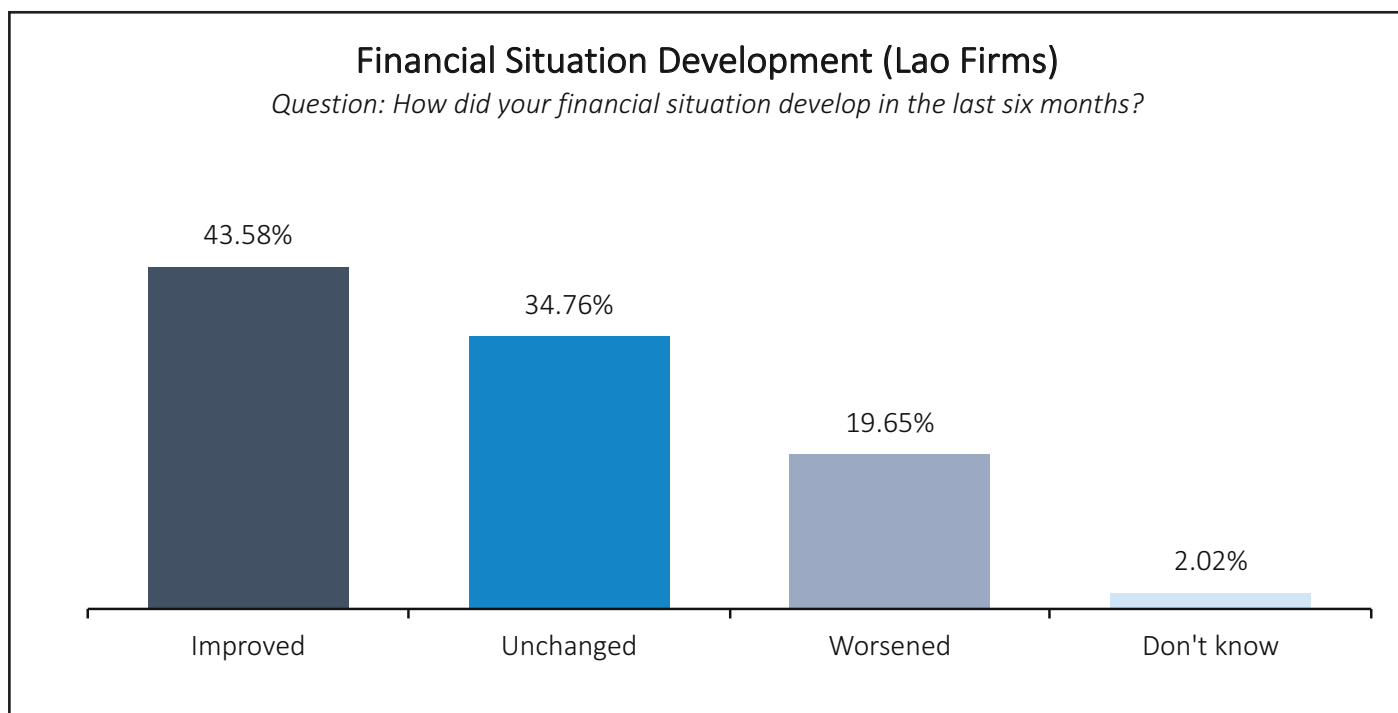


Figure 31: Financial Situation Development (Lao Firms)

The number of Lao firms which state that their financial situation has improved has risen by 6%. On the other hand, the number of firms which declare that their financial situation has worsened, has also increased by 4%. It can therefore not so simply be said that the financial situation for Lao firms has increased.

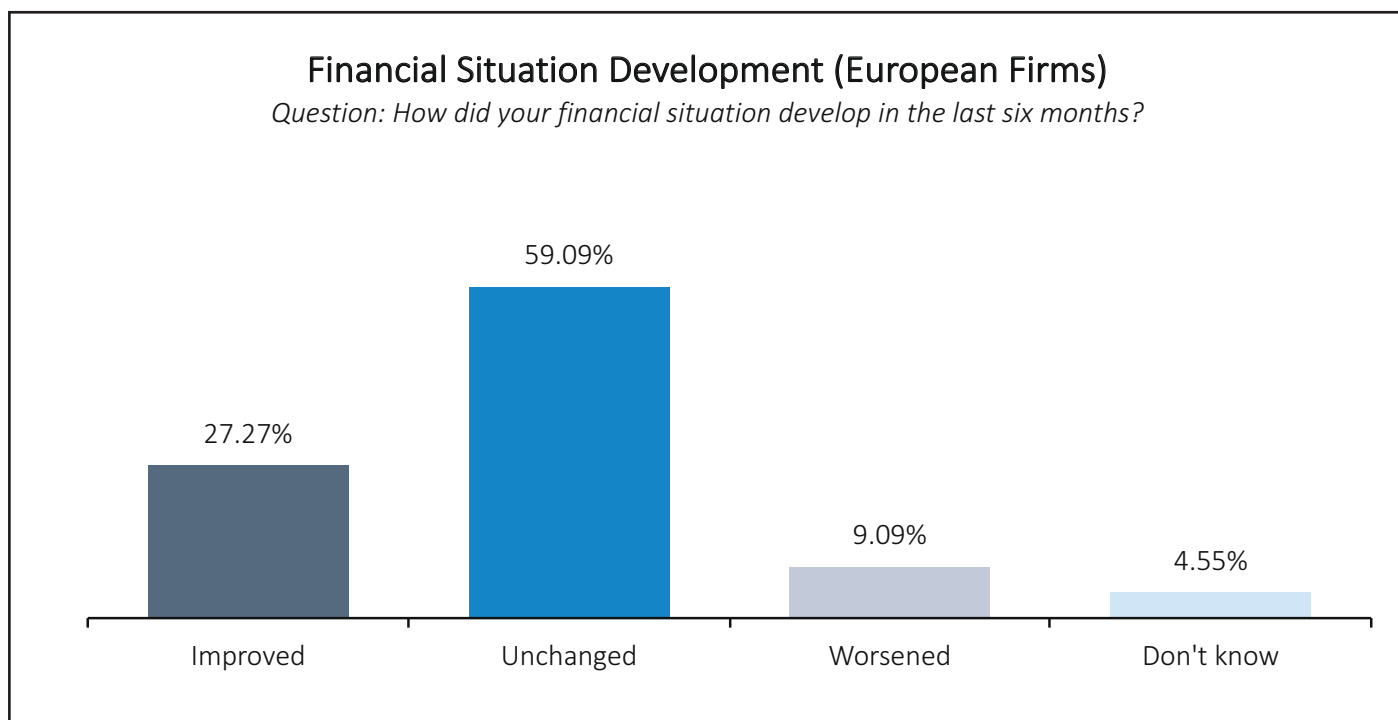


Figure 32: Financial Situation Development (European Firms)

For European firms, the share of “improved” has risen from 22% to 27%. To balance this out, the share of “unchanged” and “worsened” have decreased both by 2%.

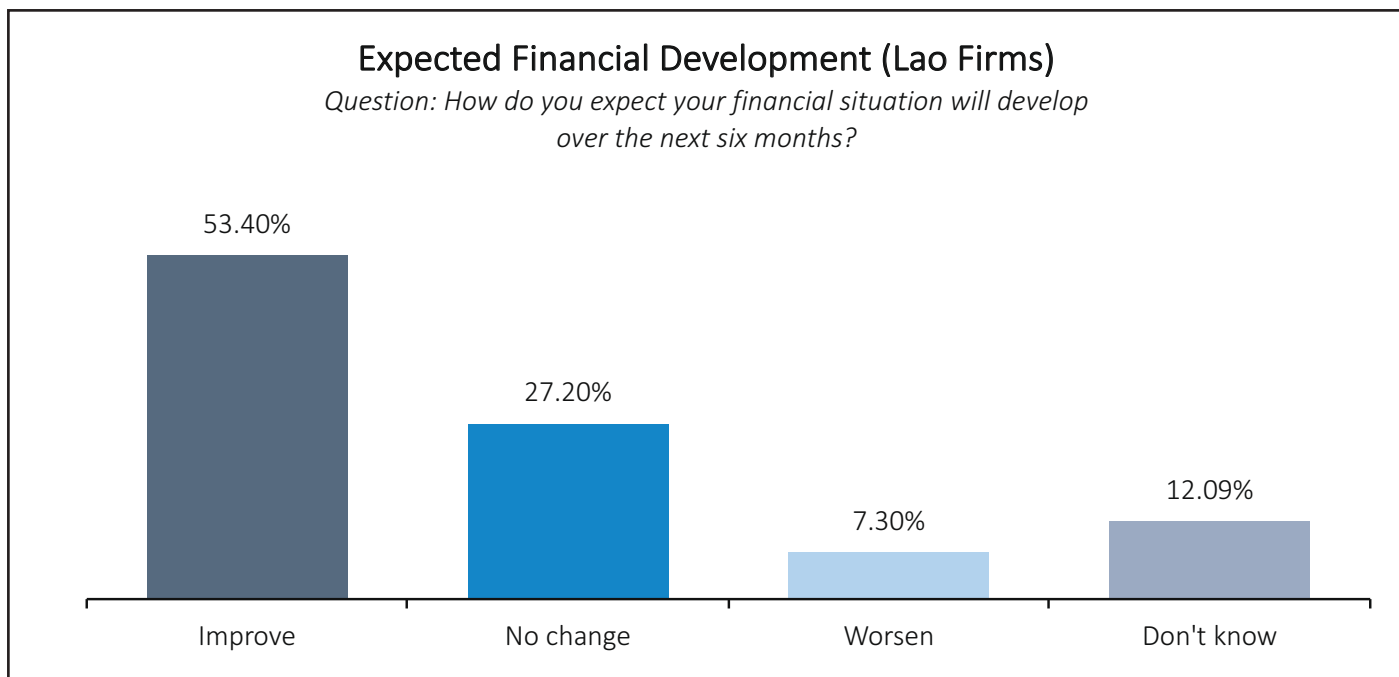


Figure 33: Expected Financial Development (Lao Firms)

For Lao companies, the share of firms expecting an improved situation has decreased to 53% from 59%. The number of firms expecting no change has increased to 27% from 23% and the number of firms that don't know has increased by 2% compared to the previous survey.

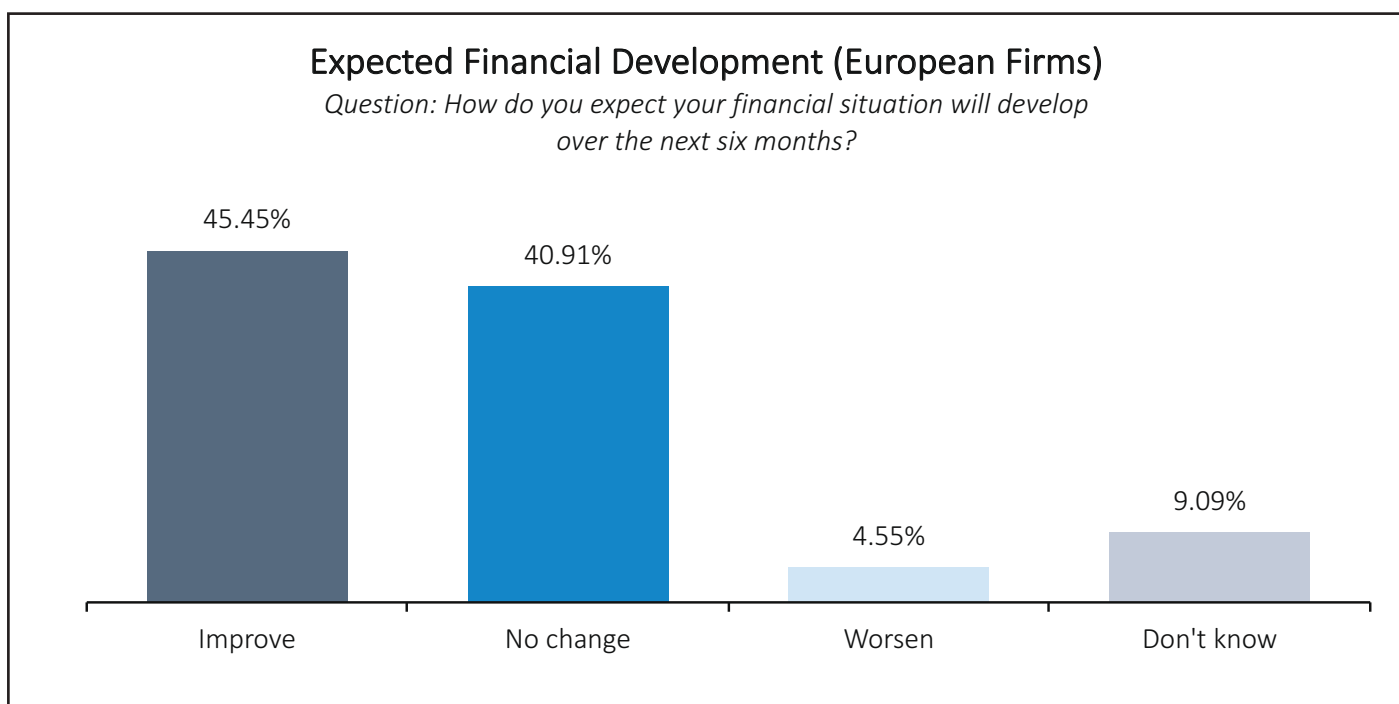


Figure 34: Expected Financial Development (European Firms)

Compared to the previous survey, there has not been much change in the expectations of European firms. The two biggest changes are that the percentage of answers “no change” has decreased by 3% and the percentage of answers “don't know” has increased by 3%.

In comparison to Lao firms, European firms are still more skeptical of an improved financial development in the future. However, the percentage of firms which believe that the situation will worsen is also slightly lower than Lao firms.

# 11. INVESTMENT

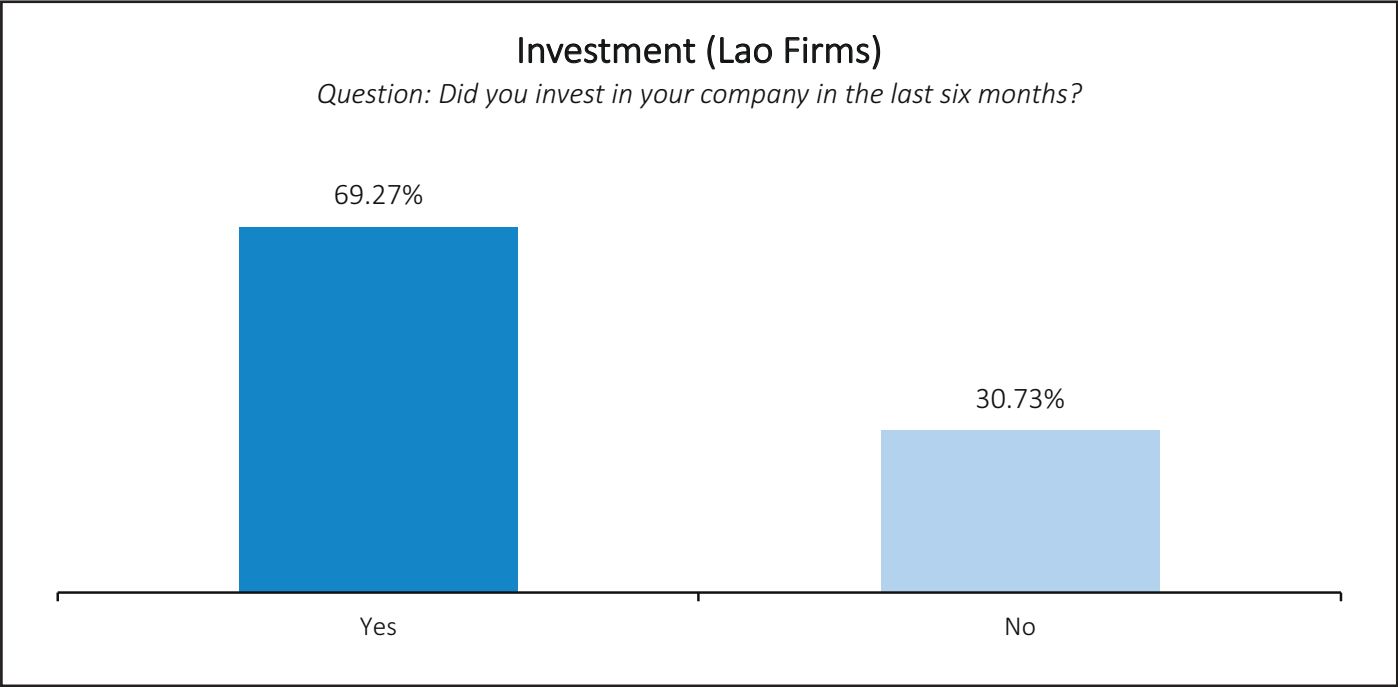


Figure 35: Investment (Lao Firms)

Investment in Lao firms has the trend of 70% of firms investing and 30% not investing. With 69% and 31% respectively, this survey’s data falls into this trend. This survey also shows a slight increase in investment compared to the last survey from 67% to 69%.

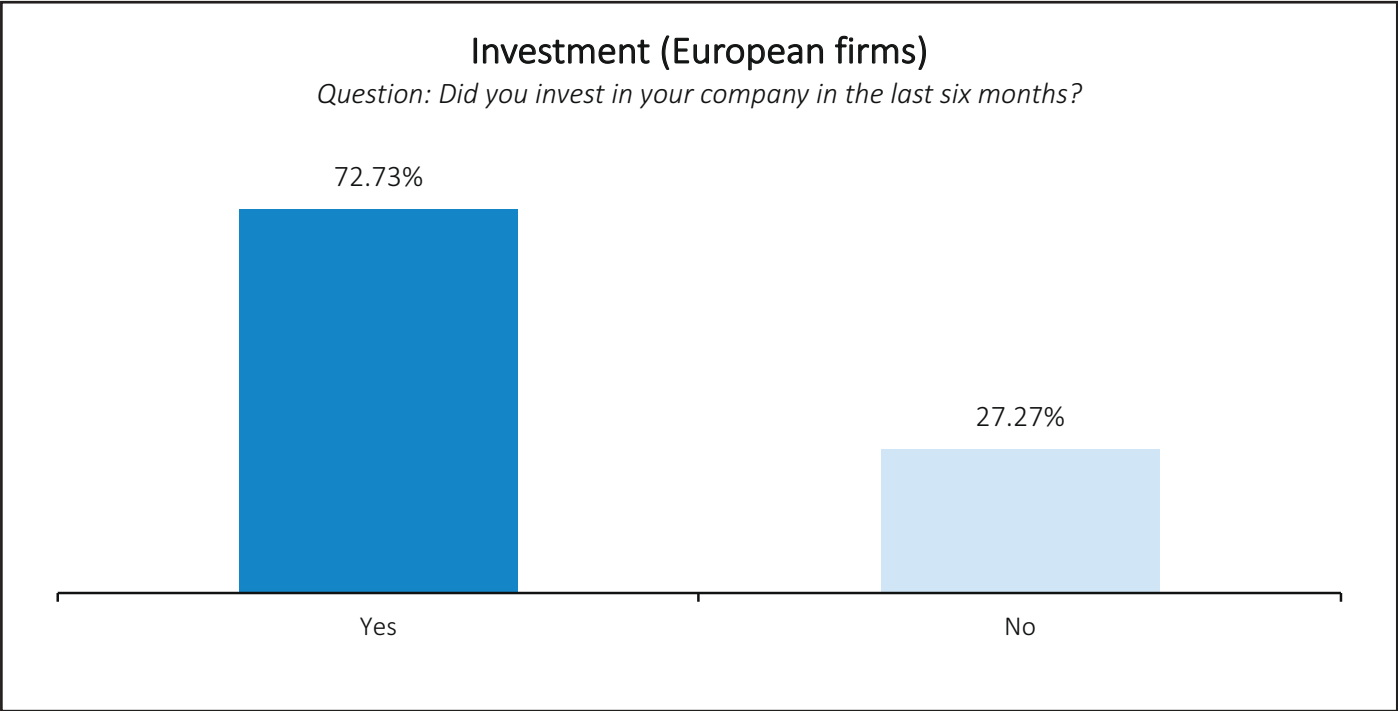


Figure 36: Investment (European Firms)

Investment in European firms has varied in the last few surveys. However, investment has once again increased to 73% after having been at 61% in the previous survey. It is once again, higher than investment in Lao firms.

