



LAO PDR

Foreign Investment Survey

Q3 & Q4 2022

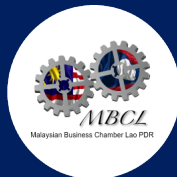


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INTRODUCTION

The Report on Joint Chamber Foreign Investment Survey for Q3 and Q4 2022 continues to highlight numerous positive trends on business sentiment in Lao PDR. The most recent survey had 95 respondents, an increase from previous surveys. I would like to thank the participating chambers for their work on this survey, and the respondents who have taken the time to complete the survey.

This report indicates a generally positive outlook from the business community. There has been an increase in the Foreign Investor Sentiment Index, with business conditions generally improving. However, a notable exception was that 66% of respondents felt the local production costs remain unchanged or are worsening.

The survey provides respondents with an opportunity to select three factors that can materially improve their business. The factors have been grouped into two overarching themes to compile an index to measure the emphasis which business places on Market Asset Factors and Governance & Regulatory Factors. The four factors cited by respondents that would materially improve their investments in Lao PDR include transparency and government regulations, efficiency of legal and regulatory processes, depth of the labor pool and quality of costs of transportation.

These reports are a very useful tool for the Foreign Chambers of Commerce to advocate to the Government of Lao. Having reliable data that reflects the business environment allows us to focus our advocacy in priority areas that have been identified by businesses. Reports such as these indicate areas where the ease of doing business needs to be improved to support the continued growth and success of businesses in Lao. Additionally, as the Government of Lao continues to seek greater Foreign Direct Investment, these reports highlight the feedback of existing foreign and locally owned businesses which will no doubt influence the decisions being made by companies considering investing in the Lao PDR.

David Ormsby

Executive Director

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FOREIGN INVESTOR SENTIMENT INDEX

The foreign investor business sentiment index continued the positive trend with businesses expressing a more favorable outlook. The sentiment index rose to 73% in Q3 & Q4/2022, an increase of 5% compared to Q2/2022.

Business conditions strengthened with respondents citing an improving environment for key subcomponents including business forecast, capex projections, profit projections, headcount outlook, cash holdings and sales projections.

The notable exception however was that 66% of respondents felt the local production costs remain unchanged or are worsening. Industries in the mining, construction, electrical engineering, hospitality and tourism sectors were the main industry subgroups that supported this sentiment. The continued weakness of the Lao Kip, elevated inflation rates and soft labor market are seen as contributing factors which underpin this finding.

To support the sentiment index, respondents are also asked if they plan to accelerate or decelerate investment plans within their business over the next 12 months. An overwhelming 89% of respondents plan to accelerate investment plans. The top 4 categories of investment plans include expansion of operations, additional products & services, increase to workforce and capital expenditure.

Despite a worsening forecast for production costs, the consensus for business outlook suggests an uptick in optimism for business conditions in the 2nd half of 2022. Whilst inflationary pressures and currency weaknesses are likely to continue as recurrent themes in 2023; global and regional events such as the easing of oil prices and the release of pent up demand in neighboring countries are anticipated to stimulate trade opportunities and increase tourism activity in Lao PDR. As a result, the tailwinds generated will likely offset the negative sentiment associated with costs and contribute toward a more optimistic outlook for 2023.

