

INVESTMENT PROFILE: WOOD PROCESSING SECTOR IN LAO PDR



ARISE+ Lao PDR

Funded by the European Union

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The ARISE Plus Lao PDR project contributes to integration of Lao PDR’s economy into global production chains through targeted support to both public and private sectors.

Under the scope of this project, ITC is undertaking activities to support trade and participation in global value-chains in targeted sectors, namely coffee and wood. In this regard, ITC has developed Coffee and Wood Processing Export Roadmaps, and has undertaken studies in relation to export potential and investment opportunities for these two sectors, namely: ‘Export Potential in Lao PDR: Processed Wood and Specialty Agriculture (2019)’, and ‘Leveraging export potential and tariff advantages to attract foreign direct investment into Lao PDR: Wood processing and coffee (2021)’.¹

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Acronyms

| | |
|-------------------|---|
| AANZFTA | ASEAN-Australia-New Zealand FTA |
| ACFTA | ASEAN-Mainland China FTA |
| ADB | Asian Development Bank |
| AEC | ASEAN Economic Community |
| AHKFTA | ASEAN- Hong Kong FTA |
| AIFTA | ASEAN-India Trade in Goods Agreement FTA |
| AJFTA | ASEAN-Japan FTA |
| AKFTA | ASEAN-South Korea FTA |
| ARISE Plus | ASEAN Regional Integration Support from the EU |
| ASEAN | Association of South East Asian Nations |
| ATIGA | ASEAN Trade in Goods Agreement |
| DFTP | Department of Foreign Trade Policy |
| DIMEX | Department for Import and Export |
| DoA | Department of Agriculture |
| DoF | Department of Forestry |
| DoIH | Department of Industry and Handicraft |
| DPC | Department of Planning and Cooperation |
| DTP | Department for Trade Promotion |
| EBA | Everything But Arms |
| ER | Expected Result |
| EU | European Union |
| EUD | European Union Delegation |
| FAO | Food and Agriculture Organization of the United Nations |
| FLEGT | Forest Law Enforcement, Governance and Trade |
| GIZ | Deutsche Gesellschaft für International Zusammenarbeit |
| GMS | Greater Mekong Sub-region |
| GoL | Government of Lao PDR |
| IPL | Investment Promotion Law |
| ITC | International Trade Centre |
| Lao PDR | Lao People's Democratic Republic |
| LBF | Lao Business Forum |
| LDC | Least developed country |
| LNCCI | Lao National Chamber of Commerce |
| MAF | Ministry of Agriculture and Forestry |
| MoIC | Ministry of Industry and Commerce |
| NIU | National Implementation Unit |
| NSEDP | National-Socio Economic Development Plan |
| RCEP | Regional Comprehensive Economic Partnership Agreement |
| REDD+ | Reducing Emission from Deforestation and Degradation+ |
| SME | Small and Medium-sized enterprise |
| TBT | Technical barriers to trade |
| TFPB | ITC's Trade Facilitation and Policy for Business Team |
| TRTA | Trade related technical assistance |
| VPA | Voluntary Partnership Agreement |
| UN | United Nations |
| WTO | World Trade Organization |

Executive Summary

Lao People's Democratic Republic (Lao PDR) is a growing economy, averaging 8% per annum in GDP growth from 2005 to 2019. The Government of Lao PDR has been working towards developing a well-regulated and liberalized pro-business environment, diversification of the economy, and is strongly committed to becoming an important transport "land link" between China and Southeast Asia (a number of infrastructure megaprojects to better connect the country are currently underway).

Lao PDR is well endowed with natural and planted forest assets, which provide ample opportunities to develop its wood processing sector. Further, timber species produced in Lao PDR are considered highly valuable in international markets, such as teak and rosewood. The country's proximity to major markets is an additional advantage for exports of wood processing goods.

Lao PDR has a small but vibrant wood processing industry, with the potential to generate revenue in rural locations and to help diversify local economies. Laotian exports of wood processing products have been concentrated in a few regional markets, namely China and Vietnam; with a majority of the exports being limited to low value-added products. The national industry has experienced challenges competing against established manufacturing centers in the region for such low value-added products.

The Government of Lao PDR, however, is currently prioritizing efforts to shift towards sustainable, higher quality, and value-added wood products manufacturing and export, which leaves the sector with exciting opportunities to expand its export reach to new markets, while extending wood processing up the value chain.

In recognition of the sector potential to contribute to national socio-economic development, the Laotian Government has made strides towards improving the legal, regulatory, and institutional framework of the country. Regulatory measures, e.g., Prime Minister Order N°15, have been put in place to promote higher value-added production in the industry. In parallel, Lao PDR had embarked in the negotiation of a Voluntary Partnership Agreement with the European Union, which would have resulted in the country working towards implementing mechanisms to verify timber products and issue verified legal products to export to the EU market.

Drawing from the information available and strategies outlined by the government, there is potential to explore potential investment opportunities in sectors such as the following:

- Comparative advantage on teakwood-based products.
- Pulp production from plantation forests for paper.
- Wood pellets (and wood charcoal).
- Sustainably sourced wood products.
- High-quality finished wood products.

This profile provides details of the overall status of the wood-processing sector in Lao PDR and insights into the potential investment opportunities that may be of interest for investors to explore.

I. Lao PDR: An Overview

Lao People’s Democratic Republic (Lao PDR) is well endowed with natural and planted forest assets, providing ample opportunities to develop the wood processing sector.

Due to the favorable climate in Lao PDR, as of 2020, forest covers 71.9% of the Lao PDR land area (i.e., 16.94 million hectares (ha)), giving Lao PDR one of the highest portions of forest cover among countries in the region.² As past forest cover was as high as 90% of the territory, it demonstrates the suitability of almost the whole country to expand wood plantations.

Lao PDR is seeking to grow its economy from its vast natural resources in electricity (is a major hydropower player in the region), agriculture (increasing exports of quality, high value-added agricultural products such as coffee), forestry and minerals. Located at the heart of the ASEAN region, the country has the strategic geographic advantage of being land-linked and bordering key ASEAN markets including Viet Nam, Cambodia, Thailand, Myanmar, and China. This proximity to major markets is an additional advantage for exports of wood processing goods.

Table 1: Key Facts

| | |
|---|---|
| Capital city: | Vientiane |
| Land area: | 236.8 sqm |
| Population: | 7.58 mn (2023 est.) |
| Labor force (over 15 years): | 3.1 mn (2022) |
| Population growth: | +1.4% (2022-2023.) |
| Urban Population: | 37.9% |
| Male youth literacy rate (15-24 years): | 95% (2021) |
| Female youth literacy rate (15-24 years): | 93% (2021) |
| GDP (current USD): | 18.83 bn (2021) |
| FDI Inflow (current USD): | 1.07 bn (2021) |
| Exports: | 33.0% of GDP (2018) |
| Major exports: | Wood products, coffee, electricity, tin, copper, gold, cassava |
| Imports: | 42.0% of GDP (2018) |
| Major imports: | Machinery and equipment, vehicles, fuel, consumer goods |
| Exchange rate (per USD): | LAK 8,679 (2019) |
| Govt. expenditure: | USD 8.2 bn (2017 est.) |
| Govt. revenue: | USD 3.10 bn (2017 est.) |
| GDP per capita (nominal): | USD 2,535.6 (2021 est.) |
| GDP growth: | 2.5% (2021 est.) |
| Inflation rate: | 23% (2022 est.) |
| Currency: | Lao Kip (LAK) |
| Other major cities: | Pakse, Savannakhet, Thakhek, Luang Prabang |
| Language: | Lao (official), French, English, various ethnic languages |
| Religion: | Buddhist 64.7%, Christian 1.7%, none 31.4%, other/not stated 2.1% (2015 est.) |

Source: World Bank, CIA, IMF

1.1. Economic Outlook in Lao PDR

Lao PDR has made considerable progress in transitioning from a centrally planned economy to a 'market economy regulated by the Government'. It is a fast-growing economy, averaging 8% per annum in GDP growth since 2005, halving poverty, reducing malnutrition, and improving education and health outcomes.

In February 2021, Lao PDR was recommended for graduation from LDC status in 2026, which is a testament to the progress it had made to achieve sustainable development in the country. (Refer Box 1 for further information).

Box 1: Lao PDR's Development Policies, and graduation from LDC status

Lao PDR's growth trajectory has thus far been due to its continued focus on realizing its strategic reform agenda introduced with the objective of driving inclusive, sustained economic growth; development of human assets; and protection of natural resources. Vision 2030, designed by the Ministry of Planning and Investment of Lao PDR, envisions Lao PDR's growth towards an upper middle-income country characterized by inclusive, stable, and sustainable economic growth, while pursuing social development including environmental protection and human development.

Development policies are promulgated through five year National-Socio Economic Development Plans (NSEDPs). The 8th NSEDP (2016 – 2020) demonstrated strong commitment from the Government to pursue green and sustainable economic growth, focusing on rural development, poverty alleviation and graduating from its Least Development Country (LDC) Status. The 9th NSEDP (2021 – 2025), approved in March 2021, was promulgated at a time when the country, along with the rest of the world, were dealing with the shock of the Covid-19 pandemic. Accordingly, reform efforts will include measures to deal with the impact of the pandemic crisis and continue to advance sustainable and inclusive growth, invest in human capital and infrastructure, and progress towards a smooth transition from LDC status.

In February 2021, the United Nations Committee for Development Policy (CDP) recommended Lao PDR for graduation from LDC status, with an extended preparatory period of 5 years, thus setting graduation to 2026. The CDP also suggested, in order to ensure a smooth transition strategy, to focus on (a) strong debt relief and improved macroeconomic stability; (b) sustainable and inclusive structural transformation, including through accelerated economic diversification and further strengthening of regional integration; (c) reducing inequalities through appropriate fiscal and development policies; and (d) building disaster resilience and reversing environmental degradation.



Macroeconomic Outlook: The Government has been working on developing a well-regulated and liberalized pro-business environment to strengthen the country’s macroeconomic outlook.

Table 2: Lao PDR’s macroeconomic development – Key Indicators

| | 2020 | 2021 | 2022 | 2023 |
|---------------------------------|------|------|-------|-------|
| GDP growth (%) | 0.5 | 2.5 | 2.7 | 3.9 |
| Inflation (yearly average, %) | 5.1 | 3.8 | 22.7 | 16.8 |
| Budget balance (% GDP) | -5.2 | -1.3 | -1-1 | -2.0 |
| Current account balance (% GDP) | -5.9 | -2.9 | -3.2 | -3.0 |
| Public debt (% GDP) | 62.3 | 76.6 | 102.8 | 100.9 |

Source: World Bank³

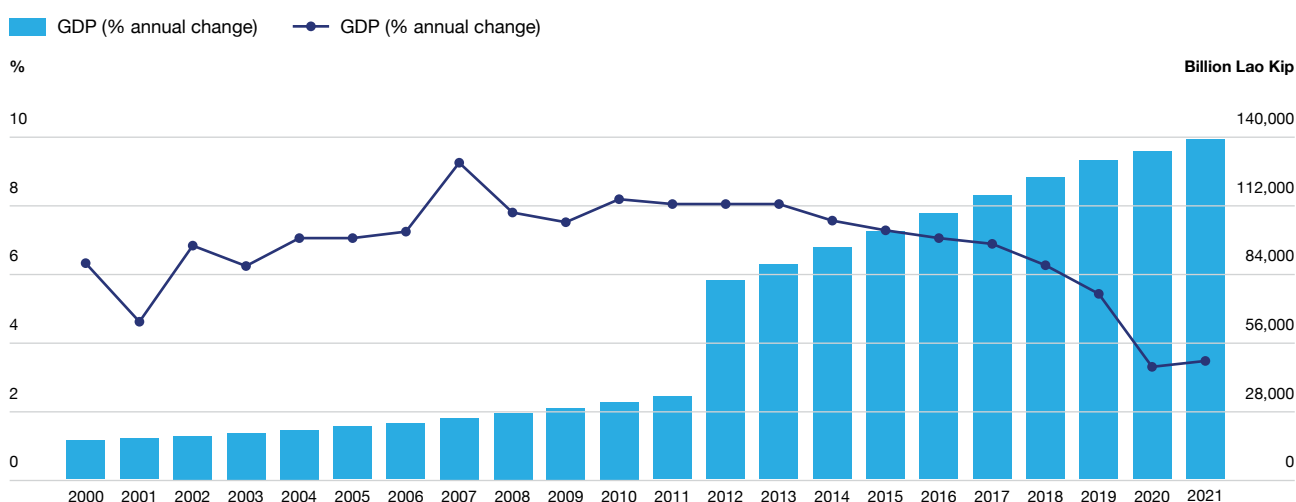
Growth Rates: The significant drop in Lao PDR’s growth rates in 2020, as demonstrated in Figure 1, is attributed to the pandemic, which had a particularly negative effect on tourism-related services, wholesale and retail trade, and manufacturing. The growth in GDP rates after 2021 is mainly attributed to industrial and agricultural exports, with industrial output expanding by 4% supported by increased electricity and mining production, and rising construction activity.⁴

of 3.7% in 2023 and 4% in 2024. According to the ADB, upgrades to the connectivity infrastructure, and potential for more international travellers in light of Lao PDR holding the ASEAN Chairmanship in 2024, and, in turn, increased confidence in and demand for transport, accommodation, and related services – could help Lao’s growth efforts.⁵

The Asian Development Bank (ADB) projections, as of September 2023, provided for a moderate growth

The 9th NSEDP (Refer Box 1) set an average annual GDP growth target of at least 4 percent; with GDP per capita targeted to increase to USD 2,880 by 2025.⁶

Figure 1: GDP (at constant prices and % annual change)



Source: ADB, Key Indicators Database⁷

Inflation Rates: Lao PDR's government has been trying to keep inflation under control after the 125% annual peak during the Asian Financial Crisis. A macroeconomic stabilization program was carried out, which has enabled to maintain an effective monetary policy since then. Inflation rates were maintained at relatively low rates in the past decade, although increases have been recorded recently post-2020. The recent increases are attributed to the impact of the Covid-19 pandemic on the economy, global energy price hikes, and other external shocks. The Lao Government has been implementing policy measures to address the rising inflation rates. According to the Asian Development Bank (ADB), annual inflation was projected to remain high in 2023 at 28%, before moderating to 10% in 2024.⁸

Fiscal policies: Lao PDR's public debt being high, the government has been working on strengthening its fiscal governance to support reducing the public debt and creating fiscal space for development, including through the introduction of the Public Debt Management Law 2018.⁹ Main taxes payable include profit tax, corporate income tax, deemed profit tax and withholding tax, as detailed in Table 3 below.¹⁰

A more detailed insight into the taxation structure for companies and individuals in Lao PDR is provided in [Annex II](#) of this Profile.

Table 3: Summary of taxes payable in Lao PDR (As of 2022)

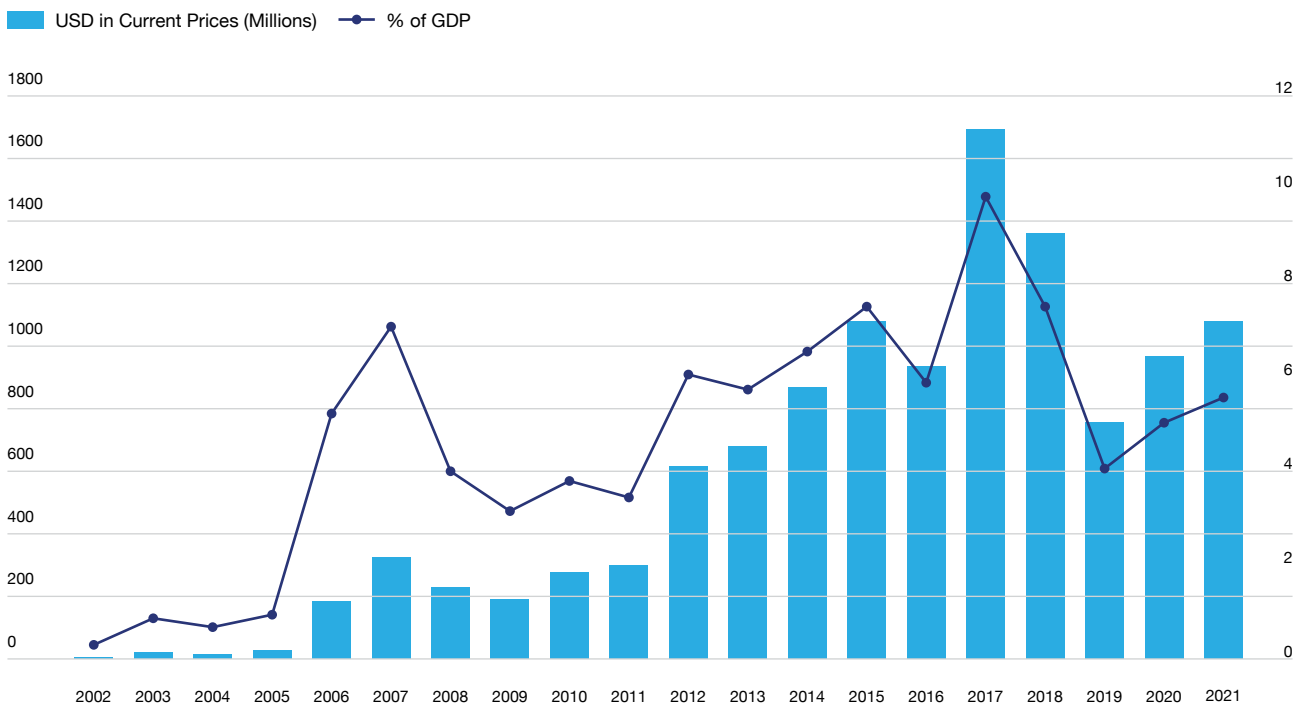
| | |
|--|--|
| Profit Tax (i.e. corporate income tax) | Standard rate is 20%. The payment of profit tax shall be carried out two times per year as follows: <ul style="list-style-type: none"> • First time shall be by 20 July of the year. • Second time shall be by 20 January of the following year. The profit tax payments shall be based on the previous year's profit tax payments, or self-estimated amount or actual profit incurred during the period. However, if the amount of profit tax paid during the year is less than the actual amount due after closing the accounting books, the difference will be added to the year-end assessment. |
| Capital gains tax | There is no separate tax on capital gains. However, the sale of shares (except sale of shares listed on the Lao PDR securities exchange) is subject to Income Tax at the rate 2% on total selling price, regardless of whether a seller will have a gain or loss from this transaction. |
| Value Added Tax ("VAT") | Current rates include 10% standard rate, exempt and 0% for certain goods or services. Monthly VAT return must be filed within 20 days of the following month. Any excess input tax may be claimed as a refund or used as a credit towards the subsequent months VAT liabilities for up to three months. |
| Deemed Profit Tax ("DPT") | Certain payments made to a company overseas are subject to DPT at the rate ranging from 1.4%-3% as specified under the law. Service fees paid to a company overseas are subject to DPT at the rate of 3% and 10% withholding VAT. |
| Withholding tax | Payers of assessable income who are residents of Lao PDR are liable to deduct tax at source from certain domestic and cross-border payments, including interest, dividends, royalties, rent of property, etc. The payer is responsible for deducting the tax, remitting the tax and filing a return within 15 working days after the payment has been made. |
| Other tax compliance | Stamp duty is payable on a number of documents and transactions as described in the Decree on Fee and Charge, including leases, security transfer documents, loan agreements and hire of work contracts. Customs duty is levied on imports and certain exports. This is generally payable prior to the goods being released by Customs. |
| Personal income tax | Progressive rates from 0%-25%. |
| Transfer pricing | There are no transfer pricing regulations in Lao PDR. |

Lao Currency: The official currency of Lao PDR is the Laotian Kip (LAK). Although only the Kip can be used legally in day-to-day transactions, three currencies are used in trading: LAK, THB (Thai Baht) and USD (US Dollar). The flow of both THB and USD is particularly important to the national economy: an estimated two-third of the money circulating in Lao PDR bears either the THB or the USD. Chinese Yuan (CNY) can also be used in the country's Northern provinces; and in January 2020, China and Lao PDR signed an agreement on bilateral monetary cooperation to enhance the use of local currencies in trade and investment.¹¹

Foreign Direct Investment Flows: FDI is a key source of investment in Lao PDR. Most FDI into Lao PDR originates from neighboring countries in East Asia and the Pacific, namely, Thailand, Japan, Vietnam, China, and Cambodia.

FDI flows to Lao PDR increased almost nine-fold between 2009 (USD 190 million) and 2017 (USD 1,6 billion).¹² The *WTO Secretariat's Trade Policy Review Report for Lao PDR in 2019* noted that the rise in FDI flows recorded were attributed to significant investment in the power sector and infrastructure by China, along with other factors such as political and macro-economic stability, liberal investment policy, deeper regional and global integration, and improved investment climate.¹³ FDI inflows to Lao PDR did, however record declines to USD 557 million in 2019, from USD 1,3 billion in 2018 (-58%),¹⁴ while the stock of FDI stood at USD 10 billion in 2019. This contraction of investment took place mostly because of a continued slowdown in FDI projects from China, which is the largest FDI contributor, by far. Apart from China, which accounts for a significant shares of FDI in Lao PDR, other large sources of foreign investment into Lao PDR include Thailand, Vietnam, Korea and Japan.

Figure 2: FDI inflows in Lao PDR – in USD Million in current prices and as a % of GDP, 2002 - 2021-2



Source: UNCTAD Statistics – Foreign Direct investment: Inward and Outward Flows and Stock, Annual (<https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>)

Over the past 15 years, the Government has been pursuing a policy of FDI promotion, with the investment law being amended at the end of 2016. The revised version of the law clarifies investment incentives, transfers responsibility for Special Economic Zones to the Ministry of Planning and Investment (MPI) and removes strict registered capital requirements for opening a business.

The Lao government also seeks to welcome both domestic and foreign investment. Foreigners may invest in any sector or business, unless it would cause a threat to national security, health, or national traditions, or if it may negatively impact the environment. Foreign companies may however find it beneficial to collaborate with a local partner to navigate the various procedures and steps to set up and engage in operations in Lao PDR. To promote and facilitate domestic and foreign investment, the Prime Minister issued Order 02 and Order 03 in 2018

and 2019 respectively to reform the ease of doing business and improve services on investment and operational licenses.

Lao PDR, in its efforts to strengthen its investment environment, has entered into bilateral investment treaties, and as a Member of the ASEAN, is party to investment agreements and trade agreements containing investment provisions.¹⁵

It is also noteworthy that Lao PDR has been actively engaged in the WTO Investment Facilitation for Development (IFD) negotiations and has undertaken a preliminary assessment of the domestic policy framework to understand gaps in implementing the WTO IFD Agreement and the technical assistance needs in this regard. This signals a strong interest on the part of the Lao government to make it easier for investors in all sectors of the economy to invest and conduct day-to-day business.

Box 2: Investment Facilitation Developments – Multilateral and Regional

The recently concluded negotiations on the WTO Investment Facilitation for Development Agreement set an important standard in place for facilitating foreign direct investments. Negotiations towards an Agreement on investment facilitation for development were formally launched in September 2020. Lao PDR signed on to these negotiations and has undertaken a preliminary assessment on its compliance with investment facilitation provisions.

In the ongoing negotiations on investment facilitation for development, participating WTO members are discussing notably the following topics:

- Improving the transparency and predictability of investment measures.
- Simplifying and speeding up investment-related administrative procedures.
- Strengthening the dialogue between governments and investors, promoting the uptake by companies of responsible business conduct practices, as well as preventing and fighting corruption.
- Ensuring special and differential treatment, technical assistance and capacity building for developing and least-developed countries.

This Agreement, when in place, will set up rules making it easier for investors to establish and expand their investments and conduct day-to-day business in host countries. The concept of investment facilitation has also already been addressed/built into international investment agreements (IIAs) – and accordingly practices in this context are also already at play.

