

## **Intervention**

**by H.E. Mr. Soulivong Daravong, Minister of Planning and Investment Lao PDR  
at the High Level Forum Investing in Landlocked Developing Countries  
New York, 1 October 2008**

**Mr. Chairman  
Distinguished Guests  
Ladies and Gentlemen,**

**I am privileged to be here today to participate at the High Level Forum on investing in landlocked developing countries; and I would like to thank the organizers for offering me this opportunity.**

**This is indeed a good occasion to share with you some views on the business context and opportunities in Lao PDR.**

**I would like, at first, to stage the context within which private investors are operating in my country the Lao PDR.**

**The Government of Lao PDR is carrying out - within the sixth five-year development plan 2006-2010 - several reforms and programmes at the macro and sectoral levels to strengthen the fiscal policy and public financial management, improve governance and enhance the legal, regulatory and judiciary framework –including those particularly targeting the development of the private sector-. At the same time, we are building physical and social infrastructure and developing human and institutional capacities.**

**In the same vein, the Government is pursuing its policy to integrate the economy in the region and the world and expanding its trading with all countries. We are pursuing the implementation of our commitments within ASEAN/AFTA, promoting regional and sub-regional cooperation, and preparing to join WTO. In this regard, it is worthy noting that Lao PDR is member of several international organizations (such as MIGA, World Bank, ADB, IMF, ASEAN ...).**

**Investment and export in Lao PDR currently benefit from advantages provided within the GSP granted by 42 countries including the EU members, Japan, Canada, China and others. We have concluded a NTR with the USA, a BIT with Japan, and agreements for protecting and encouraging investment with 25 countries.**

**Those are enabling conditions for the private sector development. For us in Lao PDR, private sector is actually considered as a major engine for growth, employment, wealth creation and revenue generation, and is indeed contributing significantly to the realization of our development targets especially the achievement of the Millennium Development Goals and the reduction of the widespread poverty.**

**Within this framework, significant achievements were attained in several areas . The macroeconomic situation remains stable. The economy is growing at a substantial rate of 7 to 8%. Economic growth is driven mostly by industry sector , thanks to**

significant investments in hydropower and mining. The resource sector now accounts for more than half of total investment and exports. Agriculture sector is however experiencing slow growth of 3% despite rich resources and increased investment. This remains a matter of concern for the Government as Agriculture represents the main income for 75% of the labor force. GDP per capita is improving quite significantly – increasing from US\$ 491 in 2002 to US\$ 678 in 2007 – which reflects the Government efforts to shift gradually from the status of LDC within a decade.

Reflecting the dynamism shown by the economy, exports have reached US\$ 653 million in 2006. The international and regional market, bilateral trade agreements and favorable trade terms granted by bilateral partners have helped in opening important opportunities for the Lao products. In addition, simplified and more transparent bureaucracy, fiscal incentives and improved infrastructure have similarly represented favorable conditions for export-oriented business.

The robust economic growth would not have been possible without significant public and private investments. While public investments were oriented to create and improve physical and social infrastructure mostly in Transport, Agriculture, Rural Development, Health and Education; private investments were mobilized in minerals exploitation and processing, hydro-power, handicraft, agricultural production, tourism and trade.

As a result of clear policy and significant incentives with regard to private sector development, Foreign Direct Investment (FDI) has achieved significant increase over the past few years and is representing around 24% of GDP compared to 8% for public investment. As a share of the total investment in the country, private investment (both domestic and foreign) counts for nearly 65% compared to 35% for public investment (based on 2005 data).

The approved FDI figure in 2006 reached the ever highest value of 2.7 billions US Dollars with 170 projects. In 2007, there were a total of 191 projects approved with an investment amount of 1.14 billion US Dollars.

The concentration on several large scale projects particularly in 2006 would explain the high level of approved investment. So far, there are inward investments from 38 countries and territories. Several major investments are from China, Vietnam, Thailand, France and Japan.

