

LAO PDR

Foreign Investment Survey

Q2 | 2022





EXECUTIVE SUMMARY

In this edition, we have been able to create an index to gauge foreign investor sentiment. The index is underpinned by the measurement of 7 key business drivers whereby respondents are asked to provide their 12-month outlook.

The index revealed that foreign investor business sentiment had strengthened in Quarter 2 of 2022. At least 80% of respondents surveyed indicated their 12-month outlook in relation to capital expenditure and headcount was anticipated to increase or remain unchanged when compared from Quarter 1 to Quarter 2.

These positive drivers, coupled with the reopening of international borders, removal of COVID restrictions and a rare government current account surplus toward the end of 2021 may have collectively contributed to uplift foreign investor sentiment to 68%.

Despite an improvement to the sentiment index, verbatim comments from respondents provided a different perspective which suggested business confidence was muted. Concerns associated with sound governance, rising transportation costs and the rapid depreciation of the Kip dampened forward outlook.

Since the Quarter 2 survey, economic headwinds have intensified. Events such as the Ukraine/Russia conflict, China's zero COVID policy and the US's commitment to rein in inflation through the use of interest rate increases has exacerbated inflation in Lao PDR and continues to put the Kip under pressure.

In an attempt to slow down inflation and quell currency depreciation, regulatory stakeholders intervened by deploying measures including (but not limited to); amendments to regulation, tightening controls on money changers and urging exporters to redirect more foreign exchange flows back into the country.

Whilst it was commendable to witness regulatory intervention measures, in order for wholesale improvements to transpire, a conscious pivot will need to occur with more energy directed toward the enforcement of the regulatory changes.

Mr. Sheng Lee

ANZ Country Head and AustCham Treasurer

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OWNERSHIP AND OPERATING STRUCTURE

79% of respondents are foreign owned businesses with at least 10% foreign ownership. Lao-owned businesses with full local ownership or foreign heritage represented 21% of respondents.

Investors across Asia, Europe, Australia, and US were represented in the survey. The participation of Japanese businesses ranked the highest followed by businesses whereby ownership is domiciled from European Zone heritage. In the future as the data set matures and increases in population size, the findings will be used to extract insights to support Foreign Direct Investment into Lao PDR.

98% of respondents were private companies or sole traders and 2% were representatives of publicly listed companies.

Respondents operate across a diverse range of industries, the largest industry group represented was Manufacturing (25%), Diverse Industries (21%) was the second largest, represented by businesses in the telecommunications, retail, media, and fitness industry sectors.

Since the inaugural survey, there was a sharp increase of respondents from the agriculture sector, this is perhaps not a surprise given agriculture is one of the target industries which policy makers have been focused on developing.

