
Briefing - Investment Promotion Law 2017

Foreign businesses have broadly welcomed the Investment Promotion Law and especially the streamlining of establishment processes and the deemed approvals at line ministerial level that it contains.

However, although the law is being implemented, there are concerns that even with the application of the new law, the length of time it takes to register a business has not changed – last year, the World Bank’s Ease of Doing Business Index recorded an average of 67 days to register a business in Laos (see separate briefing on WB Ease of Doing Business). There is also concern about the bedding-in of deemed approval.

Such uncertainties and delays create huge problems for foreign investors especially if they are facing deadlines for finance. Even when the actual investor might be willing to engage, the financial backers of the project may withdraw support in the face of delays or unforeseen problems.

What is also of special interest to foreign investors will be the new list of “Controlled Activities.” These are the business activities that are either closed to foreign investors or are limited in terms of shareholding or minimum size of investment. Further delay on the release of this list will stall decisions by foreign investors to invest in Lao PDR.

Laos currently relies very heavily for export earnings on extractive activities such as agriculture and electricity and to a lesser degree on mining. The country currently has to import almost all manufactured goods. To move from this model to one where capital can be injected into sectors that substitute for imports, internal linkages between industries are fostered and exports that are not dependent on extractive activities are increased, will require a lot of investment. Given that currently 75% of all investment in Laos is foreign, the main source of that investment is highly likely to be foreign. Therefore special care must be taken with the new controlled list so as not to unnecessarily exclude foreign investment from activities that might be strategic in the future development of the Lao economy.

An additional uncertainty is a question concerning registered capital that is somewhat unclear. Although minimum registered capital requirements for general business activities other than as provided under other laws have been removed, it is not clear how this will be implemented in practice. There is concern that the previous minimum for general business of 1 billion Lao Kip will continue in practice.