

# LAOS

## THE GREAT LEAP FORWARD

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# LAOS

## THE GREAT LEAP FORWARD



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WITH MUCH PRIDE, THE LAO PEOPLE'S DEMOCRATIC REPUBLIC (PDR) LAST YEAR CELEBRATED FORTY YEARS OF INDEPENDENCE. Over the course of four decades, Lao PDR (otherwise known as Laos) has remodeled itself. From a country torn by civil war, it has changed into a stable and peaceful nation with big ambitions. Lao PDR today is counted among the world's fastest growing economies and is set on a course of full regional and international integration.

Over the past two decades, the gross domestic product (GDP) of Laos has grown at an average annual rate of more than seven percent. This has transformed the country from a largely agrarian society into a mobile, upward-oriented economy. The country completed the transition in 2011 from low-income economy to lower-middle income economy, followed by admission to the World Trade Organization (WTO) in 2013. And in 2014, the services sector overtook agriculture as the country's largest contributor to GDP. Much progress has also been made in achieving the country's Millennium Development Goals (MDGs), set by the United Nations. Laos has come close to meeting its targets, particularly in terms of poverty reduction and improvement of health and education.

"The achievements over the past forty years represent a leap in progress for the Lao people," says Prime Minister Thongloun Sisoulith. The government of Laos is committed to moving the nation higher on the scale of developing countries. Prime Minister Sisoulith explains, "The Lao PDR is focusing all of its efforts on poverty reduction, infrastructure development, and building an economic foundation for industrialization and modernization, in order to graduate the country from the 'least developed country' status."

The government's 8th National Socio-Economic Development Plan (NSEDPlan) sets targets for annual GDP growth of no less than 7.5 percent over the next five years. It also makes a commitment to more sustainable growth and improved access to education, which are crucial factors for the country's future competitiveness. At the current pace of development, Laos is likely to outgrow its 'least developed country' status by 2020. Moreover, the government's 15-year development plan foresees Laos developing into an




**Thongloun Sisoulith, Prime Minister of the Lao PDR**

upper-middle income country by 2030, with Gross National Income (GNI) per capita projected at five times the size of what it is today.

"Our medium-term national development vision, or Vision 2030, is to develop a more sustainable and equitable modern economy," explains Khemmani Pholsena, Minister of Industry and Commerce. "In order to make contributions to achieving both 2020 and 2030 development plans, our trade and private sector development strategies aim to promote a more diversified economy."

Although the economy is growing fast, it is however largely based on the exploitation of the country's natural resources. Laos trades primarily in agricultural and forestry products, minerals (including gold, copper, zinc and lead), and electricity generated from hydropower. Mining and electric power exports currently account for more than two thirds of total exports. Economic diversification is therefore high on the government's agenda.

"We adopted a development strategy to promote diversification that is built on three pillars: enhancing enterprise competitiveness, creating a business-friendly environment, and deepening economic integration," says Minister Pholsena. 

# ASEAN – Turning Vision into Reality

Regional integration is a principal element of Laos' development strategy. "The Lao PDR has built mutually beneficial relations with all neighboring countries to ensure a regional environment of peace, stability, equality, and trust," says former Prime Minister Thongsing Thammavong. "This is the foundation for socio-economic development."

The country's location in the very heart of Southeast Asia's high-growth region presents a clear opportunity as Sayakane Sisouvong, Ambassador to the UK, Ireland and Iceland, describes, "We have a long-term vision of Laos becoming [the] Switzerland in this part of the world."

The country's dedication is reflected in Laos' current chairmanship of the Association of Southeast Asian Nations (ASEAN). The association has entered a historic moment in time when the ASEAN Economic Community (AEC) is starting to become a reality. The AEC will gradually abolish all trade barriers between ASEAN's ten member states to create a free market for more than 600 million people. "The Lao PDR will be the first country, in cooperation with the ASEAN member states, to turn the ASEAN Community Vision 2025 into reality," says Prime Minister Sisoulith. "We will continue the integration process, enhance connectivity, and redouble efforts to narrow the development gap among member states."

Alounkeo Kittikhoun, Minister to the Prime

Minister's Office, and ASEAN Senior Officials Meetings (SOM) Leader for Laos, adds: "We want to create a single market and production base, a market which is fully integrated not only within the Asian world but also in the global economy."

Establishment of the AEC is not without challenges for Laos. Companies and industries face competition from within the community, especially as import tariffs on even the most sensitive goods are phased out by 2018. Also, as Sandra Nicoll, Country Director of the Asian Development Bank, Lao PDR Resident Mission, explains, "For the country as a whole it is important to focus on education to ensure that the young people have the right skills to prosper in this new community."

Still, the benefits are expected to largely outweigh the costs. The country is likely to become more attractive to investment, which in turn will lead to more jobs. Minister Pholsena furthermore expects that "Laos will see lower-cost imports coming into its economy. This will help improve the efficiency of firms that use imported materials and it will benefit consumers." 🌏

## The U.S. Dimension

The United States is seeking greater engagement with the region. A special U.S.-ASEAN Leaders Summit held in the United States earlier this year - the very first of its kind - confirmed a strategic partnership between the U.S. and ASEAN. President Obama also attended the ASEAN Summit in Vientiane in September this year. The first ever visit of a sitting U.S. President to Laos was a historic event for Lao-U.S. relations.

"The leaders of our two countries will have the opportunity to exchange views, covering a number of areas such as trade, investment and bilateral exchanges at all levels," said Prime Minister Sisoulith prior to the meeting. "The visit by President Barack Obama to the Lao PDR will open a new chapter in the relationship between our two countries."

Trade between the U.S. and Laos is still limited, but it is experiencing growth. The Office of the U.S. Trade Representative reports that trade in goods grew five-fold in the past ten years to \$70 million, while agricultural trade grew eight-fold to \$8 million. The two countries signed a historic Trade and Investment Framework Agreement in February this year, opening the door to more trade and investment. "The agreement paves the

"The visit by President Barack Obama to the Lao PDR will open a new chapter in the relationship between our two countries."

**Thongloun Sisoulith, Prime Minister of the Lao PDR**

way for future growth in trade and investment between the two countries," says Mai Sayavongs, Ambassador of the Lao PDR to the United States.