Figure 1: Ownership structure

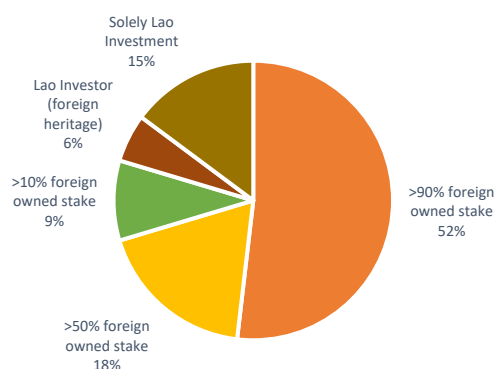


Figure 2: Respondent country of origin

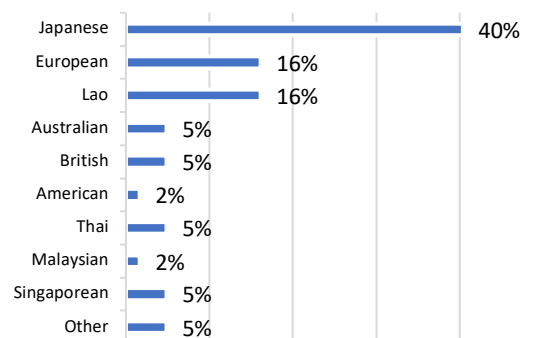
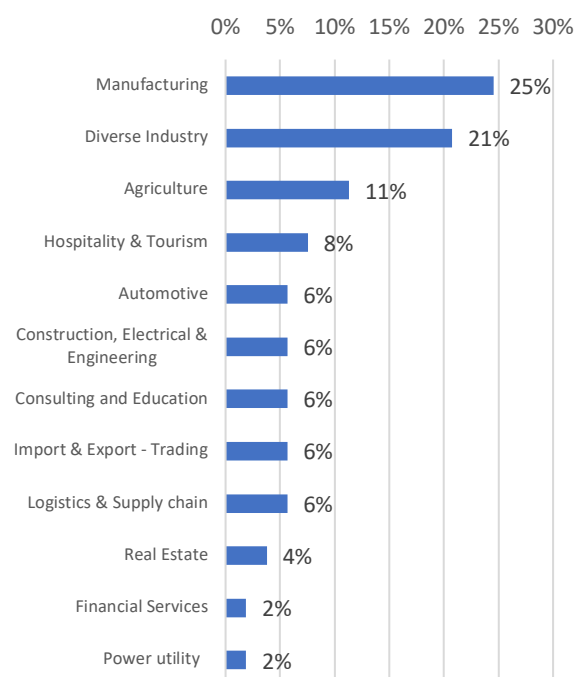


Figure 3: Respondent industry



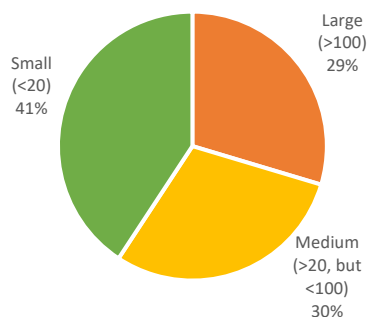
SIZE OF RESPONDENT BUSINESS

29% of respondents employed more than 100 full time equivalent staff and there was a correlation between this set of respondents and a higher level of assets invested in Lao PDR.

In Quarter 2, 78% of respondents had total assets of more than LAK1.2b. Due to foreign investment being skewed toward the higher end in terms of capital investment, it is acknowledged that thresholds used to measure the level of locally invested assets may need to be revised upward at the next survey.

74% of respondents had a turnover of more than LAK 1b, and represents an increase since the inaugural survey whereby only 57% of respondents had this same level of turnover.

Figure 4: Number of employees

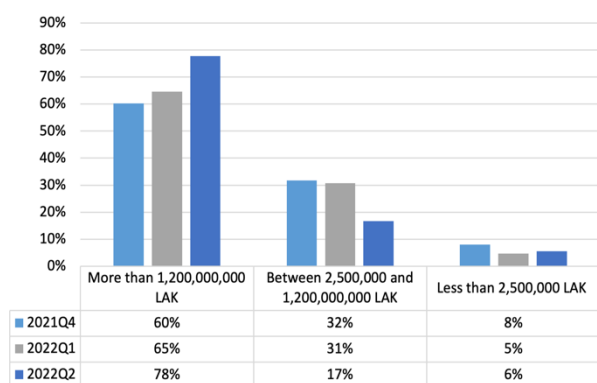


The shift in sentiment toward these factors resonate with consistent themes such as the increase in labor migration to neighboring Thailand, rising import costs due to global logistics disruptions and fuel shortages.

Anecdotal feedback from businesses and employers indicate that wages are on the rise. This sentiment contributed to cost of labor rising by 5% making it the most material factor in order for businesses sentiment to improve.

