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LAO PDR
INVESTMENT HANDBOOK

November 2020

Krungsri Research

Executive Summary: Growth in 2020 will be flat, while, in the medium to longer term, growth should rebound to its potential rate of 5.0-6.0% p.a.

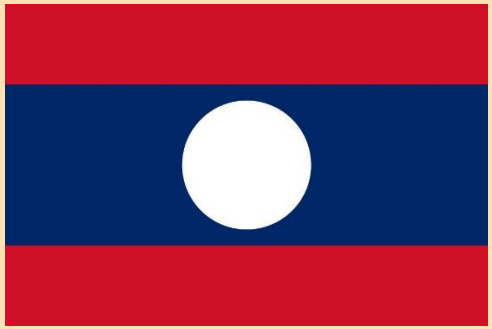


The COVID-19 pandemic weighs severely on Lao PDR's economy in 2020. Growth is expected to be flat or register at a small positive number. Amid its persistent structural vulnerabilities, a global economic downturn and the pandemic add downward pressure on its macroeconomic and external stability. This eventually leads to a downgrade of the country's credit ratings by large international rating agencies.



However, should the country is able to weather short-term challenges and manage to pursue structural reforms, we view that Lao PDR could maintain its positive long-term growth prospects. This would be supported by the country's fundamentals composing of (1) favorable demographic structure, (2) structural reforms and infrastructure investment (rail links), (3) regional economic integration (4) foreign direct investment (FDI) inflows. Against this backdrop, there are business opportunities for Thailand in some potential sectors in Lao PDR including (1) food and beverage, (2) homewares, (3) healthcare and pharmaceuticals, (4) agribusiness, and (5) construction materials.

Lao PDR: A Country Overview



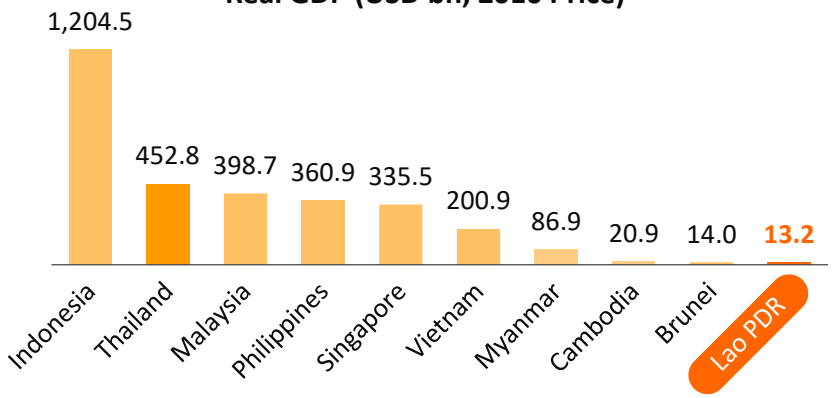
Official name	Lao People's Democratic Republic
Form of State	One-party communist state
Economic system	Transition to a market-led economy
Total area (sq. km)	236,800
Administrative divisions:	17 provinces
Total population (person mn)	7,447,396 (July 2020 est.) Median age: 24 years (2020 est.) Population growth rate: 1.44% (2020 est.)
Climate	Tropical monsoon; rainy season (May to Nov); dry season (Dec to Apr)
Urbanization	Urban population: 36.3% of total population (2020) Rate of urbanization: 3.28% annual rate of change (2015-20 est.)
GDP (official exchange rate)	USD16.97bn (2017 est.)
GDP - composition, by sector (2017 est.)	Agriculture: 20.9% Industry: 33.2% Services: 45.9%
Agricultural products	Sweet potatoes, vegetables, corn, coffee, sugarcane, tobacco, cotton, tea, peanuts, rice; cassava (manioc, tapioca), water buffalo, pigs, cattle, poultry
Industries	Mining (copper, tin, gold, gypsum); timber, electric power, agricultural processing, rubber, construction, garments, cement, tourism
Exports - commodities:	Wood products, coffee, electricity, tin, copper, gold, cassava
Imports - commodities:	Machinery and equipment, vehicles, fuel, consumer goods
Labor force	3.582 million (2017 est.)
Labor force - by Occupation:	Agriculture: 73.1% Industry: 6.1% Services: 20.6% (2012 est.)
Taxes and other revenues:	17.9% (of GDP) (2017 est.)
Fiscal year:	1 Oct - 30 Sep

Source: CIA Factbook compiled by Krungsri Research

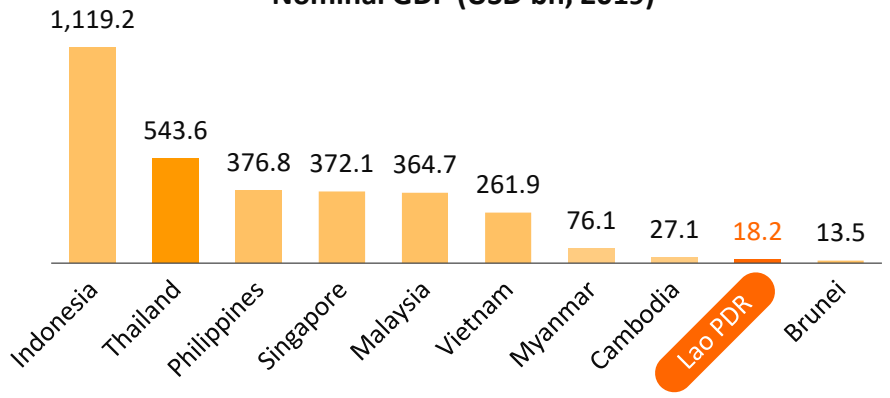
Lao PDR among ASEAN peers: One of the dynamic frontier markets

Lao PDR is a lower-middle income country with the GNI per capita of USD2,570 (July 2020), highest among in the CLMV peers. This has been driven a sustained impressive economic growth over the last two decades with the annual growth rate over 7%. In our view, Lao PDR growth momentum should continue in the long term driven by fundamentals and foreign investment against a backdrop of vulnerable macroeconomic stability.

Real GDP (USD bn, 2010 Price)



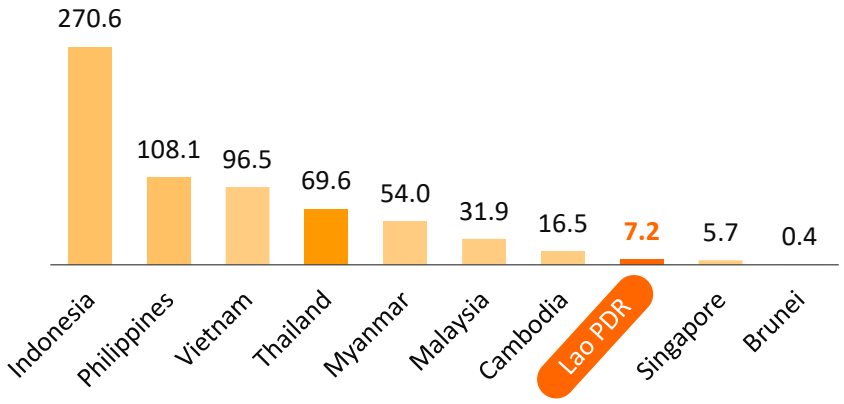
Nominal GDP (USD bn, 2019)



ASEAN members by income status (as of 1 July 2020)

ASEAN member	GNI per capita[1/] (USD)	Classification by income
Singapore	59,590	High-income
Brunei	32,230	High-income
Malaysia	11,200	Upper-middle income
Thailand	7,260	Upper-middle income
Indonesia	4,050	Upper-middle income
Philippines	3,850	Lower-middle income
Lao PDR	**2,570**	**Lower-middle income**
Vietnam	2,540	Lower-middle income
Cambodia	1,480	Lower-middle income
Myanmar	1,390	Lower-middle income

Population (Person mn, 2019)



Note: 1/ Based on classification by the World Bank, lower middle-income economies are those with a GNI per capita between USD1,026 and USD3,995; upper middle-income economies are those with a GNI per capita between USD3,996 and USD12,375; high-income economies are those with a GNI per capita of USD12,376 or more.