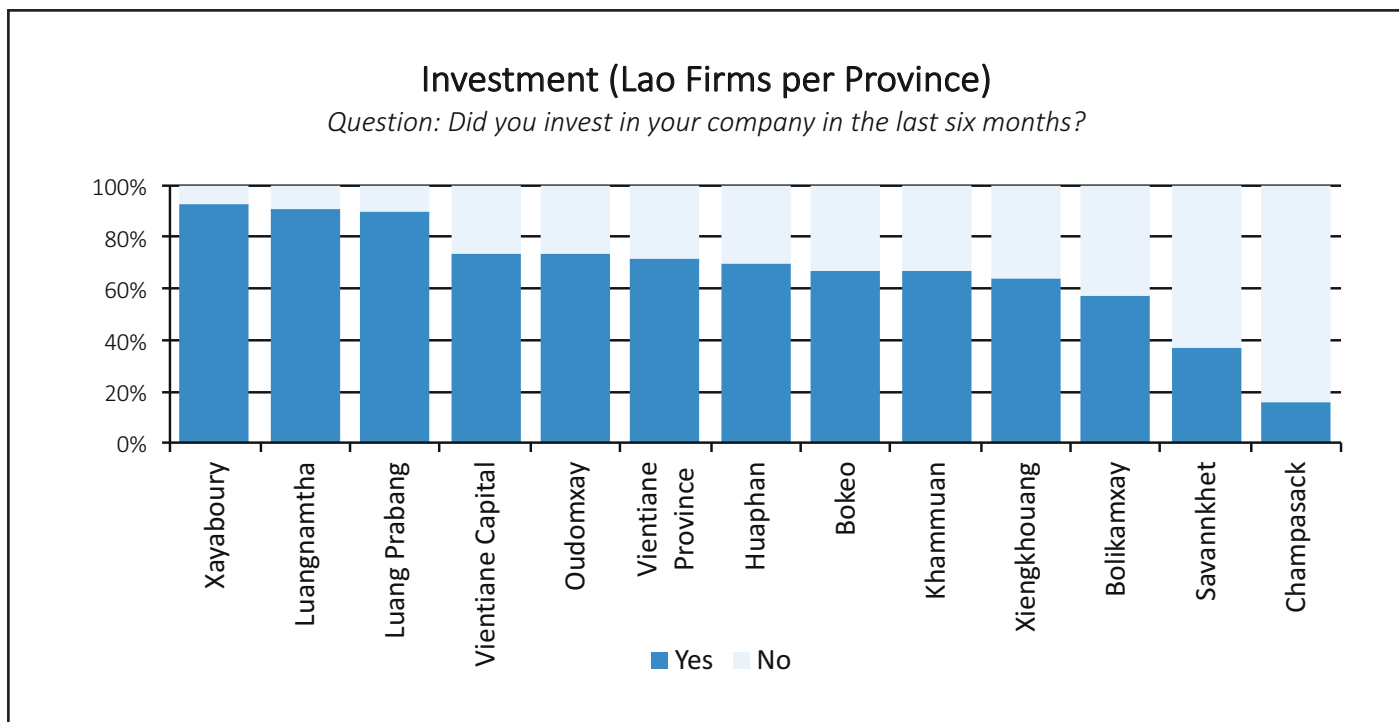


Figure 37: Investment (Lao Firms, Provincial Perspective)

Through this graph the findings from the graph in figure 35 are again visible. Investment has decreased compared to half a year ago. In the previous survey, Luangnamtha ranked first with 100% of the firms investing in their business during the past half-year. Luangnamtha has been overtaken by Xayaboury which has 93% of firms investing in their business. Champasack, which was on fifth last place in the first half of 2016 with nearly 60% now fell to the end of the table with only 16% of companies having invested in the period of the current survey.

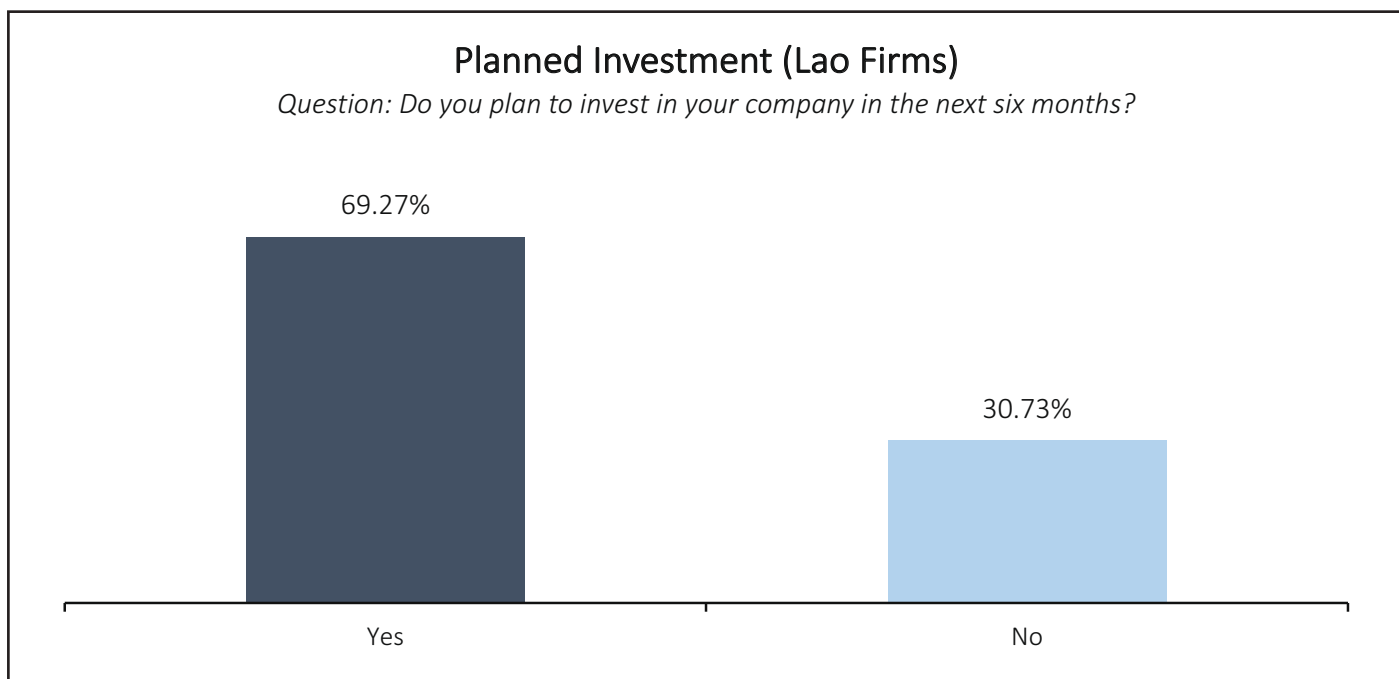


Figure 38: Planned Investment (Lao Firms)

As many Lao firms as invested in their company in the last six months, are planning on investing in their company in the next six months. Planned investment has gone down from 75% in the previous survey.



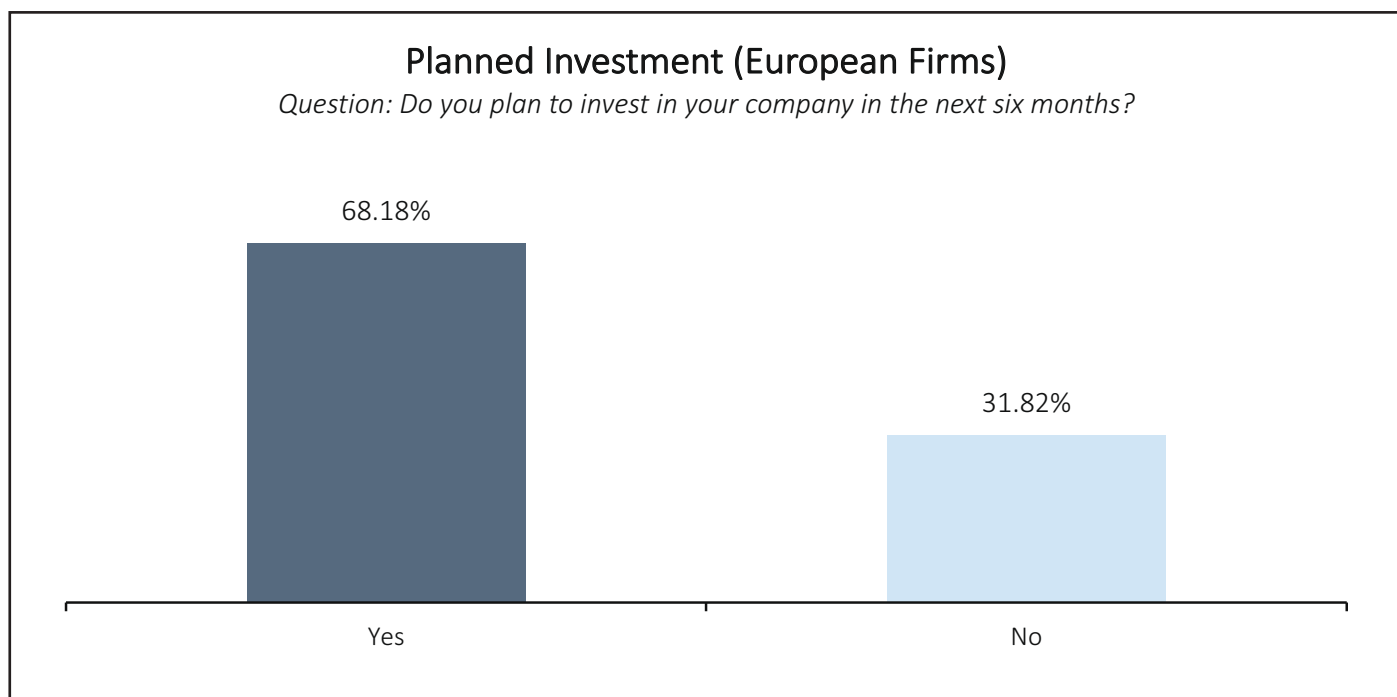


Figure 39: Planned Investment (European Firms)

The share of firms which are planning on investing in their company in the next 6 months is 5% less than the share of firms which have invested in the last six months. However, compared to the share of firms which were planning on investing six months ago, the share of firms which are planning on investing now has gone up by 7%. The share is also only slightly smaller than the share of Lao firms planning on investing.

## 12. EMPLOYMENT

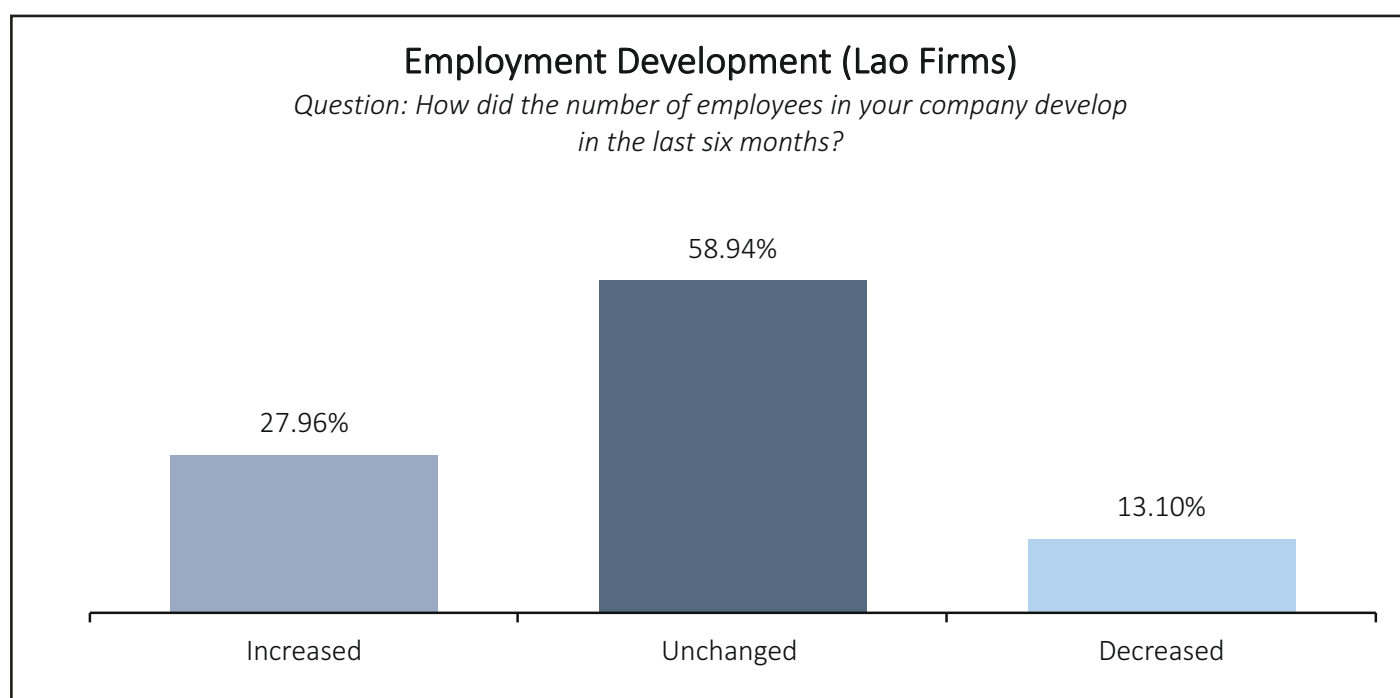


Figure 40: Employment Development (Lao Firms)

Employment in Lao firms has changed slightly over the last six months. 28% of companies increased the number of their staff in the last half year. That is 6% more than previously. This being said, the percentage of firms which have decreased the number of their staff has also increased to 13% from 9% previously. This has meant a decrease of the percentage “unchanged” to 59% from 69%.

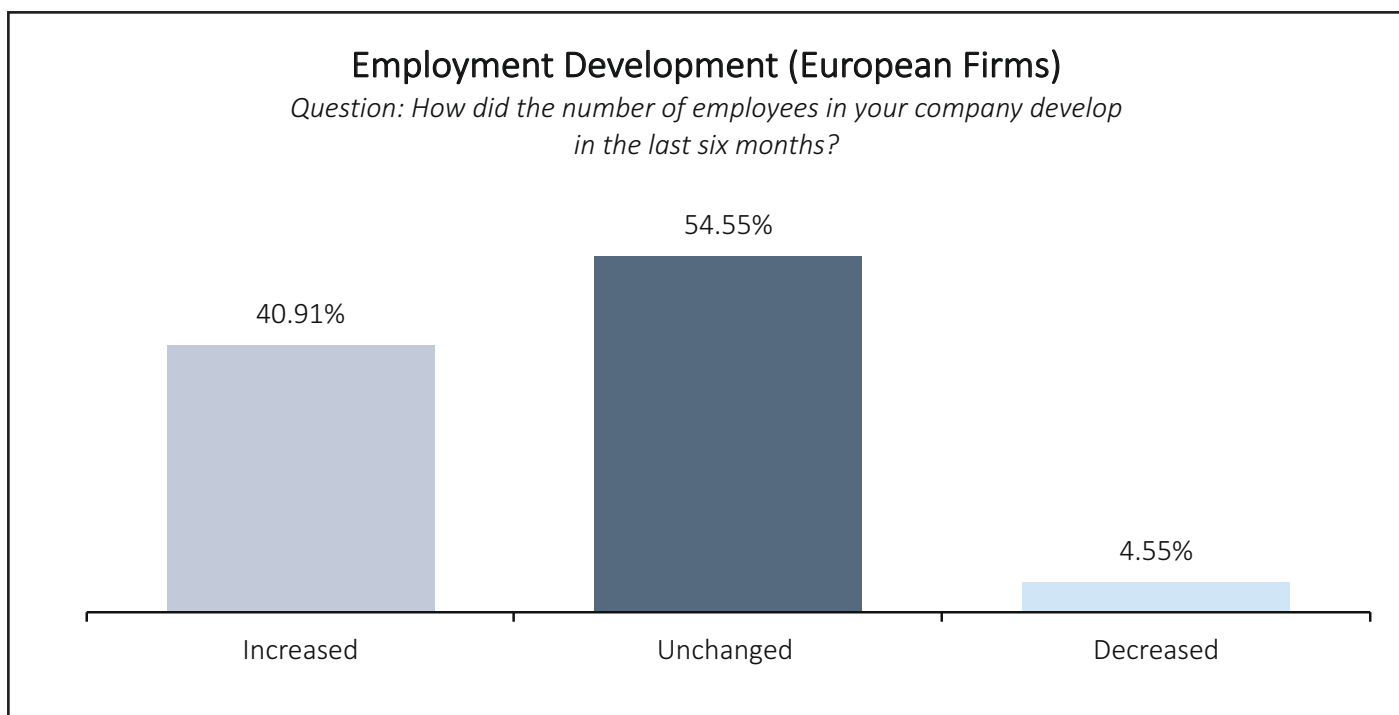


Figure 41: Employment Development (European Firms)

European firms are in the lead when it comes to increasing employment. 41% of firms have increased their number of employment. This is 8% more than previously. Adding to this, the number of firms which decreased their employment has also decreased by 7%.

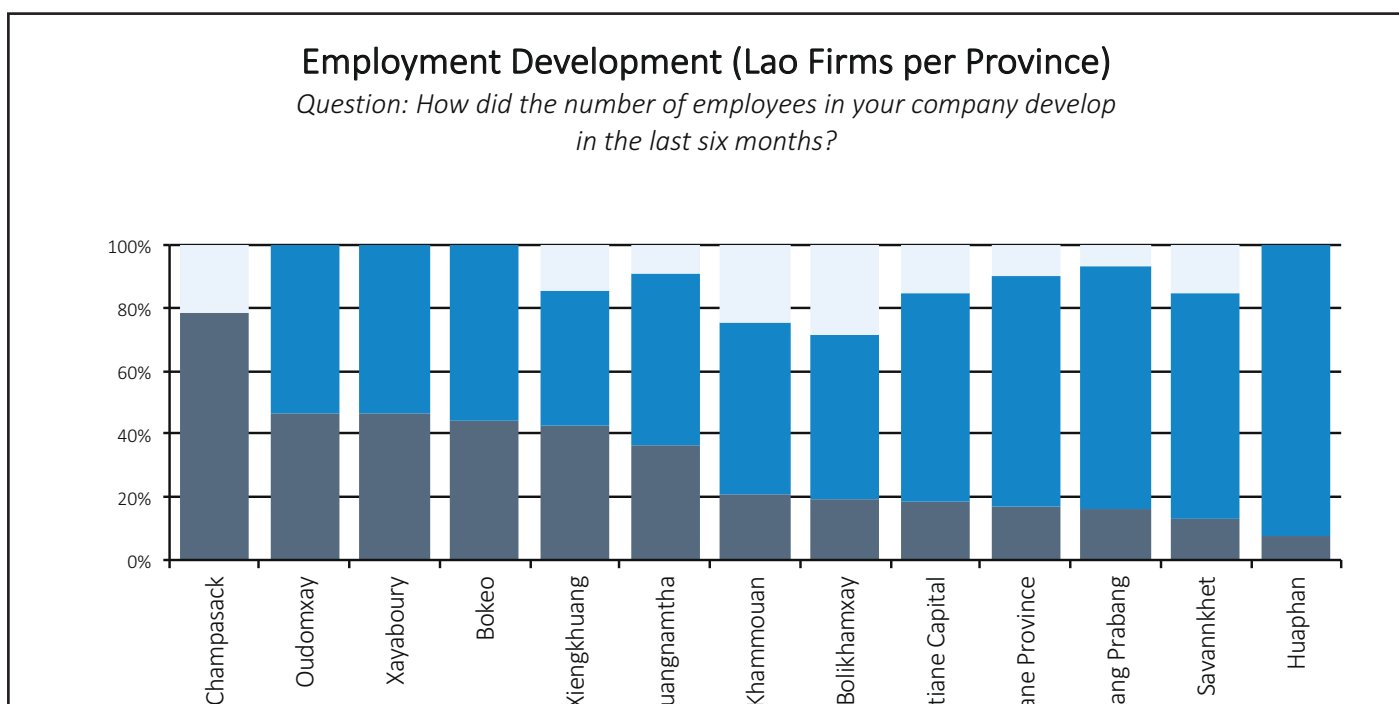
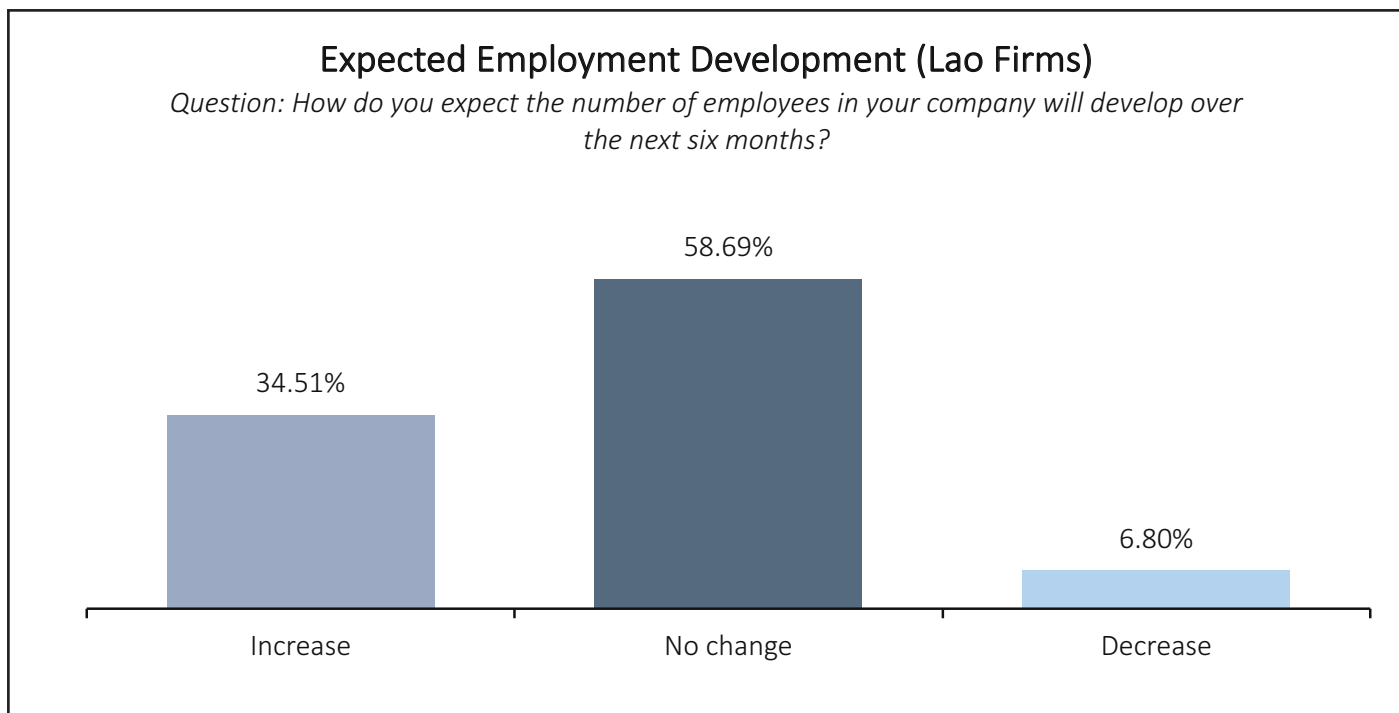