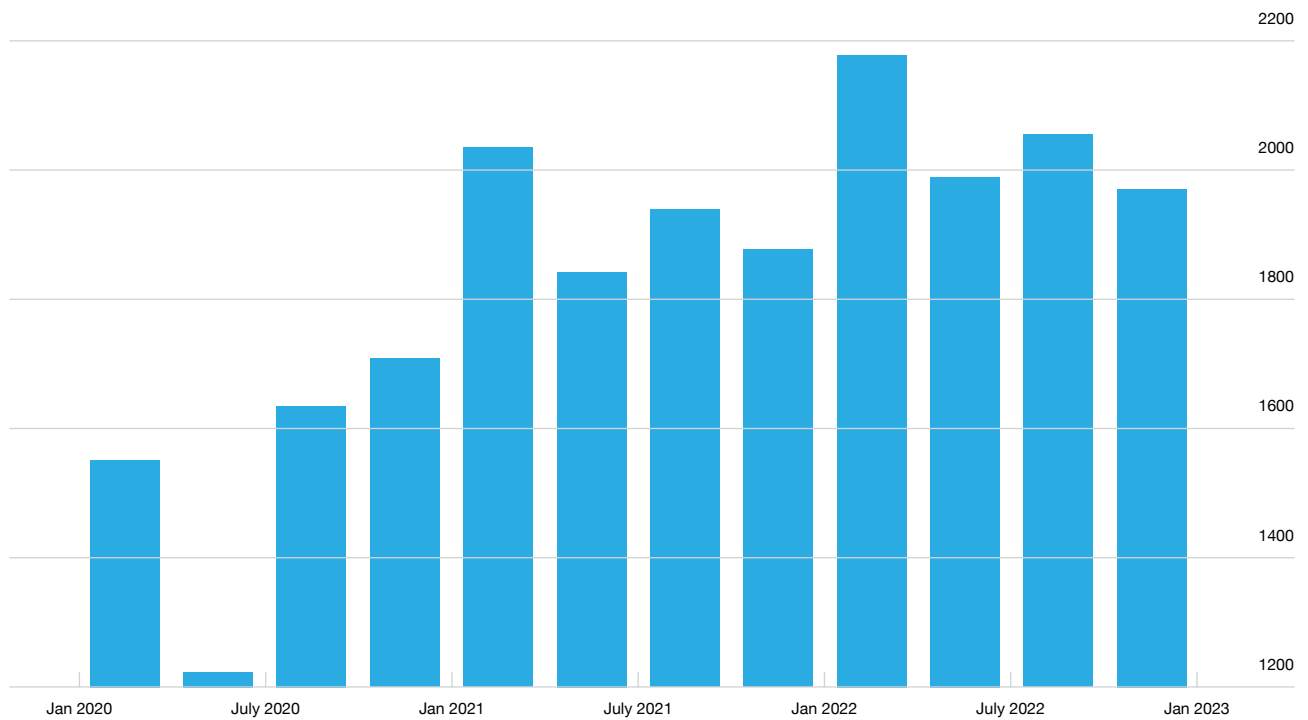
In addition, elements of investment facilitation are also found in the ASEAN Comprehensive Investment Agreement (ACIA) and ASEAN+ 1 FTAs such as the ASEAN-Hong Kong, ASEAN-Japan, ASEAN-China, as well as RCEP. Certain EU agreements also include these elements such as with Central America, and Eastern and South Africa.

1.2. Lao PDR's Trade Profile

With liberalization of Lao PDR economy, exports have been growing in the past 15 years. Agricultural products and natural resources account for most Lao PDR exports, with the main exports comprising

of wood, clothing, coffee, electricity, metals, corn, and rubber. Lao PDR's main exports partners are Thailand, China, and Viet Nam.

Figure 3: Lao PDR's Exports – 2020 - 2023 (USD million)



Source: Trading Economics – Bank of Lao PDR

ITC analysis also indicates that Lao PDR possesses significant export potential, particularly in the ASEAN region (close to USD 6 billion), China (more than USD 2 billion), and the EU (USD 450 million); and the country's agricultural sector has promising opportunity in terms of high-quality niche products.¹⁶

Lao PDR's limited size and lack of sea access has made it difficult for the country's commercial crops exports to be price competitive, but its comparative advantage lies in its topography, which allows growing a wide range of specialty vegetables and

fruits, and its ability to provide organic products due to a traditionally low usage of fertilizers.¹⁷

More specifically, as of 2019, Lao PDR recorded an export potential of USD 634 million in specialty agriculture, with coffee being one of the most important products in this sector in terms of export potential.¹⁸ The efforts being taken to increase connectivity and improve connections to seaports (such as to Viet Nam) may also contribute to strengthening competitiveness of Lao PDR's exports.

Figure 4: Lao's Main Goods Export Categories (2022)



Source: ITC Trade Map

Figure 5:Lao PDR's Main Export Destinations for Goods – 2021



Source: ITC Trade Map

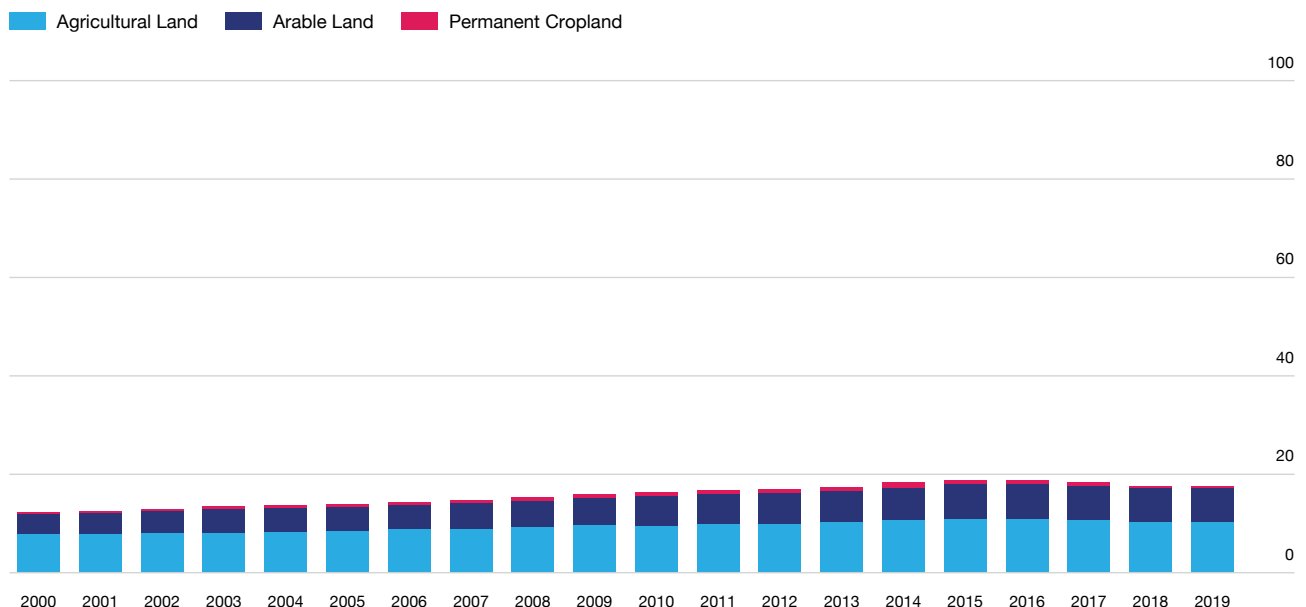
Key Economic Sectors and Reform Efforts: Lao PDR's growth model has traditionally relied on the exploitation of abundant natural resources: minerals (copper, gold, bauxite, iron, zinc), and agricultural commodities (maize, rice, sugar cane, rubber, manioc, soya, coffee). Its electricity (mainly hydropower) and mining sectors have been the pillars of the country's economic growth. While the hydro power sector is still rapidly expanding, Lao PDR is aiming to diversify its economy, recognizing the limitations of this growth model (increasing pressure on the environment). The country is focusing on reforms to support greener, more inclusive growth and aiming to move up the value chain through processing and entering niche, high value markets (i.e. organic and fair-trade produce).

Moving forward, the Government is strongly committed to becoming both an important transport "land link" between China and ASEAN, as well as "the battery of Southeast Asia" by exploiting hydropower (and to a lesser extent wind, solar, and thermal energy resources) to export electricity throughout the region. The power sector accounts for 12% of the country GDP and 22% of exports. Lao power generation has doubled in size from 2016 (22,000 GWh) to 2020 (45,000 GWh).¹⁹

The mineral and mining sector (particularly copper and gold) remains an important economic sector for the country, accounting for 6% of the country GDP and 28% of merchandise export in 2018. However, both copper and gold mining outputs have experienced a decline since 2017.²⁰ Lao PDR has taken proactive steps to diversify its economy, recognizing that heavy dependence on the mining sector limits its growth model.

The agricultural sector accounted for 16% of the GDP in 2021. Although the main type of work is subsistence farming, there is a shift toward commercializing and developing a high-value agriculture industry, which has become a priority for the Government. The Agriculture Development Strategy 2025 – 2030, reiterated the importance of the agricultural sector for Lao PDR, and set out clear goals and directions to facilitate an enabling environment for agriculture, shift towards industrialized and modern agriculture, and better integrate into regional and international value chains.²¹ Given the low population density, its land is underutilized. Consequently, many new investors from neighboring countries are exploring agricultural opportunities (mainly livestock, dairies, and agribusiness) in the country.

Figure 6: Agricultural Land, Arable Land, and Permanent Cropland (% of land area)



Source: ADB, Key Indicators Database – Lao PDR (<https://kidb.adb.org/economies/lao-peoples-democratic-republic>)

Tourism contributed to USD 2 billion (14% of the country GDP) in 2017 and is expected to significantly grow in the next decade. The Government allows up to 70% foreign equity as part of its incentives to attract foreign investments in this sector. Tourism has contributed to the development of new infrastructure projects (hotels, transportation services, roads) and the creation of many jobs.

The emergence of light manufacturing has begun to help Lao PDR integrate into regional supply chains, and improving infrastructure should facilitate this

process, making Lao PDR a legitimate locale for regional manufacturers seeking to diversify from existing production bases in Thailand, Viet Nam, and China.²² In particular, 12 special industrial economic zones were created, with over 15 light industries sectors represented (about 380 foreign and domestic companies established), providing a good basis for the development of local manufacturing and therefore access to spare parts for machineries and other important industrial related services (technology innovation, maintenance etc.).

1.3. Population and Labor Force

As of 2020, Lao PDR's total population totaled 7.3 million, increasing by 2 million from 2000. The population growth rate is moderate, and this trend is expected to continue in the coming years. The country population is expected to grow to 9.7 million by 2060 before beginning to decline. Lao PDR has the youngest population of any Asian country with a median age of 21.6 years. The 2015 census demonstrated that 60% of the Lao population was under the age of 25 years. This represents a labor force (over 15 years old) of 3.6 million people. Unemployment remains extremely low (0.6% in 2020, according to World Bank). Although its urbanization is progressively increasing, the country remains mainly rural, its urban population (essentially concentrated in Vientiane) representing only one third of the total population.²³

Technical Capacity and Skills Levels: Although economic progress and trade expansion is hampered by a shortage of workers with technical skills and a weak education system (literacy rate was about 85% in 2015), Lao PDR has made good progress in expanding access to basic education over the last two decades.²⁴ Lao PDR created future-oriented education programs ensuring its young population is equipped with the right skill sets and knowledge, contributing to a sustainable economic growth in the longer term. Lao PDR also created the Education Sector Development Plan (ESDP) (2016 and 2020), aiming at improving equity, developing better quality teachers, and realigning the education sector to growing labor markets.²⁵

Wage Rates: Average wages in Lao PDR are the lowest in the region (30% less than in Viet Nam, 50% less than in Thailand and 10% less than in Cambodia). The monthly minimum wage is around USD 120.²⁶

Foreign Labor: All foreign workers who work in Lao PDR are required to have work permits. Among the 14 types of work visa (Article 19, Law on Entry-Exit and Management of Foreigners in the Lao PDR), the two predominant ones used by foreign companies are the Business Visa (NI-B2) for managing directors, and the Labor Visa (LA-B2) for employees.²⁷ If the demand for labour cannot be supplied by domestic workers, employers can request the Labor Management Authority's (LMA) permission to hire foreign workers, subject to quotas (Article 68, Labor Law). The LMA also considers requests in excess of the quotas on a case-by-case basis. Visas are valid for 12 months, and extendable for 12 months up to a maximum of five years.

1.4. Access to Key Utilities

Land: In line with Lao PDR's Constitution, land is owned by the national community and only available on a lease or concession basis. Access to and use of land is governed by Land Law, No. 04/NA (21 October 2003), and the Prime Ministerial Decree on Implementation of Land Law 88/PM (3 June 2008).²⁸

While foreign investors are currently not permitted to own land, investors are still able to obtain land for use through long leases or concession contracts under Article 16 of the Investment Promotion Law 2016; and have the right to transfer and improve leasehold interests. Government approval is not required to

transfer property interests, but the transfer must be registered, and registration fee paid.

As a result of the country's low population density and the high availability of land, land concession rates (negotiated between the investor and the landowner on a case-by-case basis, depending on the investment size) are much cheaper than those of Lao PDR's neighboring countries, Thailand, and Viet Nam.

Foreign entities can retain their leasehold or concession rights in land in Lao PDR for up to certain time-periods,²⁹ as specified in Table 4 below:

Table 4: Foreign land use rights – duration

| Type of Land Use Right | Maximum Duration |
|---|---|
| Lease or concession of State land | 50 years, extendable upon approval of the Government or National Assembly or the Provincial Lao People's Assembly according to the proposal of the Government or provincial administration |
| Lease of land from Lao citizens or entities | 30 years, extendable upon agreement between the parties at the approval of provincial administration, according to the proposal of the provincial natural resource and environment department |
| Time limited sale-purchase of State land use right* | 50 years, extendable upon approval of relevant State authorities |

*Time limited sale-purchase of state land use right is a newly introduced form of acquisition of land use right in Lao PDR. It is essentially a purchase of State land use right by way of an execution of a sale and purchase agreement between the State and buyer, who can be a Lao citizen, alien, stateless person, foreign individual, and foreigner with Lao ethnicity.³⁰ While similar to lease of concession of State land – the time limited sale-purchase of state land is only permitted for the purpose of urban development, construction of condominiums, apartments, or townhouses. It should also be noted that foreign incorporated bodies are not permitted to acquire land use rights in Lao PDR through this method.³¹

It should, however, be noted that there are efforts being taken to reform existing land policy, even if at a measured pace. For instance, in 2020, the Law on Land No. 70/NA, amending the 2003 Land Law, permitted foreign nationals to own structures on Lao land. More specifically, Lao citizens and foreign nationals are now allowed to own apartments in condominiums whose construction was authorized by the government.³²

Power Sector: The Lao PDR power sector has significantly developed since 1975 (only 10% of the population had access to electricity back then). Today, more than 96% of households have access to electricity.³³

Lao is also developing its hydropower resources, with its hydropower production as of 2020 amounting to 170% more than its domestic consumption of electricity.³⁴

Water: Water is cheap and plentiful in Lao PDR. The irrigation system, reservoirs and water pump stations have been gradually expanded and enable two-season cropping.³⁵ Support continues to be provided for irrigation (construction and pumping).³⁶

Banking Facilities: The banking system is well capitalized,³⁷ and largely concentrated in commercial banks. Lao PDR currently has some 37 banks, including 3 state-owned commercial banks, 1 specialized bank, 3 joint-venture banks, 7 domestic privately owned banks, 9 foreign subsidiary banks and 14 foreign banks with branches. There has been a noticeable expansion in foreign banks in the past two decades with new foreign branches entering the market.

State-owned commercial banks still play an important role in the sector with around 43% of total assets, including one single majority state-owned commercial bank, which represents around one-third of all banking system assets and has the largest distribution network.³⁸

To facilitate business transactions, foreign investors generally open commercial bank accounts in both local and foreign convertible currencies at domestic and foreign banks in Lao PDR. Bank lending to FDI based companies is only available in LAK. While foreign investors need an operational bank account in LAK, they are allowed to hold a foreign currency account. Transfers from local currency to foreign currency accounts are permitted (subject to the Central Bank applicable exchange rates), and there are no restrictions on international transfers.

The Enterprise Accounting Law does not place any limitations on foreign investors transferring after-tax profits, income from technology transfer, initial capital, interest, wages and salaries, or other remittances to the company's home country or third countries. Foreign enterprises must report on their performance annually and submit annual financial statements to the Ministry of Planning and Investment (MPI).³⁹



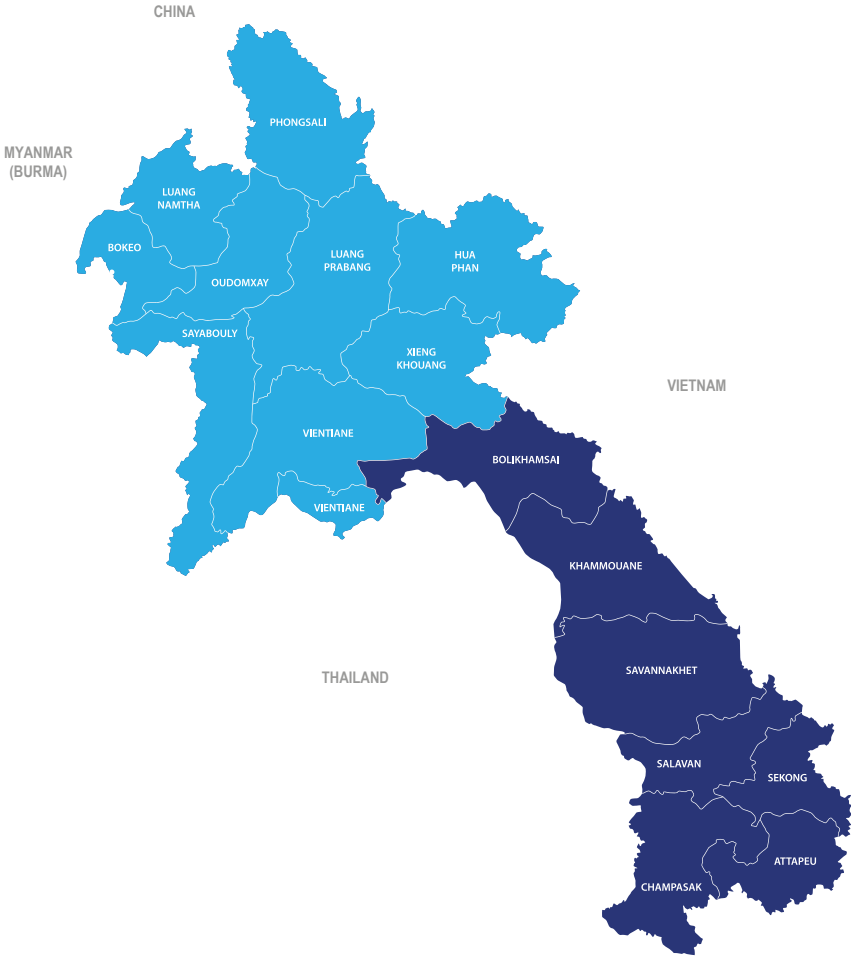
II. Lao PDR's Wood Processing Sector

Lao PDR has a small, but vibrant wood processing industry, with the potential to generate revenue in rural locations and help to diversify local economies.

In particular, Lao PDR offers a great environment for teak wood plantations.

Figure 7: Location of wood plantations in Lao PDR

- Provinces dominated by eucalyptus plantations
- Provinces dominated by teak wood plantations



Source: Paintmaps

Teak is a priority plantation tree crop in Lao PDR. Being a highly sought after timber for furniture, flooring and construction purposes, the teak plantations in Lao PDR present important opportunities for investors to tap into resources and develop a high value-added export-oriented industry. With a growing focus on fully integrated operations, foreign investors are encouraged to not only invest in the establishment and management of teak forest plantations, but also follow through into processing of the teak wood into wood products for export purposes, thereby presenting a viable and sustainable business opportunity.

Policy shift to enhance value-addition in the wood sector: Previously, trade in the wood sector was largely driven by exports of (almost) unprocessed natural wood to neighboring markets. However, in an effort to protect natural resources and ensure sustainability of the environment and the wood industry, the Government of Lao PDR suspended the export of logs and unfinished wood products (Refer Box 3),⁴⁰ creating more incentive and opportunity for value added and sustainable wood products. The Government of Lao PDR also regulates the wooden products eligible for exports, with the objective to promote further processing in the sector and stimulate exports of high-value-added wooden products.⁴¹

Box 3: Prime Minister Order No. 15 – Lao PDR's efforts to build a sustainable wood industry

Lao PDR has issued regulations restricting the export of wood and wood products to reduce illegal logging, promote domestic wood processing and facilitate industrial tree planting in the country.

The Prime Minister Order No. 15 (PMO 15), in particular, is most remarkable, among these measures. The ultimate goal of PMO 15 is to strengthen the implementation of forest management, along with timber extraction, processing and trade, and to ensure strict compliance to the laws and regulations halting illegal logging and illegal timber exports. Accordingly, PMO 15 stipulates, among others:

- Strengthening the enforcement of forest law against illegal logging and strict harvesting monitoring of all timber, especially from conversion areas;
- Processing of all timber by the national wood processing industry and banning of exports of unprocessed timber;
- Banning illegal timber and forestry products from transiting through Lao PDR territory to a third country;
- Auctioning of all timber at log landing site.

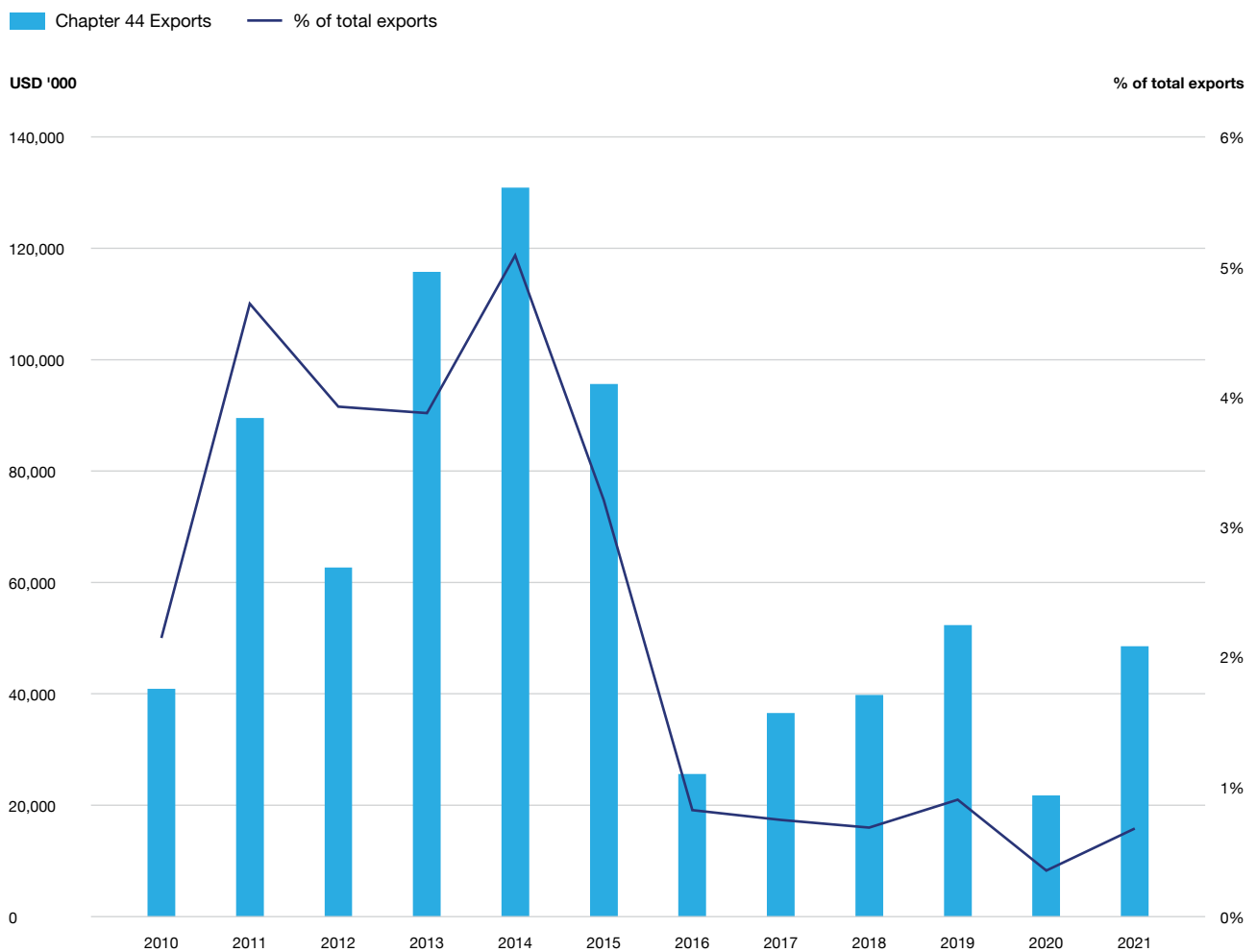
Source: ITC, Lao PDR - Wood Processing Sector Export Roadmap (2021 – 2025)

2.1. Lao PDR's Wood Exports – Current Status and Potential

In 2014, wood exports accounted for almost 5% of total exports, although this contribution has declined in the past few years, which can be attributed to the

PM Order of 2015 suspending exports of logs and unprocessed wood products.