Laos already works closely with the U.S. in the framework of the regional Lower Mekong Initiative (LMI), which the U.S. has been funding for years. As Prime Minister Sisoulith says, "These projects have contributed significantly to the socio-economic development of the Mekong countries including the Lao PDR." During his visit in Vientiane, President Obama announced that the U.S. would double funding to \$90 million annually over the next three years to support demining efforts in Laos. Earlier this year, the U.S. also announced it was launching a \$6 million nutritional program addressed at school children. 🌏



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# Time for Investment

The government of Laos is counting on growth across sectors to achieve the ambitious targets of the 8th National Socio-Economic Development Plan. This depends on growth in the agricultural and forestry sectors, in industry, and in services.

An estimated \$27 billion, which is equivalent to 30 percent of national GDP, is required to implement the plan. A mix of state investments, loans, and private investments is expected to provide the necessary funding. The biggest contribution - about 55 percent - is to come from domestic and foreign investors in the private sector.

Most foreign investments currently originate from China, although Thailand and Vietnam also remain to be important investment partners. "Since 2009 the relationship between the Lao PDR and People's Republic of China has grown into a strategic partnership," says Prime Minister Sisoulith. "Our cooperation has increased significantly in the areas of people-to-people exchange, trade, development assistance, and investment.

China financed the construction and launch of Laos' first communications satellite last year and it currently cooperates with Laos on a \$6 billion railroad project linking southern China to Bangkok through Laos.

"Lao PDR's ability to attract inward investment compares favorably with regional competitors and the LDC (least-developed countries) average," says Minister Pholsena; however, she also points to the fact that "investment is almost entirely resource-seeking rather than efficiency-seeking and an estimated 80 percent of foreign direct investment (FDI) goes to the energy and mining sector."

Accordingly, the government is pushing for more diversity and for investments to strengthen Laos' role in the region. Minister Pholsena explains, "We will make extra efforts to promote manufacturing industries, especially agro-processing industries, tourism, and other service sectors where Laos has a comparative advantage. Since most key export markets are opened for Lao products, our focus will be on developing supply capacity and improving the environment for doing business."

Sally Burningham, Country Manager Lao PDR, World Bank, comments that "the country is at a stage where every sector means something and the World Bank hopes to bring expertise and add value to all of these sectors."

## Laos' Special Economic Zones

The establishment of Special and Specific Economic Zones (SEZs) in Laos has boosted the country's growth and development.

"The objective of SEZs is to attract domestic and foreign investments; create a strong foundation for industrialization; contribute to GDP growth, technology transfer, and job creation; and increase government revenue," explains Bouatha Khattiya, Standing Vice Chair of the Lao National Committee for Special Economic Zones (NCSEZ). "Ultimately this is to attain our goal of graduating from LDC status by 2020."

Laos currently operates a total of twelve SEZs, covering a total area of about 19,000 hectares. More than 290 foreign and domestic firms have invested in the SEZs with activities divided between the service sector, industry, and trade. Invested capital already exceeds more than \$1.6 billion. This has led to significant improvements in infrastructure, both inside the zones and in surrounding areas, and has created about 15,600 jobs.

The government is hoping to spread this success across the country, with more SEZs to be constructed over the next ten years, many in remote and rural areas. "The SEZ strategy envisions the establishment of 25 SEZs throughout the country by 2020," says Khattiya and further explains, "In addition to industry and manufacturing, the strategic plan focuses on tourism, trade, and services, and on logistics for SEZs that are located in border areas."

Laos has introduced a number of measures in order to drive foreign and domestic investment in the SEZs. It offers attractive incentive packages, including tax exemption for equipment and raw materials for infrastructural construction, as well as lower income tax and lower value added tax compared to investments outside the zones. In addition, the administrative process for investors has been greatly simplified. Khattiya explains, "In each and every zone there is a One-Stop Service office (OSS) with the authority to make decisions regarding investments in the zone. Investors can get their business license directly from the OSS without having to go to several offices."

For Standing Vice Chair Khattiya, the economic zones have contributed to raising Laos' profile as an investment destination: "SEZs in Laos have attracted many world-class companies such as Aeroworks, Essilor, Nikon, Toyota, Mascot and others, which have been exporting their products 'Made in Laos' globally. Those products are well received by the global markets and have thus contributed to increased confidence of investors." 

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OF OUR PEOPLE, COMMUNITY AND COUNTRY



*Phonesack Group aims to be one of Lao PDR's most valued and dynamic Lao-owned business enterprises. Poised and ready to lead the modernization and development of Lao PDR's energy, infrastructure, mining and natural resources industries, Phonesack Group is committed to help pave the way to gaining favorable inroads into global markets, while at the same time delivering excellent value to its employees and investors.*

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# Powering Ahead: Turning Laos into ASEAN's 'Battery'

The power and electricity sector is arguably the single most important driver for the country's growth and development. Laos generation and transmission capacities have increased substantially in recent years, supporting both domestic and foreign demand.

Blessed with abundant water resources, Laos generates most of its electricity from hydropower installations. The country is estimated to have a total hydropower capacity of 26,000 megawatt (MW) along the Mekong River and its tributaries.

"We want to develop the hydropower potential as rapidly and responsibly as we can," explains Viraphonh Viravong, Vice Minister of Energy and Mines. "Today, we have an installed capacity of 6,000 MW. By 2020, we expect to reach an installed capacity of 10,000 MW. And between 2020 and 2030, we want to add another 10,000 MW, the equivalent of 1,000 MW per year."

Total installed capacity has increased ten-fold over the past decade, with more than forty hydropower stations currently in operation and more under way. Viravong adds, "There are at least 20 to 25 hydropower sites currently under construction. This corresponds to an additional capacity of 4,000 to 5,000 MW."

Domestic demand for electricity is rising quickly, at a rate of 18 percent annually, and is expected to exceed 2,600 MW by 2020. This reflects the current pace of industrial development in Laos as well as the success of a rural electrification program. An estimated 89 percent of households have access to electricity today, compared to 50 percent of households twenty years ago. By 2020, the government expects to reach its target of providing 95 percent of all households with electricity.

Crucially, Laos has also become a major exporter of electricity. About two thirds of electricity generated in Laos is routinely exported to Thailand, Vietnam, and Cambodia, where demand is also on the rise.

Foreign and private investors acting on these opportunities have played a principal role in driving the expansion of Laos' power sector. The country's landmark project, the \$1.2 billion Nam Theun 2 Hydroelectric Project (or NT2), has the backing of 27 development partners and financial institutions, including the World Bank Group and the Asian Development Bank. Inaugurated in 2010, NT2 is the largest hydropower project in Laos to date.

"This project has been a real case study for the government of Laos," says Frédéric Hofmann, CEO of the Nam Theun Power Company (NTPC). "NT2 is an example for other such projects in Laos and in the region."