Source: CEIC, World Bank: WDI, Krungsri Research

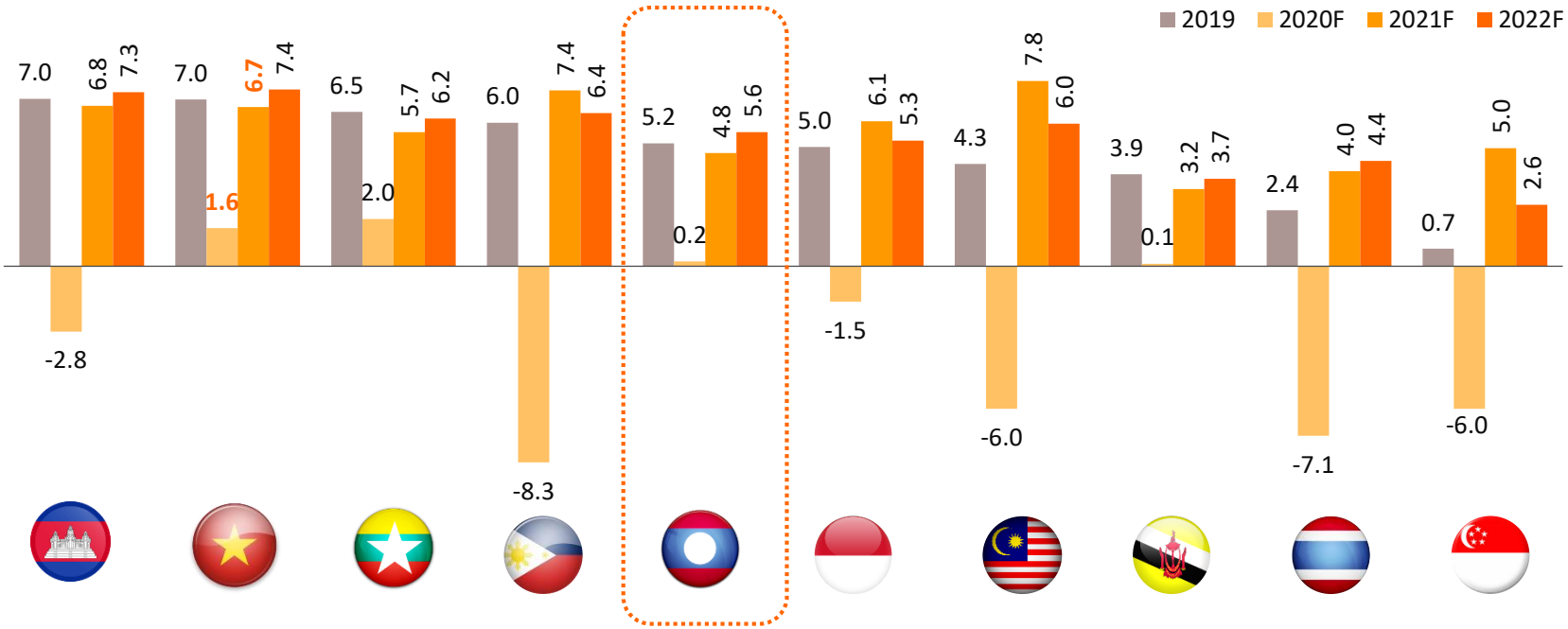
Major milestone of Lao PDR s' developments

1893	Becoming a protectorate of France.
1945	Briefly occupied by the Japanese troop until the end of WW II.
1946	French rule over Laos was resumed.
1950	Becoming semi-autonomy as an associated state within the French Union.
1954	Gaining full independence as a constitutional monarchy. Civil war broke out between royalists and the communist group, the Pathet Lao.
1960s	Extensive aerial bombardment by the US to destroy North Vietnamese sanctuaries and to rupture the supply lines known as the Ho Chi Minh trail.
1975	• The Pathet Lao - renamed the Lao People's Front - seized power. King Savang Vatthana abdicated - he was subsequently arrested and finally died in captivity. The Lao People's Democratic Republic was proclaimed, with the Lao People's Revolutionary Party (LPRP) the only legal political party. Kaysone Phomvihane became the prime minister. • Socialist transformation" of the economy was initiated.
1980	First Financial Arrangement with the IMF through the Standby Arrangement
1981	Introducing 1st five-year development plan: Lifting of restrictions on private participation in business activities
1986	• Encouraged by the Gorbachev reforms in the Soviet Union, Laos introduces market-oriented reforms. • New Economic Mechanism (NEM) – "Transition to a Market-oriented System"
1989	First elections held since 1975. All candidates were approved by the LPRP. Communists retained power.
1994	Friendship Bridge over Mekong River connecting Laos and Thailand was officially opened.
1995	The US lifted its 20-year aid embargo.
1997	• Becoming a member of ASEAN • Devaluation of Lao kip (LAK) as a result to the Asian Financial Crisis (AFC)
2001	Fourth Arrangement with the IMF through the Extended Credit Facility
2011	• Attaining a lower middle-income status as GDP per capita reached USD1,010 (Lao PDR has currently been classified as a least-developed country-LDC by the United Nations) • New stock market was opened in the capital city
2013	• Joining the World Trade Organization (WTO) • Raising funds with bond issues in Thailand
2016	• President Barack Obama became the first US president in office visiting Laos. • Beginning of the Kunming-Vientiane Railway Construction which is expected to be in operation in December 2021. • Introducing 8th five-year development plan with objective of developments towards innovative, green and sustainable growth (2) reducing overreliance on the mining sector (3) prioritizing energy sector in an environment-friendly way (4) starting fiscal consolidation and monetary reforms and modernization