Figure 8: Lao PDR Wood Exports, 2010 – 2021 (% of goods exports)



Note: Figures are based on exports of wood products and articles of wood; wood charcoal (HS 44).

Source: ITC, Trademap

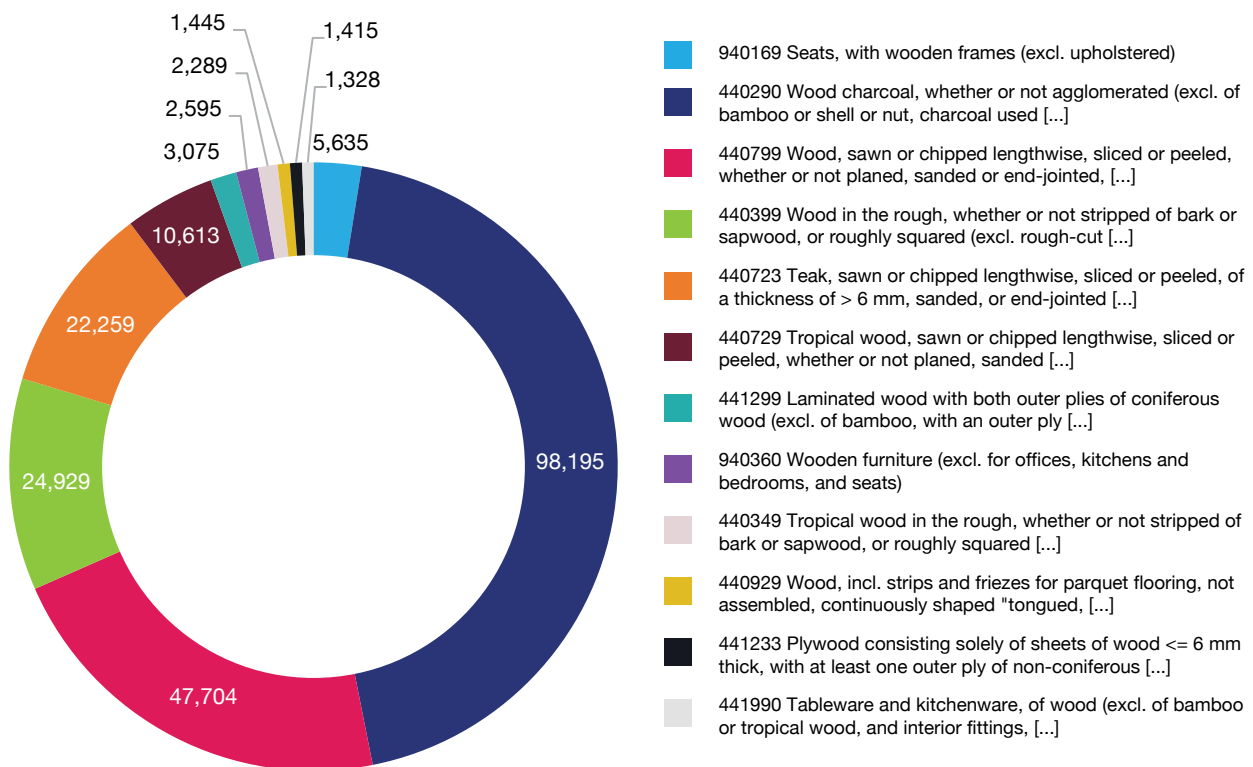
Nevertheless, Lao PDR still has significant export potential in several wood products, as discussed in further detail in Section 4 below. indicates that fully exploiting export potential in authorized wood export products⁴² represent a total export potential of USD 54 million, of which USD 31 million is currently untapped.⁴³

In 2018, wood in the rough (USD 128.6 million), sawn wood (USD 108.4 million) and wood charcoal

(USD 34.3 million) accounted for most of Lao PDR wood exports (Refer Figure 9).

Wood furniture products exported by Lao PDR was led by seats with wooden frames, followed by wooden furniture (excluding offices, kitchens, bedrooms, and seats) and wooden furniture for bedrooms. These three products are mainly exported to China (accounting for above 94% of market share).

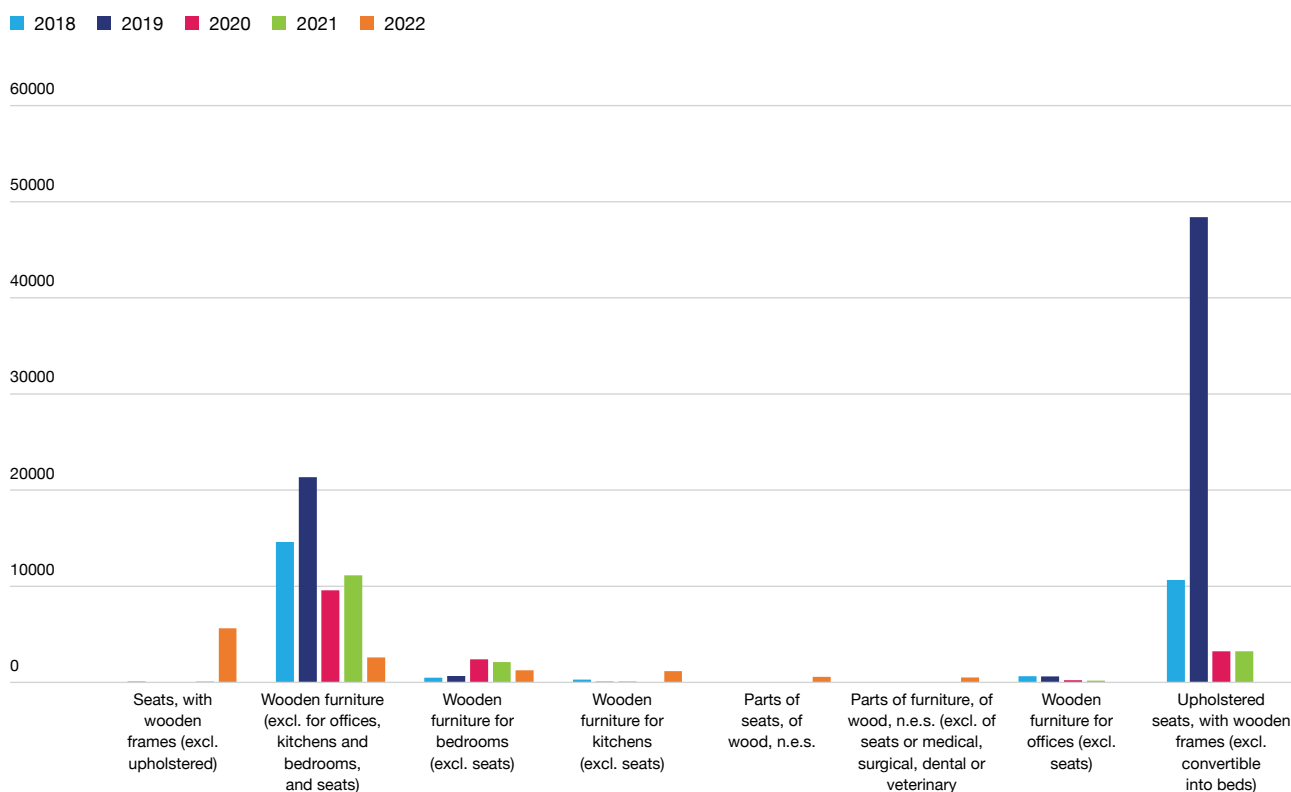
Figure 9: Types of wood exports (2022) (USD '000)



Note: Figures are based on exports of wood products and articles of wood; wood charcoal (HS 44); and furniture (HS 94)

Source: ITC Trade Map; ITC, Lao PDR - Wood Processing Sector Export Roadmap (2021-2025)

Figure 10: Lao PDR Top Exports of Wood Furniture (HS 94), 2018 – 2022 (USD Thousand)



Source: ITC Trade Map; ITC, Lao PDR – Wood Processing Sector Export Roadmap (2021 – 2025)

Important markets for Lao PDR's wood products include China (largest importer of Lao rough wood, sawn wood, wood tableware and kitchenware), Japan (wood ornaments, wood charcoal, and laminated wood), Viet Nam (sawn wood and tropical sawn wood), Thailand (wood doors and their frames, wood for parquet flooring and tropical sawn wood) and India (laminated wood). Table 5 below provides details of the main destinations for wood product exports, and shares of these destination countries.

The onset of the Covid-19 pandemic in late 2018, had a significant debilitating impact on the SMEs operating in the forestry and wood products sector. Nevertheless, the recovery after the pandemic has been strong and interests in the sector continue to surge. However, challenges arising from the global

climate change phenomenon and the ongoing Ukraine-Russia conflict continue to cast a shadow over global trade, to an unprecedented extent. As a result, the performance of the forestry and wood products sector in Lao PDR continues to remain uncertain, but there is a sense of growing optimism.

This is particularly reflected by the changes noted in trade volume of wood products as reported by the ITC. From 2019 - 2021, the volume of wood products exports has grown, but exports were predominated by products such as rough sawn wood, wood chips, white charcoal, etc. With the Notification No. 2522/MAF (2016), the exports of black charcoal has been prohibited, and export of white charcoal from 'Mai Tew' is allowed but under strict regulatory conditions.

Hence, Lao PDR is making strong moves towards discouraging exports of unprocessed and low-value wood products from the country. In this context, it is no surprise that exports of semi-

finished and finished wood products, especially related to furniture components and furniture continue to show positive growth.

Table 5: Main destinations for selected wood product exports (HS 44) – HS Code 6 digits (2021, Mirror Data)

| Export product | | Export markets and shares |
|----------------|--|--------------------------------|
| 1 | Rough wood (HS 440399) | China (91%) |
| 2 | Sawn wood (HS 440799) | Viet Nam (87%), China (13%) |
| 3 | Tropical wood, sawn (HS440729) | Thailand (61%), Viet Nam (29%) |
| 4 | Wood for parquet flooring (HS 440929) | Viet Nam (62%), China (32%) |
| 5 | Wood tableware and kitchenware (HS 441990) | China (76%), Japan (14%) |
| 6 | Laminated wood without blockboard, laminboard or battenboard (HS 441299) | China (38%), Viet Nam (18%) |
| 7 | Wood doors and their frames and thresholds (HS 441820) | China (65%), Indonesia, (13%) |
| 8 | Wood statuettes and other ornaments (HS 442010) | China (53%), Japan (46%) |
| 9 | Seat with wooden frames (excluding upholstered) | China (99%) |
| 10 | Wooden furniture (excl. for offices, kitchens and bedrooms and seats) | China (54%), Viet Nam (45%) |

Source: ITC Trademap; ITC, Lao PDR – Wood Processing Sector Export Roadmap (2021 – 2025)

Currently, Lao PDR’s wood processing exports are mostly centered around primary products which does not represent high potentials of growth for the country, given that the low-quality product market is controlled by Asian countries that have developed large-scale production at low costs, making it difficult for Lao PDR to compete.

Accordingly, the Government is looking at promoting value-added and higher quality products (e.g. improved design and finishing, sustainability certifications) which can boost wood export products and have better opportunities to succeed internationally (particularly in higher-end markets).

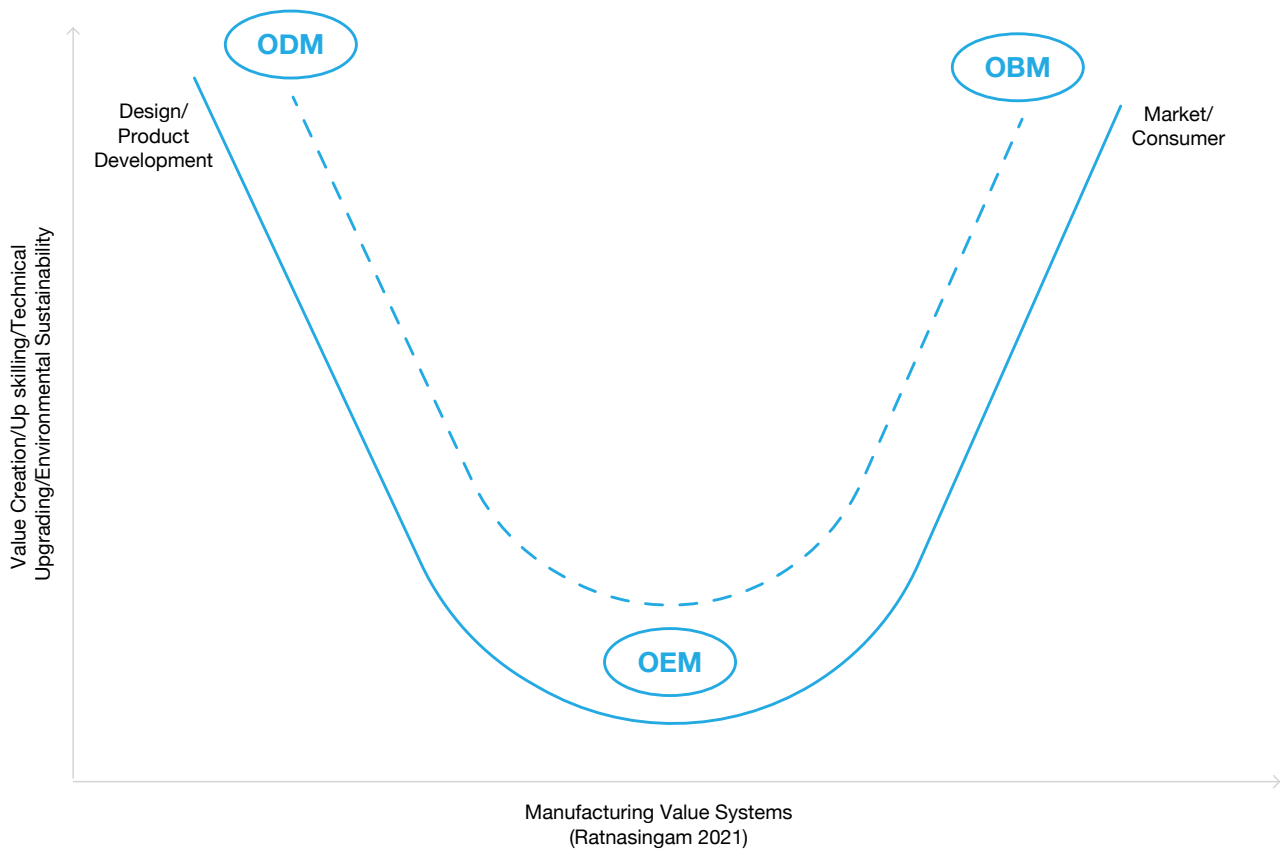
The manufacture of value-added wood products in Lao PDR is highly desirable as it provides the highest value recovery for wood resources, apart from significantly increasing export revenue and value earned. In this context, the manufacture of

furniture, building and housing components, builders’ carpentry and joinery (BCJ) are the targeted sectors for the participation of foreign investors, driven primarily

by the advantages from low cost inputs (i.e., wood resources and workforce). In fact, the high added value ratio of up to 6X provided by furniture and BCJ products made from teak wood is a niche business proposition that remains to be explored. As shown in figure 11, design and product development, together with marketing activities provide the highest value-addition, compared to manufacturing activities. Accordingly, value-added products such as furniture and BCJ have scope to present better returns for the investors and for Lao PDR.



Figure 11: Value-Addition Trends in Wood Products Manufacturing



Source: Ratnasingam et al. (2021). Digital Technology Application Among Malaysian Value-Added Wood Products Manufacturers. Bioresources: 16(2): 2876-2890. DOI: 10.15376/biores.16.2.2876-2890



To shift Lao PDR's export basket of wood processing products towards more upscale and value-added products, investments are necessary to advance technology, build up skills and capacity in the industry, and undertake research for new product development.⁴⁴ In addition, stronger efforts must be taken to strengthen quality and meet sustainability standards/certification requirements to appeal to relevant markets.⁴⁵

2.2. Policy Measures to support development and sustainability of the wood processing industry in Lao PDR

To support Lao PDR's wood industry to move towards higher value and sustainable production, the Government of Lao PDR is implementing various policy measures in this regard. The 8th NSDEP 2016 – 2020 placed strong focus on modernization of the industrial processing sector, diversification of commercial goods and using agriculture and forestry raw material and products, as production inputs. Establishing wood processing zones to

boost production capacity, across the country has been apparent in this plan. Specific actions were also detailed with respect to the wood processing sector, in terms of increasing plantation cover, including with high value trees, and establishing the wood processing industry across the country. (Refer Box 4).⁴⁶

Box 4: 8th NSEDP – Actions referring to the wood processing industry in Lao PDR

The 8th NSEDP designed several actions specifically related to the wood processing sector:

Actions to Improve Forest Coverage:

- Restoration of 500,000ha of production forests;
- The development of areas for the cultivation of high value-added trees, such as teakwood and rosewood, patterned hardwood (Mai Longleng) and Maijan in Luang Prabang, Luangnamtham, Bokeo, Sayaboury, Vientiane and Xiengkhouang.
- The establishment of demonstration areas for resources trees (e.g., Maijanwood) that match the local environments.

Development of wood processing industries:

- Development of handicraft products with potential in domestic and foreign markets (e.g. wood carving products);
- Development of processing industries for processed wood products – by facilitating at least 1 – 2 wood processing factories in Xay, Luang Prabang, Samneuaand, and Sayaboury provinces – with the capacity to fabricate standard processed wood products;
- The promotion of high-level production chains of integration in the Lao PDR.

Complementary policy efforts are detailed below:

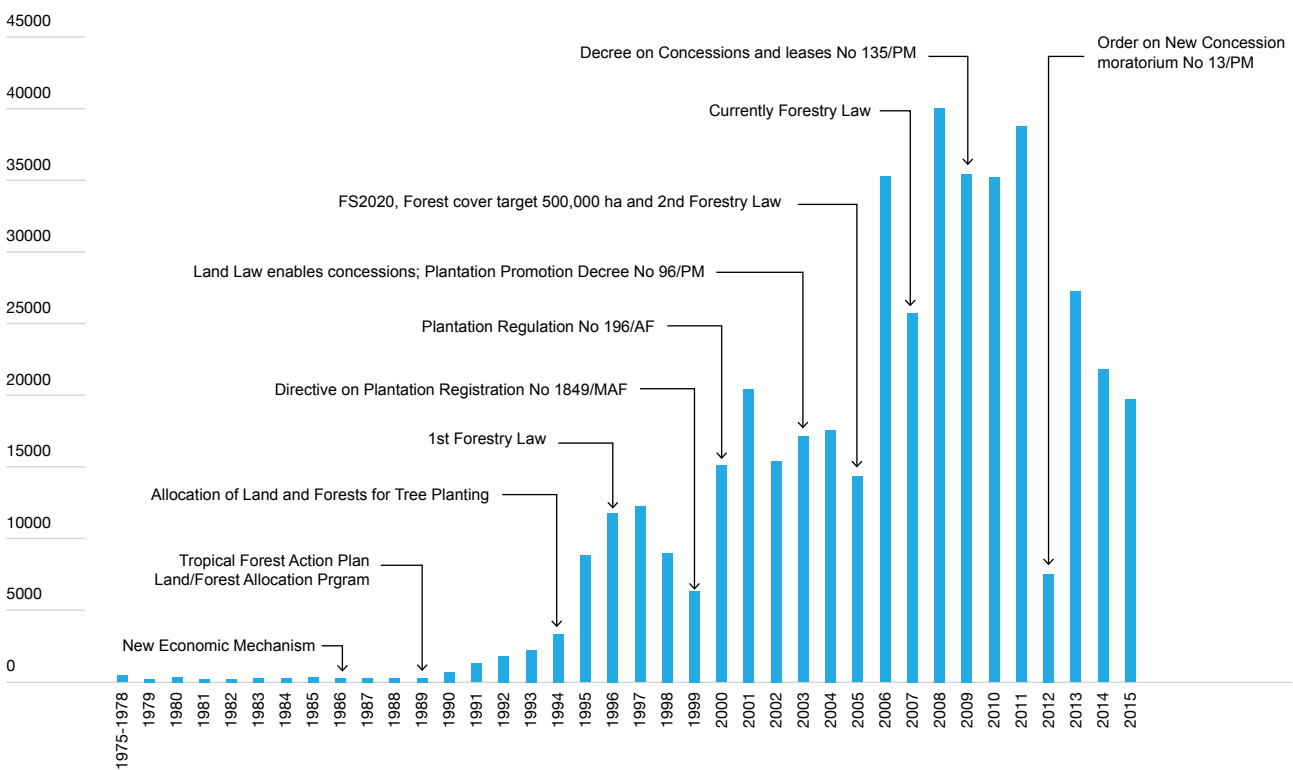
Improving forest coverage: The Government of Lao PDR has been pursuing an aggressive reforestation policy,⁴⁷ being a key component of the 8th NSDEP 2016-2020.

The Forestry Strategy to Year 2020,⁴⁸ issued by the Ministry of Agriculture and Forestry (MAF) in 2005, aimed to increase forest cover to 70% of total land by 2020 (i.e., to 16.58 million ha⁴⁹), by naturally regenerating up to 6 million ha and planting trees up to 500,000 ha in unstocked forest areas, encompassing the involvement of large-scale plantations involving the private sector.⁵⁰

The Decree on Tree Plantation Promotion for Commerce No.247/PM 2019 promotes tree planting for commercial timber production and environmental protection; and the Regulation of the Forest and Forest Resource Development No. 0264/DoF (2005) provides rules on forestry and forest resource development fund. These policy instruments serve as the framework to entice potential investors to look at venturing into the complete supply chain of the wood products industry.

The impact of these efforts is evidenced by the increase in rates of establishment of plantations over the past 40 years, as demonstrated in Figure 12.

Figure 12: Annual plantation establishment in Lao PDR 1975 - 2015



Source: Australian Centre for International Agricultural Research (ACIAR)⁵¹

From 2005 to 2020, Lao PDR increased its coverage of forestry from 41.5% (9.8 million ha) to 62% (14.7 million ha), meeting 72% of its various national plans in this regard (i.e. Forest Resources Development (No. 0264/2005), NSEDP (2016-2020) and Decree No. 247 – Promotion of Tree Plantation (2019)). Further, according to the Forestry Management, a total of 32,270ha of forest plantation was established in the dry and degraded forests in Lao PDR, indicating an expansion of forest resources in the country.⁵²

With the neighboring countries being in a state of ‘wood deficit’, Lao PDR offers ample opportunity for forest plantation establishments as green-field investment opportunities. Lao is placing growing attention on increasing and sustaining its supply of wood resources, thereby ensuring sufficient resources for manufacturing activities.

In this context, there is growing evidence to suggest that forest plantations as a sector can be attractive for potential investors. For instance, the promotion of commercial tree plantation has attracted a total of USD 1.5 billion in investment in the year 2021-2022, with USD 1.4 billion being foreign direct investment, while domestic investment stood at

USD 140 million (Report and Evaluation of Forest Management, AFRI Laos, 2023).

Over the period from 2013 to 2022, 306 forest land concession projects were approved covering a total area of 610,149 ha. In 2021-2022, the total volume of wood harvested amounted to 61,952,673 m³, alongside other forestry products such as: bamboos of 2,229,510 culms, Mai Tew (scientific name *Cratoxylum*) of 112,487 trees, rattans of 59,134 pieces, and other forest products of 34,085 tons.⁵³

The achievements of the Forestry Strategy 2005 to 2020 though commendable, have not been fully realized, which prompted the government to formulate the Forestry Strategy of 2020 to 2035 and Vision 2050. The new strategy aspires to improve on the insufficient compliance to procedures, regulations and laws related to forest protection and forest management, which has impaired the forestry sector development. This inevitably affects the sustainable supply of raw material for down-stream wood processing and export of wood products, which in turn is a constraint to the development of the forestry sector in the country.