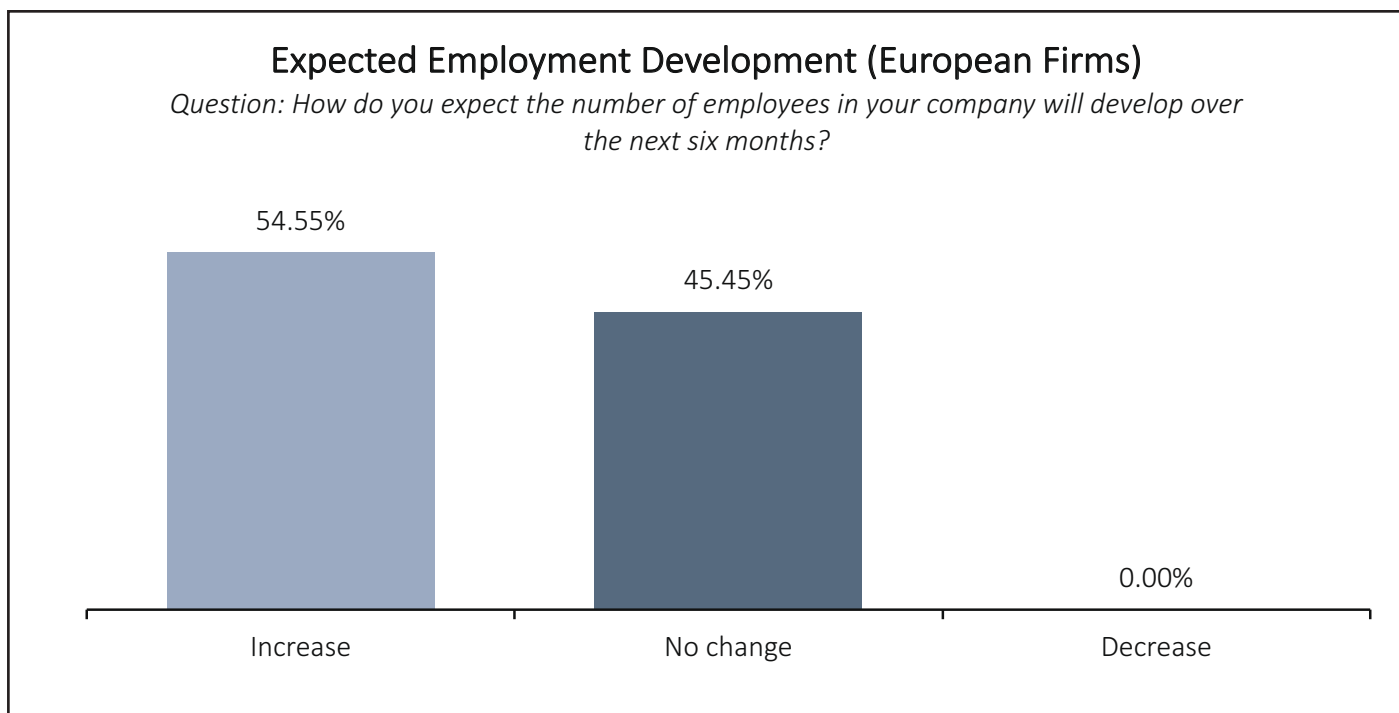
Figure 42: Employment Development (Local Firms, Provincial Perspective)

Regarding the provincial perspective, it is not really possible to see a trend of the different provinces as most provinces have changed their places since the last survey. Champasack now lies in first place with 78% of firms having increased their number of employed. Compared to last year there are no provinces which have not at all increased their employment. While firms in Huaphan have increased their employment the least, they are also one of the four provinces which have firms that have not decreased their employment. Bolikhamay is the province which the highest share of firms (29%) which have decreased their employment.



*Figure 43: Expected Employment Development*

The expectations for future employment developments have worsened slightly since the last survey with 35% of firms expecting an increase in employment compared to 37% in the previous survey. However, this change is noticeably small and the Lao firms are still optimistic that their employment will increase more than it has actually in the last six months.



*Figure 44: Expected Employment Development (European Firms)*

For European firms, the expectations that employment will increase are comparatively to the previous survey very high. Now 55% of firms believe that their employment will increase compared to 39% previously. This is an increase of 16%. European firms still do not believe that their employment will decrease in the future. In contrast to the actual employment situation in the past six months, European firms are highly optimistic about the next coming six months.

## 13. ASEAN ECONOMIC COMMUNITY (AEC)

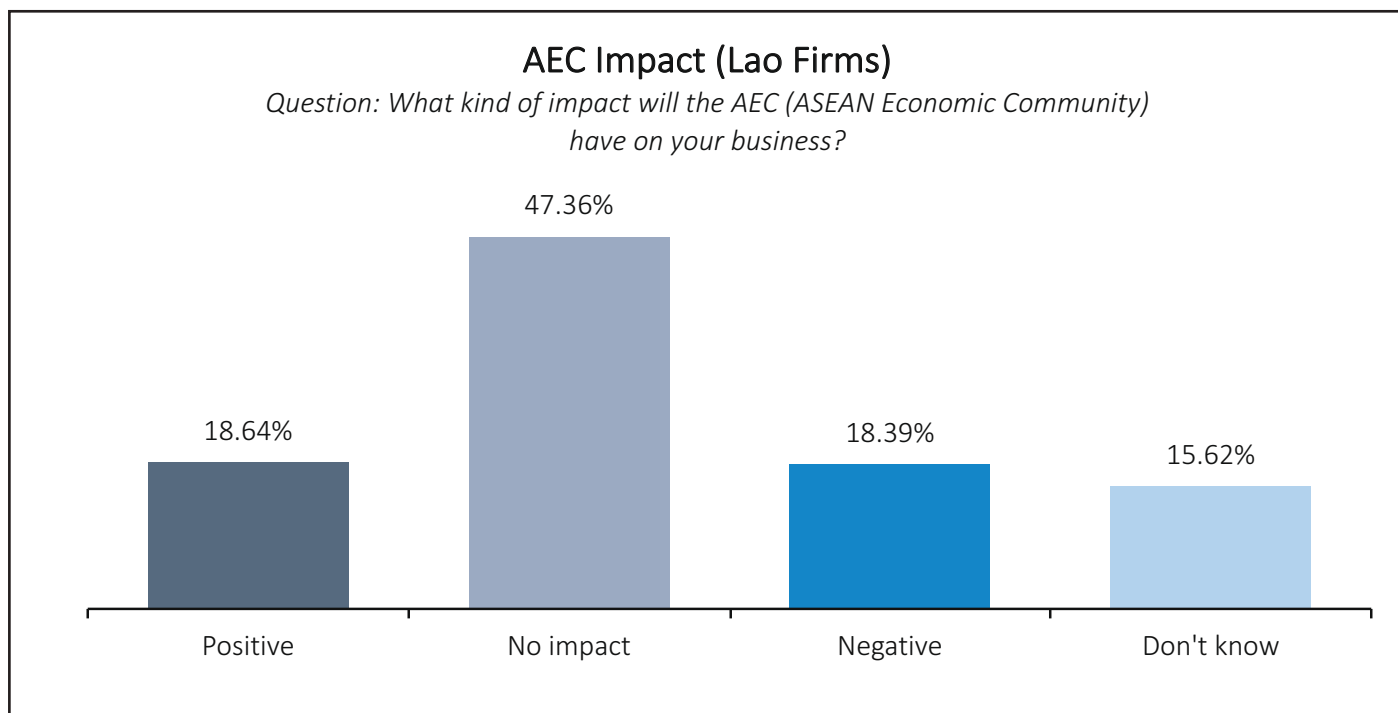


Figure 45: Impact of the AEC on the Business (Lao Firms)

Lao firms still do not see a very high positive impact of the AEC on their business. Actually, the share of firms which believe that it will have positive consequences has drastically decreased to 19% from 27% previously. Adding to this the share of firms which do not know how their business will be affected has increased by 4%.

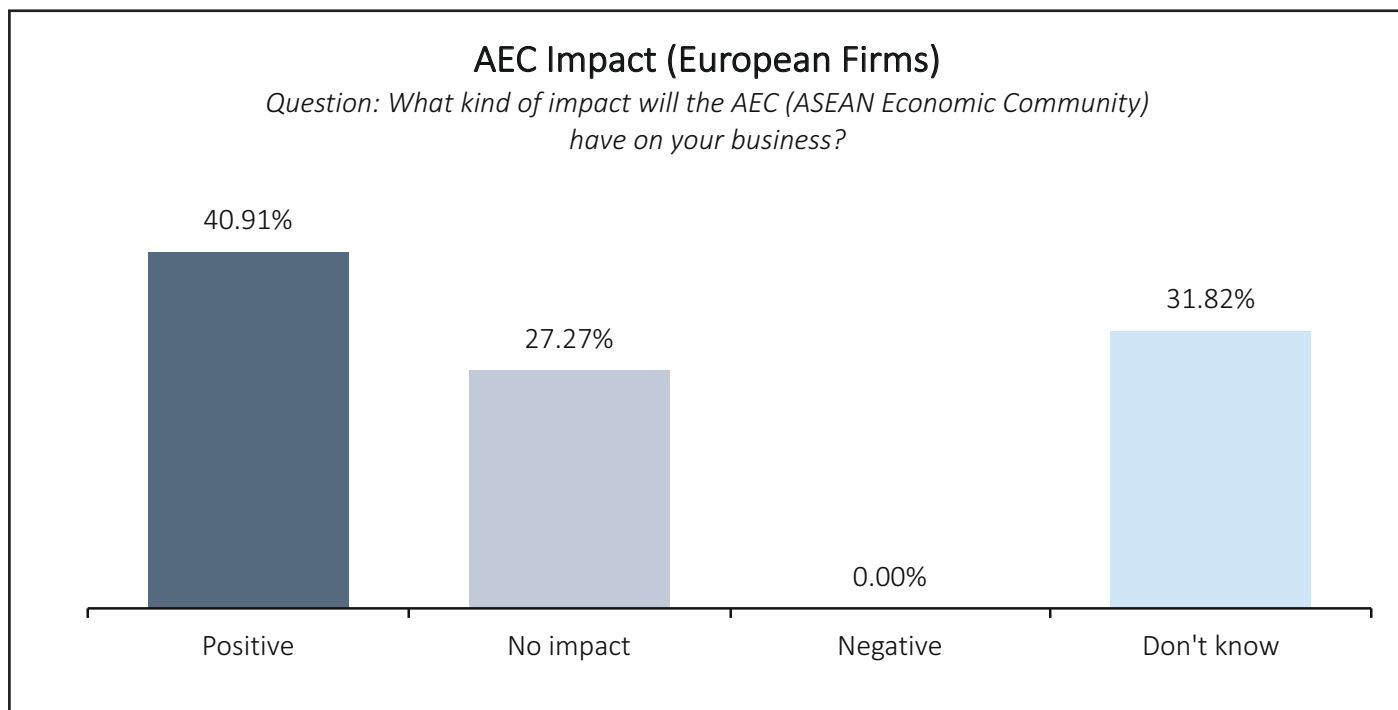


Figure 46: Impact of the AEC on the Business (European Firms)

While European firms are still highly optimistic about the impact of the AEC compared to Lao firms, the number of firms which have answered the question with “don’t know” has nearly doubled since the previous survey.

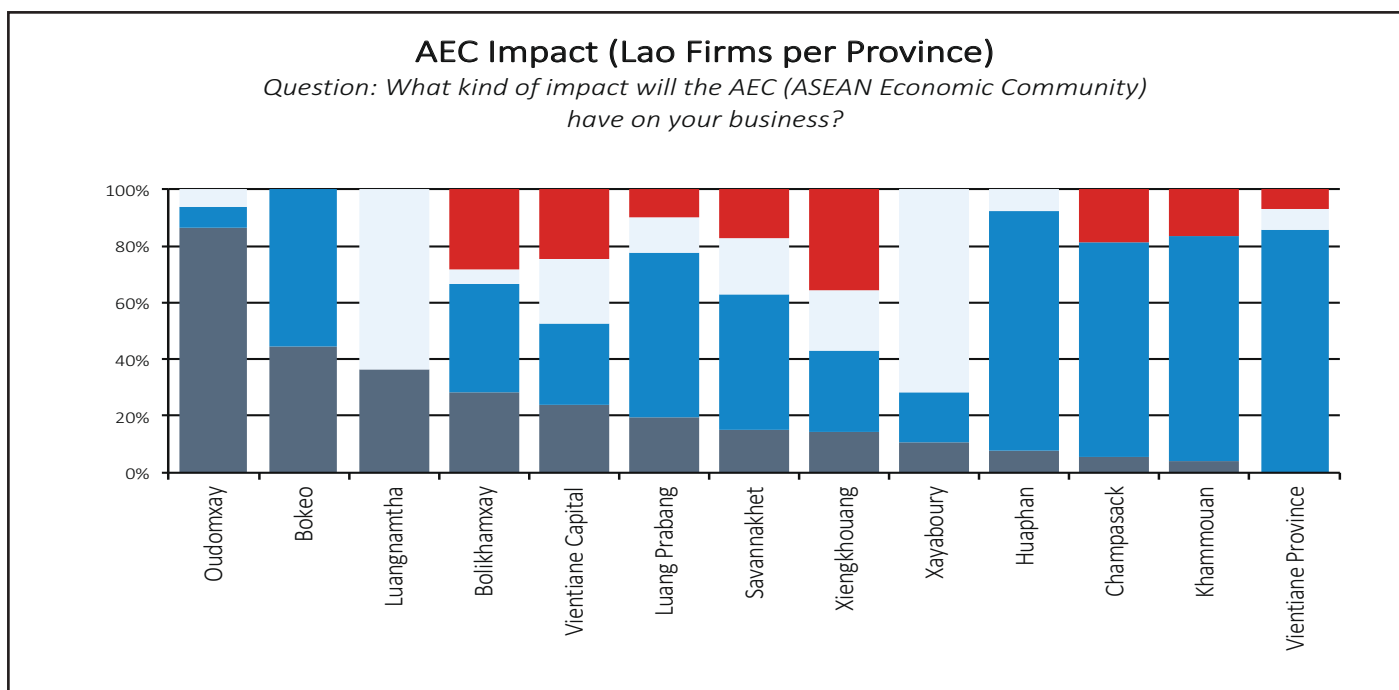


Figure 47: Impact of the AEC on the Business (Lao Firms, Provincial Perception)

As in the past three surveys, Oudomxay again has the highest share of companies that are optimistic about the AEC. Luangnamtha which had experienced a negative view on AEC in previous surveys, continues to do so with now a share of 64% firms fearing that the AEC will impact them negatively. It must however also be noted that this province is also the third highest in assuming that it will have positive effects. Xayaboury has significantly increased the share of firms believing that the AEC will cause negative effects to 71%. Firms in Vientiane Province continue to strongly believe that the AEC will have no impact on them with no firms answering that it will have a positive impact.

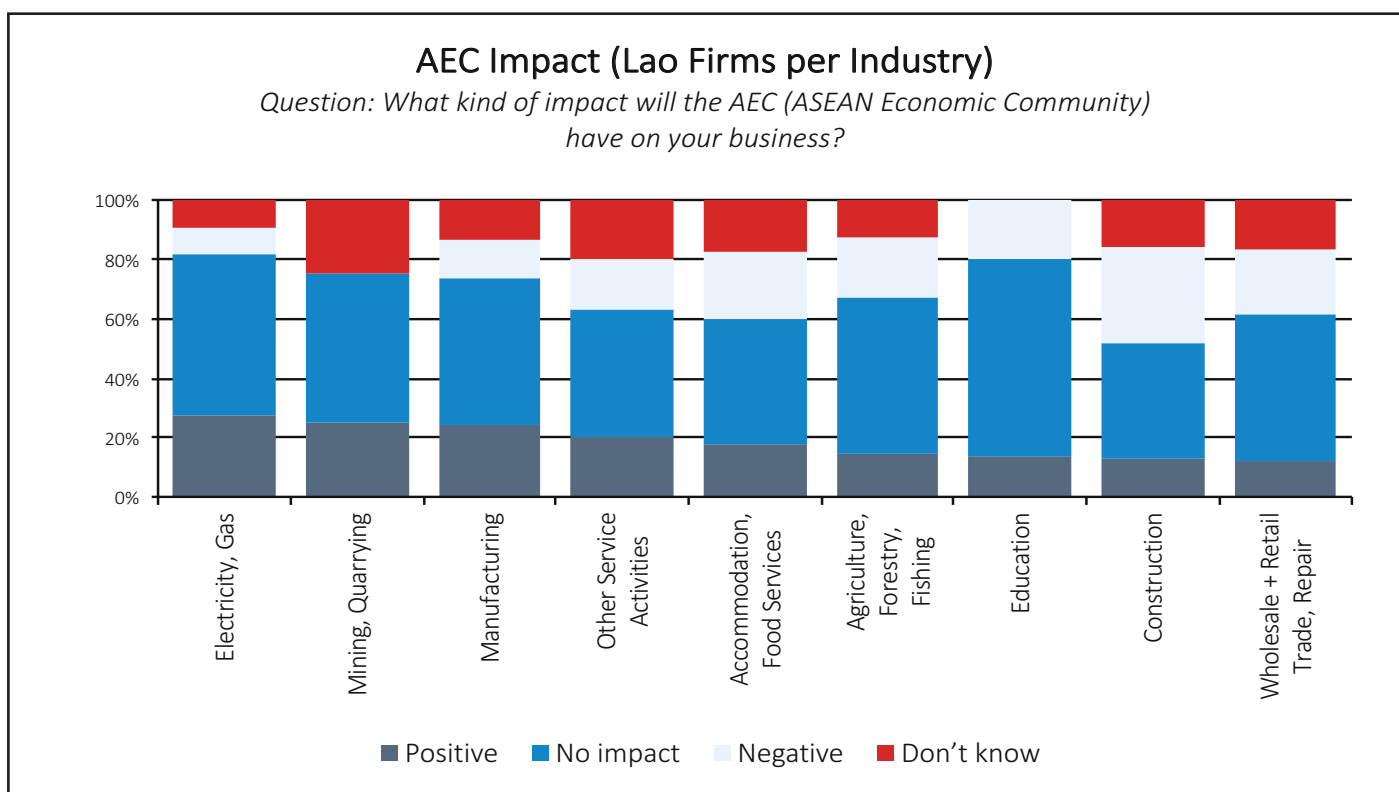


Figure 48: Impact of the AEC on the Business (Local Firms, Industry Perspective)

From the industry perspective, the Wholesale and Retail Trade and Repair Industry continues to have the least positive expectations for their business. Electricity and Gas companies are expecting to gain most from the AEC. The highest share of firms expecting a negative impact can be observed in the Construction sector. Interestingly the Mining and Quarrying industry, although generally suffering the most, seem to be quite optimistic about the impact of the AEC with no firms answering that it will have a negative impact on them.

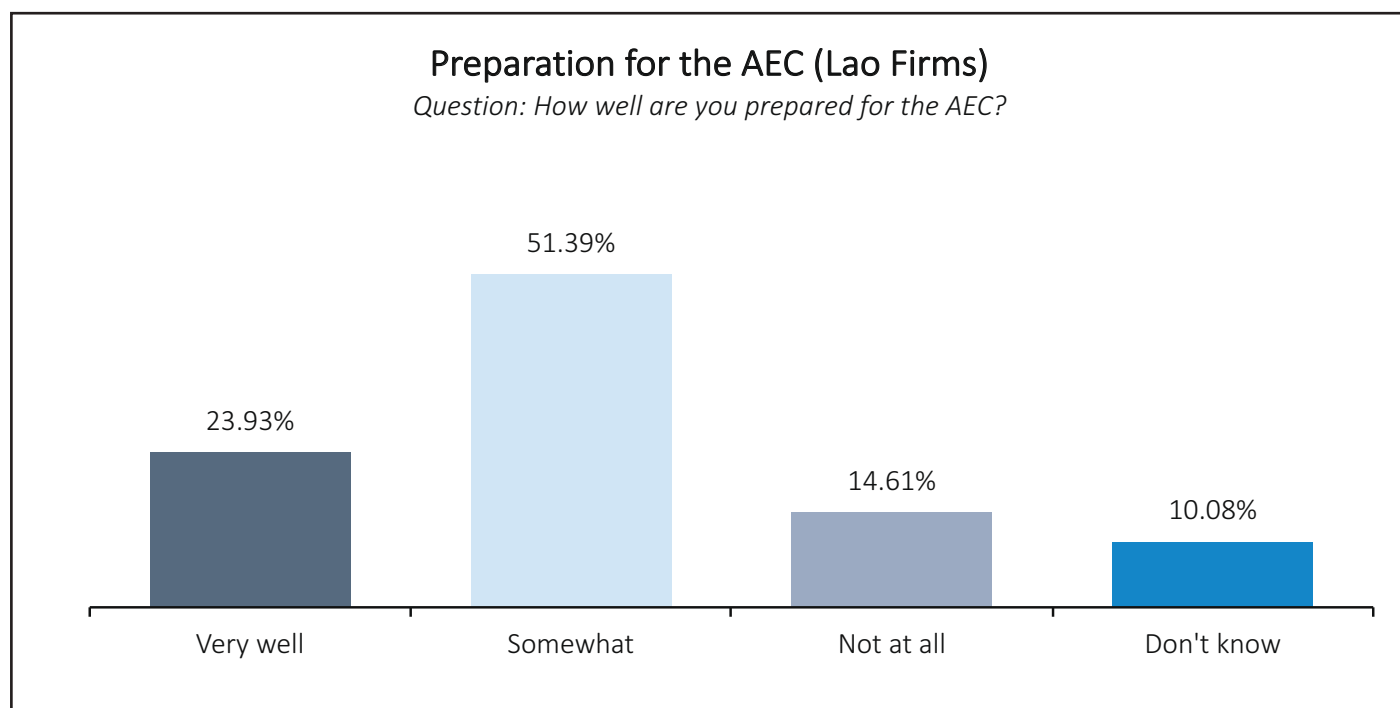


Figure 49: Preparations for the AEC (Lao Firms)

Previously the trend had been that firms were becoming less and less prepared for the AEC. This survey's answer contradicts this trend but only slightly. Compared to the last survey, the share of firms which feel very well prepared has increased by 3%, and so has the share of firms answering "somewhat". This increase has led to a decrease in firms who are not at all prepared. This share has fallen by 6%.