Source: World Bank, IMF, BBC, and various sources compiled by Krungsri Research

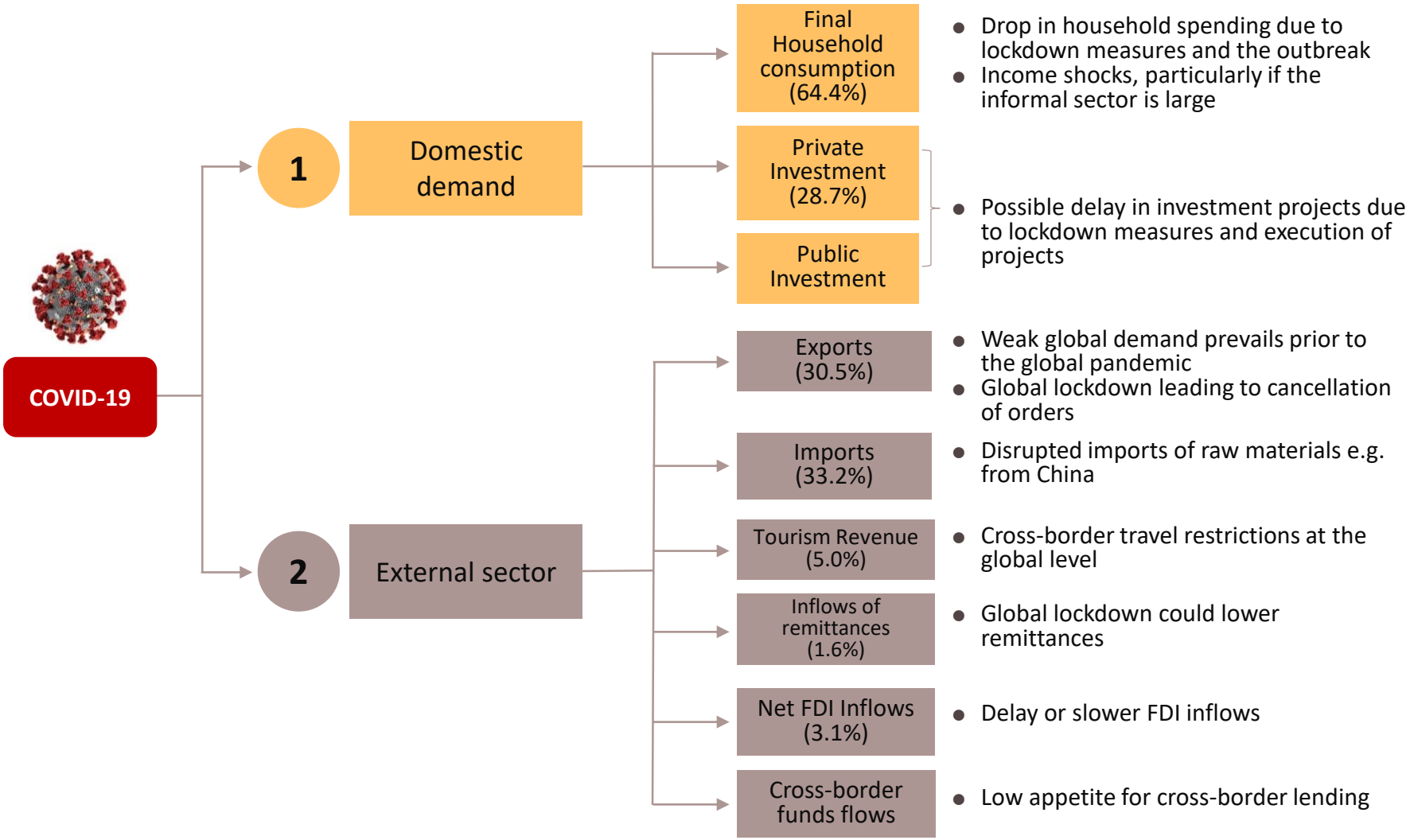
Growth in 2020 is likely to be flat weighed on severely by the pandemic, but a relatively robust pick up is expected in 2021 and over the medium term

IMF's Growth projection for ASEAN members (2019-2022, %YoY)



Source: IMF WEO (October 2020) compiled by Krungsri Research

COVID-19 pandemic shocks are likely to impact Lao PDR's growth through different channels on the demand side*

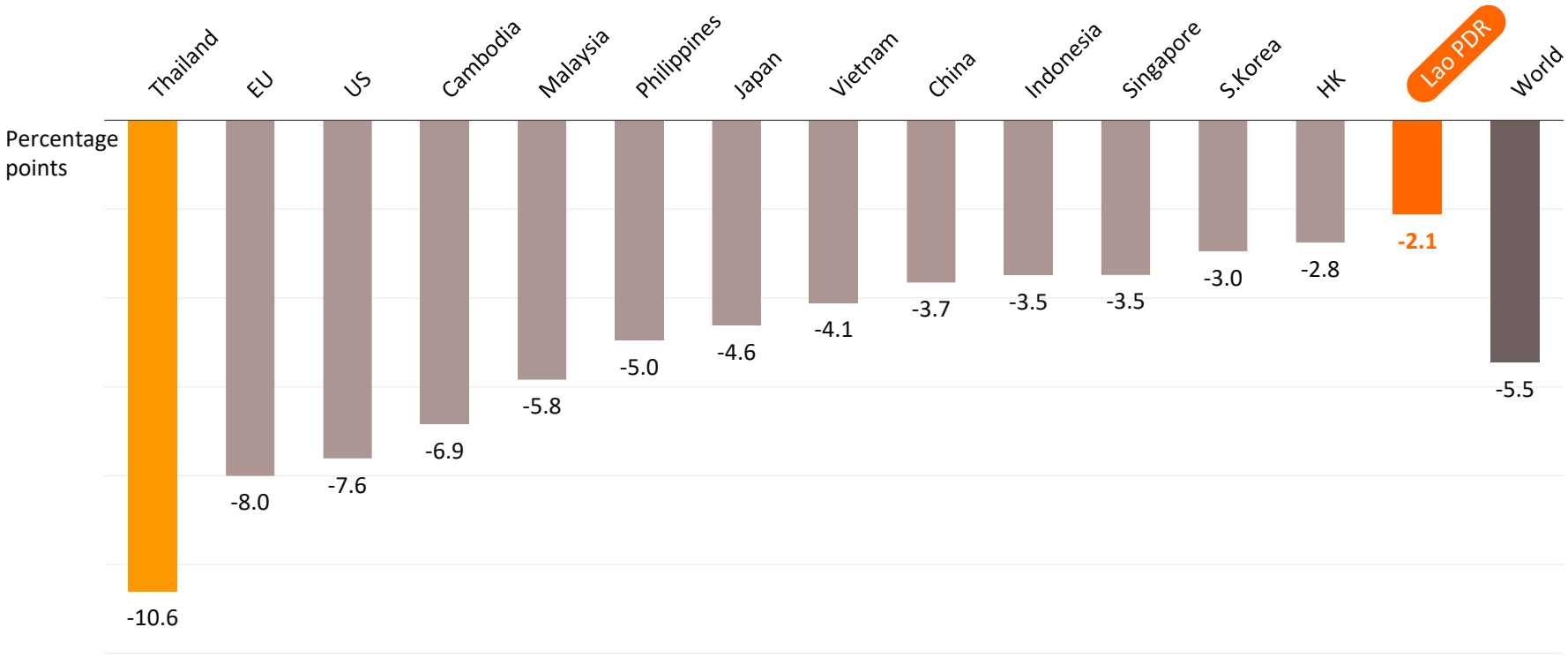


Note: *() is in terms of % of 2019 nominal GDP, adverse effects of shocks impact the supply-side of the economy as well, but it is not discussed here
Source: Krungsri Research

The pandemic could lower 2.1% of Lao PDR's growth in 2020 according to our model

The outbreak would reduce global GDP growth substantially by 5.5ppt from baseline forecast (pre-outbreak). **Krungsri Research now projects the outbreak would pose a negative impact to Lao PDR's economy of 2.1 ppt, which is relatively lower than that of regional peers in ASEAN.** The impact of the pandemic to the economy is passed through different channels – tourism, supply disruption at home and abroad, and multiplier effect.

Spillover impact of coronavirus outbreak on GDP growth of selected Asian economies



Note: *Krungsri Research has studied these effects by adopting computable general equilibrium model (CGE) to measure the spillover effects. Also, we adopt vector autoregression model to assess how economies react periodically to these changes.

Source: Global Trade Analysis Project (GTAP), Krungsri Research

Policy measures have been deployed to cushion the dire economic impact of the COVID-19 pandemic

Lao P.D.R. has 24 confirmed cases of COVID-19 as of October 22, 2020, among the lowest number of cases reported across the region. A nationwide lockdown is now being gradually lifted. Most businesses can resume activities, but night markets, eatery spots, cinemas, casinos must abide by strict preventative measures and practice social distancing. In-country travel and public transport are fully operational. All schools have resumed but must ensure hygiene and distancing practices. All indoor and outdoor sporting activities are now permitted, and audiences are allowed, however, entertainment venues remain closed. The authorities have introduced measures –fiscal and monetary policy- to alleviate the economic impact:

Fiscal Policy



- Ten billion kip (less than 1% of GDP) has been allocated for prevention and control.
- Expedited clearance and tax and duty-exemption for importations of medical equipment to be used towards the outbreak.
- Deferral of various taxes on workers and businesses, particularly for sectors heavily affected by the pandemic.
- Employees and workers who are members of the National Social Security Fund (NSSF) will receive LAK500,000 for May and June 2020 to support members during the difficult time of the outbreak.