Box 5: Lao's Forestry Strategy of 2020 to 2035 and Vision 2050

The formulation of the Forestry Strategy (2020-2035) is based on the needs of the National Socio-Economic Development Plan, the National Master Plan for Land Allocation, the National Rural Development and Poverty Eradication Plan and on in-depth consultations with all relevant sectors and development partners. National and international sustainable development issues, and the impacts of climate change have also been taken into account. The strategy also gives importance to Vision 2050, which reiterates the importance of forestry sector and its contribution to people's livelihood, reduction of poverty, and the protection on biodiversity and the environment. In fact, the strategy emphasizes the key role that forest and forestland play in socio-economic development and aims to address the shortcomings of the previous Forestry Strategy.

The Forestry Strategy (2020-2035) aims to improve the management and protection of forest resources, while rehabilitating, developing and enriching degraded forests. Forests is recognized as a source of carbon credit accumulation, ecotourism attractions, and also as the source of raw materials for the wood processing industry. The forestry sector, through the application of modern technology, and innovative techniques, will spur income generation and development of the society and the national economy towards sustainability and green economy.

The major targets laid under this strategy include:

1. Identify, allocate and manage forestland to cover 70% of the country's land area, of which:
 - 8.2 million hectares or 35% are Protected Forest;
 - 4.7 million hectares or 20% are Conservation Forest;
 - 3.1 million hectares or 13% are Production Forest;
 - 0.5 million hectares or 2% is land for commercial tree plantations.
2. Increase forest cover to 70% of the country's land area, by:
 - Managing the present forest cover of 14.7 million hectares or 62% and protecting it from being destroyed and degraded;
 - Rehabilitating at least 1.3 million hectares of degraded natural forest;
 - Planting trees and NTFPs on 500,000 hectares of barren forestland.
3. Promote development and modernization of wood and NTFP production and processing to add value and create jobs.

4. Promote development and modernization of wood and NTFP production and processing to add value and create jobs.

5. Forestry related businesses such as plantations, wood processing, ecotourism, forest carbon trading, etc. will be developed to create jobs and generate income.

6. Encourage and promote settlement of people living in forests to other areas with better income earning opportunities i to improve family livelihoods.

7. Enrich and improve the quality of forests and forestlands to promote biodiversity conservation, provide better habitats for plants and animals, protect soil and water resources, maintain and enhance ecosystem services and reduce impacts from natural disasters.

8. Strictly implement forest legislation and strengthen forest law enforcement to prevent, to combat and address deforestation and forest degradation, aiming to reduce at least 55 million (tCO₂e)⁵⁴

9. Develop and improve forestry sector organizational structure, staff capacity, and build a strong, modern technical base capable of implementing national policy in order to attract domestic and foreign investment through international and regional integration.

In essence the new Forestry Strategy of 2020-2035 places the development of the forestry and wood processing sector in the country on a stronger footing, providing the necessary support to enhance its attractiveness to both domestic and foreign investors.

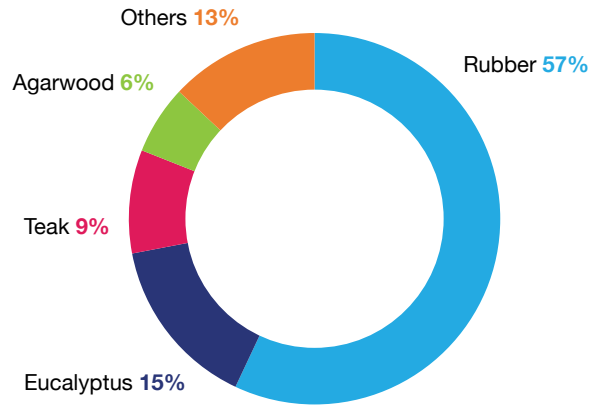


Type of resources available: The predominant tree species being planted are rubber trees (57%), followed by eucalyptus trees (15%), and other species such as teak and agarwood, as demonstrated in Figure 13.

It should also be noted that rubber tree plantations, which have been increasingly built up over the past 15 years and account for more than half of the total area of plantations (Refer Figure 14),⁵⁴ were never exploited (due to the high labor-intensive aspects of the plantations). Rubberwood continues to be a main raw material for value-added furniture manufacturing in the regional peers, especially Malaysia, Indonesia and Thailand, and therefore, may be emulated also in Lao PDR with the assistance of investors.

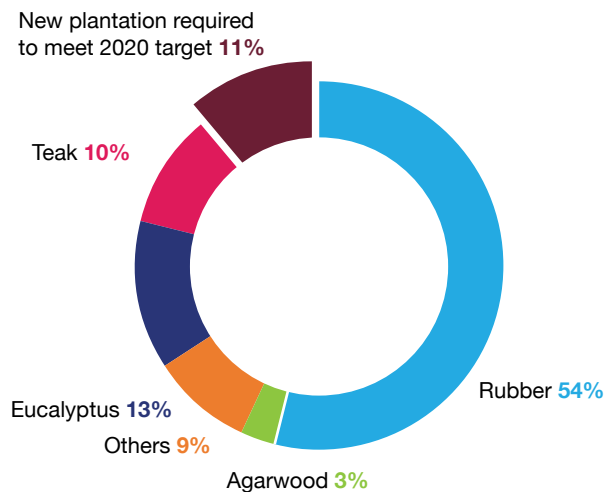
In addition, the Government also reportedly had plans to convey some of the rubber plantations into new industrial plantations (such as teakwood or eucalyptus), which can present further investment potential as well.⁵⁵

Figure 13: Type of wood resources available



Source: Report and Evaluation of Forest management by Agriculture and Forestry Research Institute, Laos (2023).

Figure 14: Area of plantations in Lao PDR in 2015 – and target for 2020



Source: Australian Centre for International Agricultural Research (ACIAR)⁵⁶

Shifting to sustainable forestry and wood supply chains: According to the Report and Evaluation of Forest Management by the National Agriculture and Forest Research Institute of Laos (2023), Lao PDR has implemented the 2021 – 2030 Reducing Emission from Deforestation and Degradation+ (REDD+) Action Plan which has shown positive effects to promote commercial tree plantation and reforestation.⁵⁷

Thus, far, the notable achievements under the REDD+ project include:

1. Completion of the first assessment on Forestry and Greenhouse Gas Emission (since 2015-2018) - which demonstrated positive steps towards reducing GHG emissions, and, in turn, reiterates the government's commitment to reforestation and aforestation activities in the country.
2. Contracts signed on buy and sell forestry carbon of REDD+ project in 6 provinces in the northern part of Lao PDR - valued at USD 42 million USD, demonstrating forest plantations as a means to pave the way for carbon trading.
3. MOU on REDD being entered into with three firms and 1 organization (from Korea) – which will pave the way for more extensive activities in reforestation and aforestation activities, mainly for carbon trading purposes.

These efforts are clear indication that Lao PDR continues to grow in the path towards sustainable forestry and wood supply, which was previously noted as a weakness by investors. The REDD+ initiative complements the slowly progressing voluntary partnership agreement (VPA) with the EU, to facilitate a smoother path for the export of wood products into the market from Lao PDR.

2.3. Regulatory and institutional framework governing the wood industry

Efforts to promote investment in plantations and value-added wood products: Decree No. 247/PM (2019) 'Regarding Commercial Tree Planting and Environmental Protection'⁵⁸ provides for exemptions from land tax for land used in plantations (after three years if planted in accordance with the Law on Forestry); exemptions on reforestation fees and forestry resource fees, if planted timber is for domestic use and for export, although income taxes must be paid, among others.⁵⁹ **This is of particular relevance to FDIs as Lao PDR is perhaps the only country in the region that has put together a plan focused on resource cultivation and management of plantation forest, against the background of developing and growing a value-added wood products industry.**

Further, while the issuance of PMO 15 resulted in a decline in the availability of raw material for primary and secondary processing; this policy is also attributed to the improvement in exports of value-added products, along with the significant decline in illegal logging activities by almost 75% in one year.⁶⁰ The PMO 15 coupled with the MoIC Regulation No. 0939/MoIC setting out an authorized list of wood exporters, further encourages engagement in the processing sector and exports of high-value-added wooden products. **These restrictions are aimed to encourage further down-stream value-added processing of wood products, which at the moment, makes up only a small proportion of the wood products exported from the country. It is envisaged that value-added manufacturing will be further boosted in years to come in Lao PDR.**

Table 6: Main legal references relevant to the wood processing sector.

| Legal Reference | Purpose |
|---|--|
| Law No. 64/NA on forestry, dated 13 June 2019 (Revised) | Regulates the management and use of forest land (as defined under the Law on Land) |
| Directive No. 1849/MAF concerning the registration of tree planting parcels 1999 | Establishes the requirement for plantations to be registered |
| Regulation of the Forestry and Forest Resource Development No. 0264/DoF.FRDF, dated 27 Sept 2005 | Rule of forestry and forest resource development |
| Decree on Tree Plantation Promotion for Commerce No.247/PM, dated 20 August 2019 | To promote tree planting for commercial timber production and environmental protection. |
| Regulation No. 0777/MoIC-DoIH, Monitoring and Inspection of Timber Input and Output, August 2020 | To define rules for operational control and compliance monitoring the timber supply chain |
| Decision on Wood Processing Factory No.0222/MOIC.DIH, dated 23 March 2021 | Defines all applicable manufacturing standards for timber processing (under revision) |
| Law No. 48/NA on Industrial Processing 2013 | Regulates all processing and manufacturing activities, including wood processing |
| Order No. 15/PMO on Strengthening Strictness of Timber Harvest Management and Inspection, Timber Transport and Business 2016 | Suspends the export of logs and unfinished wood products |
| Revised Regulation of the list of wooden products eligible to export, No. 0939/MoIC, DoIC 01/08/2019 | To establish the list of wooden products eligible to export |
| Decree No. 247/20 August 2019 – Promotion of Wood Plantation for Industrial Use | Provides that owners of wood processing plants must also have their own wood plantation; and register their wood plantation together with their processing licence |
| Prime Minister Order No.09/PM, dated 02/07/2018 and Guideline No.1758, dated 30/7/2018 on the implementation of the Prime Minister Order No.09/PM | The PM Order relates to the intensification of land use management for industrial tree plantation and other crops nationwide; and the Guidelines provide instructions on implementation of the order |

Further, in order to enhance trade, through better monitoring and management, the Ministry of Industry and Commerce (MOIC) introduced the Decision on Registration of Importers and Exports of Goods No. 0752 (which came into effect in May 2023),⁶¹ requiring registration of importation and exportation of goods/products that are deemed sensitive to lives of people with the MoIC (the focal point to coordinate with relevant agencies and identify the products/goods to be registered). Wood and wood products (HS 4401 – 4421, 4701 – 4707, 4801 -4812, 94) are captured in the goods subject to this requirement.⁶²

The Decision No. 0752 provides clear procedures on the registration process, and aims to facilitate trade. This registration is usually for a period of

one-year, and can be renewed with the necessary documentation. This is a major effort to minimize illegal trade, while at the same time will also enhance better trade data capture and management.

Management of forestry and processing activities:

Regulations are in place to oversee the management and use of forest land; set out rules for operational control and compliance monitoring along the timber supply chain; and set up manufacturing standards for timber processing.

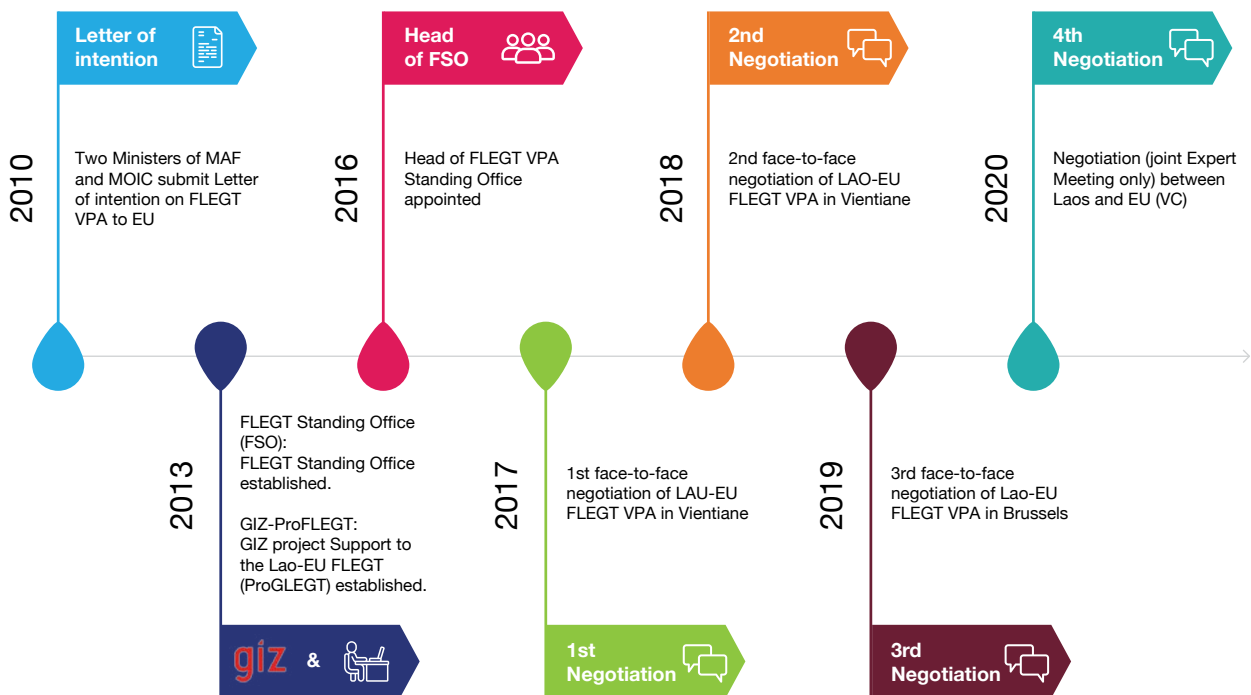
Commitment to improve transparency in the regulatory system:

Lao PDR had embarked on Forest Law Enforcement, Governance and Trade Voluntary Partnership Agreement (FLEGT VPA) negotiations with the EU – for which the

expected effect is a clearer and more transparent regulatory system (Refer Box 4), and would lead to an improved international reputation. The VPA seeks to ensure that and sustainable wood products are exported to the EU, and would be relevant to exports to comply with the EU Timber Regulation (EUTR) and other environmental requirements in many other markets throughout the world. This process represents a fundamental transformation in how the Lao forestry sector is governed, by

providing non-state actors an unprecedented level of access to influence policy and regulations that affect the forestry sector. Lao PDR formally expressed its interest in commencing the FLEGT VPA negotiations in April 2012, with the first round of negotiations taking place in April 2017. As of January 2022, four rounds of negotiations had been conducted.⁶³ (For more information on this process – refer: <https://flegtlaos.com/>)

Figure 15: Overview of FLEGT VPA Process and bilateral meetings between EU and Lao PDR



Source: Refer Endnote 63.

Accordingly, investors seeking to engage in the wood processing sector in Lao PDR can seek opportunities in the production of high-quality

value-added wood products, and in sustainably produced products which may appeal to certain international markets.

Box 6: EU's FLEGT and VPA Negotiations

The EU's Forest Law Enforcement, Governance and Trade (FLEGT) and Voluntary Partnership Agreement (VPA) Negotiations

The European Union's FLEGT action plan was established in 2003 with the objective of reducing illegal logging by improving governance and sustainable forest management while promoting trade in legally produced lumber.

Since 2013, the EU Timber Regulation has banned illegally harvested timber from EU markets, requiring importers to check the origins of products. Under the action plan, bilateral voluntary partnership agreements (VPAs) are negotiated to ensure the legality of trade in wood and wood products. A FLEGT licence is a guarantee of the legality of the products in the country of harvest and their meeting EU Timber Regulation requirements.

EU–Lao PDR negotiations on the VPA officially started in April 2017 and are ongoing. By 2020, Lao PDR has made progress on several fronts in defining legality and developing supply chain controls, including on:

1. Defining timber legality by identifying the national laws and regulations that will be used to indicate the legality of timber;
2. Revising the Forest Law, Land Law, and a new decree on environmental impact assessments to further clarify legality under the VPA;
3. Working on natural production forests and labour obligations in forestry, wood processing and trading operations;
4. Developing community initiatives and clarifying the institutional arrangements to implement the VPA and the timber legality assurance system; and
5. Development of eight Timber Legality Definitions, as part of the Lao timber legality assurance systems – in order to indicate the legality of timber.

The Forestry Law No. 64/Na (2019) also pays greater attention to ensuring sustainable and legal supply of wood resources, and the establishment of the Timber Legality Assurance System (TLAS) is in the right direction, and reflects the commitment of the government towards this cause.

Through the VPA, Lao PDR would not only benefit from improved exporting to EU countries, but also other countries working and trading with the EU in this sector and that are looking to certify the legality of imports that may be re-exported. Thailand is negotiating a VPA, Viet Nam has concluded VPA negotiations, and China is working with the European Union on forest management issues.

Source: Lao PDR Wood Processing Export Roadmap 2021 - 2025

2.4. Launch of the Wood Processing Sector Export Roadmap 2021 – 2025

The regulatory and institutional developments discussed above seek to contribute to a favorable environment to attract new investments and expand market opportunities. To capitalize on these opportunities and address challenges, Lao's public and private stakeholders joined forces to develop a Wood Processing Sector Export Roadmap. The Roadmap was driven by the overall vision of "Building the future of Laos exports with value-added wood products" – and seeks to achieve three strategic objectives, namely:

- **Strategic Objective 1:** Improve the sector's sustainability through better coordination and increased access to legal timber
- **Strategic Objective 2:** Stimulate product diversification and upgrade processing capacities by enhancing skills, fostering technology adoption, and spurring investment
- **Strategic Objective 3:** Enhance the sector's ability to create and sustain market linkages.

The Roadmap, officially launched in 2021, sets out a framework for actions to be undertaken over the five-year period to achieve these objectives.

The Roadmap was developed under the scope of the ARISE Plus Lao PDR project and has been officially endorsed by the Ministry of Industry and Commerce.

The Roadmap provides the framework for strategic development of the wood products sector in Lao PDR, which will not only transform the country's wood products sector, but also ensure sustainability in wood supply, apart from market compliance. The three strategic objectives as set out in the Roadmap are to (a) pivot towards industrial transformation, (b) ensure high value-capture of the forestry and wood products sector via sustainable wood resources, and (c) develop skills and strengthen supply chain management and market linkages.

2.5. Wood Production and Processing in Lao PDR

Investors into the wood sector in Lao PDR are required to invest in the entire value chain from wood plantations to the wood processing sector in Lao PDR.⁶⁴ This structure ensures that investors in the wood processing sector have a sustainable supply of raw materials.

Further, owners of wood plantations are eligible for certain tax exemptions after a certain time period and subject to compliance with the Law on Forestry.⁶⁵

Figure 16, highlights some of the notable tax exemptions that are applicable to projects related to wood and wood products manufacturing as extracted from the Law of Investment Promotion (2016).

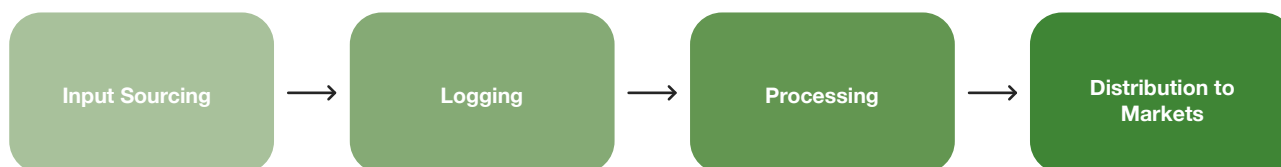
Figure 16: Tax exemptions relevant for the wood sector – as extracted from the Law of Investment Promotion

| Article | Nature of Tax Exemption | Period |
|--------------------------|---|--|
| Article 11 Article 15 | <p>Profit Tax Incentives</p> <p>Investments in sectors and zones as in Articles 9 and 10 enjoy profit tax exemption and are exempted from rental and concession fees.</p> <p>Zone 1</p> <p>Zone 2</p> | <p>10 years + 5 years</p> <p>4 years + 3 years</p> |
| Article 12 | <p>Customs Duty and Value-Added Tax Incentives</p> <p>Imported materials and equipment exempted from duty and pay 0% value-added tax.</p> <p>Use of domestic raw materials of non-natural origin for export of finished or semi-finished product enjoy 0% value-added tax.</p> | |
| Article 14 | <p>Incentives for Investment Expansion</p> <p>Investors who reinvest profit will benefit from the profit tax exemption.</p> <p>Investors who reinvest profit but suffer loss can carry forward their losses to be deducted against the profit in the following years.</p> | <p>1 year</p> <p>3 years</p> |

Source: Law of Investment Promotion (2016)

The wood processing value chain comprises of the following main steps:

Figure 17: Wood Processing Value-Chain



2.5.1. Wood Plantations

Sources of Timber: There are four sources of timber in Lao PDR (each subject to specific applicable legislation):

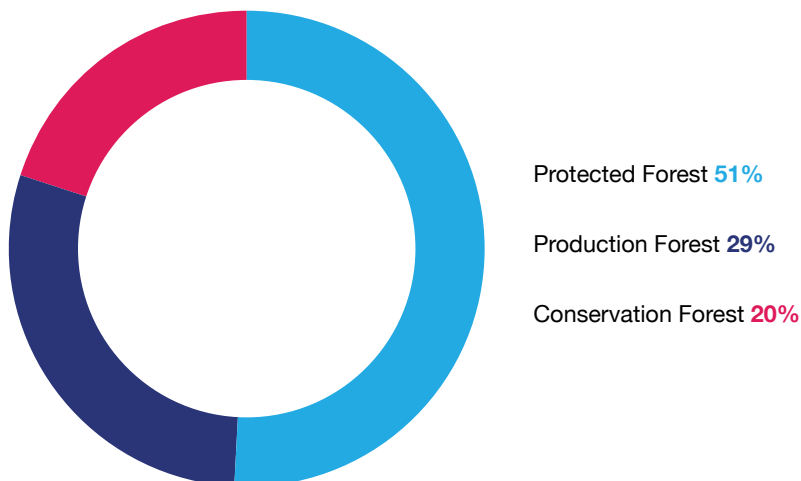
| | |
|--|---|
| <p>Sourced from Natural Forests: Valuable timber species including sandalwood, teak, acacia, rubber-wood, rosewood, and lesser-known species.</p> | <p>(1) Production Forest Areas (PFAs): Timber from this source can be harvested via selective logging under “special logging quotas”, based on a pre-logging survey.</p> <p>Requirements: 15-20-year forest management plan, harvesting plan, logging permit.⁶⁶</p> |
| | <p>(2) Conversion Timber: Raw material sourced from either conservation forests, national protected areas, protection forest or production forest, which are under the national annual logging quota for conversion timber. Within the last few years, conversion accumulated to several tens of thousands Ha/year with volumes up to 600.00 cubic meter timber/year harvested.</p> <p>Requirements: harvesting plan and logging permit.⁶⁷</p> |
| <p>Sourced from Plantation Forests: Valuable teak species including rubberwood, eucalyptus, acacia, teak, and agarwood.</p> | <p>(3) Plantation timber (concessions):⁶⁸ timber from plantation concessions located on either degraded forest or barren forestland. Plantation areas (large-scale plantations) are mainly located in the central and southern parts of the country, namely Vientiane, Khammouane, Savannakhet and Bolokamxai provinces. In the northern parts of the country indigenous species (particularly teak) have been preferred in plantations. By 2018, there were an estimated 490,000 ha of plantations in the country (Department of Finance, 2018).</p> <p>Requirements: Registration for areas of 1,600m² or more. If the area is larger than 5 hectares (5,000 m²), then a management plan is additionally required.</p> |
| | <p>(4) Plantation timber (smallholders):⁶⁹ This timber is sourced from village agriculture land allocated within the state forest. Land is managed by smallholders, where 3 hectares is the threshold per household.</p> <p>Requirements: Certificate for three-year temporary land use for tree planting and a logging permission from the Provincial or the Federal Agriculture and Forestry Office.</p> |

Other sources of raw material for the sector cover confiscated timber, recycled wood, and imports.



Forests available for plantations: Forest areas in Lao PDR are classified into three categories for preservation and development purposes, as demonstrated in Figure 18. Conservation (i.e., national parks) and protection forests are dedicated to conserving nature and to preserving plant and animal species (the Government being highly committed to increasing environment protection), but protection forests can be planted. Together with production forests, 80% of the total forest cover is then open to foreign investment.