The plant has an installed capacity of 1,070 MW, much more than could be absorbed locally. About 95 percent of power generated by NT2 is instead exported to Thailand. Managed under a 25-year concession agreement, the installation is a cornerstone of the government's long-term development plans.


"The plant is expected to generate \$2 billion in government revenue over 25 years of the concession period. At the end of this period, in 2035, NT2 will be transferred to the government," explains Hofmann. "This is the big story. Our mission is not just to produce electricity but also to develop the country."

## The Future of Power Generation

The state-owned utility Electricité du Laos (EDL) is the dominant force in Laos' power industry. It owns and operates the country's main generation, transmission and distribution assets and supplies electricity for domestic consumption. Since 2010, EDL Generation, a publicly listed company, has been in charge of EDL's power plants and the growth of generation capacity. "We started with a generation capacity of 300 MW. Our goal is to reach 2,000 MW by 2020," says Bounoum Syvanpheng, former CEO of EDL Generation. "To do that we have mobilized investments to buy other hydropower projects, to buy shares in projects implemented by independent power providers, and to build more hydropower stations across the country."

EDL Generation has already managed to build a portfolio that approaches its 2020 target. "We now have twenty-six projects, producing a total of about 1,400 MW. Provided that we can mobilize the necessary investment for these projects, we will be able to produce about 1,800 MW by 2018 or 2019," says Syvanpheng.

Moving forward, EDL Generation will not limit itself to hydropower. Syvanpheng further explains, "For 2025, our goal is the diversification of our energy sources. We do not want to rely on water alone and are looking into sources such as wind, coal and solar. We have already received the concession from the government for a 100 MW solar energy project and we are in a study phase for a coal energy project."

According to Syvanpheng, Laos is well prepared to take on a bigger role in the region. "We have been working very hard to ensure that we can distribute electricity to neighboring countries, setting up stations, distribution lines, control centers, and training our staff. I believe that by 2020, we will be able to truly become the 'battery' of ASEAN." 



# Local Leaders in the Power Industry


The Vientiane-based Phonesack Group Co., Ltd. is a local industry leader in the power and electricity sector. The group was recently assigned the development of two projects with a combined capacity of 1,550 MW: the Nam Theun 1 hydroelectric power project with a generating capacity of 650 MW and a coal-fired power project with a generating capacity of 3 x 300 MW.

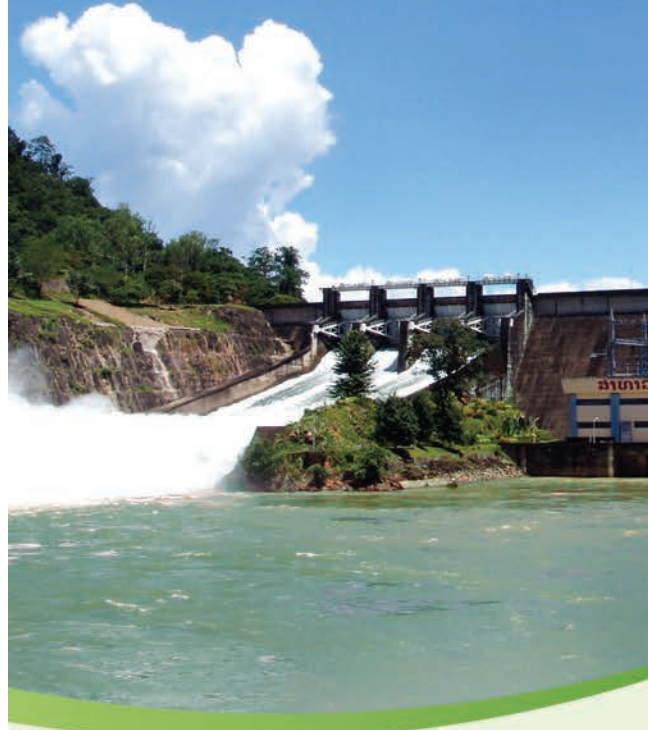
“Phonesack Group was appointed as the sole owner of these projects. This differs from past projects that required foreign investment or multilateral collaboration between the state, private entities, and foreign institutions to fund the development,” explains Phonesack Vilaysack, Chairman of the Phonesack Group. “We have invested millions of dollars in engaging experts to carry out technical surveys and globally recognized consultants to perform a thorough study of these projects.”

Vilaysack understands these projects as an important contribution to national development. “These two projects will be a source of stable revenues for the nation, and they will create job opportunities for technical staff, local experts and the Lao labor force, thereby enhancing the nation’s skills and employment in the hydroelectric and mining sectors,” he says.

Thermal power plants, such as the one built by Phonesack Group, are still a relative novelty for Laos. But this is changing, given the country’s large reserves of anthracite and its desire to make power generation more stable, regardless of any fluctuations in water levels. The coal-fired Hongsa Power Plant, developed by an independent power producer and completed in 2016, is set to become Laos’s highest-capacity power plant, with a generation capacity of nearly 1,900 MW.

Vilaysack sees potential for growth and investment in both the coal-fired power production and hydroelectric power production sectors as a means of providing stable power supply. Accordingly, he expects the company to engage in other similar projects following the immediate assignment. “After completion of the 3 x 300 MW coal-fired power plant in the next five years, we expect to expand by another 600 MW thereafter,” says Vilaysack.

Phonesack Group is also mindful of the impact of these projects on surrounding areas and local communities. The coal-fired power project that is being developed by Phonesack Group will use state-of-the-art, environmentally-friendly technology. As Vilaysack explains, “We have invested in making the social and environmental impact assessment of these projects our first priority. It is a privilege that the government has recognized our project work as a model in terms of socio-economic development and sustainable environmental protection.” 



## Sustainable Choice For You, Sustainable Power For The Nation

**EDL-Gen has a strong desire to be a leading company in Lao PDR to ensure reliable electric power supply for the socio-economic development of Lao PDR, strongly contributing to the realization of Lao PDR's vision of being the battery of ASEAN, as well as in ensuring sustainable and reliable power supply to the ASEAN community.**

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# Thirst for Fuel Drives Competition

Laos' booming economy is driving a growth in fuel consumption at a rate of 10 percent per year. In 2015, fuel consumption reached 1.4 billion liters, following demand from the country's numerous construction projects and a steady rise in vehicle ownership. In 2015, more than 1.7 million vehicles were recorded in Laos, which is 8.2 percent more than in the previous year.

The Lao State Fuel Company (LSFC), a state-owned enterprise, works to guarantee that demand is met and energy supply rises with national development. Khamchanh Rattanavong, Senior Deputy Managing Director of the Lao State Fuel Company says, "We provide fuel for the needs of the society and of the government. We also supply fuel to remote areas regardless of whether we make a profit or not."