Figure 1: Foreign Investor Business Sentiment Index

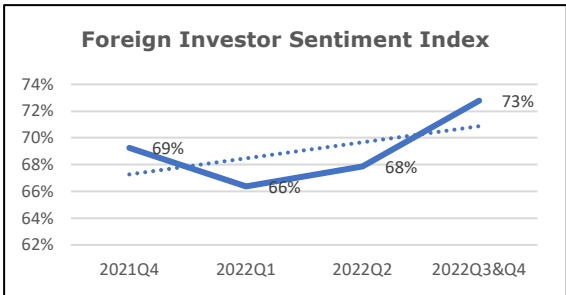
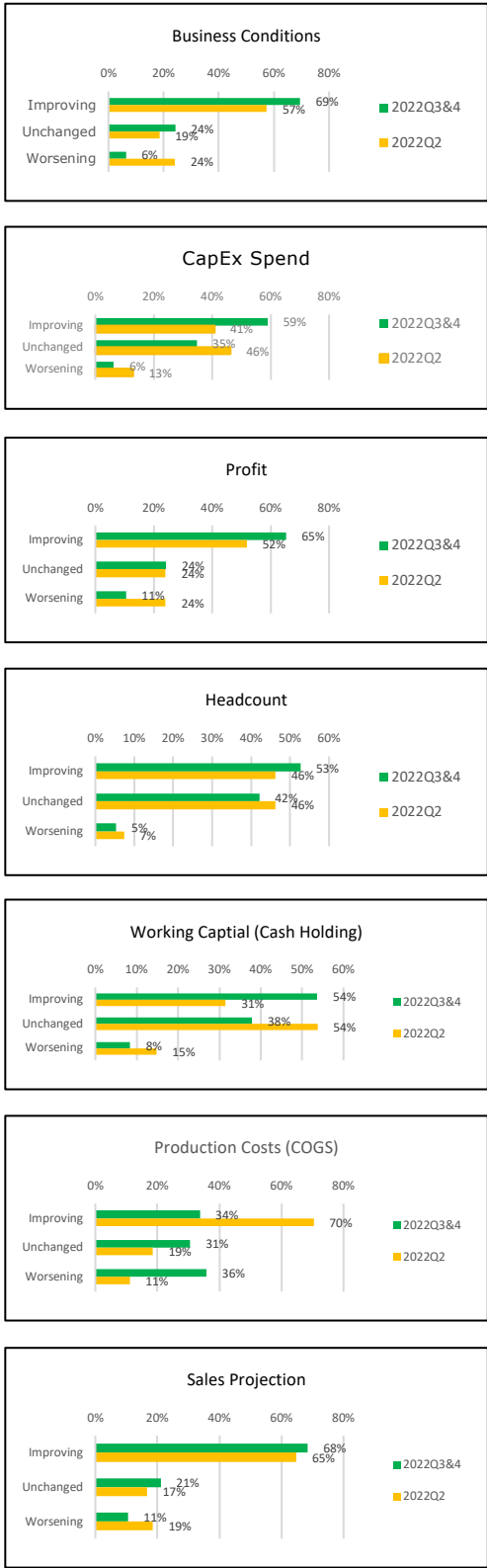


Figure 2: Business Sentiment Categories – 12 Month Outlook



OWNERSHIP & PARTICIPATION BY INDUSTRIES

A total of 95 respondents participated in the Q3 & Q4/2022 Business Sentiment Survey. A diverse range of industries were represented, and participation increased in the majority of industry sectors. Notable increases were evident from mining, utility providers, consulting & education, financial services and logistics sectors, both in absolute and percentage terms when compared to the last survey in Q2/2022.

Manufacturing was the only industry whereby the total number of respondents decreased.

82% of respondents are from businesses that are foreign owned (with at least 10% or more foreign ownership).

Investors from a diverse range of countries were represented. Similar to the Q2/2022 survey, Japanese businesses ranked the highest by percentage terms, having said this, the actual number of respondents declined from 25 to 19 the current survey.

Respondents from the majority of other countries increased with notable mentions for businesses originating from the European Union, Lao PDR, Australia and Thailand.

Figure 3: Ownership Structure

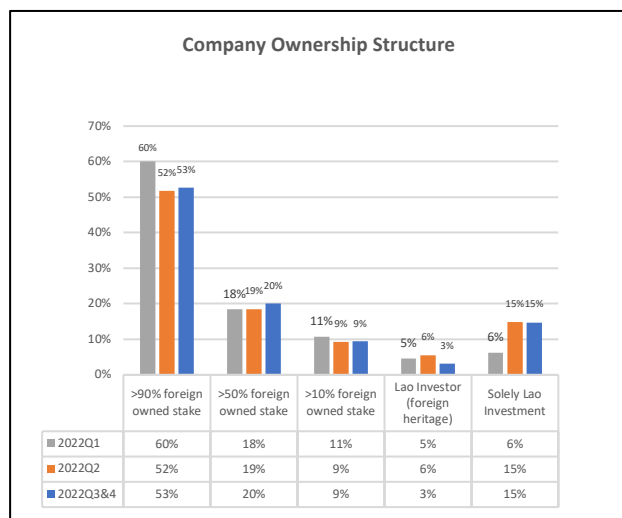
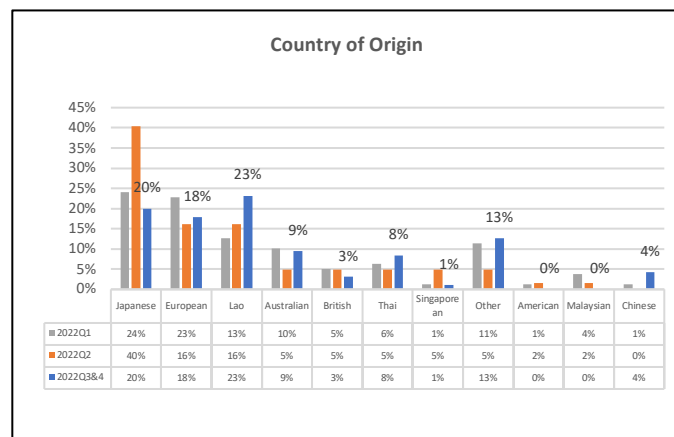