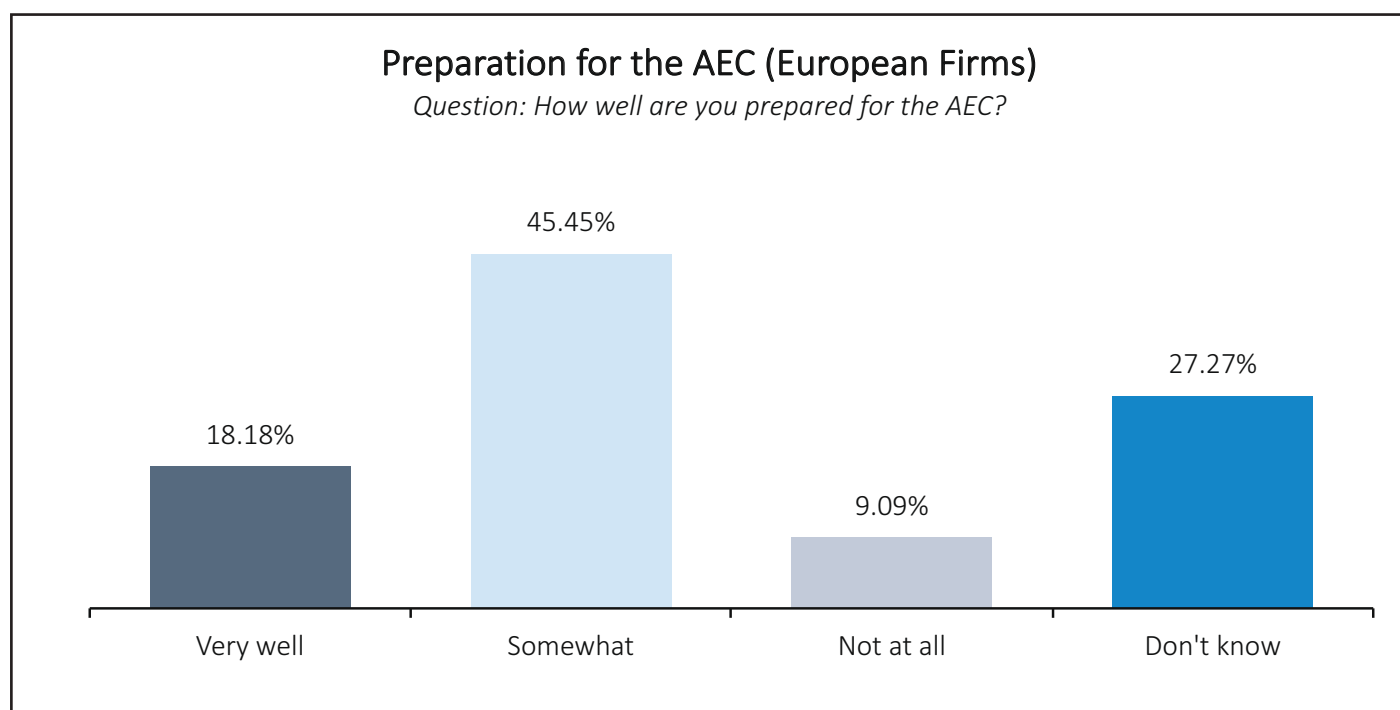


Figure 50: Preparation for the AEC (European Firms)

The most obvious change for European firms has been that the answer of "don't know" has increased by 5%. The other figures have only changed marginally.

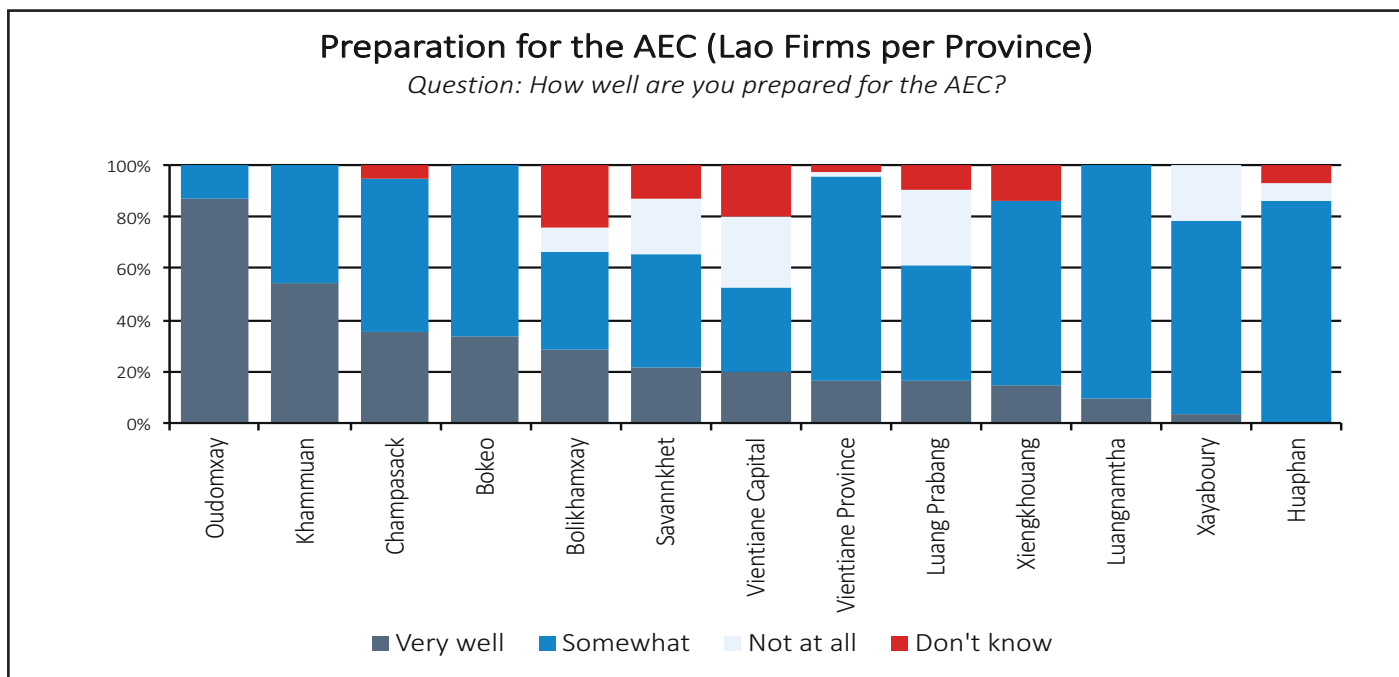


Figure 51: Preparation for the AEC (Lao Firms, Provincial Perspective)

As in the previous three surveys, most of the very well prepared Lao firms were found in Oudomxay (87%) and Khammuan (54%). Vientiane Province has improved the most with previously having 57% of firms answer that they were not at all prepared. This has reduced significantly to only 2%. Now most firms believe that they are somewhat prepared (79%). Huaphan continues to have no firms which state that they are well prepared for the AEC.

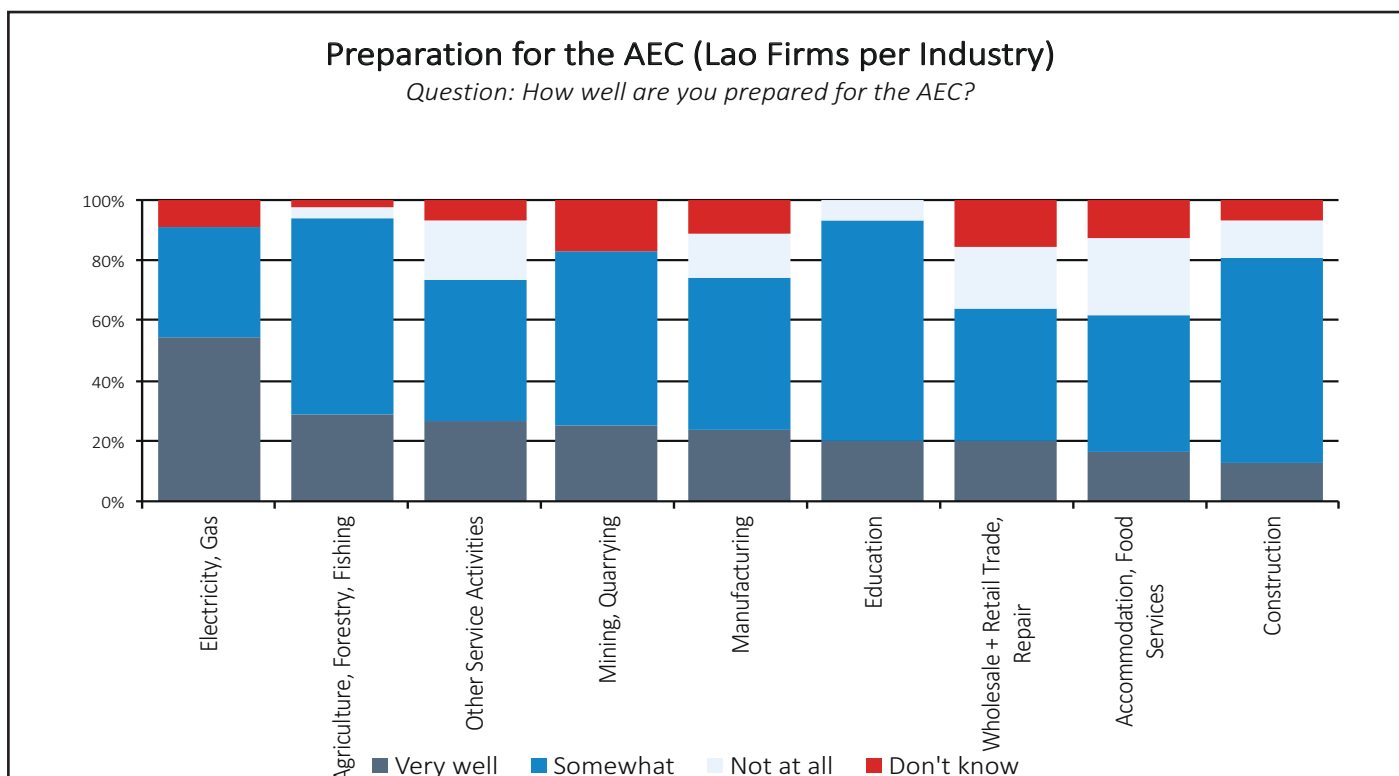


Figure 52: Preparation for the AEC (Local Firms, Industry Perspective)

The Electricity and Gas industry seems to be most confident when it comes to the preparedness for the AEC with 55% of firms reporting to be very well prepared. Construction has now moved from being second last on the list to last, however, there has been a significant shift from “not at all” to “somewhat” in this industry. The Accommodation and Food Services industry seems have the most firms which are not at all prepared for the AEC.

# 14. EXPORTS

Out of the 397 surveyed Lao companies, 107 were engaged in exports; among the surveyed European companies, 9 out of 22 stated to be exporters.

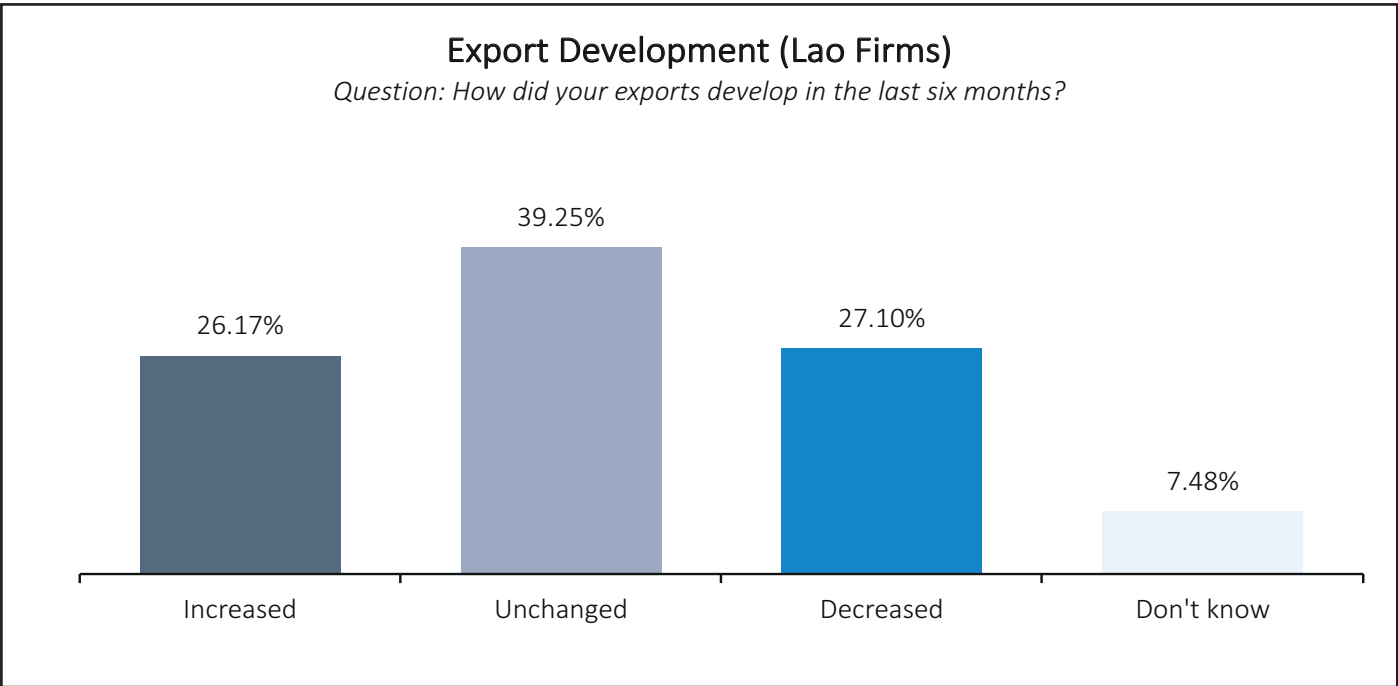


Figure 53: Export Development (Lao Firms)

For Lao firms the export situation has not changed very much. The number of firms which saw no change has decreased by 2% and the number of firms which do not know about their export situation has increased by 2%.

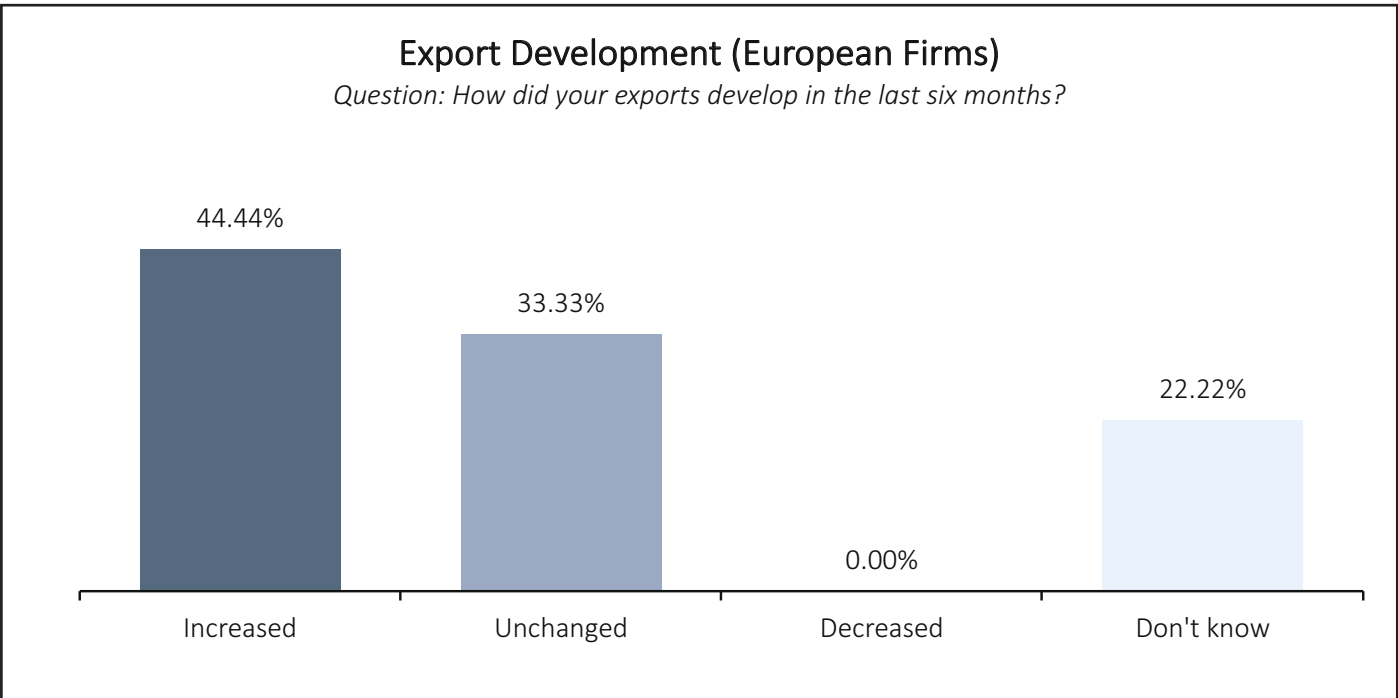


Figure 54: Export Development (European Firms)

There has however been a drastic change in the development of export for European firms. The most drastic change is that previously 38% of firms had stated that their export had decreased. In this current survey no



firms have experienced a decrease in export. The share of firms which have increased export has increased to 44% from 13%. Furthermore, the number firms experiencing no change has increased to 33%. Furthermore the answer “don’t know” has decreased by 15%. This experience on export is very different from Lao firms.

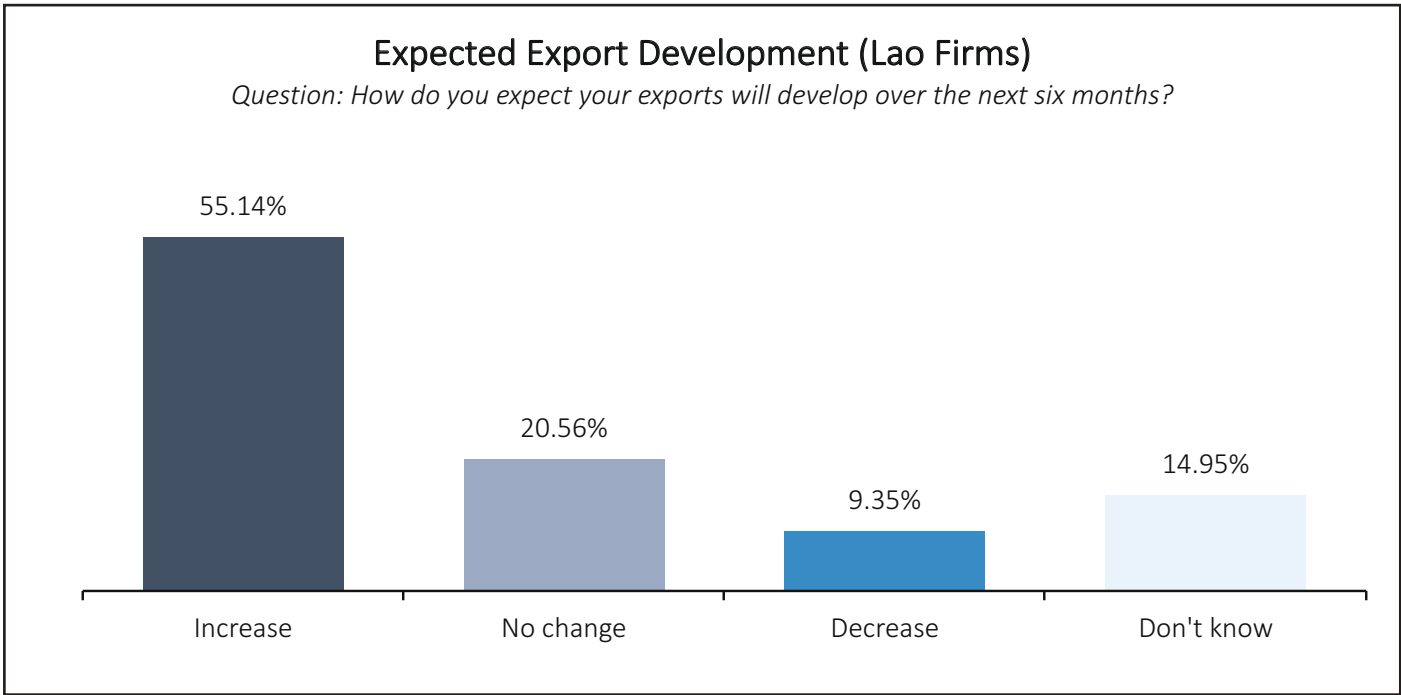


Figure 55: Expected Export Development (Lao Firms)

Lao firms are more optimistic than previously that export will increase in the next half year. This is shown by an increase of “increase” by 11%. Furthermore, the share of firms thinking that export will decrease has also decreased by 2%. Compared to the actual export developments of the last half year, this values truly are very optimistic.