LSFC is the leading fuel company in Laos in an increasingly competitive environment. "In 2015, we had a turnover of \$175 million and a profit of \$4.25 million. We sold about 260 million liters of fuel, representing a market share of about 23 percent," Rattanavong says. "We are faced with hard competition in a small country. Before, there were only a few companies – now there are 25 companies."

LSFC relies on existing assets to defend its leading position, but also plans for more modernization. "We have facilities in every province, modern laboratories, three hundred service stations throughout the country, a modern truck fleet, a transport company,

and a construction company. These are all advantages that we have over our competitors," describes Rattanavong. "We have also started working with a Chinese company on building a refinery in Vientiane and we are planning to modernize our service stations and our transport company."

## Thai Ambitions

PTT Lao, a wholly owned subsidiary of Thailand's PTT Group, has been present in Laos since 1993 servicing the retail fuel business. As part of PTT Group, the largest oil and gas company in Thailand, PTT Lao has established itself at the top of the market. "We currently have twenty-seven gas stations. Last year we had sales of about 170 million liters, which is considerable. Our target for this year is about 220 million liters," says Nisit Phongvutirapant, Managing Director of PTT Lao. "In terms of market share, we are number three according to 2015 data."

Still one of the biggest challenges for PTT Lao is finding the right staff. "We invest a lot into local staff. We send them to Thailand for training and we bring trainers here from Thailand to provide on-the-job training."

The company has firm plans of growing its market share, also beyond its fuel business. "We plan and we wish to become number two in Laos," says Phongvutirapant. "We are planning to have ninety gas stations by 2020. In addition, PTT Lao will also grow the presence of PTT Lubricants and of its non-oil retail business. This includes our Jiffy convenience stores and Café Amazon coffee shops that we plan to expand from currently thirty to seventy branches within the next five years."

Competition in the Lao fuel sector is not going to let up any time soon. 🌈



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# Financing the Country's Growth

Laos' financial sector has been instrumental in bankrolling the country's economic development. Significant lending by the financial sector has boosted economic activities, thereby contributing to the success of the country's previous national socio-economic development plan.

The financial sector is bank-based, with banks' assets accounting for more than 90 percent of the total assets of the financial industry. According to a World Bank report, these assets amounted to \$12 billion in 2015. There are now 42 commercial banks in Laos, consisting of four state-owned commercial banks, three joint-venture banks, seven private banks and 28 subsidiaries and branches of foreign banks. The influx of foreign banks in recent years means that the share of foreign branches in total assets has grown significantly. In 2015, foreign branches held 26 percent of all assets, compared to 18 percent in 2013.

"Public confidence in the financial sector is high, as indicated by the level of deposits, which by the end of 2015 were equivalent to 53.34 percent of GDP," says Vathana Dalalay, Deputy Governor of the Bank of the Lao PDR (BOL). "Besides the expansion of the banking sector, the Bank of the Lao PDR also promotes non-bank financial institutions (NBFIs) in order to increase financial access to households in rural areas. As of 2015, there were 147 NBFIs supervised by BOL."

For the near future, the Bank of the Lao PDR focuses on the development of financial infrastructure, including the modernization of payment and accounting systems, financial inclusion, and capital markets that are supporting regional financial integration.

## Going Public

"To further support financial sector development, Lao PDR established its first stock exchange in 2010 with the purpose of raising long-term capital to finance socio-economic development," says Dalalay.

The Lao Securities Exchange (LSX), a joint venture between BOL and the Korea Exchange, was established in 2010. The power and electricity company, EDL Generation, and the state-owned bank BCEL were the first companies to be listed on the exchange. Between 2010 and 2015, the LSX mobilized total funds of more than \$700 million.

"This is what we are here for," confirms Vanhkhham Voravong, CEO of the Lao Securities Exchange. "The securities exchange market has contributed significantly to raising capital and funding to move the economy forward."

Five companies are currently registered on the LSX, representing some of the largest companies in Laos. This number is expected to grow, as LSX invests

in educating the market and continues adapting its rules to be more suitable for smaller companies. Voravong explains, "Many businesses in Laos are family businesses. Joining the securities exchange market is a big decision for them. But in our expansion plan, we have the goal of registering at least 25 to 35 companies in the LSX by 2020."

"The financial sector is a key engine for economic growth and social progress, and it helps fulfill the achievement of the government's development policies."

**Vathana Dalalay,**  
Deputy Governor of the Bank of the Lao PDR

## Innovation in Banking

One of the first companies to be listed on the Lao Securities Exchange was the Banque pour le Commerce Extérieur Lao Public (BCEL). Established as a state-owned commercial bank in 1989, BCEL is the country's leading bank. "BCEL contributes to the socio-economic development of the country," says Phoukhong Chanthachack, General Managing Director of BCEL. "And we will continue contributing to government goals by mobilizing the funds necessary to offer credits to society and by providing accessibility to our customers." The bank maintains a strong network of more than one hundred branches and service units across the country, especially in rural areas, and is a leader in the use of automatic teller machines (ATMs), deposit machines, and mobile and internet banking services.

BCEL has won multiple awards, including the 2011 Bank of the Year award from Bankers Magazine, the 2012 Wholesale Banking Award from Asian Banking and Finance Magazine and the 2013 Most Innovative Retail Bank Laos award from Global Banking and Finance Review. Some of the bank's innovations include BCEL One, an application that allows customers to use their smart phones to automate transactions and to pay bills, and the BCEL smart card solutions for payment of public transportation. "The awards that we have received give recognition to the bank's continuous development," says Chanthachack. "This does not mean that the bank will now remain static; we will continue developing our technology and our human resources."

In the country's evolving financial landscape driven by regional financial integration and especially the ASEAN Banking Integration Framework (ABIF), BCEL will be exposed to more competition. But regional

integration will also bring potential benefits through market expansion and a growing volume of cross-border financial and trading activities.

Chanthachack is confident about BCEL's position. "We will cooperate and coordinate with other ASEAN banks to offer even better banking services for our customers. And we will also develop as a bank towards achieving international banking standards, moving towards Basel principles and a corporate governance policy."

## Ever Stronger China-Laos Trade

The Industrial and Commercial Bank of China (ICBC), Vientiane Branch, is another increasingly active player in Laos' banking sector. As China's largest lender – and the world's largest bank by market value – it opened its Lao branch in 2011 to service corporate and individual clients and to facilitate cooperation between the two countries. China is Laos' second largest trading partner and its largest foreign investor. Bilateral trade amounted to an impressive \$2.78 billion in 2015, while Chinese investments in Laos extend to currently 760 projects with a value of about \$6.7 billion.