Figure 18: Share of forest classification in Lao PDR



Source: International Bank for Reconstruction and Development/The World Bank⁷⁰

According to the Land Matrix public database on land deals, a total of 150,000 ha has already been acquired by foreign investors in Lao PDR, as shown in the Table 7 below.

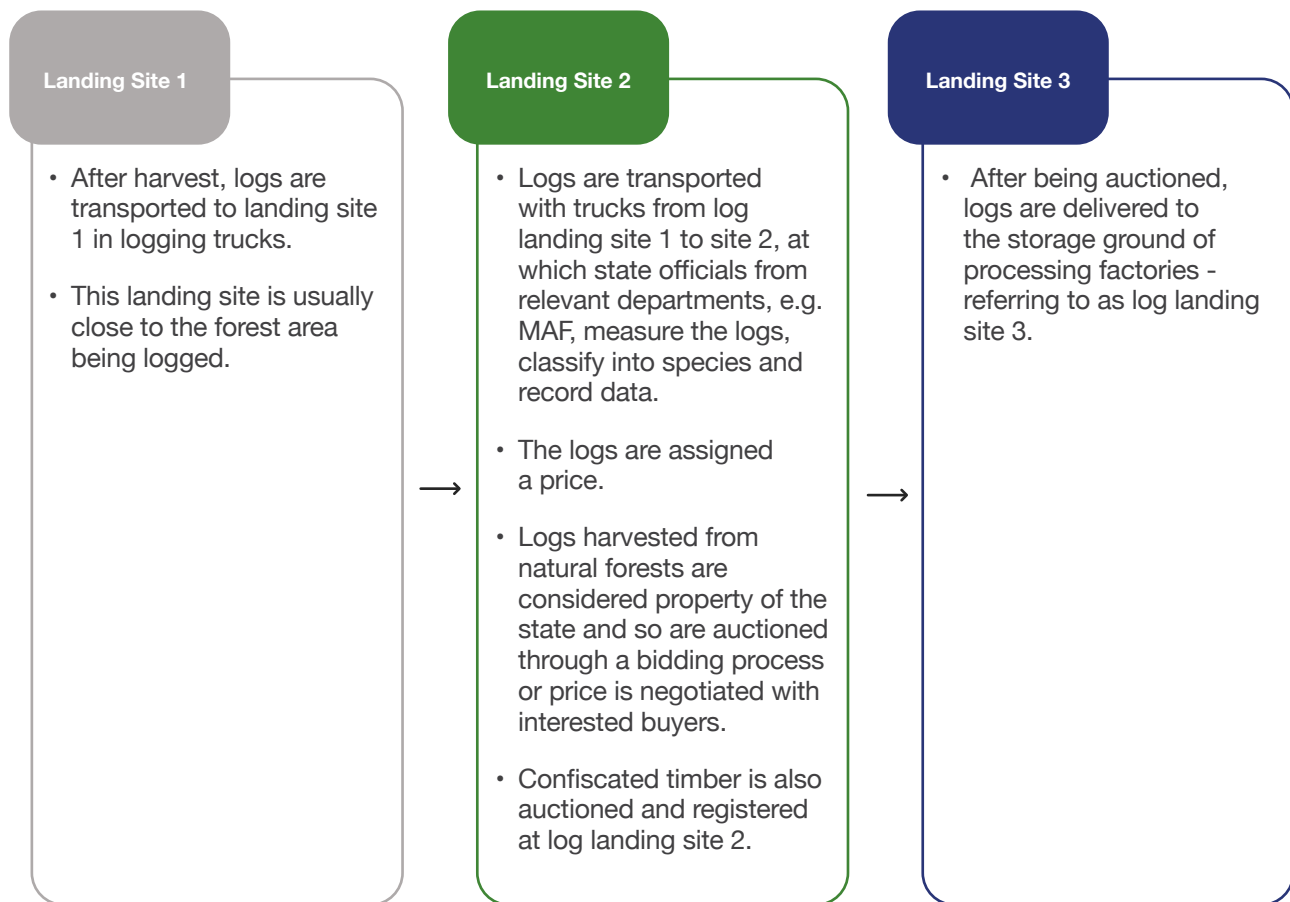
Table 7: Foreign Investment in Timber Plantations in Lao PDR

| Company | Site | Intention of investment | Area (ha)* | Concession period (years) |
|--|--------------------------|--|----------------|---------------------------|
| Government of Laos / Oji Paper Co Ltd | Bolikahamxay/ Khammouane | Timber plantation (for wood and fiber) | 50,000 | 50 |
| Aditya Birla Group | Savannakhet/ Khammouane | Timber plantation (for wood and fiber) | 50,000 | 75 |
| Mekong Timber Plantations Co, Ltd. | Bolikahamxay/ Khammouane | Timber plantation (for wood and fiber) | 22,000 | 50 |
| Vietcombank Securities Limited Company (VCBS) / Vietnam Rubber Group | Savannakhet | Non-food agricultural commodities, Forestry unspecified | 8,650 | 30 |
| Souphayvanh Thiengchanhxay Silvicapital AB | Vientiane Province | Timber plantation (for wood and fiber) | 8,400 | 30 |
| Shandong Sun Paper | Savannakhet | Timber plantation (for wood and fiber), Industry (pulp mill and plantation) | 7,324 | 50 |
| Ying Jiu Pa Company Ltd. | Namo | Non-food agricultural commodities, Timber plantation (for wood and fiber), Other | 2,500 | 30 |
| TOTAL | | | 150,000 | |

Source: Land Matrix⁷¹

2.5.2. Wood Processing

Logging: The stages of the logging process from the above-mentioned timber sources are as follows:



Logging should be carried out in compliance with the Forestry Law (revised) No.64/NA dated 13/6/2019. As defined in Article 30 and Article 41, the logging and harvesting operations for the removal of registered wood tree species for commercial exploitation from the production forests, should be carried out in a transparent manner and with the necessary documentation. Although logging and harvesting can be carried out without the survey and licensing procedures, the company involved, is required to inform the District Agriculture and Forestry Office, in writing, of its intentions to harvest a stipulated area,

by providing evidence of certification of ownership, as well as information on the location, species and number of tree species to be cut.

The movement of wood and wood products from the production forest must be in compliance with Article 36 of the 2019 Forestry Law (revised). Any movement within the country can be done without a permit, but the owner is required by law to inform the District Agriculture and Forestry Office of the number of trees or the weight of wood being moved.

Processing: The Law on Industrial Processing divides the processing sector between Type 1 factories (primary processing) and Type 2 factories (secondary processing).

Type 1 factories include:

- **Sawmills, which produce sawn wood, re-sawn wood, cut wood, among others, and by-products, such as sawdust and woodchips.**
- **Semi-finished and engineered wood product factories, producing laminated panels, rotary veneers, plywood, and other processed wood products.**
- **Pulp mills, producing pulp for subsequent paper production.**

Type 1 factories produce material that can be supplied for Type 2 factories for further processing, value addition and/or transform them into final products.

Type 2 factories include manufacturers of:

- **Wood furniture (including at the household level): tables, chairs, shelves, bed, etc.**
- **Wood products for construction: frames, window frames, stairs and other products used for buildings.**
- **Other finished products: floorings, parquet, laminated boards, containers made from timber, etc.**
- **Wood-based handicrafts: decorative wood, carving products, wooden jewelries, and other woodcrafts.**
- **Paper and paper products.**

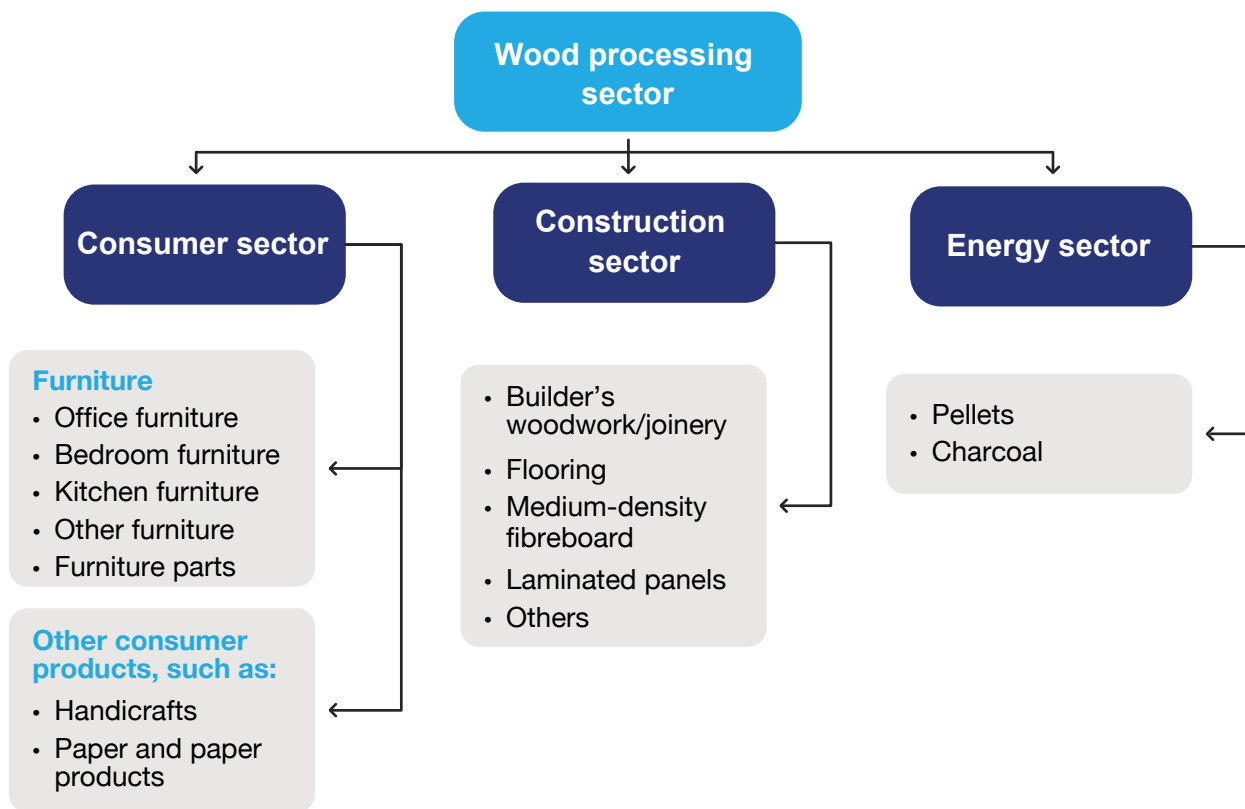
Steps followed by Type 2 factories differ depending on the final product. These may include, inter alia, spindle/molding, carving, assembling, and polishing.

III. Why invest in Lao PDR?

3.1. Lao PDR's capacity to meet global trends in wood processing products

The wood-processing sector comprises a broad range of products which can be utilized for different purposes – including for consumer products, construction related activities, and for the energy sector.

Figure 19: Wood Processing Sector – Products



Source: Taken from the Lao PDR Wood Processing Export Roadmap 2021 – 2025⁷²

The global wood processing industry had been experiencing strong growth in the pre-pandemic era due to the close connection with the construction sector, driven by growth in the Asian and Pacific markets, and Asian countries such as China

and India, in particular, contributing to growth of the global furniture market.⁷³ Wooden furniture accounted for the most traded wood products, and followed by sawn wood exports.

Table 8: Exported value of wood products in 2015, 2019, 2020, 2021, 2022 (USD Billion)

| Product | 2015 | 2019 | 2020 | 2021 | 2022 |
|-----------------------|------|------|------|------|--------|
| Wooden furniture | 67.1 | 72.8 | 71.7 | 93.9 | 102.45 |
| Sawn wood | 34.6 | 36.9 | 38.0 | 57.5 | 54.5 |
| Industrial round wood | 13.1 | 15.6 | 13.5 | 17.1 | 15.8 |
| Plywood | 15.2 | 15.2 | 14.4 | 20.3 | 18.9 |
| Builder woodwork | 14.2 | 15.7 | 15.6 | 20.3 | 20.6 |
| Mouldings | 5.2 | 5.5 | 5.3 | 7.3 | 7.6 |
| Veneer | 3.0 | 3.6 | 3.37 | 4.6 | 4.6 |

Source: ITTO⁷⁴

Environmental awareness is also growing worldwide, thus increasing demand for wooden furniture and construction given that it is considered to be a sustainable resource, along with a push towards more sustainable policies for sourcing of wood, traceability, and certification. In addition, growing interest for luxury and outdoor furniture in both developed and developing countries offers room for teak wood, a high-valued tropical timber.⁷⁵

Investors in the wood processing industry can consider Lao PDR as a viable base from which to tap into these global trends, particularly in the areas of value-added and high quality and sustainable wood products.

The outbreak of the Covid-19 pandemic and the resulting measures taken by Governments to control the spread of the virus have impacted economies around the world, although the implications for the wood market are still largely unknown.



3.2. Proximity to high-demand markets and strengthened connectivity

Lao PDR's proximity to major markets is an additional strength for trade of wood products, as demonstrated in the following table. Countries highlighted in **bold** are geographically near to Lao PDR.

Table 9: Major importers of forest products in the world (2020)

| Product type | Import markets and shares (percentage of global imports) |
|-------------------------------------|--|
| Wood fuel | South Africa (15%); Italy (15%); Eswatini (7%); United Kingdom (6%); Germany (6%); France (5%); Austria (5%); Finland (4%) |
| Industrial roundwood | China (44%); Austria (9%); Sweden (5%); Finland (5%); Germany (4%); Belgium (4%); Canada (3%); Republic of Korea (3%). |
| Wood charcoal | China (10%); Germany (6%); United States of America (6%); Poland (5%); Japan (5%); Saudi Arabia (4%); France (4%); Republic of Korea (4%); South Africa (4%); United Kingdom (4%). |
| Wood pellets and other agglomerates | United Kingdom (33%); Republic of Korea (13%); Denmark (12%); Netherlands (8%); Japan (7%); Italy (7%); Belgium (5%). |
| Sawn wood | China (23%); United States of America (18%); United Kingdom (5%); Germany (4%); Japan (3%); Egypt (3%); Italy (3%); Belgium (3%). |
| Veneer sheets | China (24%); United States of America (12%); India (5%). |
| Wood-based panels | United States of America (17%); Germany (7%); United Kingdom (4%); Japan (3%); Republic of Korea (3%); Canada (3%); Italy (3%); Poland (3%); Belgium (3%). |
| Pulp for paper | China (40%); United States of America (9%); Germany (6%); Italy (5%); Republic of Korea (3%); Netherlands (3%); France (3%). |
| Recovered paper | China (15%); India (13%); Germany (10%); Viet Nam (8%); Indonesia (7%); Netherlands (5%); Mexico (4%); Thailand (4%). |
| Paper and paperboard | China (11%); Germany (9%); United States of America (7%); Italy (4%); United Kingdom (4%); Poland (4%); France (4%); Belgium (4%); Mexico (3%). |

Source: FAOSTAT-Forestry database, 2020⁷⁶

Lao PDR is engaging in various efforts to further strengthen connectivity thereby enabling easier and cost-effective access to these major markets, as discussed further below.

These aspects are further complemented by an enabling environment being facilitated by Lao PDR to make the country a more attractive destination for investments, which are explored in further detail below.



3.3. Lower costs than its neighbors

Lao PDR's labor cost is one of the lowest in the region (the monthly minimum wage is around USD 120).

Further, being the “battery of Southeast Asia”, Lao PDR has the third-lowest price for electricity in the region, at USD 0.07 per kilowatt-hour (with only Brunei (USD 0.05) and Myanmar (USD 0.55) charging less; by contrast, Singapore charges the region's highest rate at USD 0.18 per kilowatt-hour).

Additionally, given the country's low population density and the high availability of land, land concession rates (negotiated between the investor and the landowner on a case-by-case basis, depending on the investment size) are much cheaper than those of Lao PDR's neighboring countries, Thailand, and Viet Nam.

3.4. Stable political environment and improved lawmaking framework

A peaceful and stable one-party socialist republic (the only legal political party being the Lao People's Revolutionary Party (LPRP)), the country has not experienced any major security incidents since the LPRP came to power in 1975.

The 2023 Global Peace Index (GPI) rated Lao PDR as the 46th most peaceful country in the world (and the 4th in ASEAN, behind Singapore, Malaysia, and Viet Nam).

The Constitutional Amendments of 2015 strengthened the framework of policies and coordination in the Government towards the enforcement of the rule of law – with reforms introduced to reinforce democratic governance through establishment of an elected People's Council and clarification of status and functions of state organs; improved accountability with respect to budgetary outlays; and stronger emphasis on democratic rights and entitlements.⁷⁷ According to the Government of Lao PDR, the Constitutional reforms are demonstrative of the interest of Lao PDR to promote foreign investment and highlight that lawful assets and capital of investors shall not be confiscated, seized by the State or nationalized.⁷⁸

Table 10: 2023 Global Peace Index (GPI), Asia Pacific

| Regional Rank | Country | Overall Score | Score Change | Overall Rank |
|-------------------------|------------------|---------------|---------------|--------------|
| 1 | New Zealand | 1.313 | -0.004 | 4 |
| 2 | Singapore | 1.332 | -0.013 | 6 |
| 3 | Japan | 1.336 | -0.004 | 9 |
| 4 | Malaysia | 1.513 | 0.036 | 19 |
| 5 | Australia | 1.525 | -0.040 | 22 |
| 6 | Taiwan | 1.649 | 0.002 | 33 |
| 7 | Vietnam | 1.745 | -0.044 | 41 |
| 8 | South Korea | 1.763 | -0.028 | 43 |
| 9 | Mongolia | 1.765 | 0.006 | 44 |
| 10 | Laos | 1.779 | -0.041 | 46 |
| 11 | Timor-Leste | 1.796 | -0.042 | 49 |
| 12 | Indonesia | 1.829 | 0.054 | 53 |
| 13 | Cambodia | 1.947 | -0.009 | 80 |
| 14 | China | 2.009 | -0.009 | 80 |
| 15 | Thailand | 2.061 | -0.070 | 92 |
| 16 | Papua New Guinea | 2.095 | -0.068 | 98 |
| 17 | Philippines | 2.229 | -0.059 | 115 |
| 18 | Myanmar | 2.741 | 0.129 | 145 |
| 19 | North Korea | 2.848 | -0.046 | 149 |
| Regional Average | | 1.857 | -0.006 | |

Source: Institute for Economics & Peace (IEP)

The Law on Lawmaking 2012 was a major step towards transparency and consistency - making it mandatory for all laws to be available on the official gazette website (although still being implemented); and establishing a clear hierarchy for various regulatory instruments. In addition, the 2012 Law notes that if existing legislation and newly adopted legislation of general application is found to be inconsistent with provisions of international treaties that Lao PDR is party to, the provisions of the international treaty prevail, and the provisions of

existing legislation or newly adopted legislation shall be revised in due time.⁷⁹

The political stability, commitment to transparency, democratic reforms and compliance with international standards, and peaceful nature of the country contributes to a conducive business environment for FDIs, as well as a safe and clean environment to live in for expatriates and families working in Lao PDR.

3.5. Improvements to ease of doing business in Lao PDR

Gradually improving the ease of doing business, Lao PDR has been experiencing strong economic growth over the past 15 years. Lao PDR is committed to liberalizing the economy and opening to the private sector through the amended Investment Promotion Law (IPL) of 2016. The Investment Promotion Department encourages investment through its website (<http://investlaos.gov.la/>) and holds an annual dialogue with the private sector and foreign business chambers through the Lao Business Forum⁸⁰ (LBF) process.

The economy is diversifying, enhancing enterprise competitiveness (e.g., the “One District, One Product (ODOP)” program), creating a business-friendly environment and deepening economic integration.

Further, Lao PDR has been making progress in terms of streamlining business processes. For instance:

- In 2008, it made the process for obtaining operating licenses faster and removed the requirement to obtain Ministry approval to register a new company.
- In 2013, it further eased the process by allowing entrepreneurs to apply for tax registration at the time of incorporation.

More recently, Lao PDR issued three important decrees to improve the business environment in the country:

- Order No. 002/PM dated 01 February 2018, on the improvement of regulations and coordinating mechanisms for the Ease of Doing Business in Lao PDR.
- Order No. 012/PM dated 16 October 2019, on import-export facilitation, border crossing, temporary imports, and movements of goods in the country.
- Order No. 003/PM dated 21 January 2020, on the improvement of administrative services for investments and business operating licenses.

These decrees pave the way to enhance the business climate, attract quality investments, promote local products and industries, and enhance the competitiveness of domestic businesses.⁸¹ A detailed list of all reforms undertaken by the Lao PDR’s Government to improve ease of doing business is available on the “Doing Business Reforms in Laos” website.⁸²

In February 2021, Lao PDR also operationalized its National Single Window which will simplify and streamline import, export and transit of all goods and cargo, and can bring significant benefits in terms of saving cost and time for traders.⁸³

Refer Annex I for details on how to set up a business in Lao PDR.

3.6. Incentivizing investments

The 8th NSEDP aimed to encourage investment from private domestic and foreign sectors and create a favorable legal framework and investment climate. Realizing the importance of investment from the private sector, Lao PDR launched several initiatives to promote investments and create a resilient and diversified economy. The 2016 Law on Investment Promotion (amending the 2009 Law) was developed based on recommendations of the Organization for Economic Cooperation and Development (OEC) and aligned with the ASEAN Comprehensive Investment Agreement (ACIA).⁸⁴

The investment approval process for Lao PDR is based on three categories: uncontrolled business activities for which applications are made through the Ministry of Industry and Commerce; and controlled business activities and concession activities for which applications are made through the Ministry of

Planning and Investment. (Refer Annex III for a more detailed insight into the investment approval process based on the relevant categories).

As noted above, investors seeking to invest in wood processing in Lao PDR also need to invest in wood plantations.⁸⁵ Such investments would fall under the categories of concession activities, and accordingly, investors can make use of the one-stop shop service offered by the Ministry of Planning and Investment (MPI) to work through the necessary investment approvals (further elaborated upon below). In the event the investor seeks to engage in joint ventures with domestic investors for wood processing, the application will need to be directed to the Ministry of Industry and Commerce – Department of Enterprise Registration as an ‘uncontrolled business activity’ to obtain the necessary approvals.



Figure 20: One-stop shop services



Source: Investment Promotion Department (One-Stop Service)

The 2016 Law introduced uniform business registration requirements and tax incentives applying equally to foreign and domestic investors.⁸⁶ These efforts are complemented by other institutional developments and tools set up to further ease the process for investors and encourage investment into the country.

One-Stop Services: In the case of controlled and concession business activities (Refer Annex III) - The MPI launched a “One-Stop Service” which provides all-round services and facilities to the investors with information, approval processes of investment projects, issuance of investment licenses and other investment notices (as demonstrated in Figure 20).

The Central Investment One-Stop Office is located at the MPI and has a working team composed of representatives of multiple ministries concerned. In addition, one-stop service officers are located at relevant provincial and capital Departments of Planning and Investment.

In addition, each of the Special Economic Zones (SEZs) in Lao PDR (discussed below), also maintain one-stop services for investors into the SEZs.

Range of investment incentives: Incentives provided under the 2016 Law on Investment Promotion are based on three categories:

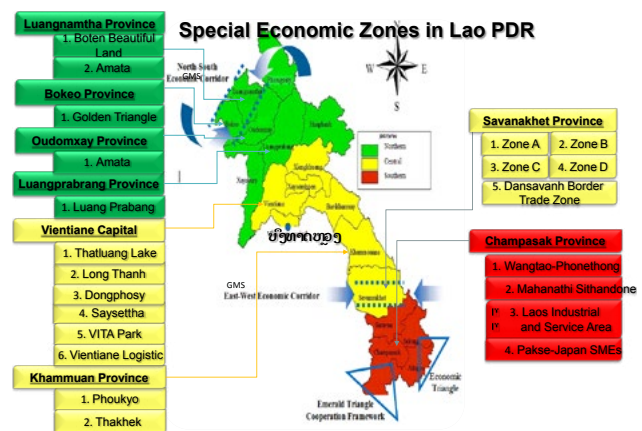
- Incentives for business sectors
- Incentives of a certain magnitude; and
- Incentives in certain Special Economic Zones (SEZ).

Incentives include exemptions/reduced rates for taxes (profit tax, VAT, customs duty) and exemptions from rental or concession fees of state land. These are elaborated upon in further detail in Annex IV.