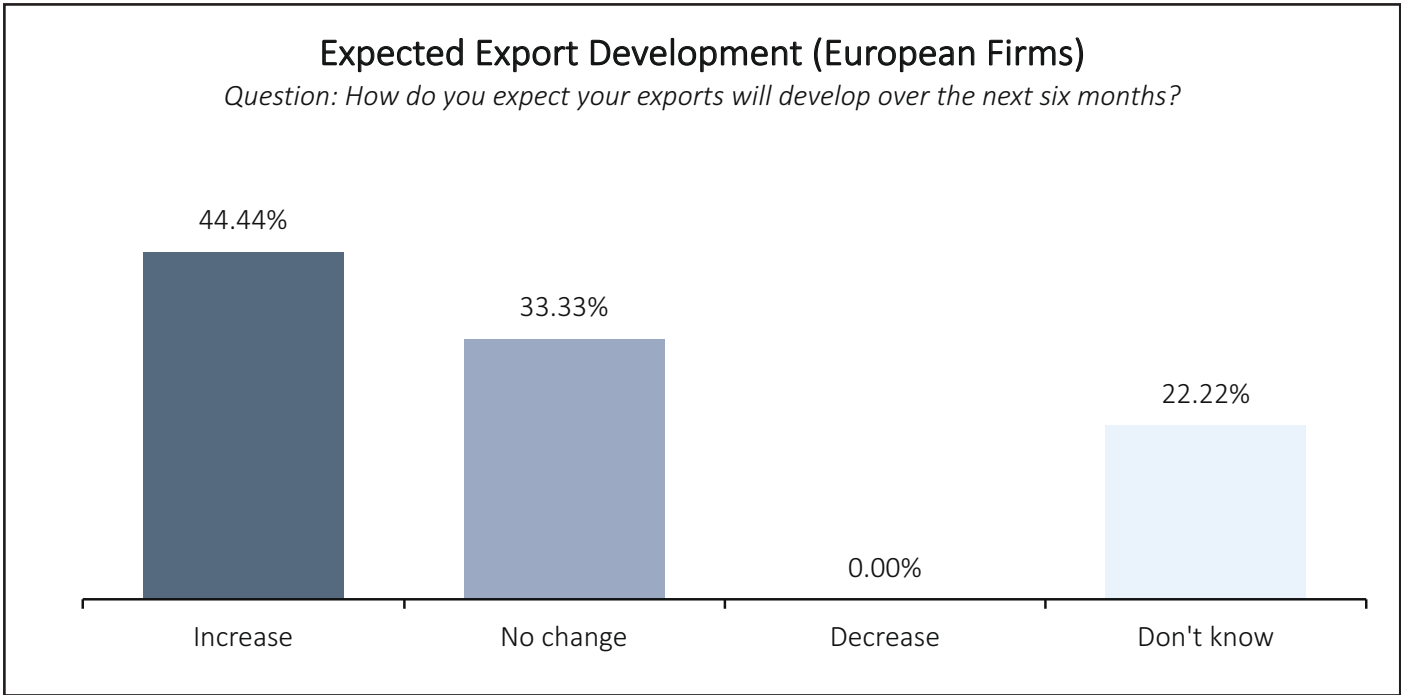


Figure 56: Expected Export Development (European Firms)

European export is expected be exactly the same as it has actually been in the last six months. This is very different from the last survey where only 13% expected an increase and the “don’t know” had the highest share at 50%.

# PART II: BUSINESS CONFIDENCE

## DEVELOPMENT AND BUSINESS CONFIDENCE INDEX

### 15. METHODOLOGY

The Main purpose of this part of the study is to compare the present results with those given in the previous Business Confidence Assessments. Based on these results, indices were calculated in order to evaluate the development of the business situation. For this purpose, the authors compared the positive and the negative answers (good/increased vs. bad/decreased) and omitted the neutral answers (unchanged/average). Negative answers were subtracted from the positive answers. The resulting figure is the index value. The values from the first half of 2015 until the second half of 2016 are used as the basis for comparison. However, indices can be viewed from first half of 2014 until second half of 2016. The data from Lao companies was used to provide an overall representation of the business sector in Lao PDR.

### 16. DEVELOPMENT OF THE OVERALL ECONOMIC SITUATION

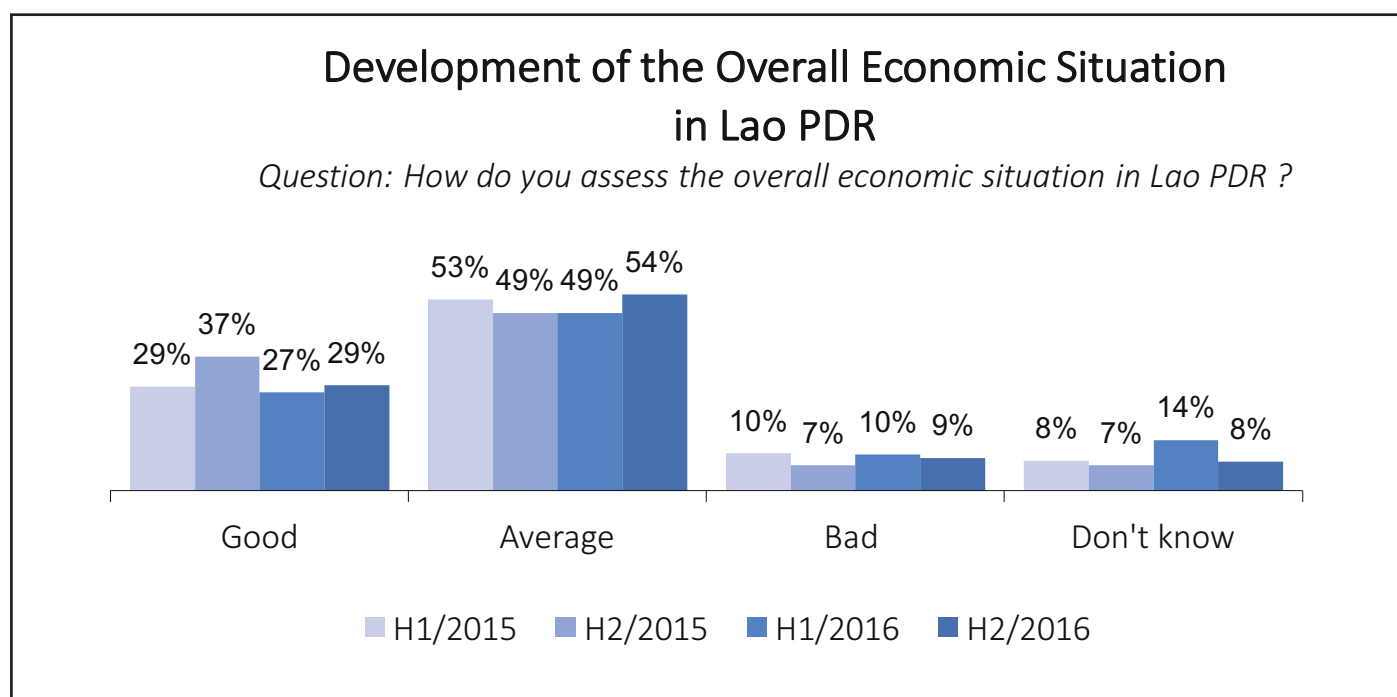


Figure 57: Development of the Overall Economic Situation in Lao PDR

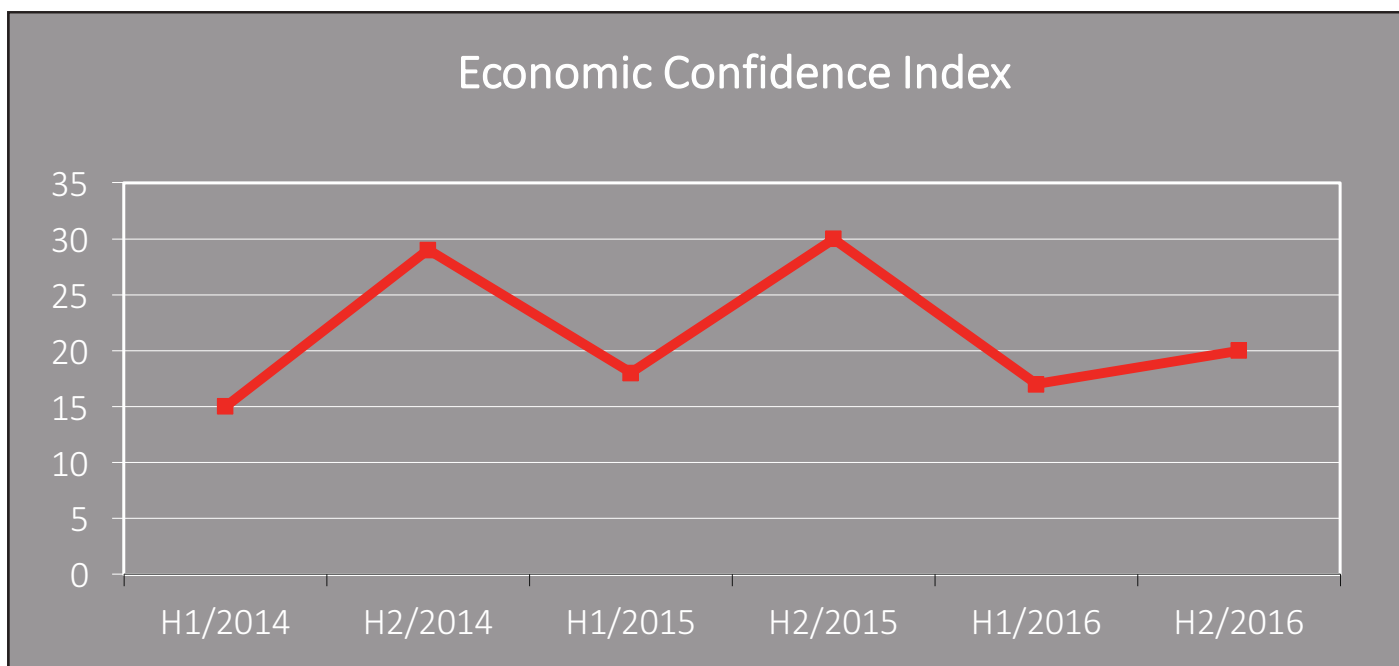


Figure 58: Economic Confidence Index for Lao PDR

The assessment of the overall economic situation in the Lao PDR shows no clear trend. What can be said is that while there has not been a clear change in the development of the overall economic situation, the index does seem to show that in the first half of the year, the overall economic situation seems to be worse than in the second half of the year.

## 17. DEVELOPMENT OF THE CURRENT BUSINESS SITUATION

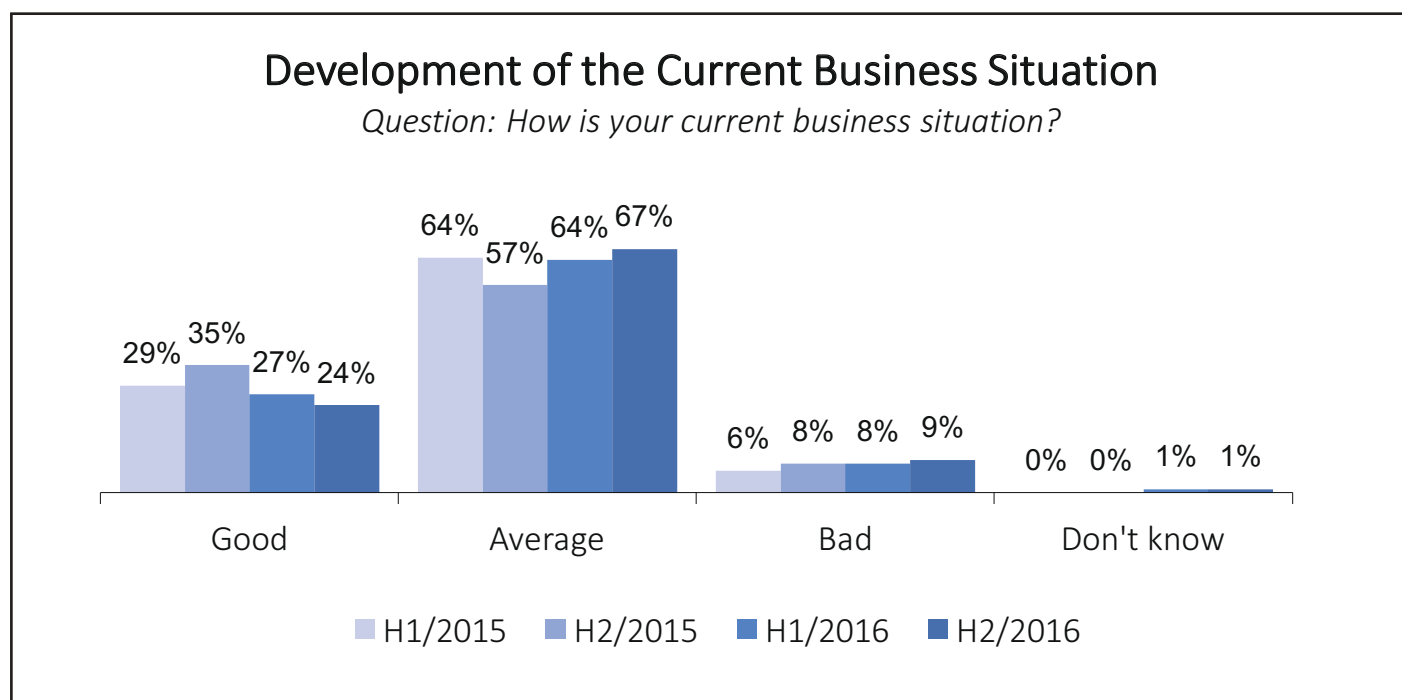


Figure 59: Development of the Current Business Situation

While it is too early to predict a trend, it can be said that through this graph we are able to see a slight decrease of good business situations, an increase of the average business situations and an increase of the bad business situations.

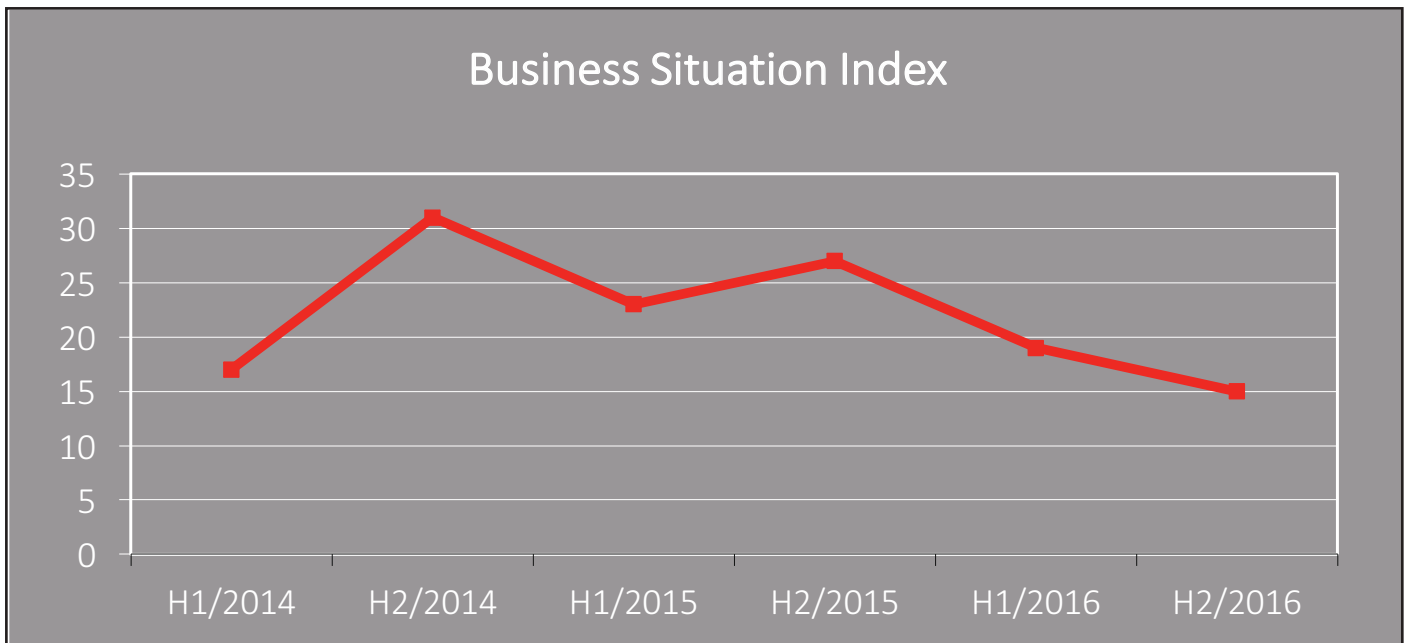


Figure 60: Business Situation Index

The index shows the findings of the previous graph. There seems to be a tendency for the business situation index to decrease, however more data in the coming years must be collected to be able to say this certainly.

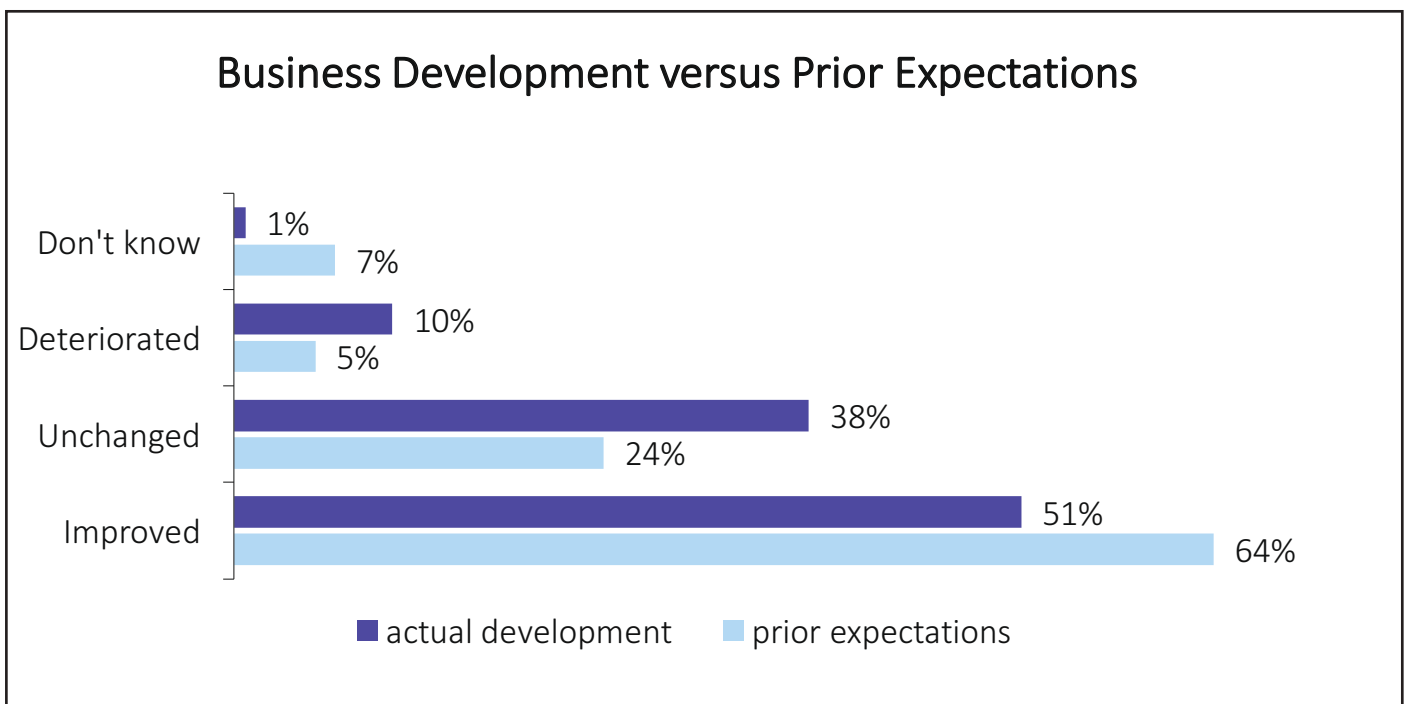


Figure 61: Business Development versus Prior Expectations

When it comes to the comparison of the actual development of the business situation in the second half of 2016 with the expectations of the first half of 2016, we observe that respondents are – as usual – too optimistic in their forecasting. This being said, the gaps between expectations and actual developments have gotten smaller in this survey compared to the last survey.