"We believe that the economic and political relations between Laos and China will be much closer in the future. This will provide more opportunities for ICBC and other companies," says Lu Jian, General Manager of ICBC Vientiane Branch.

"For the past five years we have tried our best to be a part of the growth of this country and its

economy," he continues. "ICBC Vientiane Branch grows along with the economy and has developed very fast. Since the start of the bank's operations, its profit has increased by an average of 40 percent annually, in some years reaching 100 percent."

In 2012 the Bank of the Lao PDR appointed ICBC Vientiane Branch the sole renminbi (RMB)-clearing bank in Laos, giving it the right to open RMB accounts for banks, enterprises and individuals in Laos and clear RMB transactions between Laos and China. The move replaced the need for cash settlements and created the basis for a growth in RMB settlements between the two countries.

ICBC is deeply involved in financing Laos' long-term development projects. Lu explains, "So far the bank has focused on the construction sector. We think that infrastructure development will lead to social development and empower the local economy. We have been working with the Ministry of Finance on large projects related to modern agriculture, hydropower constructions, and other infrastructure projects."

These are stepping stones in consolidating the bank's market position. "In accordance with the Lao regulatory system, we are permitted to have only one physical location to provide services to our customers. With possible changes in legislation, we have plans of expanding our business to the north and to the south of the country. Our goal for the next five years is to fortify our current position in Laos and become a leading bank in Laos with high profitability,



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Laos

performance, and prestige.”

The bank's success in Laos is also based on the quality of its local staff. “Human resources management is a key factor for our development and we pay much attention to the personal development of our employees,” says Lu, explaining that “We have a total of eighty-three employees, 80 percent of which are from Laos. Just four years ago, about 80 percent of the Lao employees knew little about banking. However, after four years of working in our

bank and training, they have adapted to the bank's culture at all levels and some have grown to become deputy managers in our departments. We have an excellent team!”

ICBC sees further regional integration as a clear opportunity. “The role of Laos in the AEC will become more important by the day. There are a lot of opportunities for investors in various sectors and we hope that we will promote all these sectors in the future,” says Lu. “I am very confident for the future.” 🌏

## Telecommunications Taking Off

Laos successfully launched its first communications satellite last year in cooperation with China. The \$258 million satellite project is expected to strengthen a telecommunications sector that is already booming and extend services to Laos' rural areas. Hiem Phommachanh, the former Minister of Post and Telecommunications, explains, “Our communication satellite will be in service in 2016, and we expect that it will lead to an increase in telephone and internet penetration, especially in remote areas.”

Currently, 87 percent of the population has fixed and mobile telephone access. Internet usage is estimated at about 21 percent but is likely to be higher considering access provided by 3G and 4G mobile telecommunications technologies. “Our main focus is to turn Laos from a landlocked to a land-linked country in the ICT sector,” says Phommachanh. “Foreign investors are welcome to help us in this process.”

“Many people in Laos are poor and in order to improve their situation they need to have access to information. This is where we come and help,” says Khamkhith Saysongkham, General Director of the state-owned operator, Sky Telecom State Company, which is

one of five telecommunications operators currently active in Laos alongside Lao Telecom, ETL, Unitel, and Beeline. Sky Telecom, a former government service, is the youngest entry in the market. “Our company is a special company. Unlike other telecommunications companies we are not only focused on profit, but also focus on helping the people.”

Sky Telecom holds a unique position because it owns and manages the country's network of underground fiber-optic cables. Dark fiber is the principal source of income for the company. Saysongkham explains, “If someone wanted to lease optical fiber lines, they would have to come to us. For example, the satellite company comes to us to rent lines to merge their satellite with our fiber optic network.” But Sky Telecom is also pushing for additional services. “We have been preparing many products, including an internet upgrade from traditional systems to broadband, IMS (Internet Protocol Multimedia Subsystem), IPTV (Internet Protocol Television), and 4G mobile,” says Saysongkham, concluding that the company is “open to everything.” Telecommunications in Laos is truly taking off. 🌏



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# The Reward of Taking the Initiative

When the Phongsavanh Group celebrated its 35th anniversary earlier this year, it was presented with the Order of National Development, a high-level government award. No other private company in Laos has quite the same standing and presence in the country's economy. Phongsavanh Group first started as a company in the timber industry but has since evolved into a group of companies with a total of 2,000 staff and a lead role in multiple sectors. Some of the leading companies in the group include PetroTrade, Phongsavanh Bank, and Phongsavanh Telecom.

"It is our policy to always try and start something new, something challenging, something difficult," says Prof. Dr. Od Phongsavanh, Founder and President of the Phongsavanh Group, explaining the company's strategy and growth. He draws a connection between the group's activities and vision, and the country's socio-economic development. "Our driving force is to reduce poverty among our people. We work closely with the government and we help wherever we can."

"We always try and start something new, something challenging, something difficult."

**Prof. Dr. Od Phongsavanh,**  
**Founder and President of the Phongsavanh Group**

PetroTrade, part of the Phongsavanh Group, started from a similar premise. PetroTrade's CEO, Chanthone Siththixay, explains, "Back in 2008 when PetroTrade was formed, farmers in rural areas bought petrol at very expensive prices, about five times higher than in city areas. We decided to form this company to provide petrol at a lower cost to all people, especially to farmers. We believe that energy is the lifeblood of economic development."


Starting from small-scale petrol stations in rural areas, PetroTrade quickly grew into a nationwide enterprise and the second largest petroleum supplier in Laos. "We have about 120 stations across Laos and we are expanding by an additional 30 stations this year. Our annual sales volume in Laos is about 190 million liters. This is forecast to increase by 40 percent this year, because we are also going to re-export to the region for the first time," says Siththixay. "PetroTrade is the first company in Laos to bring oil not only from Thailand and Vietnam but also from the Middle East and other parts of the world."

The group's Phongsavanh Bank has proven to be a similar game changer. When it was established in 2007, it broke new ground as the first privately-owned bank in Laos. "Before we operated in the banking sector, a lot of investors were not brave enough to come to Laos. After we started operating, more than thirty banks started investing in Laos," recalls Phongsavanh.

"Right now there are about forty banks in Laos and they are growing fast. The competition has become very strong," says Bounthanh Vongsoury, Managing Director of Phongsavanh Bank, further detailing that "there are seven private banks in Laos right now, of which we are number one, enjoying great customer loyalty. Our market share is about 15-20 percent of the whole commercial banking sector in Laos and we expect to grow our market share by 3-5 percent every year."