Special Economic Zones (SEZs): Lao PDR has established 12 Special Economic Zones (SEZs) to support development of new infrastructure and commercial facilities and create favorable conditions to attract investments. As elaborated upon in Annex V, SEZs located in the Saysettha Development Zone and the Saven-Seno SEZ are particularly relevant for wood-processing, and the Vientiane Industrial and Trade Area as well as the Phoukhyo SEZ are also relevant for manufacturing and processing for exports.

Investors setting up operations in these SEZs are entitled to tax exemptions on equipment and raw materials for construction; lower income tax and value added tax rates.

Figure 21: SEZs in Lao PDR



Source: Ministry of Planning and Investment
https://www.asean.or.jp/ja/wp-content/uploads/sites/2/1-2.SPECIAL_ECONOMIC_ZONES_IN_LAO_PDR.pdf

Investors seeking to set-up operations in the SEZs shall refer the investment proposals to the relevant SEZs – and benefit from the one-stop shop maintained by each SEZ to handle all investment applications, enterprise registration and incentive applications.

The focus industries and level of tax incentives available to investors vary by SEZ and are discussed in further detail in [Annex IV](#).

As of 2018, almost 400 foreign and domestic companies were registered in these SEZs representing companies such as Aeroworks, Essilor, Nikon, and Toyota, among others.⁸⁷ The Decree on Special Economic Zones No. 188 passed in 2018 further simplified procedures for investors, with the objective of speeding up processes, increasing transparency and building up investor confidence.⁸⁸

Investment Protection for Investors: Lao PDR has signed and ratified a number of Bilateral Investment Treaties (BITs), the ASEAN Comprehensive Investment

Agreement (ACIA), and ASEAN plus Policy Dialogue Partners Preferential Trade Agreement (PTA) with investment chapters. Further, as a member of the WTO and ASEAN, Lao PDR is bound by relevant investment commitments in the services sector under the GATS of WTO and ASEAN Framework Agreement on Services (AFAS).⁸⁹

Rights of Foreign Investors to Reside in Lao PDR: Foreign investors and their families have the rights to reside in Lao PDR in accordance with the terms of their investments; and foreign specialists and experts also have rights to reside based on their employment contracts.⁹⁰

Against these positive measures and instruments to attract FDIs, Lao PDR is poised to become an important player in the global value-added wood manufacturing sector. Moving from land-locked to land-linked

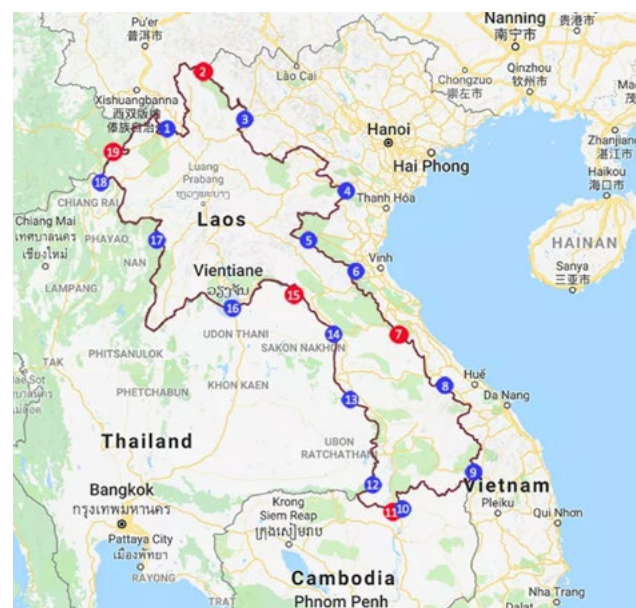
3.7. Moving from land-locked to land-linked

A landlocked nation in Southeast Asia, Lao PDR is rapidly seeking to overcome the lack of access to the sea, through the government policy of transforming the country from land-locked to land-linked,⁹¹ effectively contributing to integration of Lao PDR's economy with the larger economies of the countries along its border.

The Northern provinces border China, and the North-Eastern provinces are connected to Haiphong (Viet Nam) seaport.

The Southern provinces are connected to Laem Chabang (near Bangkok, Thailand) and Qui Nhon (Viet Nam) seaports.

Figure 22: Lao PDR Border Crossing Points*



Source : <https://www.laos-guide-999.com/laos-border.html>

*As outlined in Figure 22, there are 19 border crossing points in total. The blue points signify the checkpoints for which visa on arrival is available, and the red points outline the checkpoints at which visa on arrival is not available.

Efforts are currently underway to strengthen connectivity and boost cross-border trade – which include a number of infrastructure megaprojects to better connect the country, not only with China, but

also with other countries in the Mekong Subregion through the ADB's Greater Mekong Subregion (GMS) Cooperation Program. (Refer Box 7 for further details of the GMS Cooperation Program).

Box 7: Greater Mekong Subregion Cooperation Program

The Greater Mekong Subregion comprises of 6 Member States: Cambodia, China (specifically the Yunnan province and Guangxi Zhuang Autonomous Region), Lao PDR; Myanmar, Thailand and Viet Nam.

With support from the Asian Development Bank (ADB), these six countries entered into a program of subregional economic cooperation, designed to enhance economic relations.

Through this programme, efforts are being taken to increase connectivity through development physical infrastructure and transformation of transport corridors into transnational economic corridors; improve competitiveness through efficient facilitation of cross-border movement of people and goods and integration of markets, production processes and value chains; and build a greater sense of community through projects and program that addressed shared social and environmental concerns.

In this context, with the support of the ADB and other donors, various projects have been undertaken to build infrastructure and improve connectivity along the Mekong River.

Physically connecting the countries of the sub-region was one of the first initiatives of the GMS programme with the objective of enhancing better cooperation in trade, tourism, and investment. Over the past decade, the GMS road network has expanded by almost 200,000 km and overland road freight has almost doubled. “Economic corridors” were developed, which are geographic areas, often along major highways, where a variety of development projects are undertaken – including infrastructural initiatives, improvement of urban centres, and development of laws and regulations.

Lao PDR has benefitted from the infrastructural development programs under the GMS Cooperation Program, in addition to undertaking various efforts to connect Lao PDR with border countries and increase access to seaports and is becoming well-linked in the region with the increased ability to access key markets. Some of the key infrastructural development efforts are noted below.

Railway Development: Estimates indicate that almost 70 percent of bilateral trade between China-Lao PDR and transit trade with Thailand, Malaysia, and Singapore could shift to rail through Lao PDR by 2030.

This is attributed to the various railway projects currently under development in Lao PDR:

Table 11: Railway projects in Lao PDR

| Title of Project | Description | Current Status |
|--|---|--|
| China – Lao PDR Railway Kunming – Vientiane Railway | A 414km railway line linking Kunming from the Yunnan province of China to Vientiane in Lao PDR, as part of the Chinese Belt and Road Initiative. Will also connect the Northern Lao PDR cities of Boten, ⁹² Vang Vieng and Luang Prabang with Vientiane. The railway will interconnect with a rail through to Bangkok, and head south down the Malay Peninsula to Singapore. ⁹³ | Completed in December 2021. |
| Savannakhet – Lao Bao Rail Link Project | A 220 km route electrified railway linking Thailand with Viet Nam through Lao PDR (running from east to west in Lao PDR). ⁹⁴ | Construction of the railway started in early 2022. |
| Vientiane to Vung Ang Railway | Also referred to as the A3 rail project – this 550 km railway will connect Vientiane with access to a seaport in Vung Ang (Viet Nam). | Work commenced on this railway in 2021, set to finish by 2030. |
| Thakek to Vangtau | The next phase of the railway project from Lao PDR to Viet Nam (referred to above) would be to continue a railway south to Pakse in Lao PDR, and then connect to Chong Mek on the Lao PDR/Thailand border. | |
| Pakse – Veun Kham | Proposal to connect railway line from Pakse in Lao PDR to Veun Kham on the Cambodian border. Still under discussion. | |

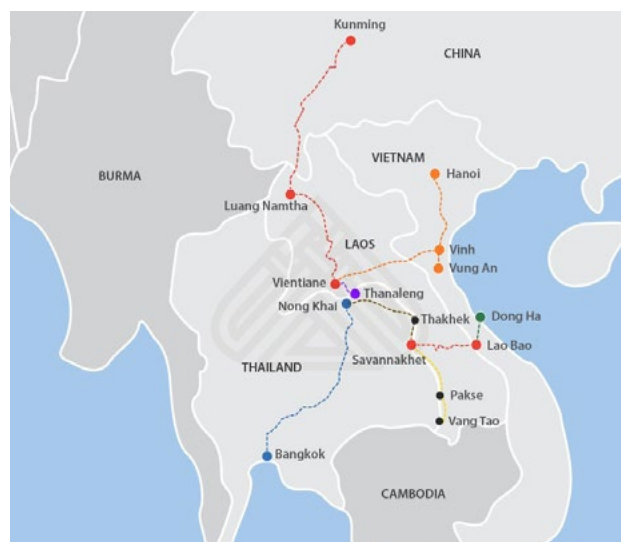
Source: ASEAN Briefing: Laos Planned Railways: Opening a National Railway Network in 2021

The railway infrastructure being set up in Lao PDR will result in significant changes – connecting the landlocked country with access to seaports, as well as rail access through to neighboring China, Cambodia, Thailand, and Viet Nam, with the potential to connect to ASEAN’s regional financial and services capital of Singapore.

The China – Lao PDR Railway Lao PDR sees significant growth opportunities resulting from the China-Lao PDR Railway,⁹⁵ and represents the backbone infrastructure on which the Lao PDR authorities plan to develop the country. Through this railway link, Lao PDR is not only connected to China and Singapore, but also the entire Belt and Road Initiative network.⁹⁶

With complementary policies in place, the railway could attract traffic that is currently using maritime and air transport routes by steadily lowering land transportation costs: by 40-50% (a decrease of about USD 30 per ton) between Kunming and Vientiane; by 32-50% between Kunming and the deep-water port of Laem Chabang (Thailand); and by 20-40% for trade within Lao PDR.⁹⁷

Figure 23: Railway Connections Planned for Lao PDR



Source: ASEAN Briefing, 2021

Road Infrastructure: Lao PDR has been steadily improving its road infrastructure through the construction of highways and expressways linking

different parts of the country and linking major provinces to border points.

Table 12: Road connectivity in Lao PDR

| Highway/Expressway | Details |
|-------------------------------|---|
| Savannakhet - Lao Bao Highway | Connecting Southern Lao PDR to the Viet Nam border (part of the ADB's "East-West Corridor Project") ⁹⁸ |
| China – Lao PDR Expressway | The Vientiane-Vangvieng section (109km) of the China-Lao PDR expressway opened in December 2020, cutting down travel time between these two districts from 4 to 1 hour. The China-Lao PDR expressway starts in Vientiane and will end in the Lao PDR-China border town of Boten (approximately covering 440km). |
| Kunming – Bangkok Highway | Highway connecting Chiang Khong district in Thailand to the city of Kunming in Yunnan province in South-Western China – will run through Lao PDR. ⁹⁹ |
| East-West Economic Corridor | Links important commercial areas in Lao PDR, Myanmar, Thailand, and Viet Nam – helping Lao PDR access seaports in neighboring countries. ¹⁰⁰ Road improvements on this corridor in the Savannakhet province based in Southern Lao PDR. ¹⁰¹ |
| Lao PDR – Viet Nam Expressway | Plan to build a six-lane 707km-long highway connecting the capitals of the two countries – to overcome the poor status of the roads currently. ¹⁰² |

Waterways: Efforts are being taken to develop waterways in Lao PDR – to further build upon the plans to make Lao PDR landlinked.

- The “Development Plan for International Navigation on the Lancang-Mekong River,” a Chinese-led project in the framework of the “Belt and Road Initiative”, approved by Myanmar, Thailand, and Lao PDR in 2014, proposed to allow passage of 500-ton ships. If completed, the project would create a 630 km direct aquatic route connecting the Yunnan province in China to Luang Prabang in Lao PDR. (This project is, however, currently on hold after a campaign carried out by Thai citizens and environmental groups, which pushed the Thai government to withdraw its support.¹⁰³)
- In 2015, Lao PDR and Viet Nam agreed upon the expansion of Vung Ang seaport, located in the Ha Tinh province in central Viet Nam, which will provide the landlocked nation with a crucial access to the sea, constituting a key trade and logistic hub for its exports.

Airports: Lao PDR has four international airports based in Attapeu, Pakse, Luang Prabang, and Vientiane. The Lao PDR’s Ministry of Public Works and Transport (MPWT) has proposed plans to expand the existing international airports, develop another airport, and renovate six domestic airports.¹⁰⁴ Upgrades and construction of new airports are driven by the government’s goals to boost the tourism sector.



3.8. Improved outlook for Lao PDR's exports

Lao PDR has been an active member of the Greater Mekong Sub-region Economic Cooperation Program since 1992, the Association of Southeast Asian Nations (ASEAN) since 1997, and the World Trade Organization (WTO) since 2013.

Lao PDR's policy of increasing regional and international integration via economic-trade cooperation over the past 30 years has enabled Lao PDR to benefit from trade preference in terms of tariff exemption or reductions.

In terms of regional integration, as an ASEAN member, Lao PDR benefits from preferential market access to other ASEAN members, and also to countries with whom ASEAN has formed trade partnerships (also referred to as ASEAN+1 FTAs); as well as some other partnerships outside the ASEAN.

More recently, in November 2020, the Regional Comprehensive Partnership Agreement (RCEP) was signed between the ASEAN, Japan, China, South Korea, New Zealand, and Australia.

Further, due to Lao PDR's LDC status, it also benefits from preferential market access arrangements such as the EU Everything but Arms Arrangement (EBA) applicable to LDCs, and the UK Developing Countries Trading Scheme (DCTS) which provides more preferential access for LDCs.

Investors in Lao PDR will therefore also be able to benefit from such preferential market access to key markets around the world. (Refer Table 13 for a full list of markets to which Lao PDR has preferential market access).

Table 13: Lao PDR's Preferential Market Access

| Agreement/Arrangement | Description |
|--|--|
| Association of South East Asian Nations (ASEAN) – ASEAN Trade in Goods Agreement (ATIGA) | The ASEAN Free Trade Area (AFTA) is a trade bloc agreement supporting local manufacturing in all ASEAN countries – with membership of Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Cambodia, Lao PDR, and Viet Nam. As a member of ASEAN, Lao PDR economy is open to other significant trade agreements with key regional markets, such as Mainland China and India. All ASEAN members are following an agreed schedule for reducing tariffs on goods originating in trading partners under the ASEAN Trade in Goods Agreement (ATIGA). |
| ASEAN-Mainland China FTA (ACFTA) | Agreement signed in 2002, providing for access to the Chinese market on reduced duty- or duty-free basis. China is an important market for Lao PDR as it is the country's major trading partner and an important source of investment. |
| ASEAN-Japan FTA (AJFTA) | Agreement signed in 2003 – with the objective of liberalizing and facilitating trade in goods between ASEAN and Japan and promoting cooperation in fields such as information and communications technology, intellectual property, and small- and medium-sized enterprise development. Japan is a large developed market and one of Lao PDR' major trade partners. |
| ASEAN-India Trade in Goods Agreement FTA (AIFTA) | Agreement signed in 2009, providing for access to the Indian market on reduced duty- or duty-free basis. Given the size and performance of the Indian economy, this level of preferential access can help Lao PDR in terms of trade growth and diversification. |
| ASEAN-Australia-New Zealand FTA (AANZFTA) | Agreement signed in 2009 and sought to eliminate tariffs on at least 90% of all tariff lines within specified timelines; and facilitate the movement of goods via a more modern and flexible rules of origin, simplified customs procedures, and more transparent mechanisms. |

| Agreement/Arrangement | Description |
|--|--|
| ASEAN-South Korea FTA (AKFTA) | Agreement signed in 2005, providing for progressive reduction and/or elimination of tariffs by each country on almost all products. |
| ASEAN-Hong Kong FTA (AHKFTA) | Agreement signed in 2018, covering Hong Kong, and five ASEAN Member States, namely, Lao PDR; Myanmar, Singapore, Thailand, and Viet Nam. Under the Agreement, Hong Kong committed to granting tariff free access to all products originating from the ASEAN Member States; and strengthen cooperation in SPS measures, TBT and customs matters. ¹⁰⁵ |
| Regional Comprehensive Economic Partnership Agreement (RCEP) | Agreement signed in 2020 and covers the largest regional free trade agreement (FTA) outside the WTO (10 ASEAN countries, Australia, China, Japan, New Zealand, and South Korea). The RCEP aims to reduce or eliminate customs tariffs on originating goods of member states by approximately 90% over a period of 20 years. Further, the Agreement seeks to eliminate non-tariff trade barriers between member states. |
| Asia – Pacific Trade Agreement (APTA) | Previously known as the Bangkok Agreement, and signed in 1975 – this Agreement has thus far undergone four rounds of negotiations resulting in deepening of tariff concessions among participating countries. |
| Lao PDR-Viet Nam Border Trade Agreement ¹⁰⁶ | Agreement signed in 2015 – providing reciprocal access for 32 tariff lines with 50% of the AFTA rate, while all other products are at a 0% rate, except for 155 tariff lines which fall under the GEL of Viet Nam. Viet Nam is a high growth developing market and Lao PDR’s third highest import source and export destination. |
| EU GSP- EBA Scheme | As an LDC, Lao PDR qualifies for duty-free, quota, free access to the EU market, in all products, apart from arms and ammunition. The other schemes under the EU GSP are the (a) Standard GSP for low and lower-middle income countries; and (b)GSP+ which is a special incentive arrangement for sustainable development and good governance – which provides partial or full removal of tariffs on two third of the tariff lines. Upon graduation from LDC status, which is currently scheduled to take place in 2026, Lao PDR will continue to benefit from EBA access for a three-year transition period – and therefore, will be able to benefit from this duty-free, quota-free access at least until 2029. Lao PDR can then qualify for the Standard GSP (if it meets relevant income level criteria) or apply for access under the GSP+ scheme. |
| UK DCTS-LDC Framework | Lao PDR qualifies for duty-free and quota free access to the UK, on all goods, other than arms and ammunition. Similar to the EU GSP scheme, upon graduation from LDC status, a three-year transition period is applied before removing the country from the relevant framework. Thereafter, Lao PDR can qualify for the ‘General Framework’ and benefit from reduced tariff rates on certain goods; or apply for the ‘Enhanced Framework’ access and benefit from tariff exemptions on certain goods. |

Source: Compiled by ITC.

IV. Investment Opportunities in Lao PDR's Wood Processing Sector

As explained previously, Lao PDR's exports of wood products were initially dominated by unprocessed wood to neighboring markets, for which the country does still have a significant export potential.

However, the current efforts on the part of the Government of Lao PDR to suspend exports of unprocessed wood products and authorize exports of mainly value-added products, along with the regulatory measures in place to manage wood plantations and processing activities and reforestation efforts – indicates an important shift towards **building up the long-term sustainability** of the sector by disincentivizing large-scale illegal logging activities, and **incentivizing the wood industry to move up the value-chain to engage in**

value-added exports. This is particularly important as ensuring a sustainable supply of input factors, particularly wood material and workforce, are crucial for the development of the value-added wood products industry. A growing focus is also being laid on upskilling workers, in line with the need for skilled workers in the wood products industry to move up the value-chain.

The table below provides a concise summary of the strengths and opportunities presented to potential investors seeking to engage in the wood processing sector of Lao PDR. It is imperative for potential investors to take stock of the many opportunities present, to build up a sustainable wood products sector.

Table 14: Overview of strengths and opportunities in the wood processing sector of Lao PDR.

| STRENGTHS | OPPORTUNITIES |
|--|---|
| 1. Being a traditional agriculture country, Lao PDR is focused on developing its forest and wood products sector as another engine of growth. | 12. Increasing focus on value-added wood products manufacturing, rather than low-end products. |
| 2. Lao PDR is improving its ease of doing business continuously, which not only reduces comparative cost, but also make its competitive compared to regional peers. | 13. Focused training programs to develop skilled human capital to ensure upskilling and moving up the value-chain is facilitated. |
| 3. Lao PDR has an established framework to facilitate forest plantation and wood products enterprises. | 14. Lao PDR offers a new opportunity as established manufacturers in China and Vietnam eye the country for business expansion into wood products manufacturing. |
| 4. The integrated scope of business offered to potential investors ensure a sustainable supply of raw material to support manufacturing of wood products. | 15. Lao PDR has been highlighted as a country with high potential for wood products manufacturing and exports within the ASEAN region. |
| 5. Ample and hardworking workforce | 16. With its continued effort to ensure sustainability and legality compliance, Lao PDR offers FDIs a unique base to establish manufacturing outfits. |
| 6. Teak and rubber plantations in Lao PDR are attractive for wood products manufacturing. | 17. Apart from the more established species of wood supply, Laos also has a variety of lesser-known-species (LKS) which could be exploited, as some of these species are regarded as equivalent to premium wood species in the global market. |
| 7. Eucalyptus plantations will also assist to develop sectors, such as pulp and paper. | 18. Lao PDR continues to be a primary target for new investment in forestry and wood products manufacturing, as the value-added manufacturing industry remains at its immature. |
| 8. Political stability ensures continuity in policies. | |
| 9. Existing FTAs will also facilitate market expansion for wood products. Further it is close to the large ASEAN market. | |
| 10. Lao PDR is expanding its connectivity and infrastructure, by rail, road, and air within the country and this is a boost to logistics and supply chain management. | |
| 11. Specialized industrial/economic zones (SEZ) have been established to provide investors with wide ranging incentives to encourage business development in target sectors. | |

Complementing the above, this section highlights key findings in terms of export potential by product and markets, for investors interested in setting up

wood processing operations in the Lao PDR market, and details wood product opportunities currently available in the market.

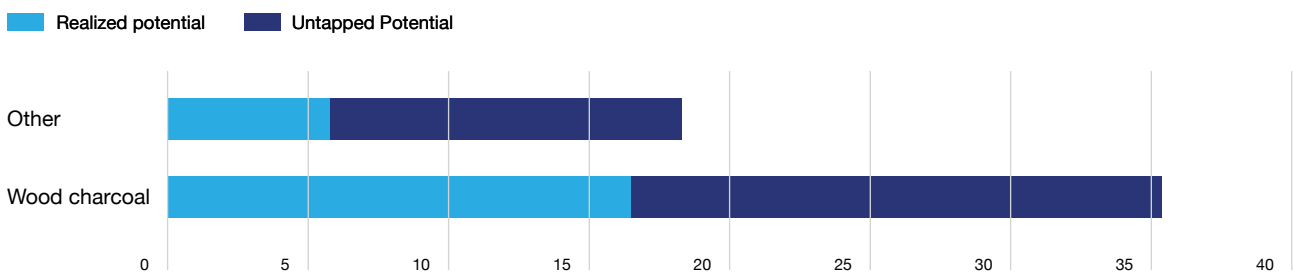
4.1. Lao PDR's Export Potential in Wood Processed Products

Lao PDR has significant export potential in 'sawn/chipped wood', although product exports are falling as a result of the regulations bought in by the Government of Lao PDR with the objective of protecting natural resources. This will serve as a huge benefit, as reduced exports of unprocessed and semi-processed wood products, will pave the way for greater supply for further down-stream activities, especially in the furniture and builders' carpentry and joinery sectors.

Nevertheless, Lao PDR still continues to possess strong export potential in the authorized wood products for export.¹⁰⁷

Export potential by authorized product: ITC analysis indicates that wood charcoal products hold the most untapped export potential, representing USD 35 million or 4% of the total export potential in the sector.