Figure 4: Country of Origin



ORGANISATION SIZE, ASSET VALUE AND TURNOVER

In this latest survey, 47% of respondents had less than 20 staff. This is an increase compared to the last survey whereby 41% of respondents had less than 20 staff. Large businesses who employed more than 100 staff accounted for 29% of total respondents.

It was noted in the last survey that the thresholds to measure turnover and asset value were too low, as such the thresholds were revised in this survey to provide more granularity on both measures. Figure 5 shows the breakdown of asset value and turnover of each respondent.

Figure 5: Business Asset Value and Turnover

(000's)	Asset Value	Turnover
< US\$50	11.58%	23.16%
US\$50 - US\$250	21.05%	15.79%
US\$251 - US\$500	8.42%	12.63%
US\$501 - US\$1,000	12.63%	7.37%
> US\$1001	46.32%	41.05%
Total	100.00%	100.00%

PRIORITIES THAT WILL SUPPORT FOREIGN DIRECT INVESTMENT

The survey provides respondents with an opportunity to select three factors that can materially improve their business. The factors have been grouped into two overarching themes to compile an index to measure the emphasis which business places on Market Asset Factors and Governance & Regulatory Factors.

1. Market Asset Factors are factors associated with bringing goods and services into the marketplace, they include but are not limited to quality and cost of transportation, depth of labor pool and availability of raw materials.
2. Governance & Regulatory Factors are factors associated with legislative, regulatory and sound operational process. They include but are not limited to efficiency of legal and regulatory processes, ease of moving capital and transparency of government regulations.

There has been a notable shift in weighting attributed to both factors. Market Asset Factors has declined from 64% in the Q2/2022 survey to 50% in the current survey. Factors such talent and skill levels, quality and transportation costs and availability of raw materials which carried a much higher emphasis from respondents in the Q2/22 survey, declined in ranking this quarter.

Conversely, the emphasis placed on Governance and Regulatory Factors has increased from 36% in Q2/2022 to 50% in the current survey. Factors including ease of moving capital, participation in trade investments and government incentives for investors were the drivers that ranked highly and accounted for the shift in sentiment.

The decline in Market Asset Factors may not have necessarily meant that factors such as labor shortages and transportation quality and costs are no longer concerns. Instead, it could be that despite these concerns, to capitalize on the resumption of global trade; legislative, regulatory and procedural initiatives have elevated in order of importance.

In conclusion, the index reveals an equal 50% weighting for both factors. This suggests that they are just as critical as each other to encourage greater levels of foreign direct investment into Lao PDR. The four factors cited by respondents that would materially improve their investments in Lao PDR include transparency and government regulations, efficiency of legal and regulatory processes, depth of the labor pool and quality of costs of transportation.