Vongsoury is proud that Phongsavanh Bank has made itself a pillar for the country's development. "We offer deposit ability and lending to the economic sectors but mostly we focus on small and medium sized enterprises (SMEs) because we think that SMEs are very important for the country and must be supported. We also implement many projects to help the government reduce poverty in rural areas and we provide loans to low-income families so that they have the opportunity to invest in agricultural production and make a better living."

True to its policy of always starting something new, the Phongsavanh Group is also currently in the process of setting up the first life and non-life insurance company in Laos. "Insurance is one of the most important aspects for society. We will cover accidents, life insurance, health insurance as well as big financial projects by the government and the private sector. We are also going to set up an association for insurance companies, as well as a rescue team and ambulances," says Od Phongsavanh. Supported by Singapore-based advisors Mekong Group and Deloitte, the Phongsavanh Insurance Company (APA) will become operational by the beginning of next year.

Phongsavanh's concern is to establish a secure environment for foreign investors: "We want to make sure that investors can come to Laos and find a professional and highly-equipped team of people to assist them in case of emergency." And he is convinced that, with all parameters in place, more investors will want to come to Laos. "Laos is an attractive place to invest because we have a very good legislative system, a very stable political system, and a very strong financial sector." 





# 35<sup>th</sup> ANNIVERSARY

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# Getting a Taste of Laos

Anyone ordering a beer in Laos is likely to be served a beer produced by the Lao Brewery Company (LBC). After more than forty years of brewing and selling beer, LBC controls 98 percent of the national beer market. Its portfolio includes three types of beer under the Beerlao brand, as well as another beer under the LaneXang brand and locally-brewed Carlsberg.

The success of LBC has made it become an important part of the Lao economy. The President of the Lao Brewery Company, Sounthone Phommachack, says, "LBC is the single largest contributor to the Lao government in terms of taxes, thereby enabling the government to further drive the country's economic development. We also estimate that over 35,000 people in Laos are indirectly employed, as a result of LBC, in closely associated industries such as farming and distribution."

Boasting two production facilities and modern machinery, LBC currently has an annual production capacity of 210 million liters of beer. Beer is not all the company produces. LBC also markets Laos' leading brand of drinking water under the Tigerhead brand, and it produces soft drinks for PepsiCo. "From relatively humble beginnings in the 1970s, LBC is today the number one drinks company in Laos," says Phommachack.

"LBC focuses heavily on innovation in terms

of different types of beverages and packaging styles. We recently refreshed our Tigerhead Water packaging and introduced a number of international imports, such as Somersby Cider and Kronenbourg 1664, to improve our market offer."

The success of Beerlao is no longer limited to Laos. The beer has won several international awards and is now appreciated globally. "Export is one of the fastest growing areas of our business and we are working with highly professional partners in many markets where we are jointly developing Beerlao as a premium imported beer," says Phommachack. "We now export to over twenty markets worldwide."

Aware of its wider role in society, LBC takes a responsible course of action. It contributes to social activities, and it was the first company in Laos to install a Carbon Monoxide Detector (CMD) system to conserve energy and reduce its carbon dioxide emissions by as much as 40 percent.

"Since the company owes its growth to the support from Laos' society, LBC considers social responsibility both an obligation and a priority in the way it conducts its business," says Phommachack. "We partner for the preservation of the Lao culture, support the protection and preservation of the environment, and promote a healthy and balanced lifestyle." 🌈



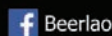
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# Laos' New Breed of Entrepreneurs

The TK Group represents a new generation of companies that are contributing to the development of new industries as they are seizing the opportunities of the growing Lao economy. Established in 2005, the TK Group grew from a single enterprise to a major group of companies in just 10 years.

Thatnakhone Thammavong, President and CEO of the TK Group, was inspired by his experience abroad to start his first company, TK Support. "I studied and lived in Singapore for a few years and I saw the high level of technology available. By establishing TK Support, I wanted to apply in Laos what I had seen and help the country advance in technology."

TK Support has since developed from a small enterprise offering information technology hardware and software services into Laos' leading IT solutions and service provider. The various companies of the TK Group developed in parallel to the original business, gradually adding to the group's presence and role in the Lao economy. "With the help of the companies that we have created over the years, we have been able to create many job opportunities. We started with only a few employees in 2005, but today TK Group has more than 200 staff."

Today, the diversified group includes a total of eight companies with activities in information technology and new media, mining, construction, trade, and mechanical and electrical engineering. The challenge, faced by many companies in a developing economy, is not in finding the right opportunity but the right people. "Human resources are a big challenge in Laos as there is a shortage of skilled management staff," says Thammavong. "To implement large projects, such as hydropower and other construction projects, we need

expertise and highly skilled labour, but we don't have enough yet in Laos."

TK Group is always looking for new opportunities and invites new entries into the market. "Our activities are diversified and we try to accommodate every investor in Laos," says Thammavong, describing some of the group's recent initiatives. "Last year we approached U.S. investors to come and invest in Laos. We discussed franchise options with companies in the food and beverage sector and we visited Microsoft to explore the possibility of establishing a data center in Laos. We can also offer real estate for the construction of apartments, hotels, and shopping malls."

This is an open invitation to investors. 🌍



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# The Intelligent Way to Market

For many investors and businesses, Laos still represents uncharted territory. Companies willing to seize the opportunities of Laos' high-growth economy must be prepared to enter the market as first movers, navigating local needs and requirements and building connections with local communities.

Coca-Cola – which is no stranger to international expansion – has been in the country for less than four years and opened its first bottling plant in Laos in 2015. “There are very few countries left in the world where Coca-Cola does not have a local operation. To come to a country that is a total greenfield project for Coca-Cola is quite unique,” says Mark Griffin, General Manager of Lao Coca-Cola Bottling Company.

Coca-Cola is careful to uphold its standards as a responsible company. Griffin explains, “Globally, we have made a commitment to be water-neutral by 2020. This means that we will return to communities and nature an amount of water equal to what we use in our finished beverages and their production. For example, we have integrated in our bottling plant a rain water harvesting and collection storage system that allows us to operate almost entirely on rain water during the rainy seasons.” “We are helping local village communities to apply the same principle. We have worked with village authorities in five local communities providing large rain water storage jars to over 1,000 homes. We will issue another 1,000 jars over the next couple of years to help local communities conserve water.”