Monetary policy

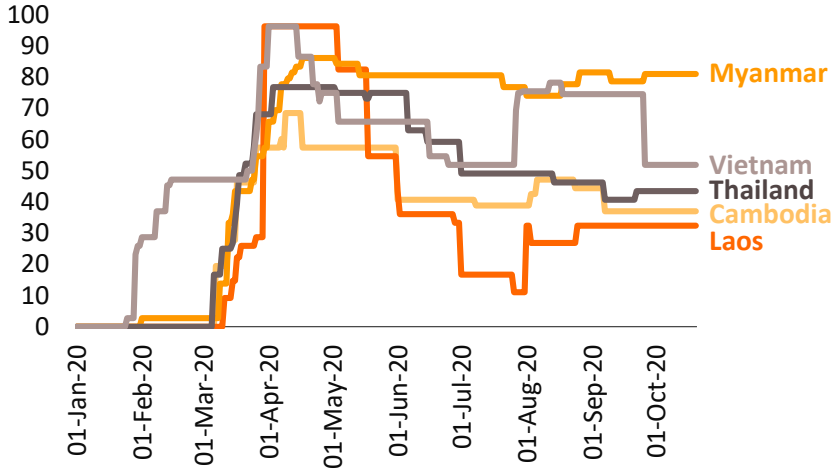


- Bank of Lao P.D.R. (BOL) has reduced the reserve requirements from 10 to 8% on foreign exchange, and from 5 to 4% on local currency, effective 2 April. A new credit policy for those impacted, asking banks and financial institutions to restructure loans and provide new loans to businesses affected by the outbreak has been issued.
- BOL has also cut its policy rate from 4 to 3% for one-week loans; from 5 to 4% for one-two week loans; and from 10 to 9% for two-week to one-year loans. It has issued additional instructions on the implementation of its credit policy expanding the coverage of this policy to non-bank financial institutions including microfinance institutions, savings and credit unions, leasing companies, and pawnshops.

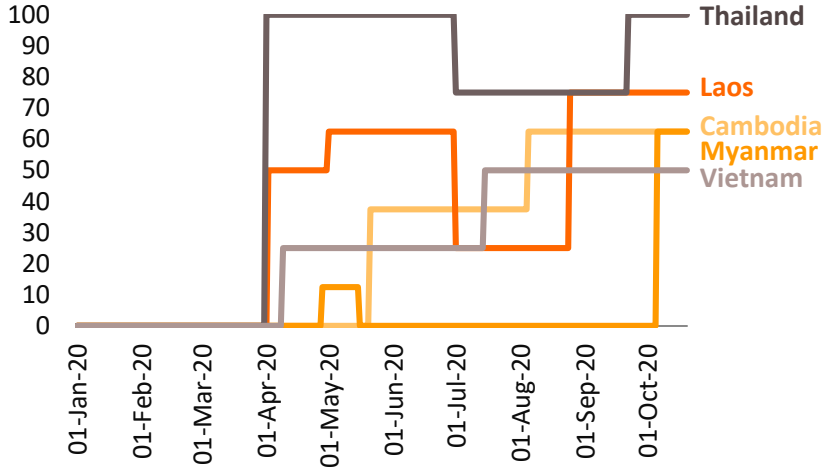
Source: IMF: The IMF and COVID-19, Policy Tracker, AMRO: 2020 Lao PDR Annual Consultation Report

Despite a small number of cases, economic activities are not normalized

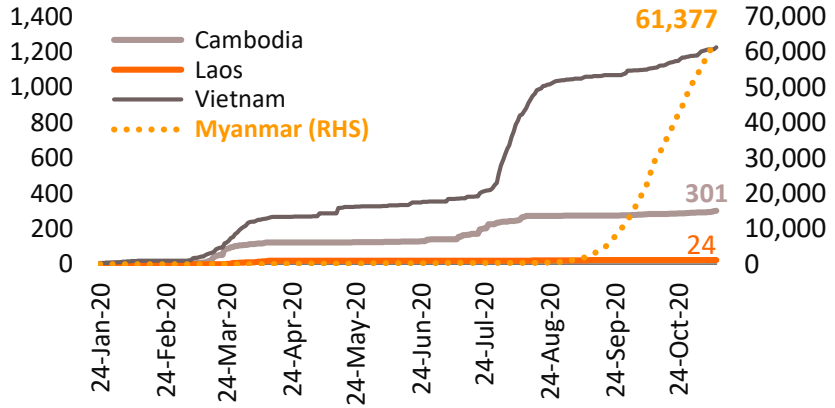
Oxford COVID-19 Government Response Tracker (OxCGRT): Stringency Index



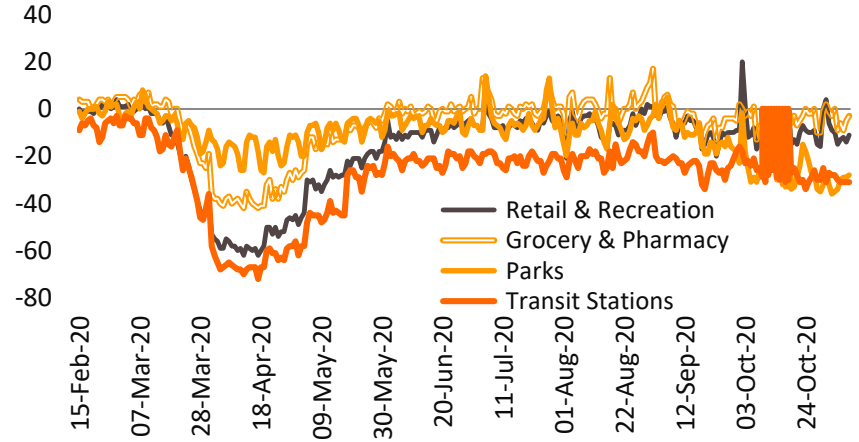
Oxford COVID-19 Government Response Tracker (OxCGRT): Economic Support Index