Figure 24: Export potential in processed wood, by product, excluding sawn/chipped wood (USD million)

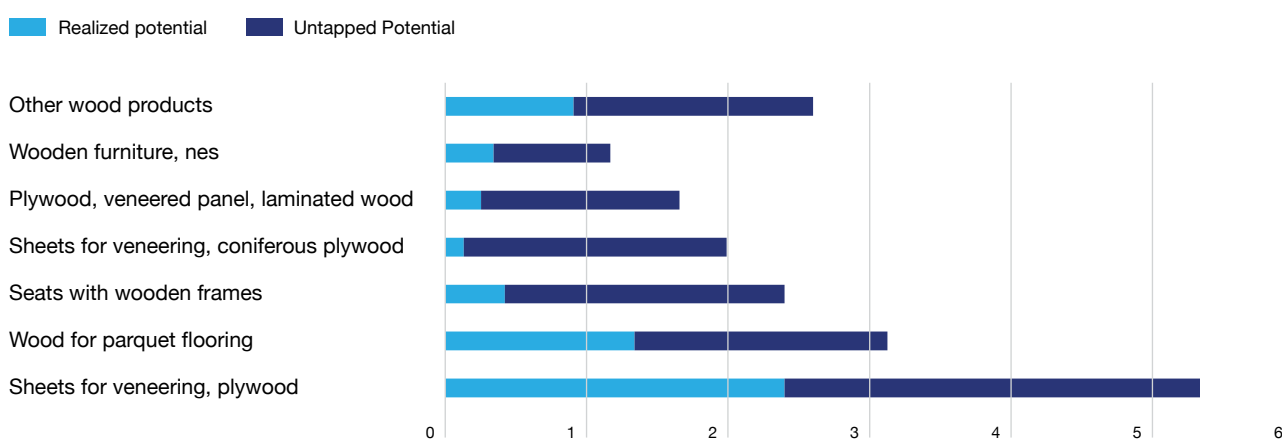


Source: Compiled based on data from ITC's Export Potential in Lao PDR, Processed Wood and Specialty Agriculture (2019)

The other products with export potential totaling USD 18 million include sheets for veneering, laminated wood, wood for parquet flooring and different types of furniture. These products are expected to grow in importance as value-added manufacturing not

only provides the highest return to investors but also remains sustainable as the market for such 'merchandise' remains strong and is rebounding globally after the COVID-19 pandemic.

Figure 25: Export potential in processed wood, by product, excluding sawn/chipped wood and wood charcoal (USD million)



Source: Compiled using data from ITC Export Potential Study in Lao PDR: Processed Wood and Specialty Agriculture, 2019

In addition, several of Lao PDR's export products can also be used as inputs for other products, such as furniture, articles of sport and outdoor games, wood pulp, and other material as summarized in Table 15 below.

Table 15: Value added wood products with potential for Lao PDR

| Product | Potential for Lao PDR |
|-------------------------------------|--|
| Furniture | World imports for selected furniture products, such as seats, and wooden furniture for kitchens and offices - amount to USD 46 million. Accordingly, there is potential for Lao PDR to tap into this global demand for furniture products – while meeting its regulatory conditions. Thailand and Viet Nam are already highly competitive in the large-scale production of these goods, and therefore, Lao PDR may have better scope to focus on high-quality niche products such as design furniture. |
| Articles of Sport and Outdoor Games | Projected global imports for these products amount to USD 8.1 billion – indicating the significant potential there is to tap into this market. Inputs for these products include sheets for veneering and plywood, as well as sawn or chipped wood or other types of wood – which are available in Lao PDR. |
| Wood Pulp | Wood pulp is an additional opportunity for export diversification – and can play an important role as a sustainable substitute for cotton in textile industries in Thailand and Viet Nam. In order to tap into this market, it is important for Lao PDR to ensure that there is a sustainable supply of plantation wood as an input in the long run. |
| Other Wood Products | Other options for diversification include fuel wood, railways, tramway sleepers, wooden frames, clothes hangers, umbrellas, and line fishing tackle. |

Source: Compiled using data from ITC Export Potential in Lao PDR: Processed Wood and Specialty Agriculture¹⁰⁸

Export potential by markets: The ASEAN, Chinese and EU markets possess the highest export potential for wood processed products in Lao PDR.

Investors setting up operations in Lao PDR can exploit the export potential opportunities currently available for Lao PDR in terms of the products discussed above, in certain key markets for which there is demand for such products, and Lao PDR as benefits from preferential access by virtue of its trade agreements. Being a member of ASEAN. Lao PDR continues to be exposed to a large regional market with a population of 550 million. Its close proximity to China and Vietnam will also result in ‘industrial spillover’, leading

to increased manufacturing of components and parts of value-added products manufacturing. Further, with continues support and greater environmental compliance in line with the VPA negotiations, the EU market will emerge as an important export market for manufacturers and exports in Laos.

Lao PDR with its growing forest plantation area, with predominant species such as teak, rubber and eucalyptus will remain attractive as these wood species are important materials for furniture and builders’ carpentry and joinery manufacturing, within the ASEAN region. Hence, it offers ‘green-field’ opportunities that remain to be exploited.

Table 16: Key markets with export potential for Lao PDR’s wood processed products

| Market | Export Potential for Wood processed products, excluding sawn/chipped wood |
|--------|--|
| ASEAN | <p>USD 16 million – or 31% of total export potential – of which only a third of the potential is currently realized. At least USD 12 million is left to be realized mostly in Thailand and Viet Nam market.</p> <p>Given that under the ASEAN FTA, Lao PDR has preferential market access to other ASEAN countries, investors can consider setting up operations in Lao PDR, benefitting from its low costs of inputs (labor, electricity, land) and wood inputs available, and export to other ASEAN markets taking advantage of the duty-free access.</p> <p>Further, the improved transport linkages between Lao PDR and other ASEAN countries including to Viet Nam can also contribute to making trade from Lao PDR more competitive.</p> |
| China | <p>USD 11 million – or 20% of total export potential – of which a significant portion is already realized (at least 77%).</p> <p>Preference for wood is increasing among consumers driven by improved living standards, and families requesting solid wood furniture, as it is perceived as better-quality products. Preferred wood species are oak for contemporary furniture, walnut among high-end markets, and tulipwood.¹⁰⁹</p> |
| EU | <p>USD 10 million – or 19% of total export potential – but this export potential is virtually unused – thus indicating significant opportunities to be realized.</p> <p>Investors setting up operations in Lao PDR can benefit from the country’s duty-free and quota-free access to the EU market under the EBA scheme.</p> <p>Currently, exports to European markets are limited by less established trade networks, high certification requirements and high transport costs. As mentioned above, the efforts to improve transport linkages, particularly to connect Lao PDR to seaports can contribute to making transport costs more competitive in the future.</p> <p>Wood remains an appealing material for furniture products, with particular interest in tropical wood, such as teak, in the Northern European countries. Combination of wood with other materials, such as glass, metal or stone, is perceived as modern; and smoother wood finishing with a natural effect is becoming trendier in the European market.¹¹⁰</p> <p>Further, Lao PDR’s efforts to engage in more sustainable production of wood can also be attractive to consumers in European countries who are increasingly looking into more sustainably sourced products. More specifically, Lao PDR’s efforts to be FLEGT compliant and finalize negotiations on the Voluntary Partnership Agreement – will further strengthen Lao PDR’s position to export to the EU market.</p> |
| India | <p>Lao PDR’s current export potential in wood products to India is not yet as high as to in other markets. However, Lao PDR benefits from significant tariff advantages through the ASEAN-India FTA. In combination with the large size of the Indian market, investing in Lao PDR represents an opportunity for international investors to increase their export potential to India.</p> |

Source: Compiled based on data from ITC, Export Potential in Lao PDR. Processed Wood and Specialty Agriculture (2019); and ITC, leveraging export potential and tariff advantages to attract foreign direct investment into Lao PDR. Wood processing and coffee (2021).

4.2. Opportunities to leverage Lao PDR's Export Potential in the Wood Processing Sector

(a) Comparative advantage in teak wood

Teakwood grows on specific latitudes and usually in monsoon rainforests (i.e., in India, Indonesia, Lao PDR, Myanmar, and Thailand). The demand for teakwood is growing internationally (and is much greater than its supply in nature) in both emerging and developing markets. The added interest in luxury and outdoor furniture also well positions teak wood to satisfy this growing demand. Growing markets such as Russia, China and India are also fueling demand for processed wood products, including those manufactured with tropical timber – and teak is an excellent example of a high-valued tropical timber, with an established role in the manufacturing of many high-end products.¹¹¹

Lao PDR's climate is already well placed to grow teak wood, and the existing land is already much more underutilized than that of its neighbors. These aspects coupled with the ongoing efforts by the Government of Lao PDR to invest in new plantations including in teak wood and therefore can be used to set up teak wood plantations (Refer section 2.2), make Lao PDR an ideal location in which to invest in such plantations and engage in wood-processing.

Within the ASEAN region, after Myanmar and Indonesia, Lao PDR has emerged as the third most important source of teak wood supply, which augurs well for the development of further teak wood processing in the country.¹⁰²

Further, given that the increasing demand would add more pressure on tropical rainforests, buyers may prefer to do business with suppliers with their own plantations as this guarantees supply – further incentivizing investors to Lao PDR to engage in the whole wood processing value chain.

According to the ITC SME Competitiveness Surveys of wood manufacturing firms in Lao PDR in 2020, about 80% of the surveyed firms reported using teak in their production process.

Lao PDR teakwood investment return rate (IRR) is quite high, estimated at 15-20%.¹¹² In fact, interests in teak forest plantations in the country has been steadily growing and will remain strong in years to come.

(b) Sustainably sourced wood products

Lao PDR's regulatory efforts to disincentive illegal logging and engage in reforestation efforts, indicate a commitment on the part of the Government to ensure the sustainability of the forests in the country. In addition, Lao PDR is also engaged in VPA negotiations (Refer Box 6) which is necessary to engage in the EU market and can also increase market access to other markets with common sustainability standards, such as Korea, as well as other countries working and trading with the EU such as Thailand and Viet Nam, which are looking to certify the legality of imports that may be re-exported.¹¹³

Given these efforts, there is potential to promote Lao PDR as a source for sustainable wood products to such markets.

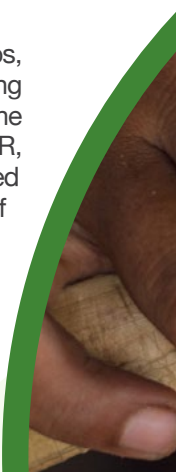
Obtaining added certification such as the Forest Stewardship Council (FSC) and the Program for the Endorsement of Forest Certification (PEFC) can be an added tool to respond to an increased demand for sustainability in wood products supply. The implementation of the REDD+ initiatives will also complement the efforts in the country to ensure greater level of sustainability within the forestry and wood products sectors.

(c) Processed wood products with potential from Lao PDR

Pulp for paper

Pulp for paper (from eucalyptus) represents a good investment opportunity in Lao PDR, above all as China counts for more than a third of the global pulp for paper imports globally.

Sun Paper Laos is the first modern pulp mill in Laos, established in 2008 (wholly owned company of Shandong Sun Paper Group). After a decade's development, the company has invested USD 500 million in Lao PDR, with an annual output of 400,000 tons, and has planted 32,000 hectares of pulp forest and 6,450 hectares of cooperative forest in the country.¹¹⁴ In this context, Laos is fast emerging as an important destination of investment for pulp manufacturing given its growing focus on forest plantations, especially with Eucalyptus trees.



Wood pellets

Wood pellets mostly come from acacia and are predominately derived from sawmill wood residues. They are mainly used for power generation and household heating.

The global wood pellet demand is showing a solid growth, mostly in industrial sectors and biomass-fired power plants because it contains low moisture, high heating rate and easy-to transport and stock as a raw material. Developing countries can also make use of wood pellets for fuel in place of firewood. Japan is a lead importing market for wood pellets, followed by Korea and Viet Nam.

In September 2020, the Thai RATCH group (under a joint venture) announced its investment in a wood pellet project in Champassak, with a production capacity of 60,000 tons per year.¹¹⁵ More similar investments are expected to take place in the coming years.

Biomass-based energy, including pellets and charcoal are important export constituents, as the global demand for renewable energy sources is growing, amidst the rise in fossil fuel prices. On this account, wood pellets manufacturing continue to be an attractive investment opportunity.

High-quality finished wood processed products

Lao PDR has the potential to become a supplier of high-quality finished wood products (particularly wood-based panels and specialty plywood). Its current capacity and market penetration allow for an expansion of production and exports of other value-added products (such as plywood, wooden furniture, and -on a longer run- builders' carpentry and joinery), which are experiencing a growth in demand in Europe and China.

The rising environmental consciousness among consumers also makes wood a more appealing product for furniture and construction, as it is considered a sustainable resource, particularly in high-end markets. Unlike Vietnam, Malaysia, Singapore, and the Philippines which are net importers of wood material, Lao PDR offers ample opportunity for investments not only in forest plantations but also in value-added wood products manufacturing, through its integrated upstream and downstream activities.¹⁰⁸

The availability of many lesser-known-species (LKS) of wood in Laos also present unique opportunity to tap these resources for the manufacture of small handicraft, accessories, and furniture products.¹⁰⁸

Due to its geographical proximity and established relationships, Asian countries (particularly China, Thailand, Viet Nam, and India) should represent most of short-term opportunities (0-3 years) for Lao PDR. Longer-term opportunities should be pursued in more developed countries (United States, Japan, Korea, Germany, and France). These opportunities are listed in the Table 17.¹¹⁶



Table 17: Short- term and longer-term opportunities¹⁷

| Target market | High potential products | Lao PDR wood processing exports to market 2019 (USD thousands) | Annual growth in value of sector imports of all suppliers (2015-2019, %) | Key success factors | Distribution channels |
|---------------|---|--|--|--|---|
| China | Wood table and kitchenware | 2,756 | 19% | Compliance with sector standards (e.g. Guide on Social Responsibility for Chinese International Contractors) | Furniture malls |
| | Wooden furniture | 15,267 | | Major forest certification schemes in China – China Forest Certification Scheme (CFCS), | High-end furniture markets |
| | Builders' joinery and carpentry | 1 | 21% | PEFC, FSC | Warehouses |
| | Wood marquetry | 301 | 5% | | Showrooms |
| | Particle board | - | 14% | | E-commerce channels (e.g. AliExpress, Taobao) |
| Thailand | Builders' joinery and carpentry | 2,524 | 17% | Traceability (Thailand is negotiating a FLEGT VPA) | Traders |
| | Wood for parquet flooring | 803 | -10% | Enter niche markets to compete on quality instead of price | Wholesale |
| | Plywood, veneered panel, and similar laminated wood | 632 | 6% | | Retail |
| | Particleboards | 470 | 7% | | |
| India | Plywood, veneered panel, and similar laminated wood | 93 | 8% | Ensure volumes of supply | Wholesale |
| | Sheets for veneering | 422 | 12% | | Retail |
| Viet Nam | Fiberboard of wood | - | 10% | Traceability (Viet Nam is implementing the FLEGT VPA) | Large manufacturers |
| | | | | | Small and medium manufacturers |
| | | | | | Traders |

| Target market | High potential products | Lao PDR wood processing exports to market 2019 (USD thousands) | Annual growth in value of sector imports of all suppliers (2015-2019, %) | Key success factors | Distribution channels |
|-------------------|---|--|--|---|---|
| Japan | Wood marquetry and inland wood | 1,661 | -1 | Clean Wood Act | General trading company (sogo-shosha) |
| | Wood for parquet flooring | 89 | -1 | Durable construction materials are sought for | Domestic distributors |
| | Builders' joinery and carpentry | 21 | 7 | Quality consciousness | Manufacturers, including SMEs |
| | Wooden frames for paintings, photographs, mirrors, or similar objects | 5 | -6 | | |
| | Plywood, veneered panel, and similar laminated wood | - | 4 | | |
| | Wooden furniture | 47 | | | |
| Republic of Korea | Plywood, veneered panel, and similar laminated wood | - | 3 | Quality consciousness | In-market distributor for retail channels |
| | Particleboards | - | 6 | Act on Sustainable Use of Timbers | Online channels |
| | Fiberboard of wood | - | 12 | | |
| | Tableware and kitchenware of wood | 5 | 6 | | |
| | Wooden furniture | 5 | | | |
| United States | Plywood, veneered panel, and similar laminated wood | 102 | 2 | Lacey Act | Discount/mass market chain |
| | | | | Aphis regulations (sanitizing wood furniture by chemical or heat treatment) | Lifestyle brands |
| | | | | CITES regulations | Catalogue |
| | | | | Quality consciousness | Department stores |
| | Tableware and kitchenware of wood | 19 | 8 | On-time delivery | Alternative trade organizations |
| | Wood marquetry and inland wood | 8 | 2 | Fair prices | Specialty retailers |
| | Wooden furniture | 62 | | Supplier reputation | Online channels |

| Target market | High potential products | Lao PDR wood processing exports to market 2019 (USD thousands) | Annual growth in value of sector imports of all suppliers (2015-2019, %) | Key success factors | Distribution channels |
|---------------|---|--|--|---|-----------------------|
| Germany | Plywood, veneered panel, and similar laminated wood | - | 5 | Finalize VPA negotiations | Retailers |
| | | | | Quality consciousness | Department stores |
| | | | | General product safety directive | Online channels |
| | | | | Packaging legislation | |
| | Wood marquetry | - | 4 | REACH regulation (limiting the use of certain wood preservatives) | |
| | Table and kitchenware of wood | - | 8 | FSC certification | |
| | Wooden furniture | 2 | | Niche certification schemes, such as Ethical trading initiative | |
| France | Wooden furniture | - | | Finalize VPA negotiations | Chain retailers |
| | | | | Quality consciousness | Furniture stores |
| | | | | AFNOR technical standards | |
| | | | | General product safety directive | |
| | | | | Packaging legislation | |
| | Table and kitchenware of wood | 1 | 10 | REACH regulation (limiting the use of certain wood preservatives) | |
| | Wood marquetry | - | 13 | Niche certification schemes, such as Ethical trading initiative | |

Source: ITC, Lao PDR Wood Processing Sector Export Roadmap (2021 – 2025)¹¹⁸

Annex I: How to set up a business in Lao PDR¹¹⁹

| No. | Procedures | Time | Associated costs |
|-----|---|------------|---|
| 1 | <p>Obtain the Enterprise Registration Certificate (ERC) Agency: Ministry of Industry and Commerce, Vientiane</p> <p>i. Applicants apply for the Enterprise Registration Certificate (ERC) at the Department of Enterprise Registration and Management at the Ministry of Industry and Commerce</p> <p>ii. The unique application form used for the name reservation and the ERC must list three potential names for the company to be established.</p> <p>iii. A signed Contract of Incorporation (if there are multiple shareholders) in the format approved by the MOIC must be submitted to obtain the ERC.</p> <p>iv. The approved format can be downloaded at the MOIC website.</p> <p>Founders shall complete the application form for the ERC in the MOIC standard application form attaching the following required documents:</p> <ul style="list-style-type: none"> • 3 copies of the Contract of Incorporation, • 3 original copies of the signed Articles of Association in the MOIC standard template, • 3 copies of the Resolution of founders of the company, • 3 copies of the Power of Attorney in the MOIC standard template (if another person is assigned to submit the application), • 3 copies of ID card/passport of founders (only for foreigners) or business licenses for entities, • Office location certificate and the Map signed and sealed by the village chief, • 6 photos size 3cmx4cm of the nominated Managing Director, • Compliance letter stating that the founders of this company will comply with the rules of law. <p>When issuing the ERC, the MoIC issues (1) a letter for the tax office to register for a Tax ID and (2) a letter of approval for the Public Security Office for the company seal.</p> <p>Presidential Order N 003, of December 26, 2012 regulates the fees related to obtaining the ERC.</p> | 2-3 months | <p>LAK 30,000/USD 3 (Incorporation form) + LAK 60,000/USD 6 (Application form) + LAK 500,000/USD 54 (Registration service fee for companies with registered capital of LAK 100,000,000-400,000,000 / USD 10,800-43,100)</p> |
| 2 | <p>Register the Articles of Association Agency: State Asset Management Office, Ministry of Finance</p> <p>Once the company obtains the ERC, it shall thereafter register its Articles of Association (AoA) with the State Assets Management Department (SAMD), Ministry of Finance.</p> <p>For registration, the following documents are required:</p> <ul style="list-style-type: none"> • letter request, • the original signed Articles of Association, and • copy of ERC. | 1 week | <p>LAK 40,000/USD 4 (Registration of AoA) + LAK 40,000/USD 4 (Contract of Incorporation) + LAK 10,000/USD 1 (Service fee)</p> |

| No. | Procedures | Time | Associated costs |
|-----|--|---|---|
| 3 | <p>Apply for Tax Registration Certificate Agency: Tax Department</p> <p>Enterprises operating in Lao PDR are subject to direct and indirect taxes. The following documents must be submitted:</p> <ul style="list-style-type: none"> • Application form • Resident certificate of managers • List of assets • List of employees and estimates salaries • Copy of lease agreement • Office location certificate and Map signed and sealed by the village chief • 2 photos 3x4 of the managing directors • Copy of the resolution of formation • Copy of the ERC • Copy of ID cards • Registered AOA | 1 month | LAK 25,000/USD 3 (Registration form for taxes) + LAK 100,000/USD 11(Tax certificate) |
| 4 | <p>Attend to a Tax Orientation meeting and obtain Tax Identification Number (TIN) Agency: Tax Division</p> <p>Upon issuance of the Tax Certificate is issued, the Tax Division will arrange for a Tax Orientation meeting to explain the different taxes that a company will have to pay, how to calculate them and how to keep your books in order. This is to ensure that companies prepare their tax return properly and pay the correct amount.</p> <p>After the Tax Orientation meeting, the Tax Division issues the Tax Identification Number (TIN) for the newly registered company.</p> | 1 month | No charge |
| 5 | <p>Carve a company seal Agency: Ministry of Industry and Commerce and Ministry of Public Security</p> <p>Upon receipt the ERC from the MoIC, the entrepreneur needs to submit a color copy of ERC at the Seal Carving Unit within the Ministry of Public Security.</p> | 2 weeks (simultaneous with previous procedure) | LAK 10,000/USD 1 (application form for making the company seal) + LAK 60,000/USD 6 (the certificate authorizing the design) + LAK 50,000/USD 5 (carving of a seal in Lao language only) or LAK 53,000/USD 5 (the carving of a seal in Lao and in another language) |
| 6 | <p>Register company seal at the Department of Public Security Agency: Department of Public Security</p> <p>After the seal is carved, the company needs to register it at the Department of Public Security in order to use it.</p> | 1 to 2 weeks | No charge |
| 7 | <p>Obtain Approval of Content on the Company Signage Agency: Ministry of Information Culture and Tourism (MICT)</p> <p>It is no longer required by law to obtain the content approval of the signage; however, majority of entrepreneurs continue to obtain it as the local officers of Information Culture and Tourism advise them to do so.</p> <p>For the content approval application, the company must complete the application form in MICT and provide the following: (i) the name of the company in Lao, enterprise code provided under the enterprise registration certificate, office location and contact details of the company; (ii) the color in red for the letters, and yellow for the background (these colors applied to domestic companies), and the size shall not exceed 2mx4m.</p> | 1 to 2 weeks | LAK 10,000/USD 1 |

| No. | Procedures | Time | Associated costs |
|-----|---|--|------------------|
| 8 | <p>Register the workers for social security</p> <p>Agency: Social Security Office</p> <p>The application form to register workers for social security insurance is available at the Social Security Office. Employees and employers must participate in the compulsory social security regime. They may not enter into mutual agreements to avoid participation in the social security regime.</p> <p>The social security regime for company employees is established on the principle of state-guaranteed insurance.</p> <p>Contributions to the social security regime are paid by both the employers and employees:</p> <ul style="list-style-type: none"> • 6.0% of gross salary is to be contributed for social security by the employer, and • 5.5%, by the employee. <p>The maximum ceiling for calculating these contributions is LAK 2,000,000 (6% and 5.5% of LAK 2,000,000).</p> | 1 week (simultaneous with previous procedure) | No charge |
| 9 | <p>Register for VAT*</p> <p>Agency: Tax authority</p> <p>As per Article 9 of Law of Value Added Tax of 26 December 2006, all companies with a turnover higher than LAK 400,000,000 are subject to value-added tax registration with the tax authority.</p> | 3 weeks (simultaneous with previous procedure) | No charge |

Source: World Bank

*The VAT registration number will define tax exemptions (mentioned in the “Investment incentives section above) that the investor will be able to benefit from.

Annex II: Lao PDR Tax Guide 2020¹²⁰

The general tax regime in the Lao PDR is governed by:

- Law on Tax Administration (Amended) No 66/NA, date 17 June 2019 (“Tax Administration Law”)¹²¹
- Law on Income Tax No. 67/NA dated 18 June 2019 (“Income Tax Law”)¹²²
- Law on Excise Tax No. 68/NA, dated 19 June 2019 (“Excise Tax Law”)¹²³
- Law on Value-Added Tax No. 48/NA dated 20 June 2018 (“Law on VAT”)¹²⁴
- Law on Investment Promotion No. 14/NA dated 19 April 2017 (“Investment Promotion Law”).¹²⁵

Taxation of Companies

1. Taxable Presence: Lao PDR companies are subject to profit tax on their Lao and foreign incomes. A non-resident company will be subject to profit tax in Lao PDR if it derives income from sources in Lao PDR. For such companies, the tax is paid by means of a withholding that is applied by the Lao enterprise that remits the income. This withholding is calculated on a deemed profit basis. The deemed profit is the annual income multiplied by the profit ratio of each type of activity.