Griffin suggests another global Coca-Cola initiative being applied to Laos, the 5by20 program. “5by20 means that the company aims to empower five million women entrepreneurs globally by 2020. It is a program specifically aimed at establishing women in business. We will have our own 5by20 in Laos, promoting 5,000 women entrepreneurs by 2020. We will partner with local NGOs and banks to provide capital and identify business opportunities and launch this initiative by the end of 2016.”

## Focus on Women to Double Market Share

In a similar spirit, the Banque Franco-Lao (BFL) has made services for women entrepreneurs a key part of its growth strategy. The bank was established in 2008, as a joint venture between BCEL and COFIBRED, a subsidiary of the French banking group BRED Banque Populaire. In a competitive market, BFL focuses on SME development.

“BRED is a cooperative bank and since its beginning has been dedicated to financing SMEs,” says Guillaume Perdon, Executive Managing Director of BFL. “So this is really what we are here to do: we want to finance local SMEs.”

BFL has been quick to reach out to its customers by establishing a country-wide network of branches and investing in electronic banking services. Increasingly, it focuses on women as a distinct market segment. Perdon explains, “One of our main projects this year is to build a banking solution for women SMEs. For us this is a matter of differentiation, the idea of reaching a target group that other banks have not tried to approach.”

As a result, BFL expects to be able to double its current 2.5 percent market share. It already cooperates with the International Finance Corporation (IFC) for a financing facility that provides loans to women entrepreneurs. And it joined the Global Banking Alliance for Women, working towards a dedicated Women's Market Program.

“This is not just some kind of marketing activity; these will be real tools that we will develop in partnership with others institutions and subcontractors to support women SMEs,” says Perdon. “The official launch is planned for this year.”

## Turning Leisure into Business

Theppanya Printing, Sign and Advertising, a successful printing company that started its business in 2000, has turned a service to its employees and national passion for soccer into a business. Ever since providing its employees with a soccer field for after work entertainment, Theppanya found there was popular demand.

“Over the past five years, the soccer-field business has been very successful,” says Vannared Panyavichith, Managing Director of Theppanya Premium Football Field. “We now have two soccer fields and in the future we want to open an academy so that young kids can learn to play professionally. The sports business has a big growth potential.”



# Towards a World-Class Destination

Tourism is an important growth sector for Laos. For the past ten years, the number of tourists visiting the country has increased at an impressive average annual rate of 18 percent. In 2015, Laos recorded 4.3 million arrivals and revenue from tourism of \$670 million. Most visitors travel to Laos from neighboring countries; however their stay in the country is still quite short, compared to other countries in the region.


Seeing tourism's potential, the government is focused on developing its many tourism sites, improving infrastructure and transportation, and encouraging private investment in the sector. Popular destinations in Laos include the ancient town of Luang Prabang, a UNESCO World Heritage site; the sacred That Luang monument; and the Buddha Park in Vientiane.

The Landmark Mekong Riverside Hotel has opened the door to a new kind of tourism, bridging business and leisure. Located along the Mekong River promenade in Laos' charming capital, Vientiane, the luxury hotel opened in time for the 9th Asia-Europe Meeting (ASEM) Summit in 2012. "With 188 rooms and suites and beautiful gardens, this is one of the top luxury hotels in the country. Our hotel is an urban resort that can accommodate both tourism and business guests," explains Mickael Frangin, Group General Manager of the Landmark Mekong Riverside Hotel.

Responding to growing demand, the hotel is set for further expansion.

"The hotel is adding an international convention and event center that will accommodate eighteen meeting rooms of variable size plus a grand ballroom that is able to receive up to 2,300 guests. This development facilitates increasing demand for meeting rooms from industry and commerce and the ASEAN Summit meetings held this year. With this extension, the hotel will be the place to go."

The Krittaphong Group, which built and currently owns the Landmark Hotel, has bigger plans. As Boulapha Santikhongkha, Chairman of the Krittaphong Group, says, "We will create the Landmark Group. We have several other hotels that will be added to the group, with the Landmark Mekong Riverside Hotel being its flagship property. Our goal is to become the leading group of hotels in Laos within the next five years and possibly also start expanding to neighboring countries." The group aligns itself closely with the country's development needs. "We know what the government needs and where it wants to go," explains Santikhongkha. "We go along with the government's strategy and vision. As a Chinese idiom says: 'When water rises, the ball rises as well'. If the country grows, we are also growing."

This is true for most businesses in Laos. As the country is moving up the rungs of development, opportunities will naturally abound. 

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“The Lao PDR is focusing all of its efforts on poverty reduction, infrastructure development, and building an economic foundation for industrialization and modernization, in order to graduate the country from the ‘least developed country’ status.”

**Thongloun Sisoulith, Prime Minister of the Lao PDR**

“The Lao PDR has built mutually beneficial relations with all neighboring countries to ensure a regional environment of peace, stability, equality, and trust. This is the foundation for socio-economic development.”

**Thongsing Thammavong, former Prime Minister**

“We adopted a development strategy to promote diversification that is built on three pillars: enhancing enterprise competitiveness, creating a business-friendly environment, and deepening economic integration.”

**Khemmani Pholsena, Minister of Industry and Commerce**

“The Trade and Investment Framework Agreement paves the way for future growth in trade and investment between the two countries.”

**Mai Sayavongs, Ambassador of the Lao PDR to the USA**



**"We have a long-term vision of Laos becoming the Switzerland in this part of the world."**

**Sayakane Sisouvang, Ambassador of the Lao PDR to the UK, Ireland and Iceland**

**"We want to create a single market and production base, a market which is fully integrated not only within the Asian world but also in the global economy."**

**Alounkeo Kittikhoun, Minister to the Prime Minister's Office, and ASEAN Senior Officials Meetings (SOM) Leader for Laos**

**"For the country as a whole it is important to focus on education to ensure that the young people have the right skills to prosper in this new community."**

**Sandra Nicoll, Country Director of the Asian Development Bank, Lao PDR Resident Mission**

**"The country is at a stage where every sector means something and the World Bank hopes to bring expertise and add value to all of these sectors."**

**Sally Burningham, Country Manager Lao PDR, World Bank**

**"The objective of Special and Specific Economic Zones is to attract domestic and foreign investments; create a strong foundation for industrialization; contribute to GDP growth, technology transfer, and job creation; and increase government revenue."**

**Bouatha Khatthiya, Standing Vice Chair of the Lao National Committee for Special Economic Zones (NCSEZ)**



"We want to develop the hydropower potential as rapidly and responsibly as we can. Today, we have an installed capacity of 6,000 MW. By 2020, we expect to reach an installed capacity of 10,000 MW. And between 2020 and 2030, we want to add another 10,000 MW, the equivalent of 1,000 MW per year."