COVID-2019: No of Patients, Confirmed To-Date (11 Nov), in the CLMV countries



Google Mobility Changes (%) in Lao PDR



Source: CEIC

Macro forecasts

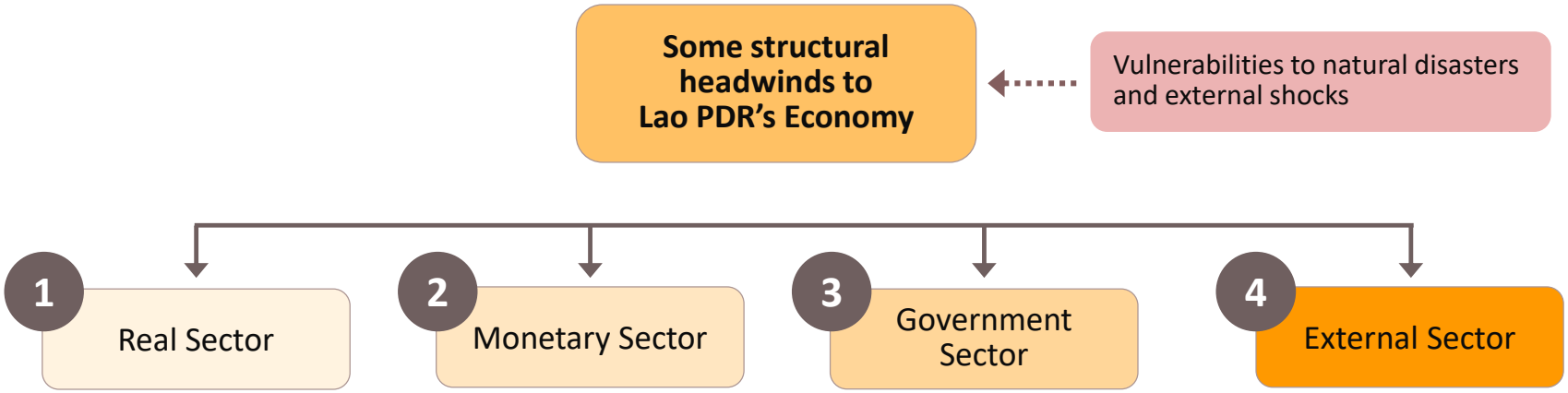
Indicators (% change, otherwise indicated)	2017	2018	2019	2020F	2021F
Real GDP	6.9	6.3	4.9	2.0 (0.2)[1/]	5.9 (4.8)[1/]
CPI (end-period, 2012 = 100)	0.8	2.0	3.3	4.3	2.3
Net lending (+)/borrowing (-) (% of GDP)	-5.6	-4.7	-3.2	-6.3	-5.5
Private sector credit (% of GDP)	43	41.5	41.8	41.0	42.3
Current account balance (% of GDP)	-7.5	-7.9	-4.5	-8.3	-6.9
Trade balance (% of GDP)	-4.7	-4.8	-2.6	-4.1	-3.8
Capital and financial account (% of GDP)	12.9	12.2	10.0	9.3	8.8
Overall balance (USD mn)	201	-143	124	-80	11
Gross International reserves					
In billions of USD	1,016	873	997	917	928
In months of prospective GNFS imports	1.8	1.4	1.6	1.4	1.3
External debt (% of GDP)	82.6	84.2	88.9	95.4	92.8
Nominal GDP (LAK billion)	140,698	152,414	164,138	173,625	188,069
Nominal GDP (USD million)	17,061	18,129	18,911	19,235	20,427
GDP per capita (USD)	2,585.1	2,777.7	2,797	2,988	3,186
Exchange rate (against USD, average)	8,247	8,407	8,687	9,027	9,207

Note: 1/ () based on the IMF projection (Data updated as of October 2020), Other indicators based on AMRO: 2020 Lao PDR Annual Consultation Report
Source: IMF WEO (October 2020), IMF 2019 Article IV Staff Report on Lao PDR, AMRO- 2019 Lao PDR Annual Consultation Report, Krungsri Research

Lao PDR's Economic Structure and Its Medium-term Prospects



Despite its impressive growth trajectory, Lao PDR has suffered from its structural vulnerabilities



- A resource-based economy with narrow growth drivers
- Undeveloped manufacturing sector

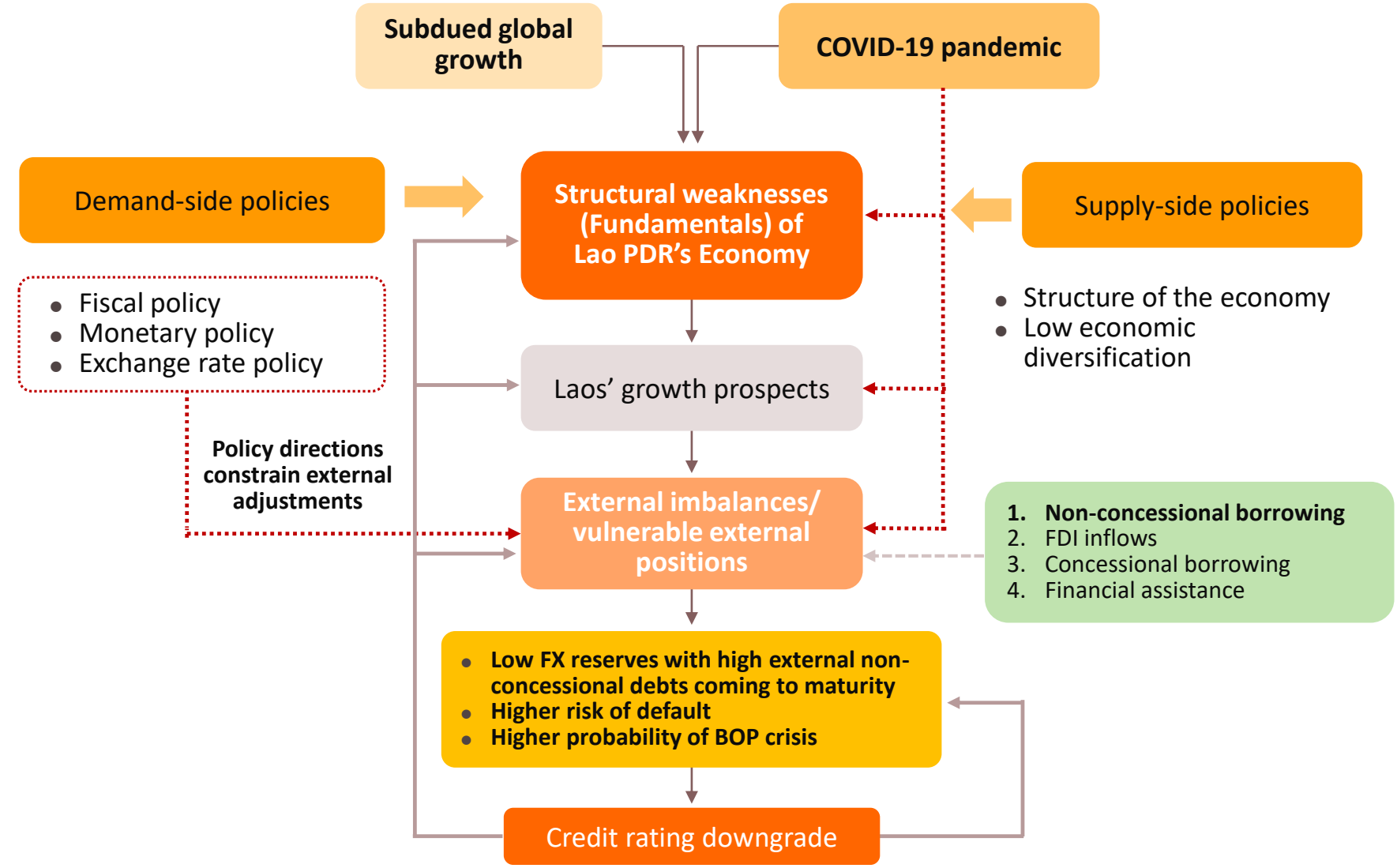
- Persistent high credit growth
- A dollarized banking system
- Weak banking system: low capital buffers and immense roles of state-owned banks

- Substantial degree of informal economy and low tax revenues
- Persistent government budget deficits
- Relatively high public debts

- Inflexible exchange rate regime with a substantial degree of dollarization resulting in difficulties for external adjustments
- Narrow export structure both products and markets
- Protracted trade deficits and current account deficits
- Relatively insufficient FDI inflows to finance current account deficits
- High levels of external debts
- Low levels of foreign reserves by international standards