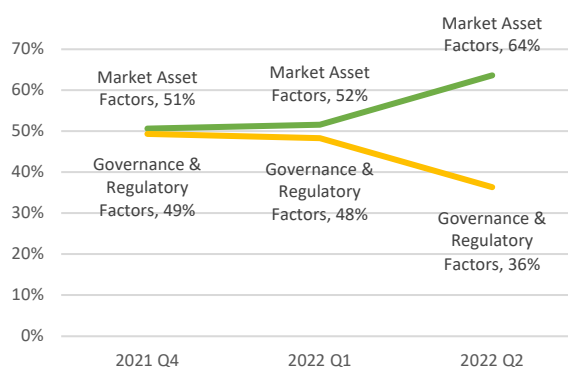
According to the Bank of Lao PDR, headline inflation reached its highest level in October, peaking at 36.75% in October, furthermore the value of the Kip against USD has depreciated by ~65% year on year. These economic events have contributed toward the erosion of purchasing power for employees paid in local currency.

Figure 5: Value of total assets in Lao PDR



In order to retain talent, some businesses have made provisions for sizeable wage increases to assist staff with cost-of-living pressures. It is anticipated that inflationary pressures and the weakness of the Kip will continue to be a risk in the medium term, as such elevated labor costs will likely continue feature prominently during the course of 2023.

Figure 6: Market asset factors compared to governance and regulatory factors



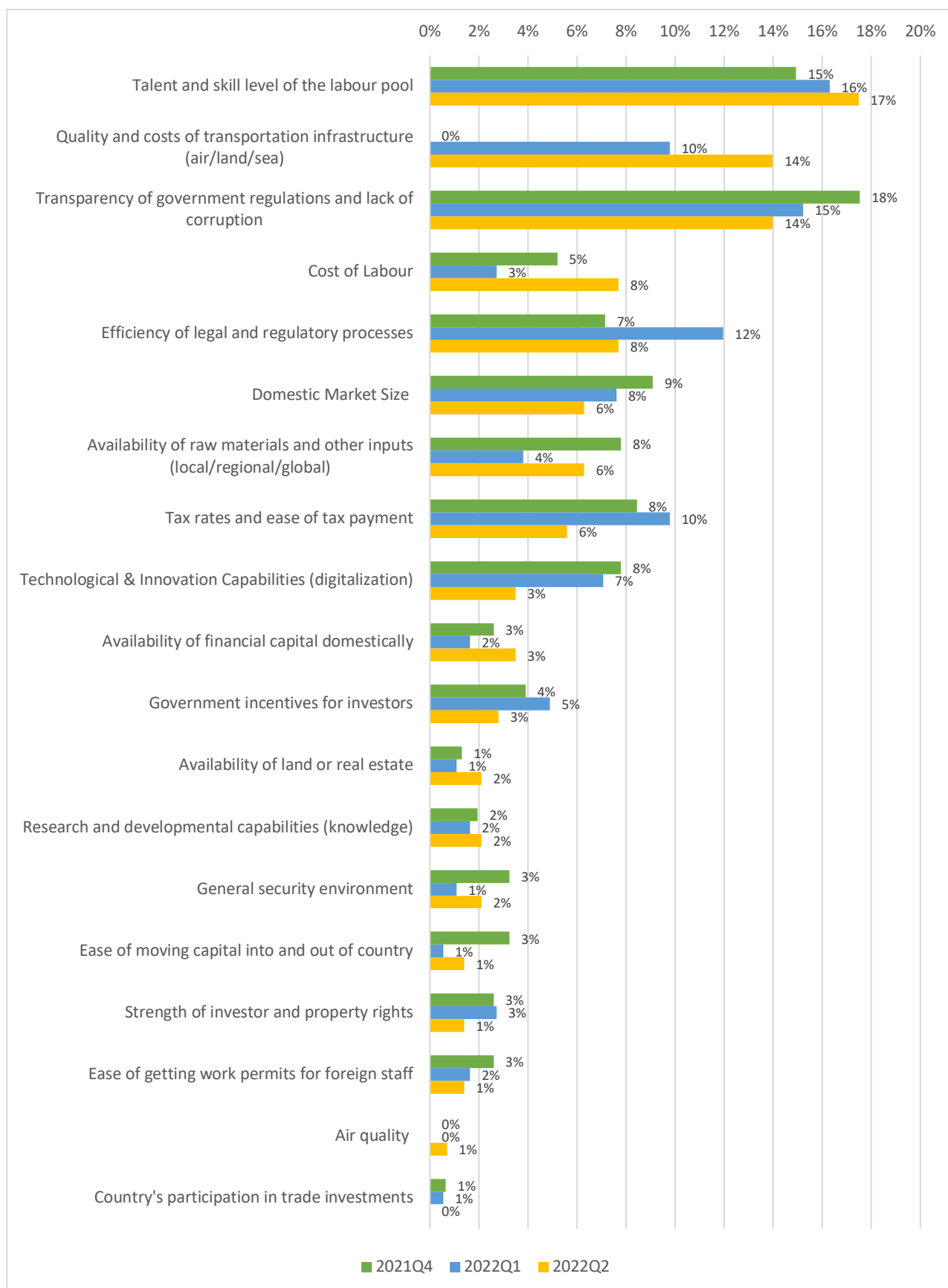
LOCAL PRIORITIES TO SUPPORT FOREIGN DIRECT INVESTMENT