**Viraphonh Viravong, Vice Minister of Energy and Mines**

"The Nam Theun 2 Hydroelectric Project (or NT2) has been a real case study for the government of Laos. NT2 is an example for other such projects in Laos and in the region."

**Frédéric Hofmann, CEO of the Nam Theun Power Company (NTPC)**

"We have been working very hard to ensure that we can distribute electricity to neighboring countries, setting up stations, distribution lines, control centers, and training our staff. I believe that by 2020, we will be able to truly become the 'battery' of ASEAN."

**Bounoum Syvanpheng, former CEO of EDL Generation**

"The Nam Theun 1 hydroelectric power project with a generating capacity of 650 MW and a coal-fired power project with a generating capacity of 3 x 300 MW will be a source of stable revenues for the nation, and they will create job opportunities for technical staff, local experts and the Lao labor force, thereby enhancing the nation's skills and employment in the hydroelectric and mining sectors."

**Phonesack Vilaysack, Chairman of the Phonesack Group**

"We provide fuel for the needs of the society and of the government. We also supply fuel to remote areas regardless of whether we make a profit or not."

**Khamchanh Rattanavong, Senior Deputy Managing Director of the Lao State Fuel Company**





"We plan and we wish to become number two in Laos. We are planning to have ninety gas stations by 2020. In addition, PTT Lao will also grow the presence of PTT Lubricants and of its non-oil retail business."

**Nisit Phongvutirapant, Managing Director of PTT Lao**

"The financial sector is a key engine for economic growth and social progress, and it helps fulfill the achievement of the government's development policies."

**Vathana Dalalay, Deputy Governor of the Bank of the Lao PDR**

"The securities exchange market has contributed significantly to raising capital and funding to move the economy forward."

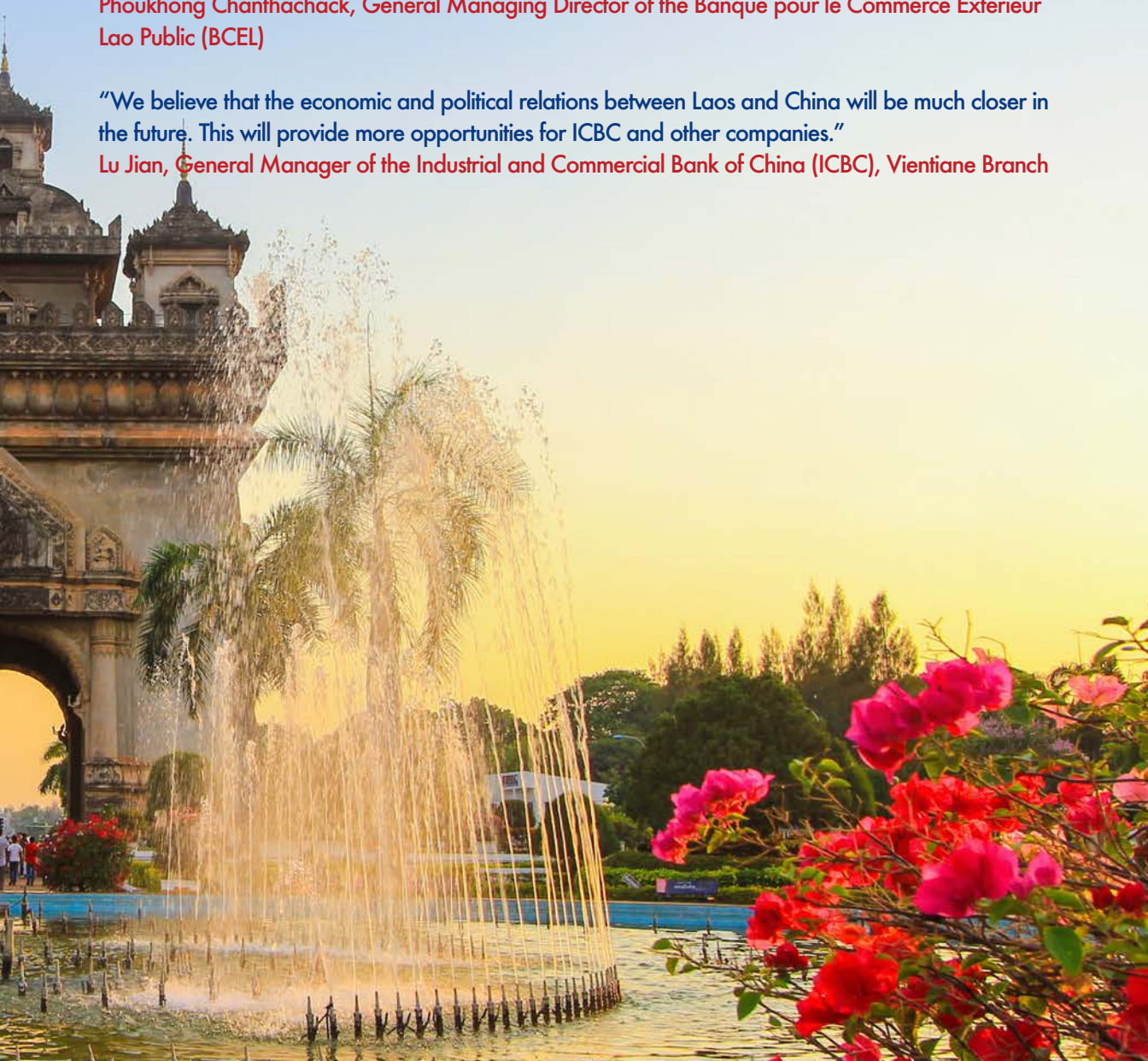
**Vanhkham Voravong, CEO of the Lao Securities Exchange**

"BCEL contributes to the socio-economic development of the country. And we will continue contributing to government goals by mobilizing the funds necessary to offer credits to society and by providing accessibility to our customers."

**Phoukhong Chanthachack, General Managing Director of the Banque pour le Commerce Extérieur Lao Public (BCEL)**

"We believe that the economic and political relations between Laos and China will be much closer in the future. This will provide more opportunities for ICBC and other companies."

**Lu Jian, General Manager of the Industrial and Commercial Bank of China (ICBC), Vientiane Branch**



“Our main focus is to turn Laos from a landlocked to a land-linked country in the ICT sector. Foreign investors are welcome to help us in this process.”

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**Boulapha Santikhongkha, Chairman of the Kritthaphong Group**





# LAOS THE GREAT LEAP FORWARD



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