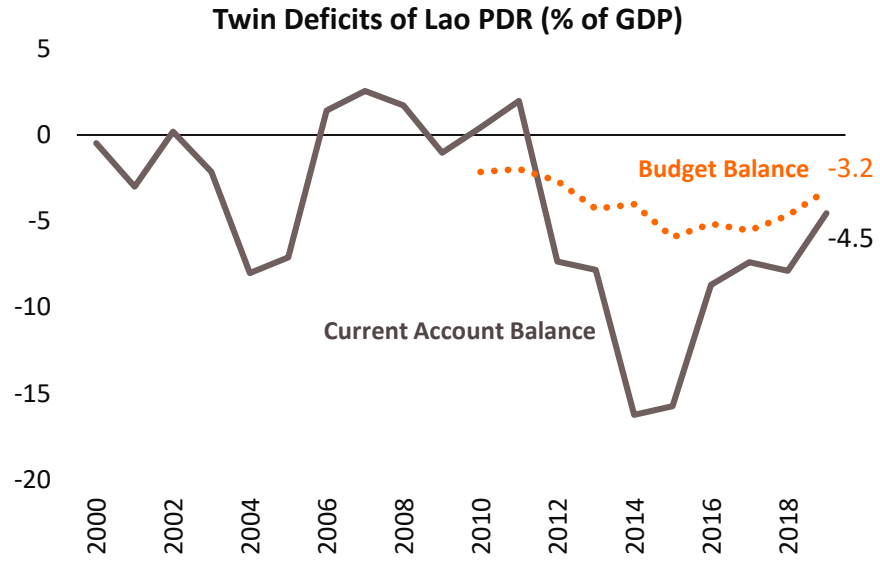
Source: IMF: 2019 Article IV Staff Report on Lao PDR, AMRO: 2020 Lao PDR-Annual Consultation Report, Krungsri Research

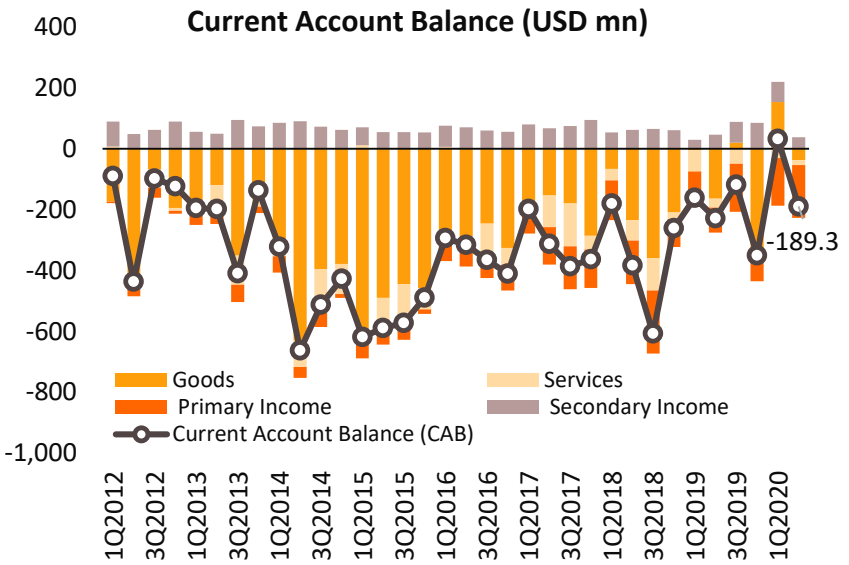
Lao PDR's structural weaknesses could be exacerbated by subdued global economy and the COVID-19 pandemic

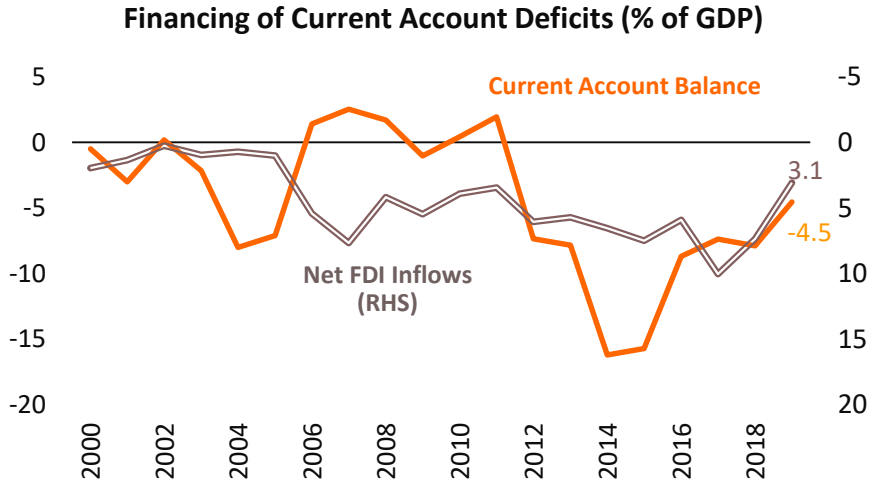


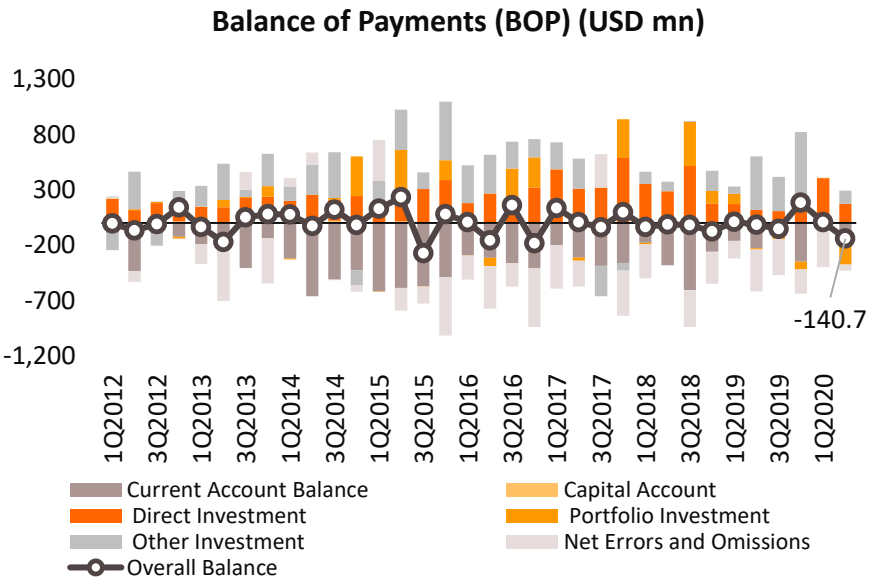
Source: Krungsri Research

Persistent current account deficit has been dragged by deficits of trade in goods and services as well as primary income