2. Profit tax rates: Resident companies are subject to the following tax rates -

| Procedures | |
|--|-----|
| Resident Lao PDR Company | 20% |
| Companies listed on the Lao Stock Exchange Market* | 13% |
| Companies that manufacture, import, and sell tobacco products** | 22% |
| Mining concessionary companies | 35% |
| Companies operating business relating to the development of human resources such as school, training centers and other education and business activities relating to modern hospitals, medicine production and medical equipment | 5% |
| Companies operating businesses which utilize new innovative technology, eco-friendly technology, saving of natural resources and clean energy in manufacturing*** | 7% |

* for a period of four years, commencing from the date of registration, after that the regular rate shall apply.

** 2% will be contributed to the Smoking Control Fund.

*** This profit tax rate shall apply after the expiration of profit tax holiday under the Investment Promotion Law.

Companies with a concession agreement with the Government of the Lao PDR (particularly companies in the mining and hydropower sectors) may pay a reduced rate as determined in the concession agreement.

Reduced tax rates are also available for companies investing in the special economic and specific economic zones (as discussed in Annex III).

3. Withholding Profit Tax for Non-Resident Companies: Lao PDR has no concept of Permanent Establishment under its domestic tax regulations. It has, however, its own set of rules for taxing the Lao PDR derived business income of foreign entities.

| Class of Income | Deemed Profit Rate | Tax Rate | Effective Rate |
|--|--------------------|----------|----------------|
| Agricultural and Handicraft | 7% | 20% | 1.4% |
| Industrial production and other industrial | 10% | 20% | 2% |
| Commerce Trade and Services | 15% | 20% | 3% |

Taxation of individuals

Under the Income Tax Law, a resident means a person who has a permanent address, lives, earn a living or operates a business in the Lao PDR.

| Taxable Salary at each level | Basis of Calculation | Tax Rates | Tax at each level | Total tax Payable |
|------------------------------|----------------------|-----------|-------------------|-------------------|
| LAK 1,300,000 and below | 1,300,000 | 0% | 0 | 0 |
| LAK 1,300,000 - 5,000,000 | 3,700,000 | 5% | 185,000 | 185,000 |
| LAK 5,000,000 - 15,000,000 | 10,000,000 | 10% | 1,000,000 | 1,185,000 |
| LAK 15,000,000 - 25,000,000 | 10,000,000 | 15% | 1,500,000 | 2,685,000 |
| LAK 25,000,000 - 65,000,000 | 40,000,000 | 20% | 8,000,000 | 10,685,000 |
| LAK 65,000,000 and above | - | 25% | - | - |

Income from Employment – Progressive Tax Rates Income tax on salary and remuneration is withheld monthly by the employer and is payable by the 20th of the month following the month of the salary payment.

Indirect and Other Taxes

| | |
|-----------------------|---|
| Value Added Tax (VAT) | <p>Value Added Tax (VAT) was introduced to Lao PDR on 1 January 2009 and replaced the Business Turnover Tax (BTT). The current VAT Law No.48/NA, dated 20 June 2018 replaced the VAT Law No. 52/NA, dated 23 July 2014. VAT is an indirect tax which is collected on the value-added proportion of goods and services at all stages of production manufacturing and distribution to the provision of services and consumption. The VAT regime in the Lao PDR follows the conventional VAT system whereby inputs on purchases can be offset against outputs on sales.</p> <p>Individuals, legal entities and organizations that are registered as a business, with an investment license and a taxpayer identification number, are required to register for VAT, except micro enterprises which have an annual business turnover of less than LAK 400,000,000 (approx. USD 47,000).</p> <p>The standard rate of VAT for domestically sold goods and services and imports is 10%, while a 0% rate applies to the exported sale of goods.</p> <p>If the goods are for export (i.e. subject to VAT at zero-rate), the VAT can be refunded. For the supply of goods and services within the Lao PDR any excess input VAT credits can be carried forward for deduction in the following months for up to three (3) consecutive months. The deduction of input VAT must start from the month that the input VAT is occurred. If the deduction is not exhausted within three (3) months, the input VAT can be refund.</p> |
| Property Tax | <p>Under the Income Tax Law, income from the sale-purchase of land, transfer of land use rights and land with the existence of structures is subject to income tax at 2%. A sale-purchase or transfer of property that is in the asset list of enterprises is exempt from income tax.</p> <p>The transfer is also subject to a transfer fee of 1% of the land value.</p> <p>Tax on land and property varies depending on the location and the type of the land (e.g. land for construction, land for agriculture, etc.). The tax on land and property is calculated based on both the location and the size of the land or property and is imposed at an annual rate per square meter.</p> |

| | |
|---------------------------|---|
| Capital Gains Tax | Income derived from the sale or transfer of shares is subject to income tax at 2% of the sales proceeds or transfer value. In practice the tax may apply to both direct and indirect sales or transfers of shares in Lao PDR companies |
| Withholding Tax | <p>The following withholding taxes (WHT) are applied in Lao PDR:</p> <p>(a) Dividends: income from dividends is taxed at the rate of 10%. The payer is required to withhold tax before making payment to the payee. The tax is to be remitted to the Tax Department within 15 working days of making the payment.</p> <p>(b) Interest: interest payments on loans are subject to income tax at 10%. The payer of the interest must withhold the income tax at the time when making a payment. The tax is to be remitted to the Tax Department within 15 working days of making the payment.</p> <p>(c) Royalties: income from patents, copyright, trademarks, and other intellectual property is taxed by way of withholding. The payer of the relevant income is required to withhold tax at the rate of 5% before making payment to the payee. The tax is to be remitted to the Tax Department within 15 working days of making the payment</p> <p>(d) Other income:</p> <ol style="list-style-type: none"> Income tax on income from sale-purchase, transfer of agriculture land is 1% Income tax on income from online sale is 2% Income tax on income from consulting fees of independent consultants is 5% Income tax on income from the leases, such as land, houses constructed items, vehicles, machinery, or other assets is 10%. |
| Environmental Tax | Environmental tax is a direct tax levied on individuals, legal entities, and organizations authorized to operate businesses, import, or use natural resources in the Lao PDR that causes pollution to the environment, damage health, life of humans, animals, and plants, and balance of the ecosystem. This tax is applicable to any kind of concession. |
| Excise Tax | <p>Under the Excise Tax law, excise tax is levied on the importation or domestic supply of certain goods and services.</p> <p>The types of goods and services that are subject to excise tax include:</p> <ul style="list-style-type: none"> • inflammable fuel • alcohol, beer, alcoholic beverages • cigarettes • cosmetics • vehicles • appliances, such as air-conditioners, washing machines and refrigerators • services relating to entertainment • all types of game playing devices • all types of carpets. <p>The excise tax on these goods and services ranges from 3% to 90%. The excise tax is payable by importers and producers of taxable goods and providers of taxable services. Importers pay the excise tax at the time of importing the goods. For domestic producers and service providers the tax is declared and payable to the tax department by the 20th of the month following the production of the goods and the supply of the services subject to excise tax.</p> |
| Customs and Import Duties | <p>The Customs Law defines that all goods imported or exported are subject to duties unless exemptions are provided for by law or contained in specific government agreements.</p> <p>Import and export duties must be paid at the point of importation before goods can be removed from the customs. For companies that undertake promoted activities, import duties may be exempted for certain goods to be used in production.</p> <p>Lao PDR is using import tariffs that are aligned with the ASEAN Harmonized Tariff Nomenclature (AHTN). The rates vary from 5% to 40%.</p> <p>Besides AHTN, the Lao PDR (as part of ASEAN) has free trade agreements with several other countries such as Australia, New Zealand, South Korea, China, Japan, and India.</p> |

*Please note that the information above is subject to updates/revisions, and investors should check with relevant sources for the most up to date information.

Annex III: Investment Approval Process in Lao PDR¹²⁶

Investments into Lao PDR can be categorized as (a) Uncontrolled General Business; (b) Controlled General Business, or (c) Concession Business.

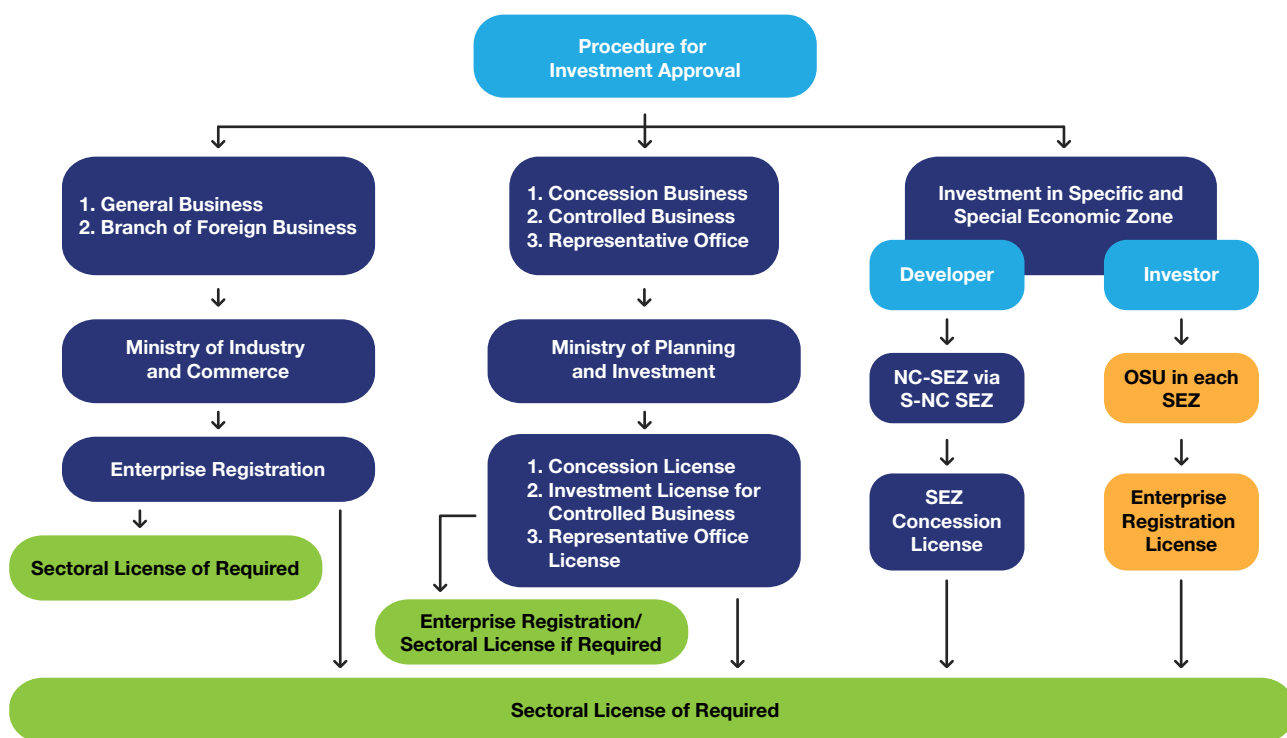
In the case of investors seeking to engage in wood plantations and processing – the investment approval process would fall under the scope of ‘concession investments’; while investors seeking to engage in a joint venture with domestic investors, would adopt the process under the ‘Uncontrolled business list’ category.

Details of each of these categories of investments are provided in the table below:

| | Uncontrolled Business List | Controlled Business List | Concession Investments |
|---------------------------------|---|---|--|
| Responsible Ministry | Ministry of Industry and Commerce | Ministry of Planning and Investment | Ministry of Planning and Investment |
| Relevant Legislative Authority | Law on Enterprises No. 46/NA (2013) | Decree on Approval of the Controlled Business List and Concession Businesses of Lao PDR No. 03/PM (2019) Refer: https://laotradeportal.gov.la/index.php?r=site/display&id=1655 | |
| Description | Applies generally to all businesses in Lao PDR. | Businesses that impact on national security, social peace, national tradition, environment, society and nature. Investments into controlled list are subject to consideration and feedback from relevant agencies. The Decree lists 43 Controlled Businesses | Business list where investors receive approval for investment such as land concessions, development of social economic and processing manufacture zones with purpose to export, mines exploration, development of energy sources, airlines concession and telecommunication. The Decree lists 22 Concession businesses. |
| Relevant Legislative Provisions | The Enterprise Law (2013) sets out the type of businesses that can be set up in Lao PDR, and the relevant procedure. There are three lists under this law: 1) Reserved List – No. 1328 (2015) – Foreign investors can access sectors subject to issuance of ERC and necessary operational licences; and are subject to foreign equity restrictions. 2) Conditional List – No. 1327 (2015) – Foreign investors can access sectors on this list subject to minimum capitalization requirements; and subject to foreign equity restrictions. 3) Prohibited List – No. 1592 (2015) – FDIs not permitted into sectors on this list. | Article 36 – 38 of the Decree sets out procedures for submitting an approval request for controlled businesses. Annex A of Decree sets out type of activities deemed as controlled business list activities. | Article 41 – 46 of the Decree set out details on concession investments. Annex A (List 2) sets out the activities deemed as concession investments, with details of investment conditions, relevant legislative provisions and responsible sectors. |
| | | An investor must submit the application to the One-Stop Service Office (OSSO) maintained by the Ministry of Planning and Investment. The OSSO will coordinate with relevant governmental agencies at central and local levels to review and submit the application to the Investment Promotion and Management Committee for consideration. Those investing in Controlled Business and Concession Businesses may apply to register an enterprise at the MoIC only upon obtaining necessary investment approval(s). | |
| | Business activities that require, by law or regulation, specific licences are required to apply for these licences prior to operating such activities. | | |
| SEZ Investors | SEZ investors will refer their investment proposals to the relevant SEZs – and the one-stop shop in the relevant SEZ will handle all the investment applications, enterprise registration and applications. | | |

The process for investment approvals is more clearly demonstrated in the figure below, taking from the Investment Reform Map for Lao PDR published by the International Finance Corporation in January 2021.

Figure 26: Investment Approval Procedure in Lao PDR



Source: Taken from Investment Reform Map for Lao PDR, International Finance Corporation, January 2021

Annex IV: Investment Incentives¹²⁷

The main provisions on investment incentives in Lao PDR are laid out in the 2016 Investment Promotion Law (IPL), as amended. In addition, incentives are also set out in the 2016 Tax Law and regulations on SEZs.

Under the Investment Promotion Law, incentives are available for investments based on business sectors/categories and based on zones in which operations are set up. This is elaborated upon below:

Investments in business sectors or activities; and of a certain magnitude.

The IPL provides incentives for 9 categories of business sectors (activities) covering research and development, agriculture, tourism, education and sports, health, public infrastructure, financial institutions and commercial centers. The business categories relevant for agricultural activities are set out below:¹²⁸

1. Clean agriculture, toxic-free agriculture, seed production, animal breeding, industrial crops and plants plantation, forestry development, environment and biodiversity protection, activities promoting rural development and poverty reduction.
2. Environmentally friendly agro-processing industry, handicraft industry specializing in national traditional and uniquely handicrafts.
3. Using high and modern technology, scientific research, research, and development, using the innovation, environmentally friendly, and efficient use of natural resources and energy.
4. Investment in, service provision for and development of public infrastructure solving urban traffic congestion and overpopulated residential area issues; development of infrastructure supporting agriculture and industry, cargo transportation, transit, and international linkage services.

Investments into the abovementioned categories are entitled to fiscal and non-fiscal incentives, as summarized in the table below, subject to:

- Having a minimum investment capital of LAK 1.2 billion; or
- Employing at least 30 Lao technical staff, or
- Employing 50 or more Lao workers with employment contracts of at least one year.

Table 18: Incentive Instruments for Investments into Business Categories under Article 9 of IPL

| Fiscal Instruments | Non-Fiscal Instruments |
|--|---|
| 1. Exemption and reduced rate of profit tax (CIT) | 1. Land use-related incentives (Article 16): right to lease or have a concession over State land to conduct investment activities, right to transfer land use rights under certain conditions |
| 2. Exemption of Customs duties for imports of certain inputs (material, raw material, machinery, and equipment) Non-Fiscal Instruments | 2. Access to finance incentives (Article 13) |
| 3. Zero-rated VAT for these imports (materials, raw materials, machinery, and equipment) | 3. Government commendation for investors to have fulfilled tax obligations in a timely manner, contributed to community development or to Lao society, to skills-building or resolving environmental issues |
| 4. Zero-rated VAT for use of certain domestic raw materials | |
| 5. Exemption of export duties/taxes for export of raw materials | |

Source. Taken from IFC's Investment Reform Map for Lao PDR (Table 3 – Page 33)

Further, under Article 19 of IPL, the Government of Lao PDR may also propose an additional “special incentive” as deemed necessary for a given project.

Incentives based on certain zones or locations

The incentive structure under this category is organized into three zones (Article 10 of IPL):

Figure 27: Categorization of Zones – Article 10 of the Investment Promotion Law



Incentives include tax holidays and exemptions on rental/concession fees for state lands, as summarized below:

In the case of Zones 1 and 2:

Table 19: Duration of Tax Holidays and Rental/Concession Fee Exemptions for State Lands under Zones 1 and 2

| Zone | Tax Holidays | | | Rental/Concession Fee Exemptions | | |
|--------|-----------------|---------------------------------|----------|----------------------------------|---------------------------------|----------|
| | Normal Duration | Extension for Priority Sectors* | Maximum | Normal Duration | Extension for Priority Sectors* | Maximum |
| Zone 1 | 10 years | 5 years | 15 years | 10 years | 5 years | 15 years |
| Zone 2 | 4 years | 3 years | 8 years | 5 years | 3 years | 8 years |

Source: Investment & Competition unit, Macroeconomics, Trade and Investment Global Practice.

*Priority sectors refer to those covered under Article 9 (2), (3), (5) and (6) of the IPL – which apply to businesses engaged in eco-friendly agriculture and agribusiness, health, education, and skills development.

To benefit from these tax exemptions, plantations may mainly be done in Zone 1, while processing activities should be located in Zone 2 and Zone 3(for logistic issues).

In the case of Zone 3 – SEZs:

Operations set up in SEZs (Refer Annex IV below for list of SEZs available in Lao PDR), as set out under the ‘Decree on Special Economic Zones No. 188 (7 June 2018), are entitled to fiscal and non-fiscal incentives.

There are no specific eligibility requirements for an investor to locate in an SEZ. Investors setting up in SEZs are entitled to the following incentives:

Table 20: SEZ Incentive Packages for Investors (Article 43 – 45 of Decree 188)

| Fiscal Incentives | |
|--------------------------------------|--|
| Exemption of Import Tax and Duties | On imported and exported goods (subject to provisions stipulated in the IPL) |
| Tax holidays on Corporate Income Tax | SEZ investor investing in a promoted sector listed in Article 9 of the IPL 2016 can receive 2 additional years of tax holiday in Zone 1 and Zone 2. (i.e. 12 years for Zone 1 investments, and 6 years for Zone 2 investments) |
| VAT exemption | Construction of manufacturing for export will be granted 100 percent VAT exemption and pay 50 percent of the full VAT rate for electricity and water supply consumption for construction. |
| | Construction of infrastructure supporting investment activity not for 100 percent export shall pay 50 percent of the full VAT rate. |
| Tax incentives in the IPL | Investors in SEZs are also eligible to receive any tax incentives determined in the IPL. |
| Non-fiscal incentives | |
| Land | Right to use, lease, handover or transfer the leased portion of land based on term and period stated in the lease contract, but not more than the period of development contract. |
| | Owner of property located in the SEZ has the right to ownership of land and property over the period of the contract and can sell, handover, transfer or inherit. |
| | Upon the end of the contract, the land will return to the government. |

Source: Taken from the IFC (2021), Investment Reform Map for Lao PDR – Table 15 in Annex 5

Annex V: SEZs in Lao PDR

The first four SEZs highlighted would be most relevant for investors setting up wood processing operations in Lao PDR.

| | SEZ | Year Estd | Investment | Incentives | Focus Sectors |
|---|-------------------------------------|-----------|--------------------------|---|--|
| 1 | Savan-Seno SEZ | 2003 | Industrial zone | Decree No. 177/PM, 13 November 2002 | <ol style="list-style-type: none"> 1. Industrial sector - electrical appliance manufacturing plants, food-processing plants, wood-processing plants, garment and textile factories, automobile assembly plant, and other electronic parts assembly plant. 2. Distribution logistics service sector - transportation, cargo delivery service, freight forwarding, warehouses, and cool storage. 3. Service sector - banking, financial institution, training center, and real estate |
| 2 | Vientiane Industrial and Trade Area | 2011 | Industrial zone | Based on the Joint Development of Industry and Trade Area at Km21, Vientiane Capital, 30 October 2009 177/PM, 13 November 2003 | <ol style="list-style-type: none"> 1. Light industry – manufacturing, agriculture processing, garment factories, etc. 2. Service sector supporting industrial park, such as logistics and dormitories |
| 3 | Saysettha Development Zone | 2010 | Industrial Zone | Based on the Agreement of the Saysettha Development Zone, on 11 July 2012. Decree No. 177/PM 2003 | <ol style="list-style-type: none"> 1. Agro-processing zone (producing foods, organic produce and animal feed) 2. Timber processing 3. Manufacturing – machinery, electronic appliances 4. Green energy 5. Textile and garment factories 6. Logistics 7. Residential zone (leisure area, staff accommodation, commercial, cultural, educational and health facilities) |
| 4 | Phoukhyo SEZ | 2010 | Industrial Zone | Based on the Development Agreement of the Phoukhyo Specific Economic Zone, Thakhek District, Khammuan Province, Lao PDR, on 28 December 2010 | <ol style="list-style-type: none"> 1. Industrial zone - manufacturing and processing for export 2. Information technology information development project 3. International financial services center 4. New town construction project |
| 5 | Boten SEZ | 2003 | Trade and logistics zone | The policy is based on the agreement and concessions of 4 April 2012 for the transformation of Golden Boten City to Boten Beautiful Land SEZ. | <ol style="list-style-type: none"> 1. Lao-China northern inland logistic center – USD 10 million, 30 ha 2. International border business center – USD 40 million, 30 ha 3. International golf-course and tourism center – USD 20 million, 50 ha 4. Cultural-tourism resort center – USD 7 million, 10 ha 5. Education, culture, and healthcare center – USD 6 million, 10 ha |

| SEZ | Year Estd | Investment | Incentives | Focus Sectors | |
|-----|---------------------|------------|------------------------------|--|--|
| 6 | Golden Triangle SEZ | 2007 | Tourism and new urban center | The policy is based on the agreement on the development of the integrated AEC, and on the prime minister's decree on the organization, activities, and management of the Golden Triangle SEZ, Tonpherng District, Bokeo Province, Lao PDR, No. 090/PM, 4 February 2010 | <ol style="list-style-type: none"> 1. International airport – USD 140 million, 175 ha 2. Golf and Leisure Center – USD 50 million, 300 ha 3. Real estate development project on Don Xao Island – USD 80 million, 90 ha 4. ASEAN-China cultural tourism centers - USD 60 million, 300 ha 5. High-class spa resort – USD 70 million, 290 ha 6. International hospital – USD 40 million, 11ha |
| 7 | Dongphosy SEZ | 2012 | Trade and logistics zone | Amendment of and addendum to the contract on the development of the SEZ at Dongphosy, Lao PDR, on 12 September 2009 | <ol style="list-style-type: none"> 1. Commercial area: shopping centers 2. Hotels 3. Community amenities - specialist medical center, educational institutions 4. Bonded warehouses, showrooms, wholesale trade area |
| 8 | Thakhek SEZ | 2012 | Trade and logistics zone | Based on the agreement of the Thakhek SEZ, Thakhek District, Khammaun Province, Lao PDR, on 18 May 2012 | <ol style="list-style-type: none"> 1. Trade center 2. Logistics and bonded warehouses 3. Hotels and recreation center 4. Financial and business center 5. Telecommunications 6. Exhibition hall |
| 9 | Champasak SEZ | 2015 | Industrial zone | Decree No. 188/GOV Decree No. 177/PM | <ol style="list-style-type: none"> 1. Light industrial projects 2. Manufacturing, spare parts production 3. Opportunity to cooperate with the Government to develop a new tourism specific economic zone. |

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