The survey provides respondents with an opportunity to select three factors that can materially improve their business. The factors are grouped into two overarching themes, Market Asset Factors and Governance & Regulatory Factors.

64% of participants stated that improvements to Market Asset Factors such as cost of labor, quality and costs of infrastructure and skilled labor pool would materially improve their business outlook. Meanwhile 36% of respondents felt governance and regulatory factors including transparency of government regulations, lack of corruption and efficiency of legal processes would materially improve their business outlook.

When considering individual factors, transparency of government regulation and corruption scored highest (18%) at the inaugural survey in Quarter 4 2021; whilst this still ranks in the top 3 factors in Quarter 2 2022, there was a notable shift in sentiment toward cost of labor, quality of transport and infrastructure and availability of raw materials and other inputs.

Figure 7: Most meaningful improvement factors to your business



FOREIGN INVESTOR SENTIMENT INDEX

Since the inaugural survey in 2021, two additional surveys have been conducted, thus generating a historical set of data which has been used to create the first Foreign Investor Sentiment Index in Lao PDR.

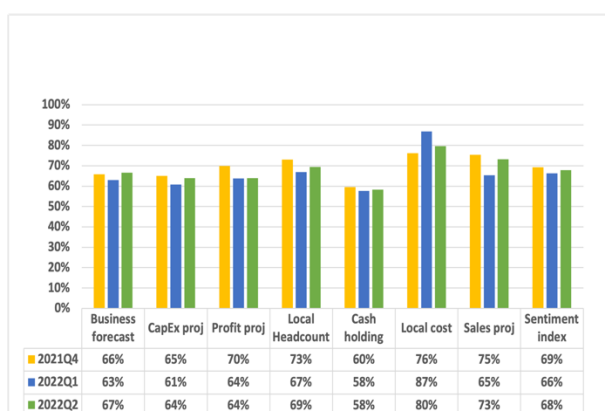
There are 7 questions within the survey which asks participants to provide their 12-month outlook in relation to Business Conditions, Capital Expenditure Spend, Profit Outlook, Headcount Outlook, Working Capital Requirements, Productions Costs and Sales Projections.

By placing a weighting on the individual responses, we are able to aggregate the findings to come up with a single index to measure overall Foreign Investor Sentiment.

In Quarter 2, the Foreign Investor Sentiment Index was 68%, this represents an increase of 2% since Quarter 1.

In the Quarter 2 survey, respondents displayed a more favourable outlook in relation to Sales Projections, Business Forecast and Capex Projections compared to the previous quarter. It is also not inconceivable that the improvement in sentiment was potentially attributed to the reopening of international borders and relaxation of COVID restrictions in the first half of 2022.