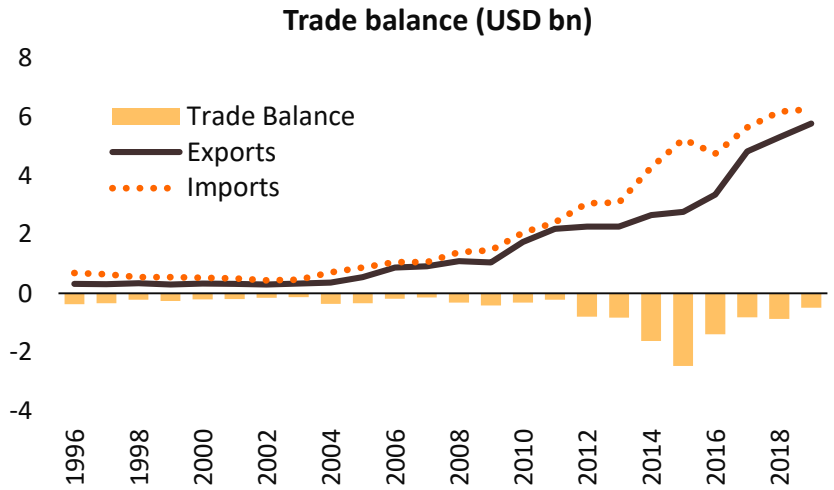


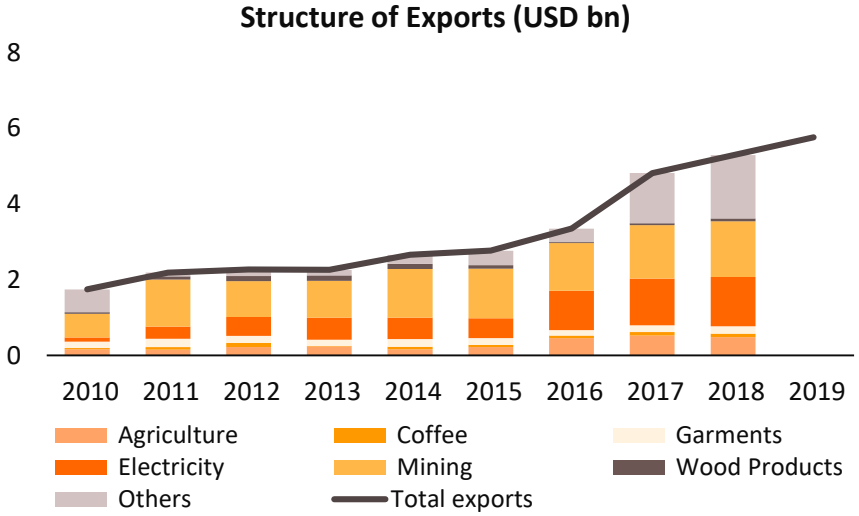


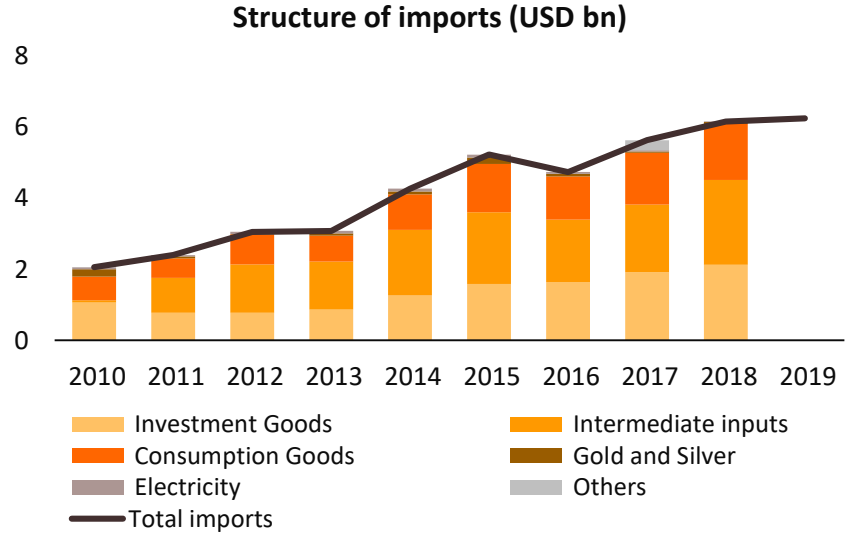


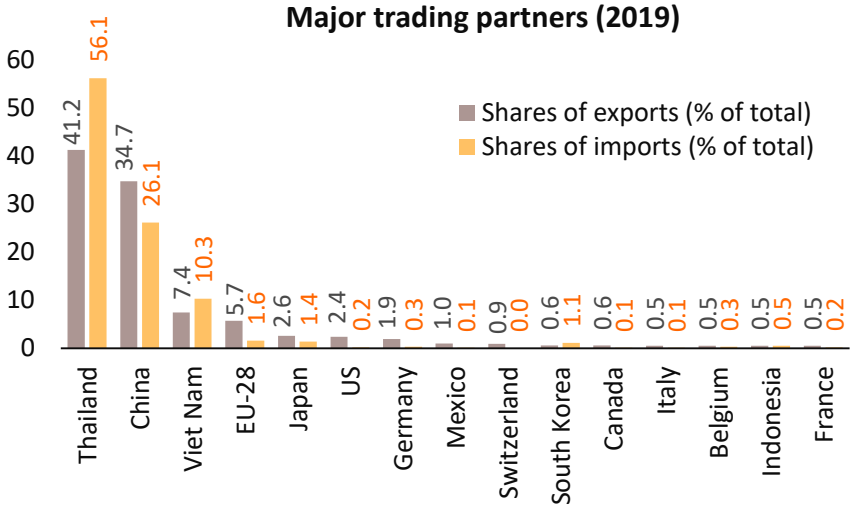
Source: CEIC

Trade deficits have been chronic as a result of a narrow and commodity-based export structure