Ladies and Gentlemen,

The Government of Lao PDR is fully aware of the constraints and shortages still facing the private sector in our country. As an LDC and landlocked country, Lao PDR is experiencing difficulties in providing ideal conditions for business. These constraints are illustrated by the recent World Bank report on the ease of doing business in which Lao PDR is ranked 165 out of 181 countries.

According to the same report, several factors are hindering the private sector development; with issues related to protecting investors, closing business, trading across borders and registering property being the most important ones. We recognize that these facts have something to do with our still insufficiently developed legal framework and the judiciary. But at the same time, we have to recognize that the lack of institutional and individual capacities is representing a challenge to speed up the reform implementation, enforce law implementation and improve business climate.

Indeed it is not the lack of political willingness that is missing but rather the insufficient ability of concerned institutions to diligent the implementation of existing procedures and to streamline rules and regulations.

Being a landlocked country, it is obviously clear that we should expect additional cost in ‘across border trading’. In addition to the long time it takes for goods to reach their destination either for import or export, the transit transportation and handling cost is quite high as it represents nearly US\$ 1600 per container.

Having underlined these limiting factors, I strongly believe that Lao PDR has a lot to offer and represents a good destination for private investment. The public authorities are indeed struggling to simplify business regulations, strengthen property rights, streamline tax regime and reduce the cost of doing business, all of which will positively impact business climate.

Moreover, Lao PDR - as a natural resource rich country with great potentials of land, water, minerals, forest, flora, tourism sites some of which are internationally recognized as world heritage - offers tremendous advantages for private investment. .

The fiscal regime is providing encouraging incentives for FDI and important steps were already made to facilitate business approval and registration through single stop service. Equally important is the fact that Lao PDR is one of the most stable and secure country in the region.

**Ladies and Gentlemen**

As I mentioned before, the macroeconomic and sectoral context is crucial to create good conditions to promoting private sector operations. In this regard, efforts will be increased over the coming years. The Government will pursue and strengthen its policies to further improve the business climate, taking into consideration recommendations from our partners on how to overcome existing weaknesses .

Among the policy features, I would just mention the following:

- Pursuing and accelerating the implementation of public financial management reforms, within the implementation of the World Bank supported Public Expenditure Management Strengthening Programme (PEMSP);

- Continuing on-going efforts within the improvement of the banking and financial sectors to support private sector development and extending rural outreach;
- Continuing the implementation of Governance reform initiatives to strengthen the machinery of administration, including better public service management and delivery and implementing rule of law;
- The legal and judicial framework will continue to be harmonized with international standards, especially in areas of commerce, bankruptcy and labor, as the country moves towards greater regional and global integration;
- Increased resources from national budget and ODA will be directed to build roads and other public infrastructure crucial for attracting private investment
- Pursuing human resource development and capacity building at all levels through improvement of the education system, vocational training and skills upgrading for the civil servants
- Further simplification of rules, regulations and bureaucracy, improving the one-stop door policy and strengthening public services dealing with private investors such as customs and tax departments
- And the Public/Private sector coordination will be strengthened within the Lao Business Forum where the Government and private entrepreneurs will pursue regular consultations on how to further improve business climate.

We certainly need support from our official and private partners to implement these policies and achieve better results so that Lao PDR will significantly improve its ranking in the ‘ease of doing business’. As an example, Lao PDR and other countries –given its status of LDC and Land Locked country - should receive additional ODA especially in the form of grants and concessional loans to respond in a more effective way to various development challenges and to pursue reforms pertaining to business climate among others.

To sum up these aspects, I would like to stress once again the Government of Lao PDR willingness to promote Foreign Direct Investment. As I mentioned earlier, the Investment Code is indeed very favorable for private business. In responding to the need for improvement, the first and second revisions of FDI Law were carried out in 1994 and 2004, respectively. In addition, the Sixth Five-Years Plan 2006-2010, has clearly set a target to promote FDI into the following priority sectors:

- Agro-Processing businesses;    -Production of construction materials;    -Tourism;
- Energy and Mining

In one word, we are doing our utmost to make Lao PDR a good attraction for investment and doing business.

I wish that this contribution is useful to give you a sense on FDI climate and opportunities in Lao PDR.

Thank you for your kind attention.