Figure 8: Foreign investor sentiment Index



12 MONTH OUTLOOK

Figure 9: Capital expenditure outlook (next 12 months)

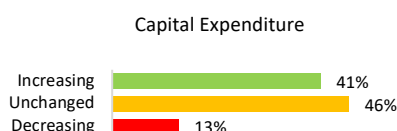


Figure 10: Business conditions outlook (next 12 months)

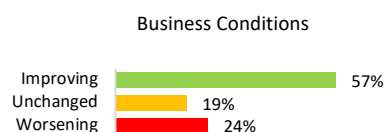


Figure 11: Profit outlook (next 12 months)

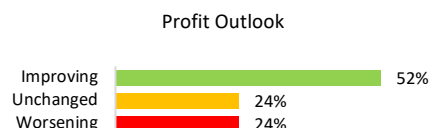


Figure 12: Headcount outlook (next 12 months)

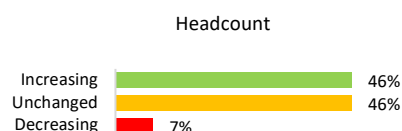


Figure 13: Working capital outlook (next 12 months)

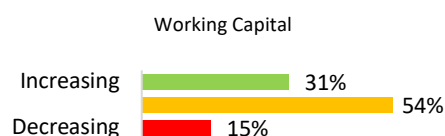


Figure 14: Production cost outlook (next 12 months)

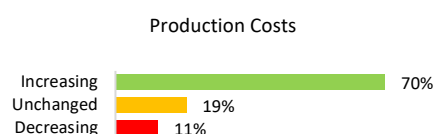
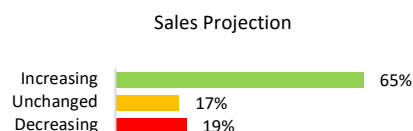


Figure 15: Sales Projections outlook (next 12 months)



RISK ENVIRONMENT

Despite the overall rise in investor sentiment, respondents maintained a cautious tone and called out concerns within the overall risk environment. Capital expenditure, recruitment and operational expenses were ranked amongst the top investments that business was considering to defer, cancel or reduce perhaps due to the lingering impacts of COVID.

Concerns associated with financial risks increased to 53%. This represented a 7% increase since the 1st Quarter. Foreign exchange volatility and availability collectively ranked the highest, with 39% of respondents citing this to be the biggest risk confronting their business today.

The widening of FX margins between commercial banks and money exchangers, coupled with a scarcity of export flows coming back into the country underpin these concerns. Despite best efforts undertaken by the regulator through the introduction of intervention measures to dampen currency depreciation, the prominent gap between commercial banks and money exchangers remained.

The regulatory intervention has been welcomed, however in order to yield greater outcomes, heightened efforts will need to be directed toward enforcement of the regulatory changes.

Regulatory risks associated with continual regulatory changes ranked 2nd with 14% of respondents citing the significance of this risk. Other risks which rated highly include workforce risks (11%), liquidity risks (9%) and risks associated to natural disasters (8%).

Figure 16: Financial and operational risk Index

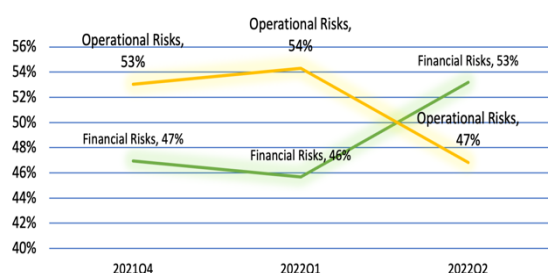
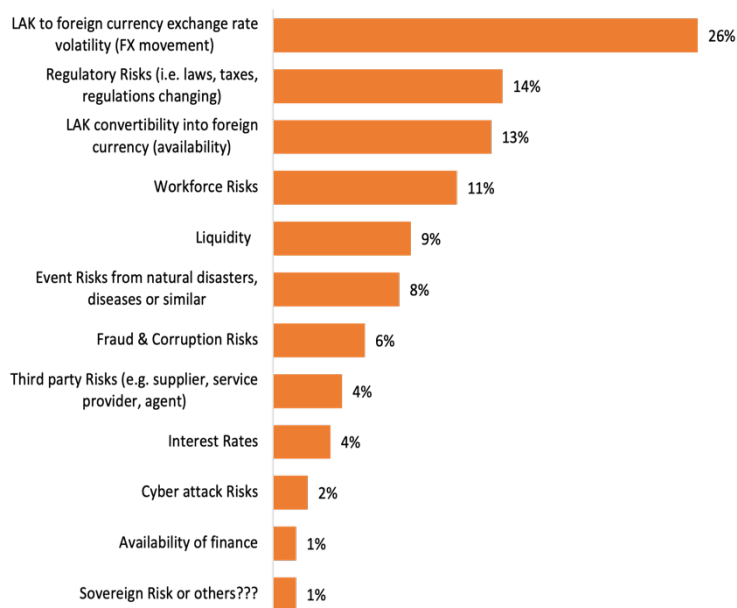