Figure 6: Market Asset Factor and Regulatory Governance Factor Index

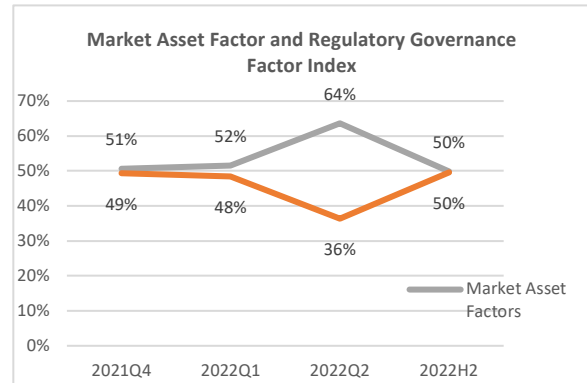
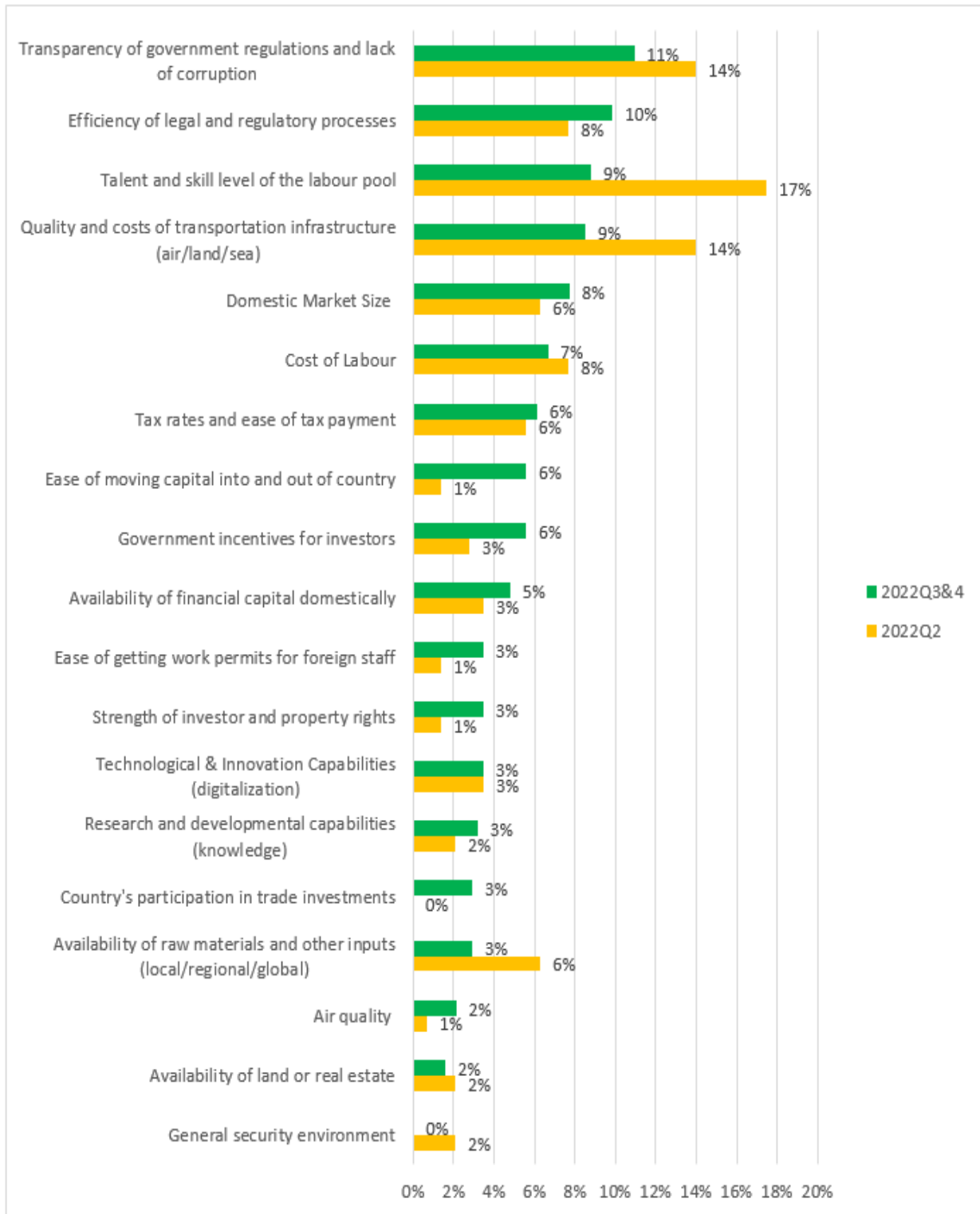


Figure 7: Most Meaningful Improvement Factors to Your Investment in Lao PDR



RISK ENVIRONMENT

The survey provides respondents with an opportunity to select three risks which business perceives to be material in the current environment. The risks have been grouped into two overarching themes to compile an index to measure each group of risks.

1. **Financial Risks** are risks that include but not limited to foreign exchange risk, liquidity risks and availability of finance.
2. **Operational Risks** are risks that result from normal business operations, they include but are not limited to fraud and corruption, cyber risks and third-party supplier risks.

The emphasis placed on Financial Risks has increased from 53% in Q2/2022 to 61% in the current survey. This is deemed to be a significant increase; financial risks associated with foreign exchange (volatility and availability) and continual regulatory changes underpin the increase. Additionally, the Q3 and Q4/2022 survey has seen a significant uptick from earlier quarters for risks associated with the availability of finance and interest rate risk.