## 18. TURNOVER DEVELOPMENT

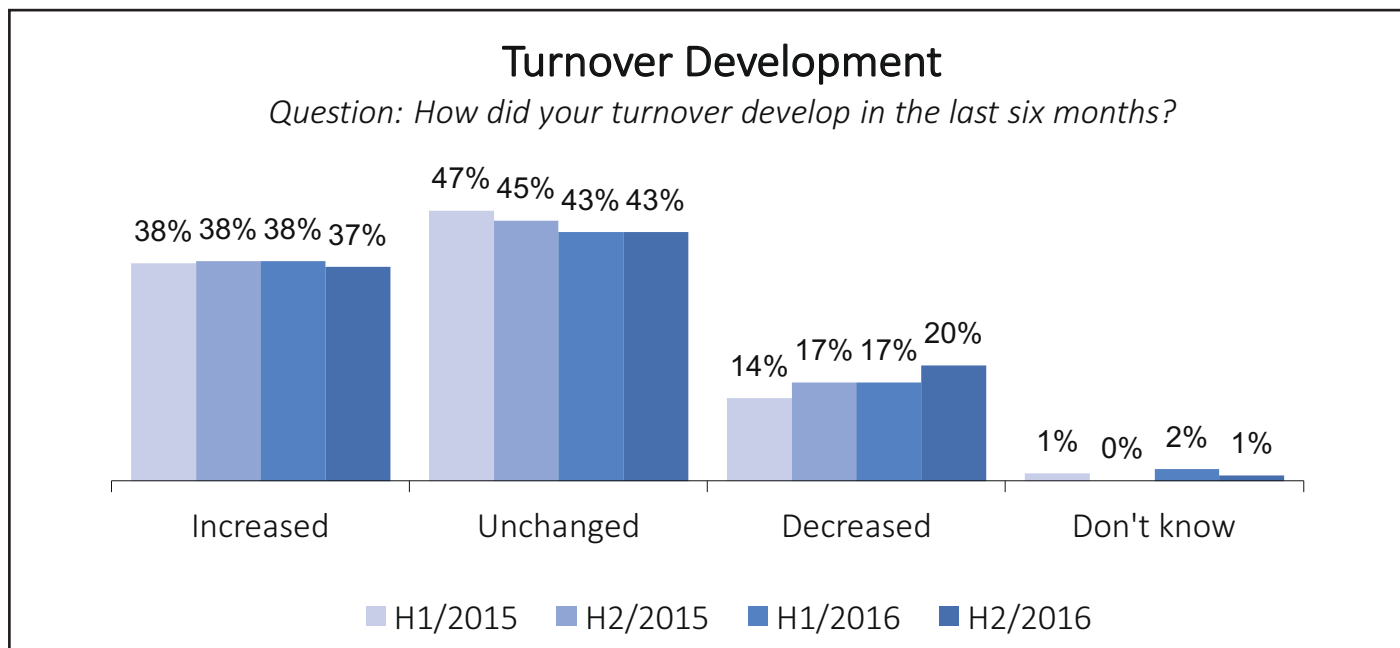


Figure 62: Turnover Development

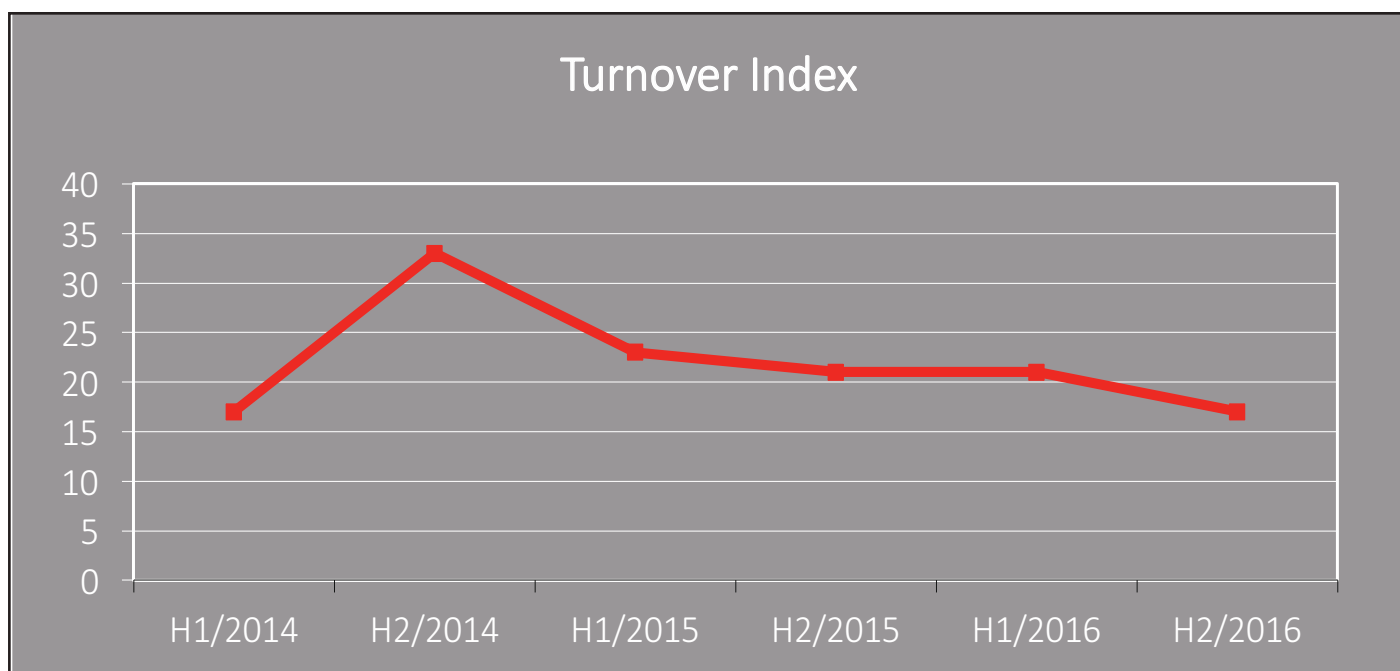


Figure 63: Turnover Index

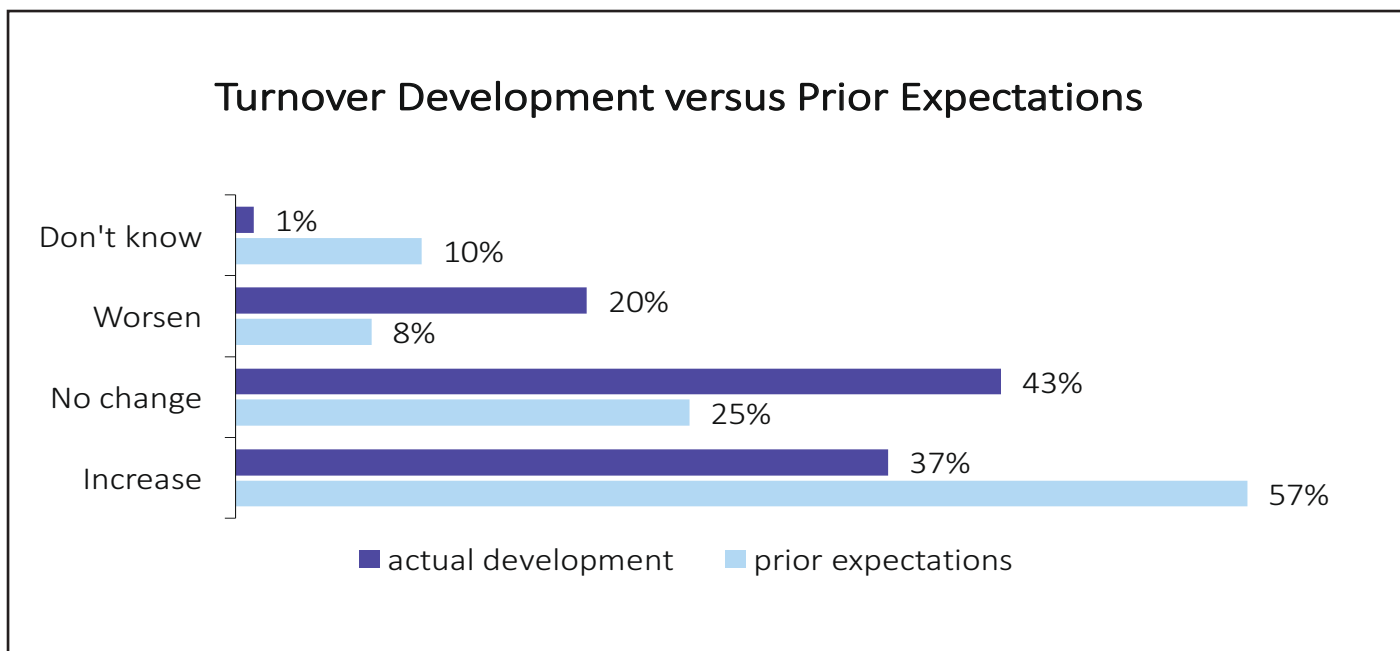


Figure 64: Turnover Development versus Prior Expectations

As seen in figure 62 turnover developments have been nearly unchanged except for an increase by 3% in the decreased turnover in this survey. Furthermore, the index has decreased once again and is now at 17. Figure 64 shows us that Lao firms are also too optimistic about their turnover expectations, although the difference between reality and expectations has decreased here as well.

## 19. PROFIT DEVELOPMENT

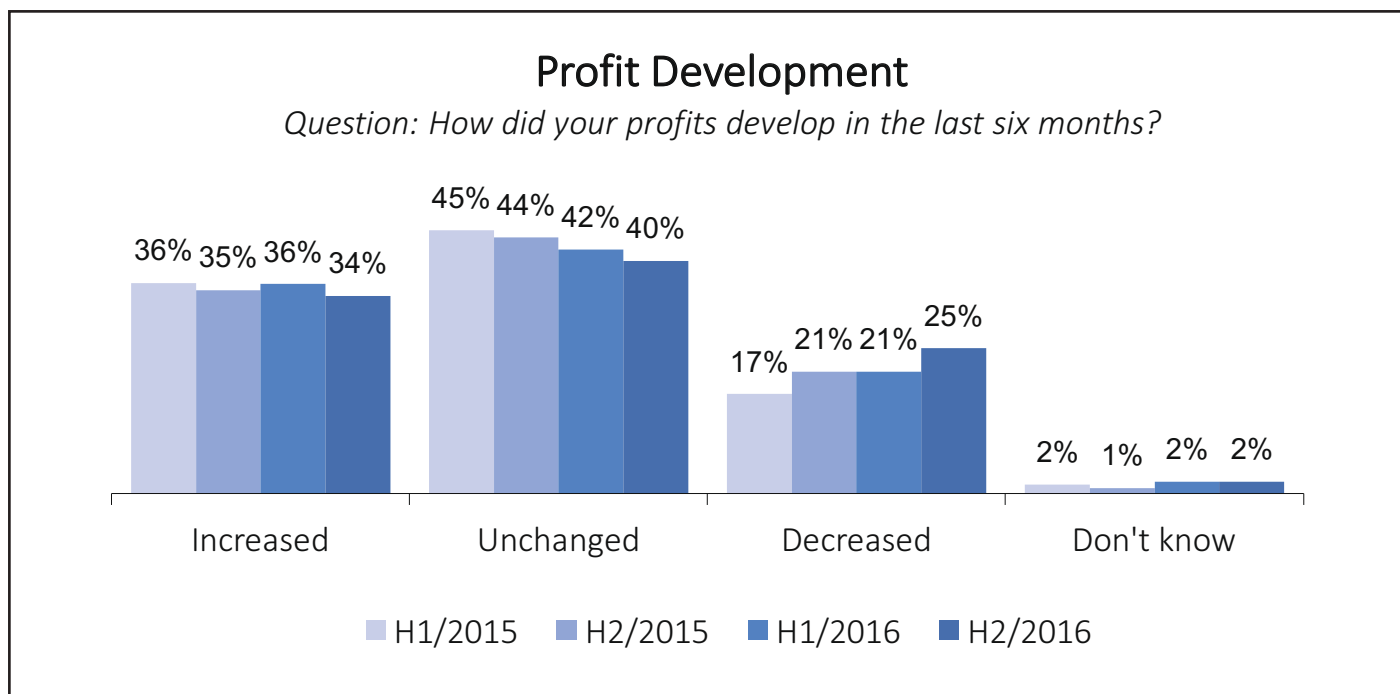


Figure 65: Profit Development

The decline in profit which was observed previously had come to a halt in the first half of 2016 but has continued in the second half of 2016.

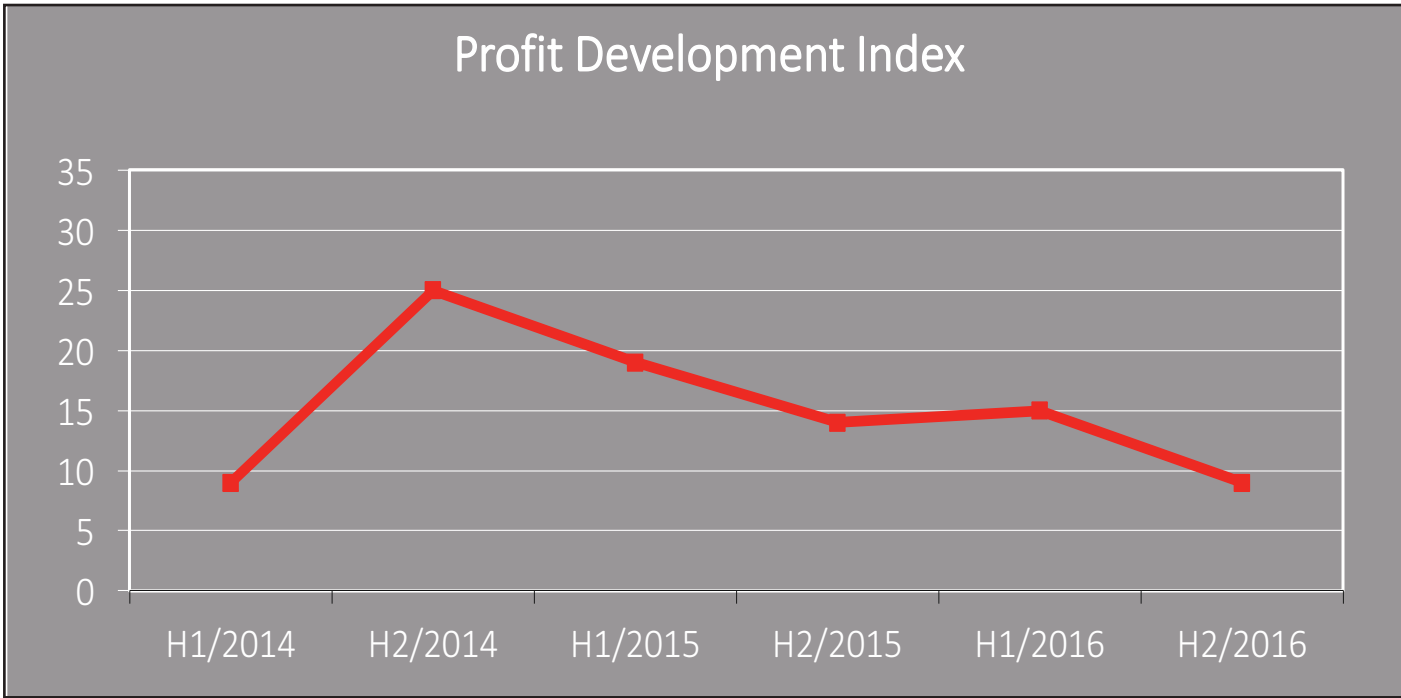


Figure 66: Profit Development Index

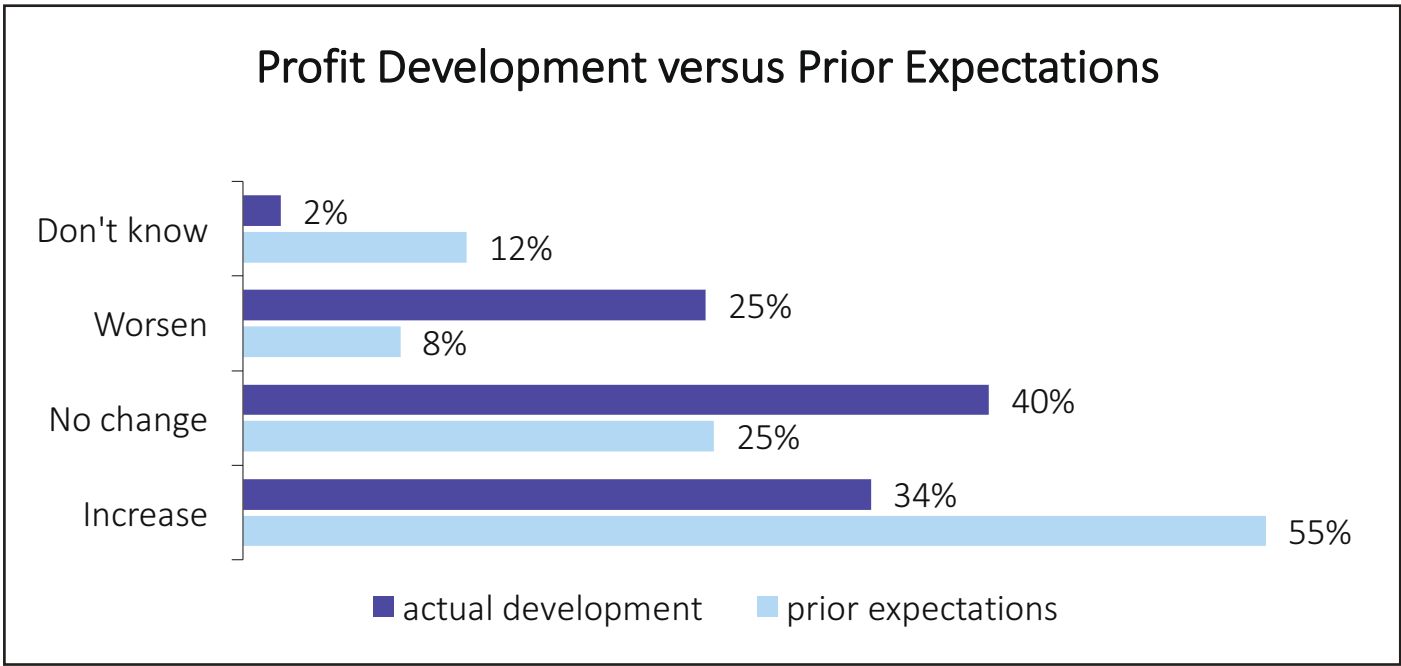


Figure 67: Profit Development versus Prior Expectations

The previous survey had seen that while predictions on profit were still optimistic, they had been moving closer to reality. This cannot be said about this year's survey.

## 20. DEVELOPMENT OF THE FINANCIAL SITUATION

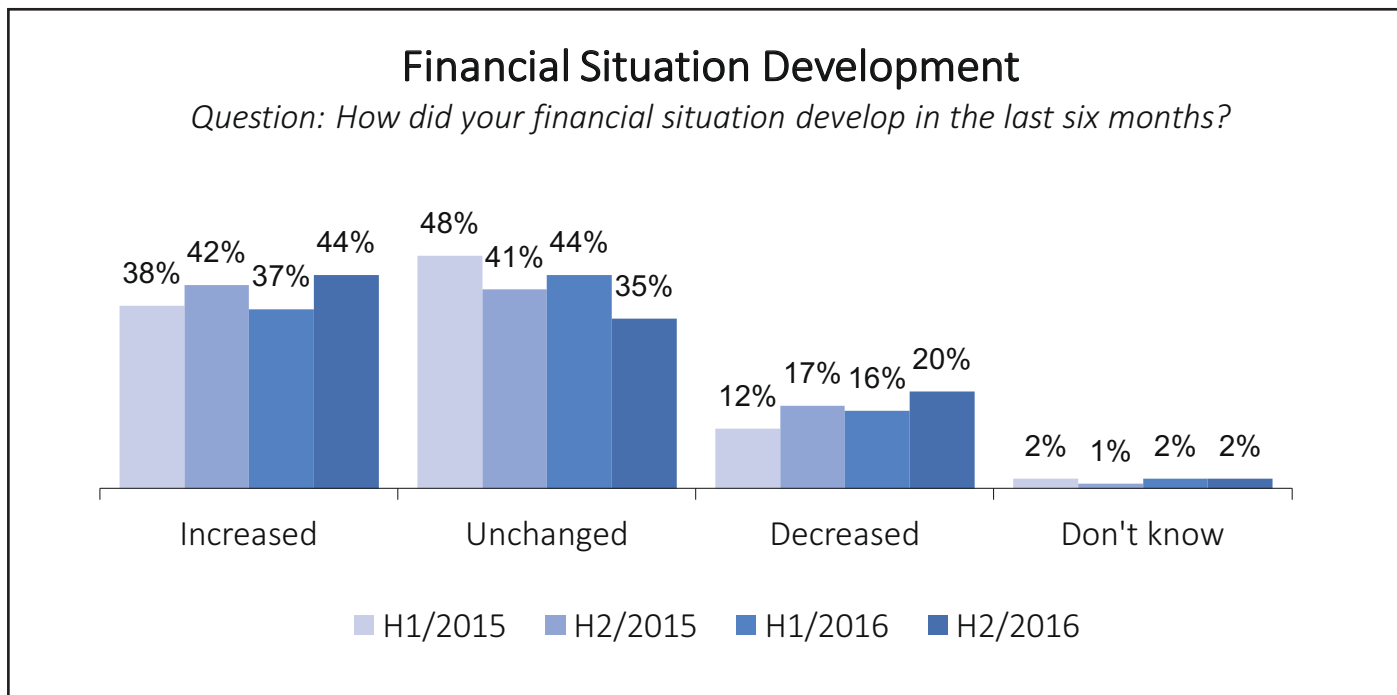


Figure 68: Financial Situation Development

Although the percentage of firms which had experienced an increased financial situation is the highest it has been at the moment, the same thing can be said about the percentage of firms which have experienced an increase.