Figure 17: Key business risks



CORPORATE AND SOCIAL RESPONSIBILITY

Corporate and Social Responsibility (CSR) is the commitment of business to contribute toward sustainable economic and environmental initiatives.

The importance for businesses to be socially conscious is perennially increasing. Gone are the days whereby CSR is veiled as a branding tactic to appeal to customers. In today's corporate environment, customers, suppliers, shareholders, employees and regulators expect more from organizations in relation to their commitment toward Corporate and Social Responsibility.

It was positive to see in the Quarter 2 survey that 80% of respondents expressed that CSR objectives was considered to be Very Important or of the Highest Importance within their organisations.

The response reaffirms the commitment of businesses to contribute toward a socially conscious environment. There was a relatively even spread of focus in the areas of Human Rights, Environment Responsibility, Philanthropic and Economic Responsibility. However, the emphasis placed on Economic responsibilities significantly increased to 23% in the quarter.

Events such as the Lao CSR awards, launched in September 2021 has contributed toward lifting the profile of Corporate and Social Responsibility by businesses in Lao PDR. The commitment will be beneficial for businesses and create a meaningful social impact in the long run.

Figure 18: Importance of Corporate and Social Responsibility to your business

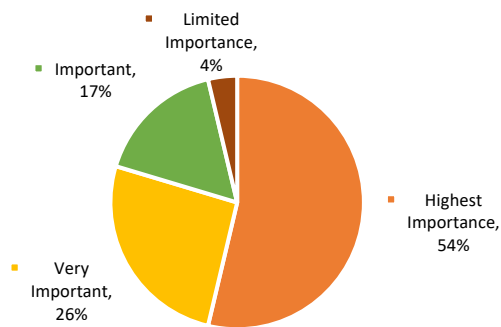
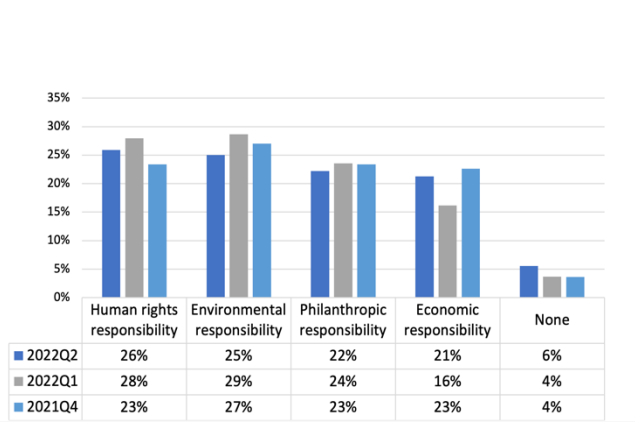


Figure 19: Types of corporate social responsibility initiatives implemented in past 12 months



ACKNOWLEDGMENTS

A note of thanks to the Australian Chamber of Commerce, the British Business Group Lao PDR, the European Chamber of Commerce and Industry, the Japanese Chamber of Commerce and Industry and the Malaysian Business Chamber in Lao PDR for creating this joint initiative.

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Finally, thank you to the survey respondents who provided their time and feedback.

PARTICIPATING BUSINESS CHAMBERS