This is perhaps not surprising, considering the Bank of Lao has stepped up monetary policy initiatives such as the issuance of bonds to eligible participants including commercial banks, non-bank financial institutions, corporate clients and retail investors over the past 12 months.

Bond issuances can have a tendency to distort the availability of local currency in the market. Another downstream consequence is interest rates are placed under rising pressure, which eventually creates an obstacle in encouraging credit growth in the short to medium term.

The monetary policy settings are forecasted to continue. As such, it is anticipated that financial risks will continue to be a prominent feature on the risk radar for most businesses in 2023.

Operational risks have subsided from 47% in Q2/2022 to 39% in the current survey. The top three risks cited by respondents for businesses in the next 12 months relate to foreign exchange and regulatory risks, this remains unchanged compared to the Q2/2022 survey.

Figure 8: Financial and Operational Risk Index

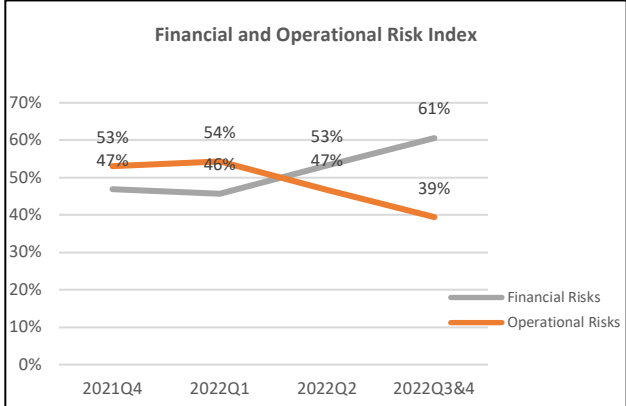
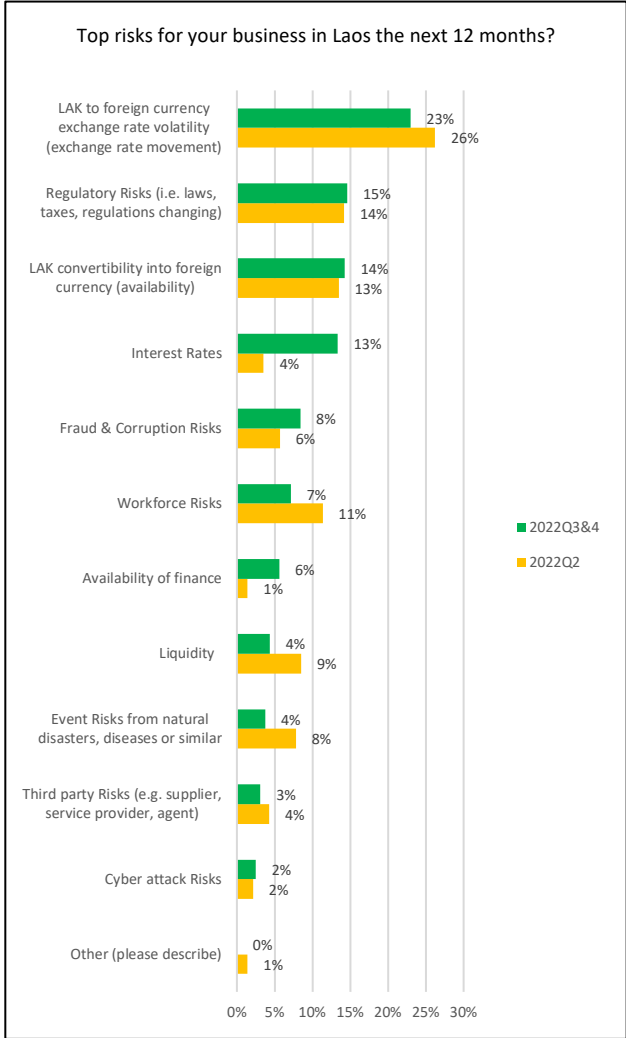


Figure 9: Key Business Risks



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.

Special thanks to Sheng Lee for designing the survey and for analysing data, Thiane Khamvongsa, Executive Director of ECCIL EuroCham Laos and David Ormsby Executive Director of AustCham for coordinating, Mette Boatman, Lee Sheridan, for their inputs and reporting and Kenichiro Yamada for the Japanese translations and inputs.

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

PARTICIPATING BUSINESS CHAMBERS