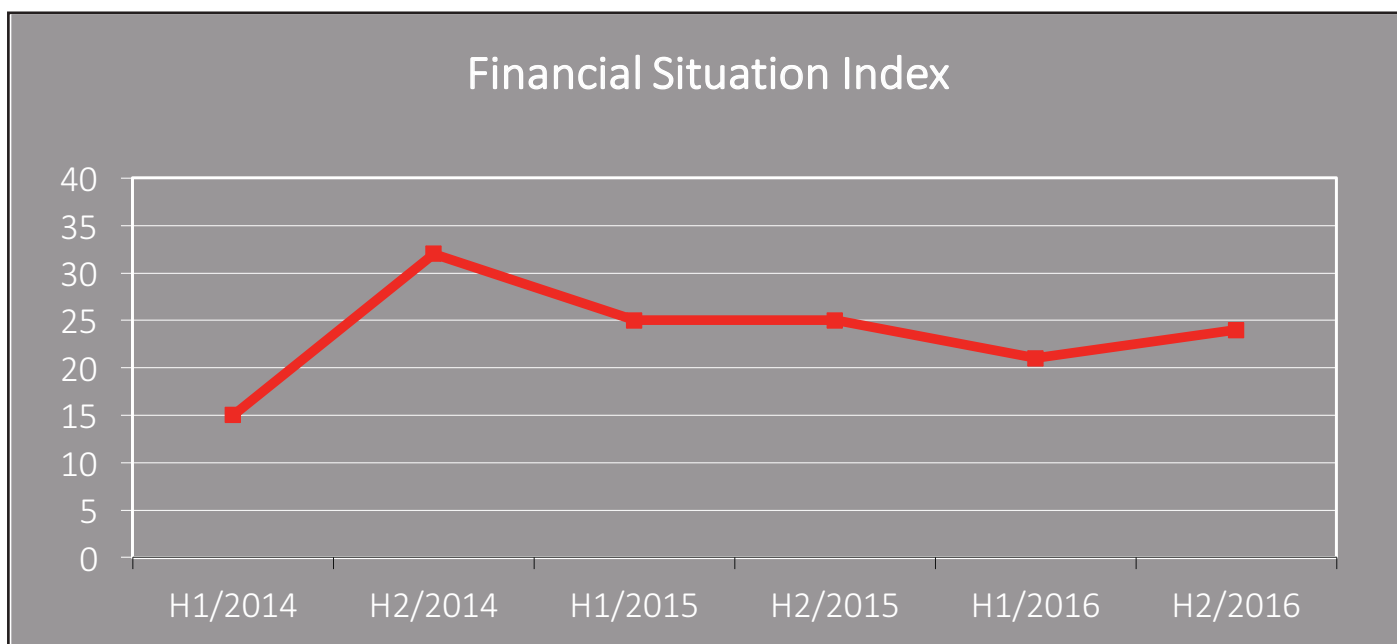


Figure 69: Financial Situation Index

Although observations were made above that the answer “decreased” has also increased, the increase in “increased” has been large enough to increase the index again slightly.



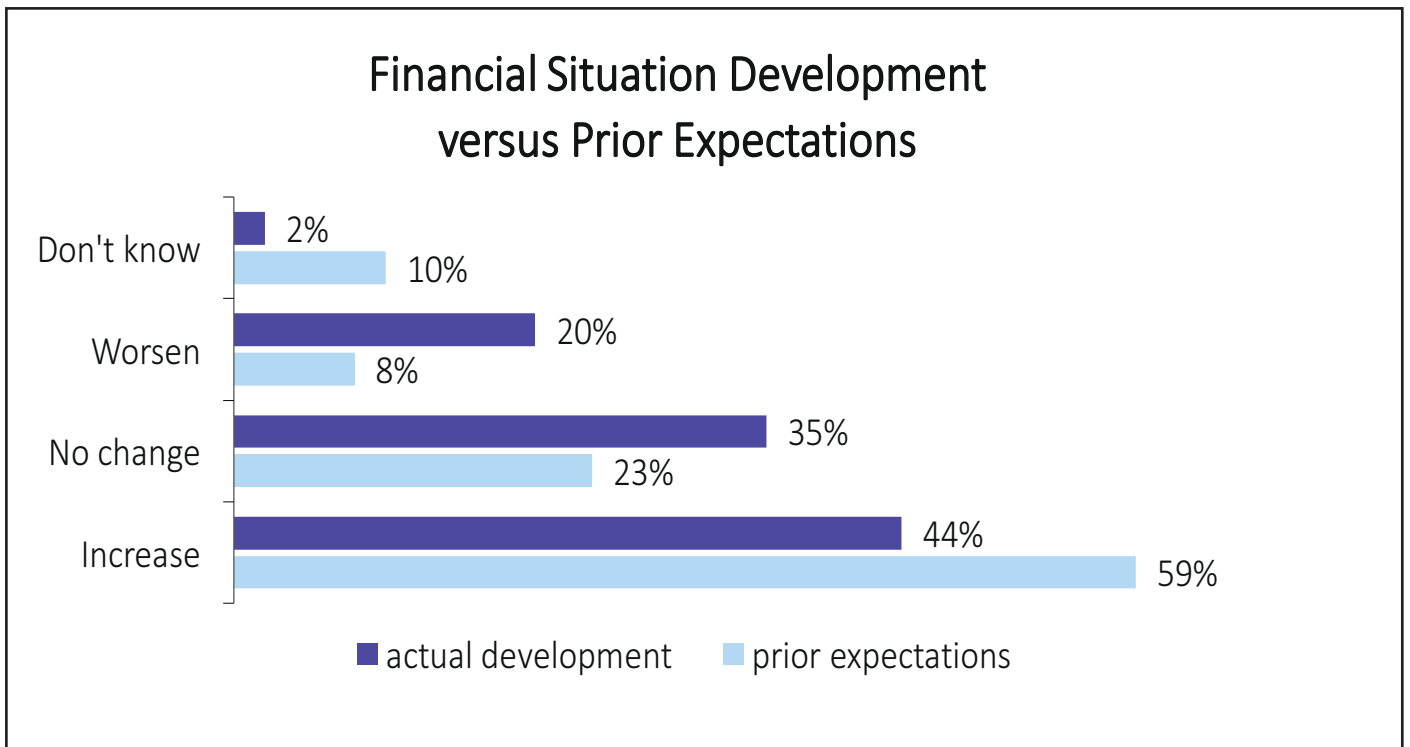


Figure 70: Financial Situation Development versus Prior Expectations

Once again, while expectations are still too optimistic, the gap between actual and expected results has decreased.

## 21. INVESTMENT DEVELOPMENT

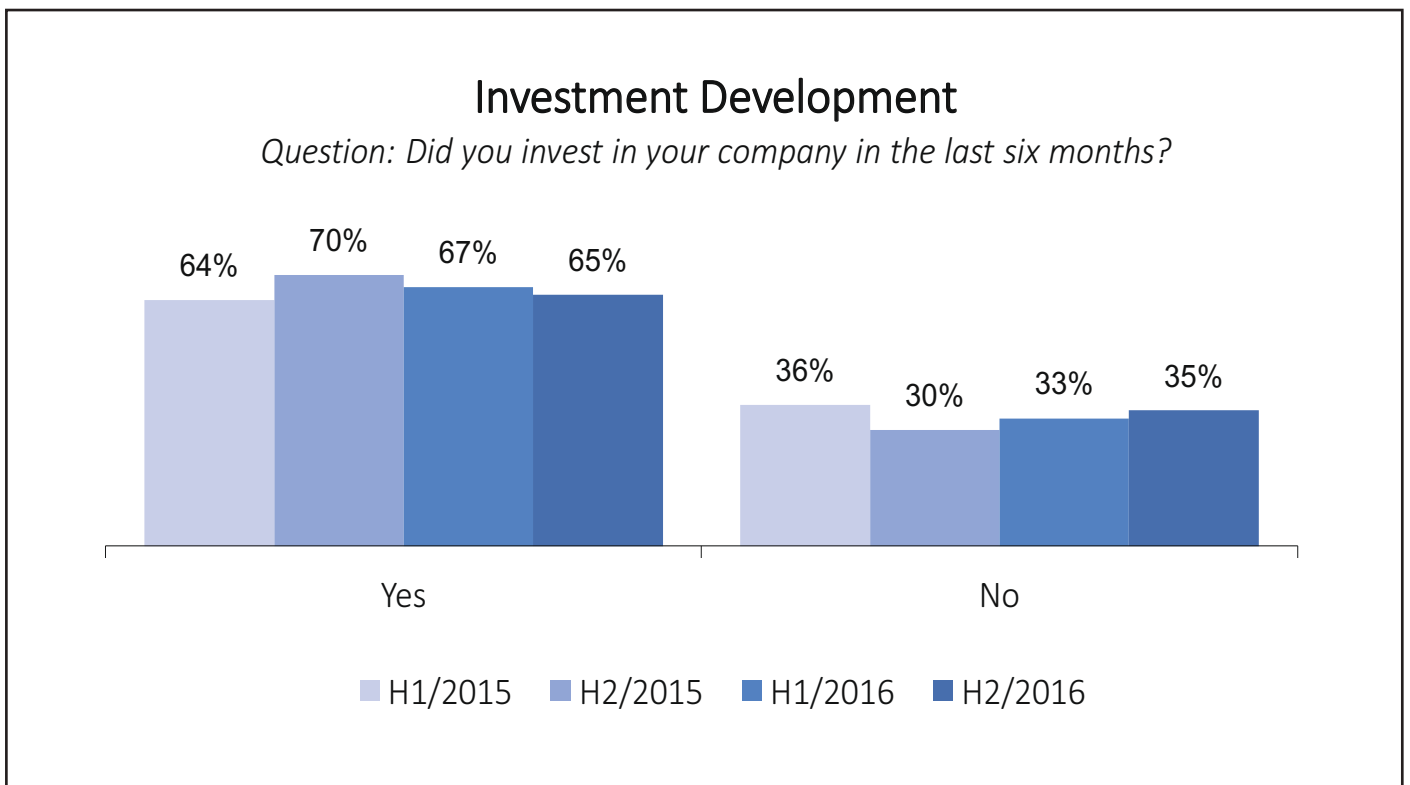


Figure 71: Investment Development

Investment has continued to slightly decrease during this survey.

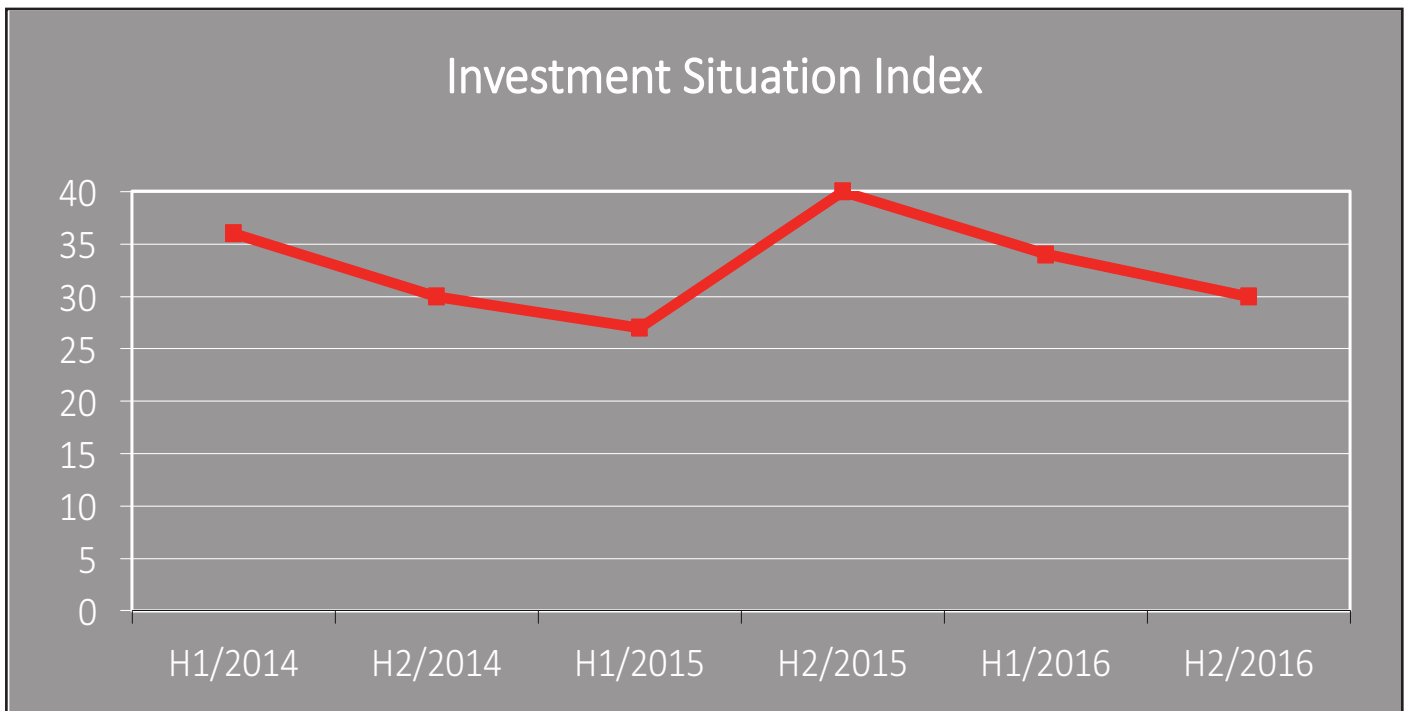


Figure 72: Investment Situation Index

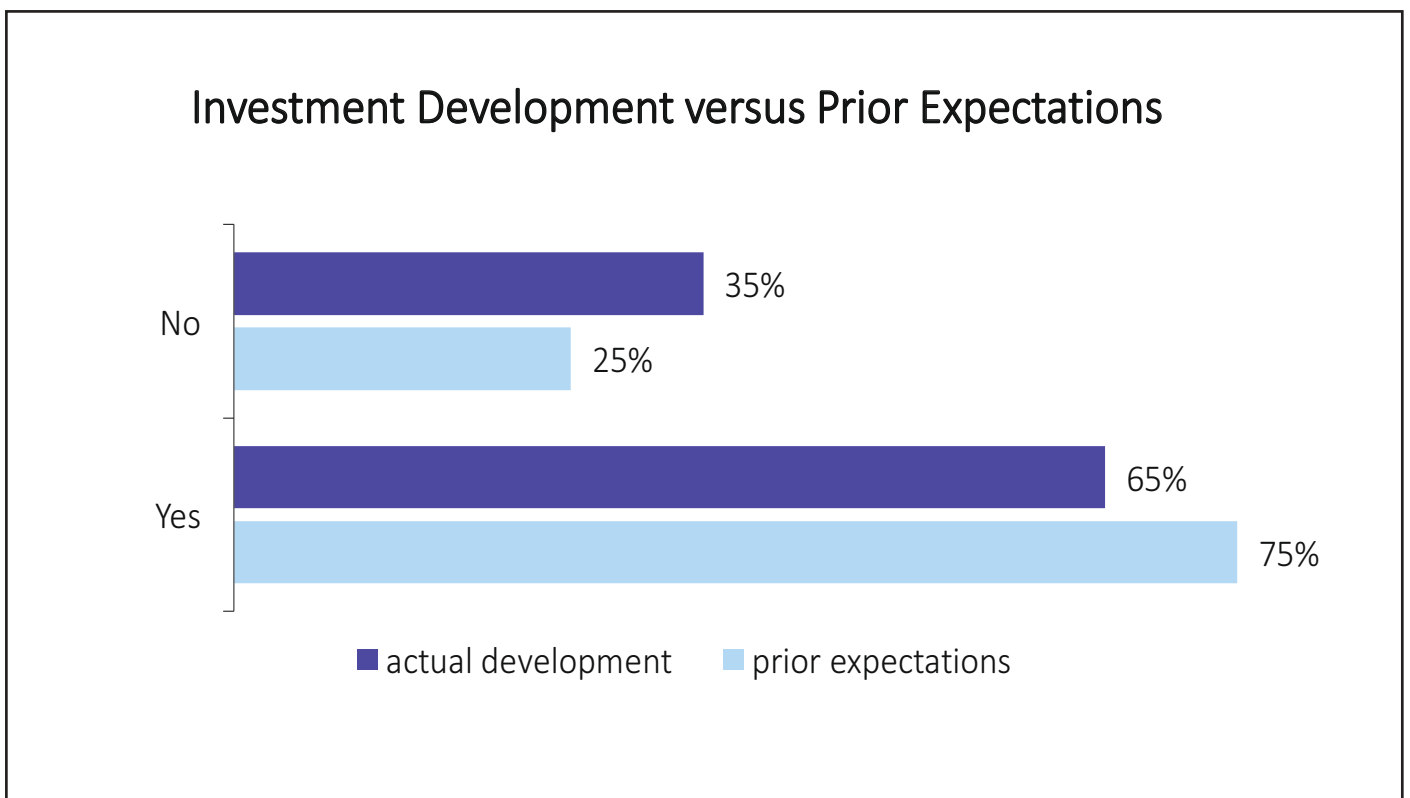


Figure 73: Investment Development versus Prior Expectations

## 22. EMPLOYMENT DEVELOPMENT

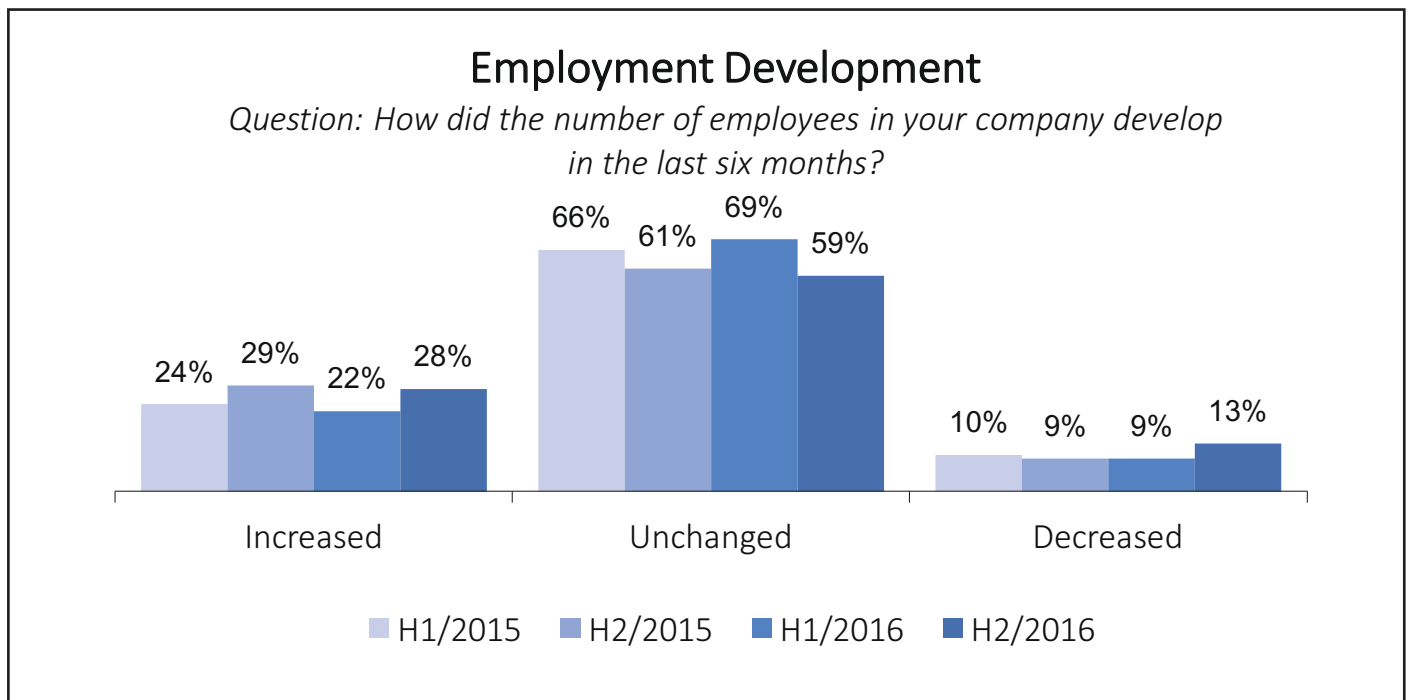


Figure 74: Employment Development

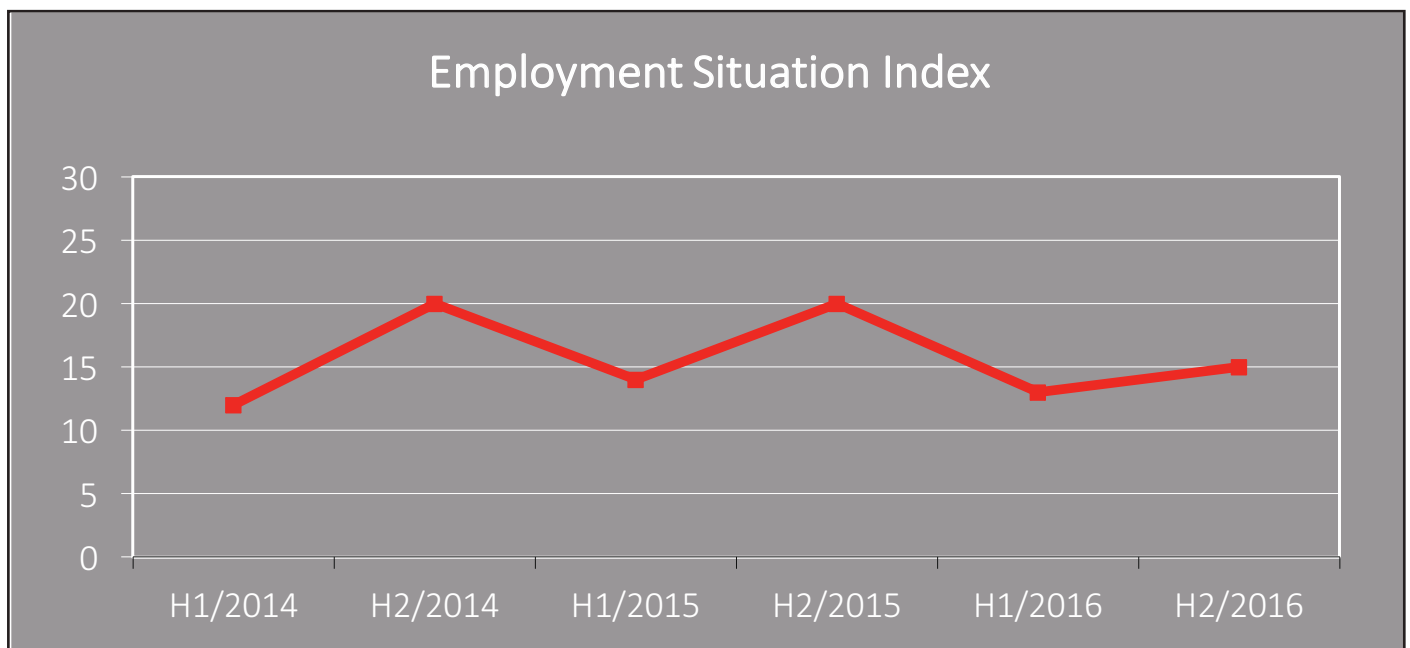


Figure 75: Employment Situation Index

Interestingly, the index of the employment situation seems to be very similar to the index of the economic confidence seen in figure 58. So far, the index of the first half of the year always seems to be worse than that of the second year.

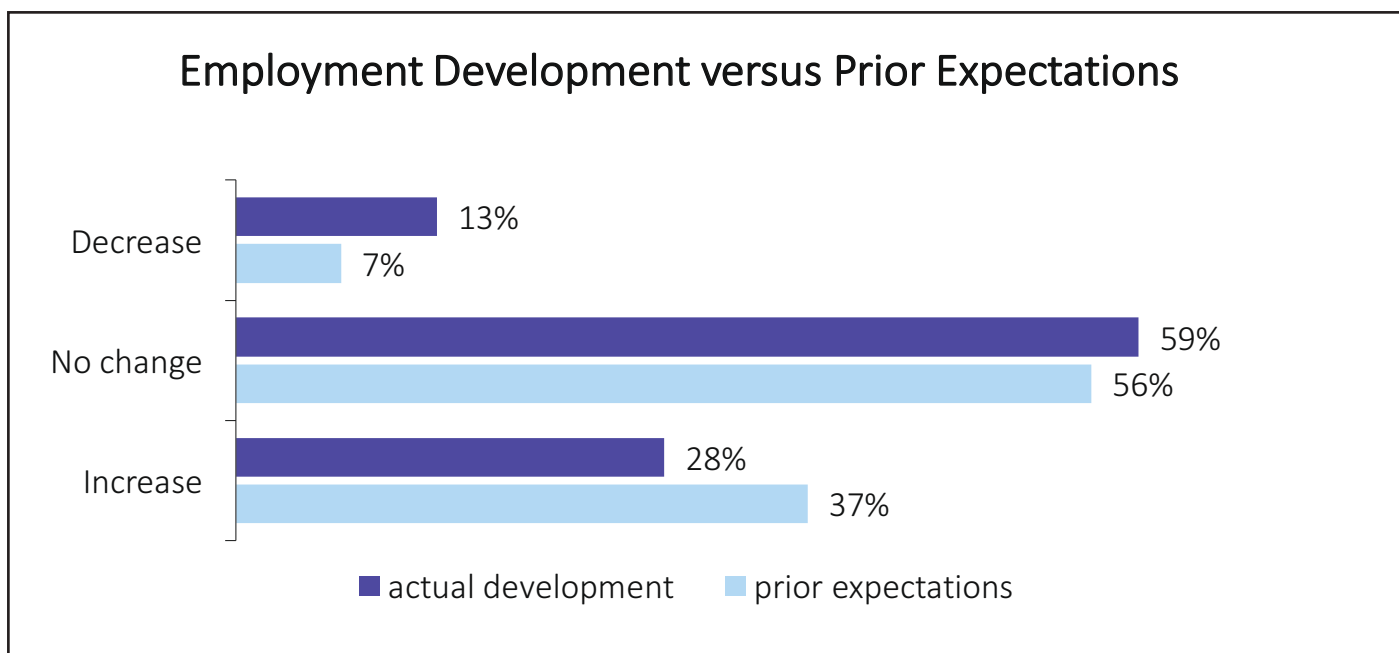


Figure 76: Employment Development versus Prior Expectations

In this situation of comparing actual occurrence with expectations it can be said that this is a clear example that Lao firms are getting better at predicting future outcomes.

## 23. DEVELOPMENT OF ASEAN ECONOMIC COMMUNITY AWARENESS

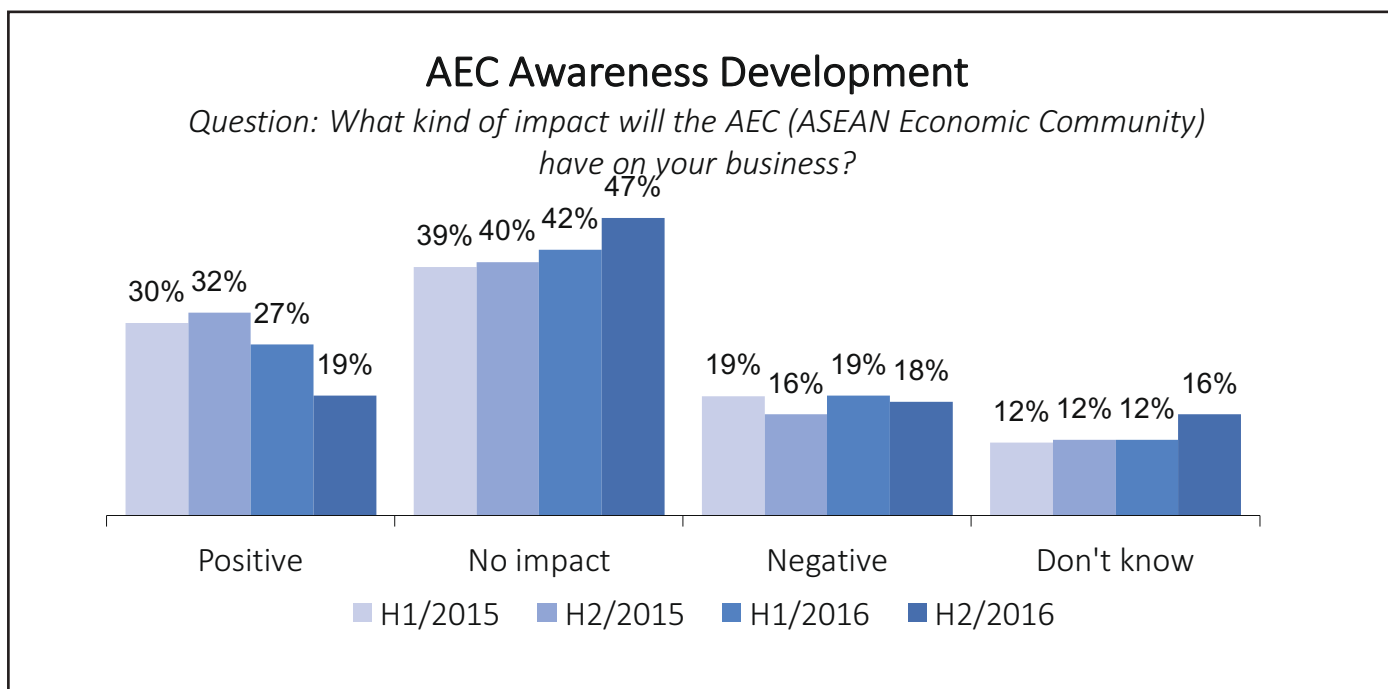


Figure 77: AEC Awareness Development

The percentage of firms which believe that the AEC will have a positive impact on them has continued to decrease. While the percentage of firms which believe that the AEC will have a negative impact has decreased slightly, the number of firms which find it will have no impact or do not know has increased.

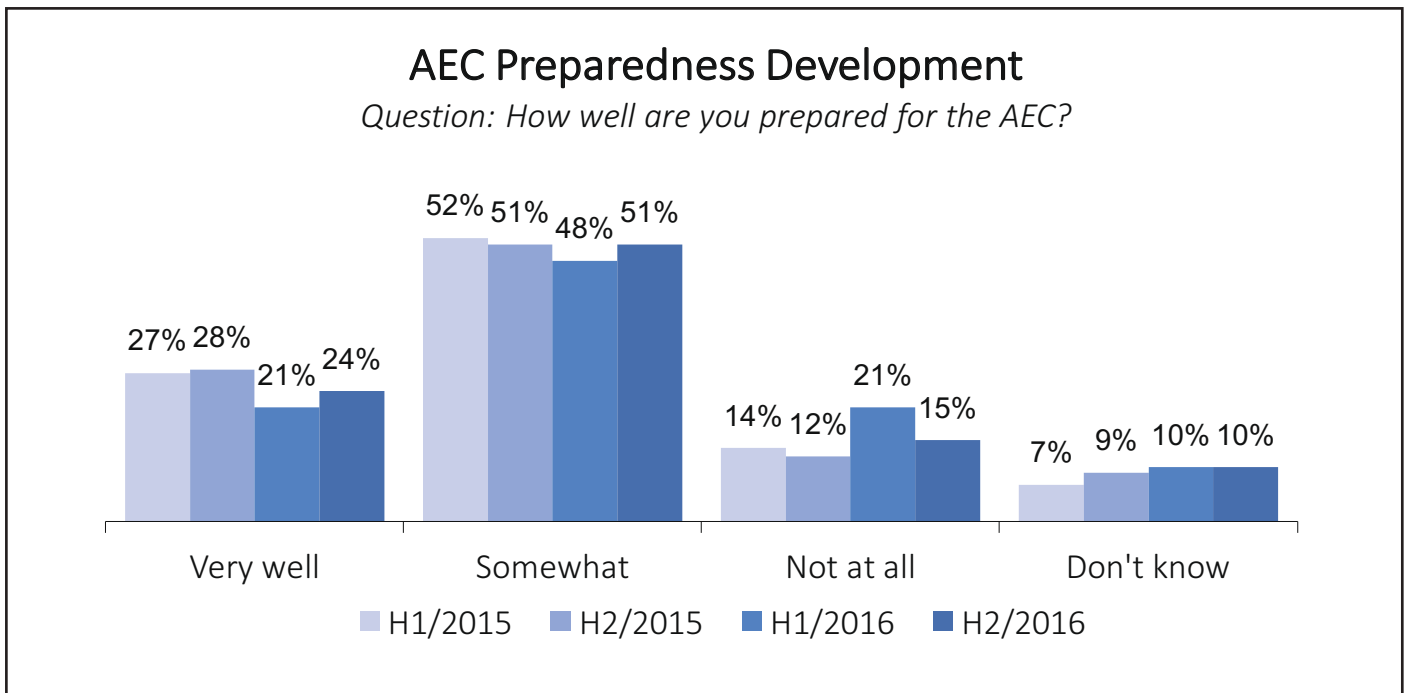


Figure 78: AEC Preparedness Development

There seems to be a slight improvement in the preparedness of the AEC compared to the previous survey. However, it still seems like most firms are not well prepared.

## 24. EXPORT DEVELOPMENT

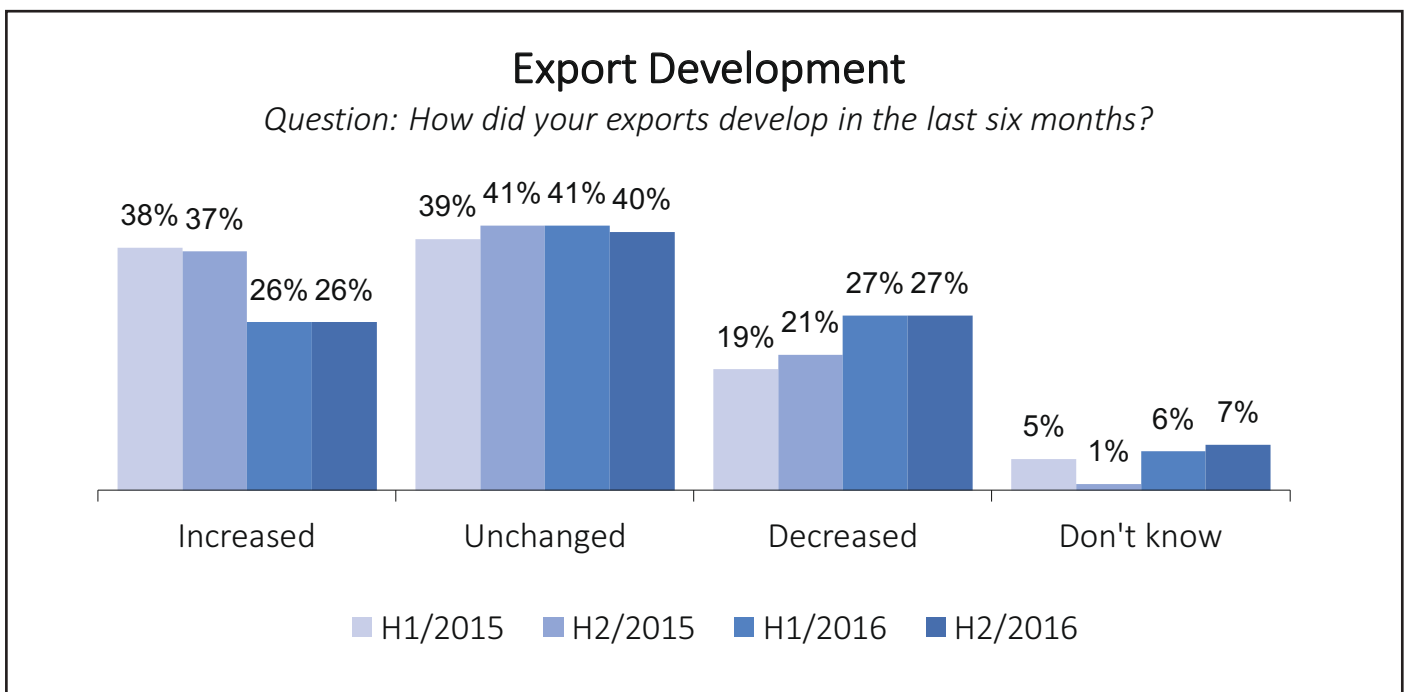


Figure 79: Export Development

Export has continued to remain very similar to the previous survey. The trend has been that firms experiencing increased exports has decreased and firms experiencing decreased exports has increased.

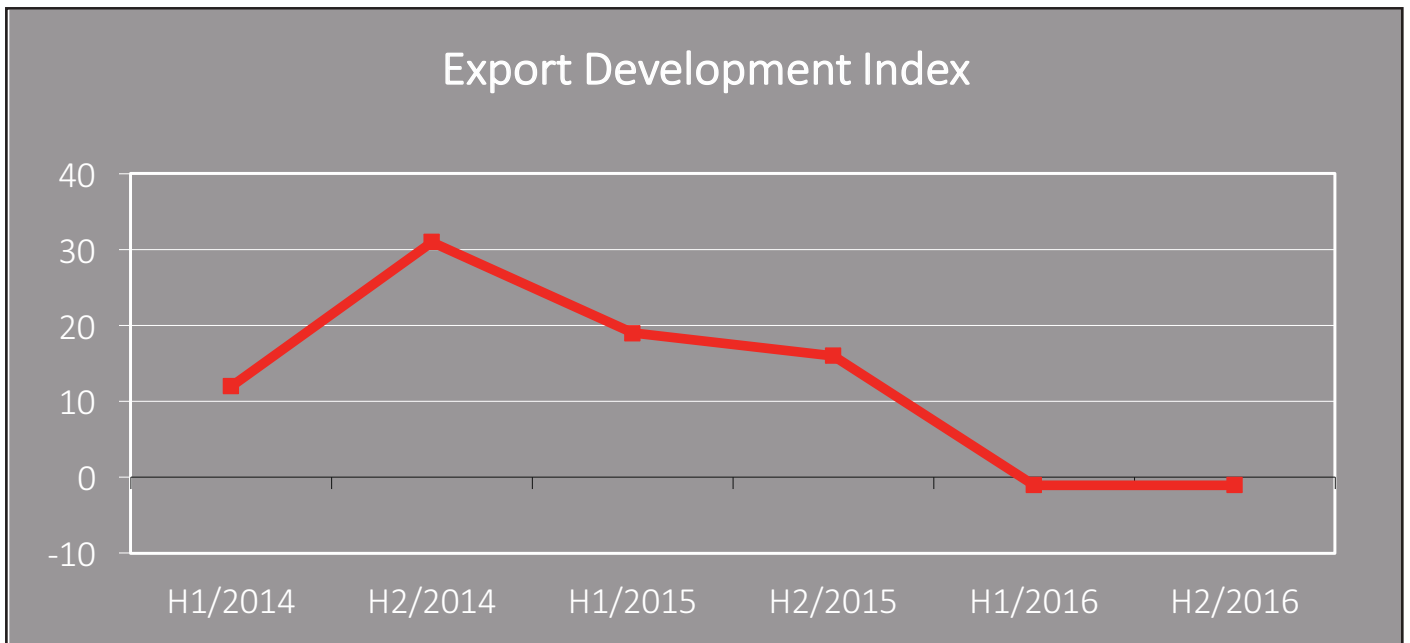


Figure 80: Export Development Index

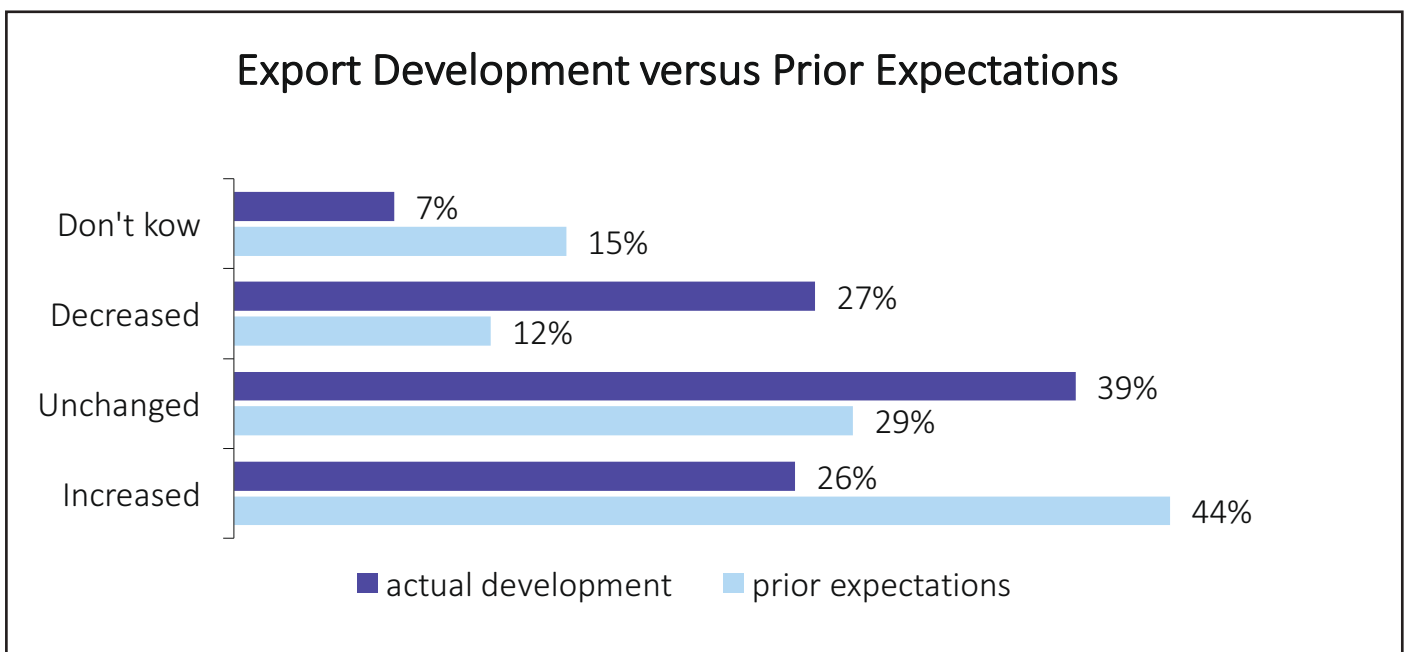


Figure 81: Export Development versus Prior Expectations

Here too, while expectations on exports have been too high, they have become more realistic.