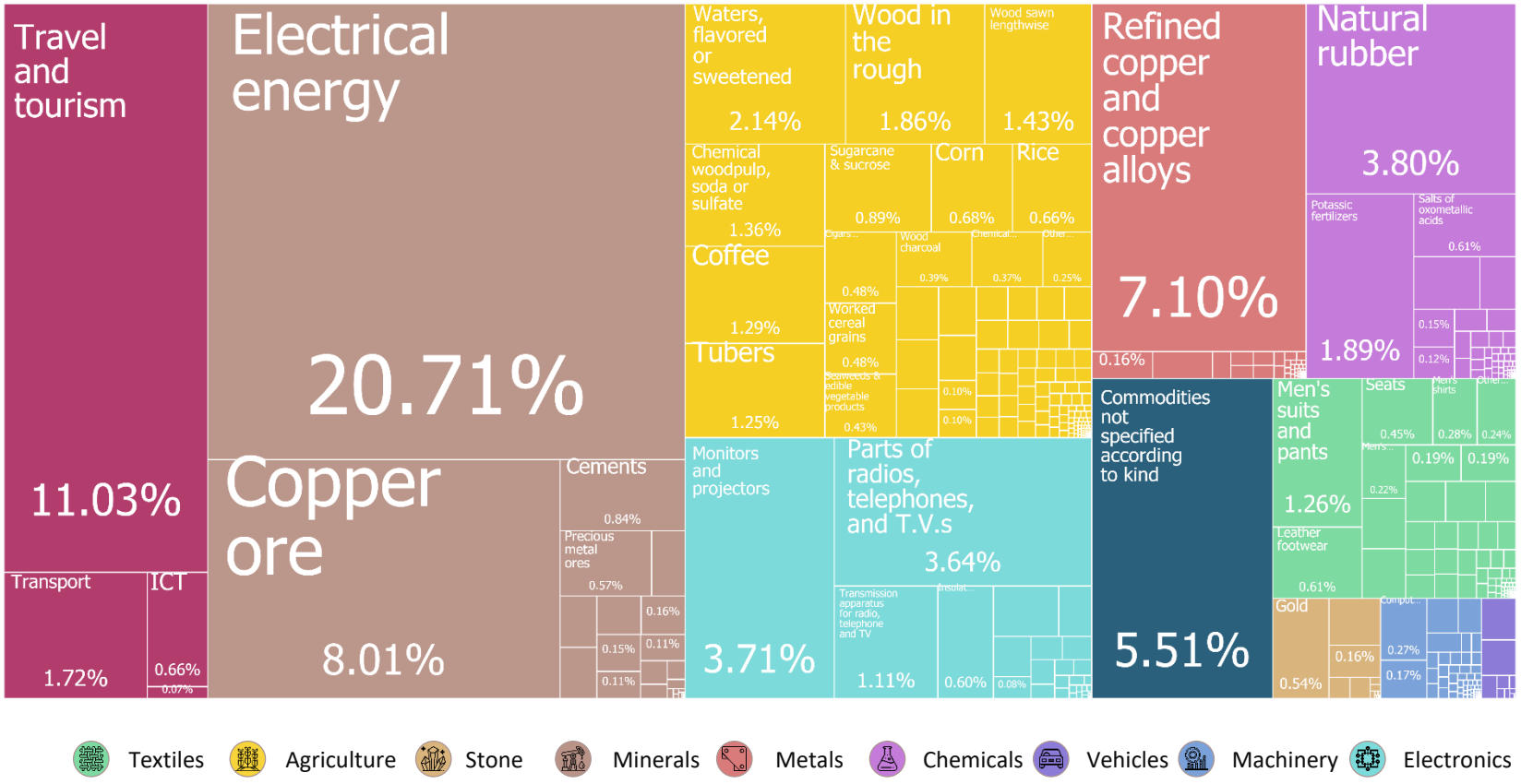




Source: CEIC

Electricity and primary products have dominated Lao PDR's exports

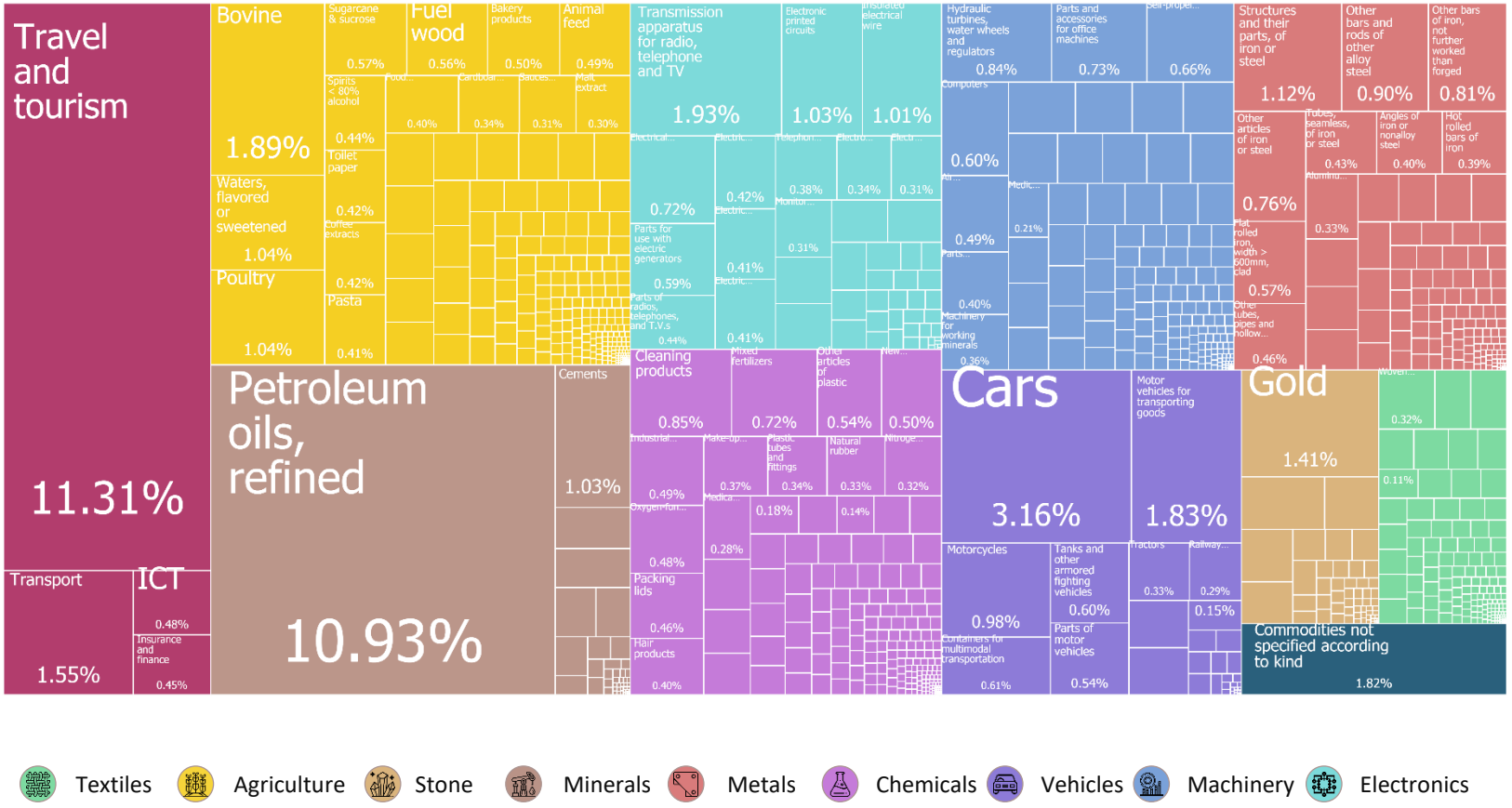
Structure of Lao PDR's Exports in 2018 (% of total, USD6.83bn)



Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity (2017). http://www.atlas.cid.harvard.edu.

Higher value-added intermediate products and consumer goods have dominated Lao PDR's imports

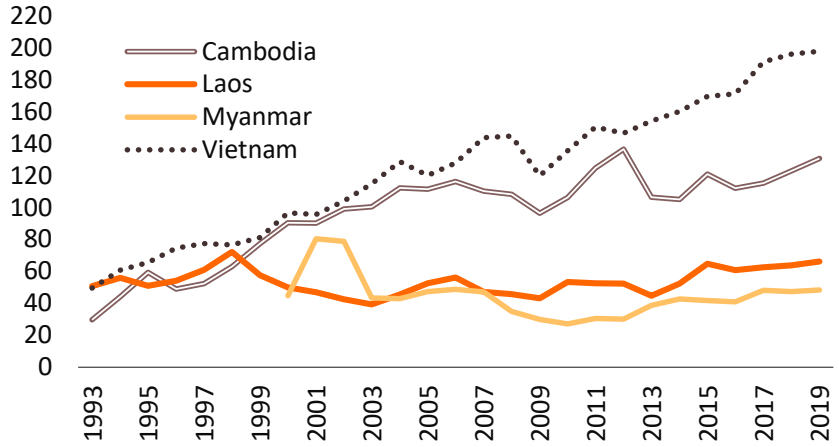
Structure of Lao PDR 's Imports in 2018 (% of total, USD8.37bn)



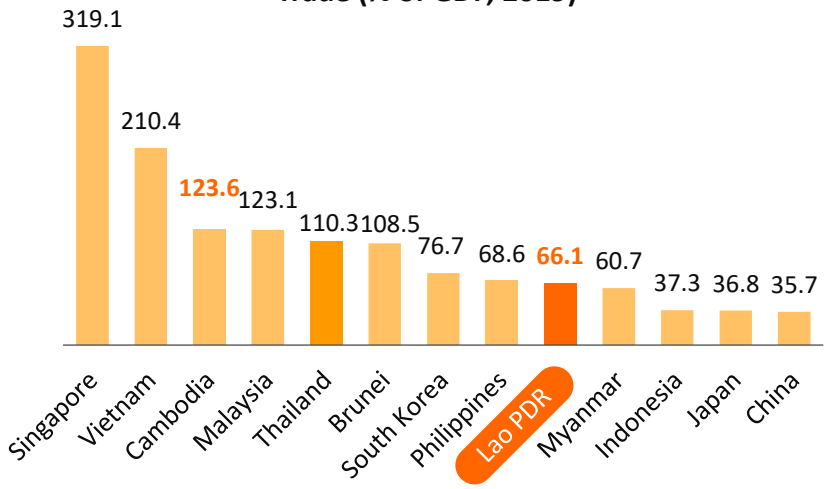
Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity (2017). http://www.atlas.cid.harvard.edu.

A relatively low degree of openness to trade structurally reflects low integration with the global economy of Lao PDR's

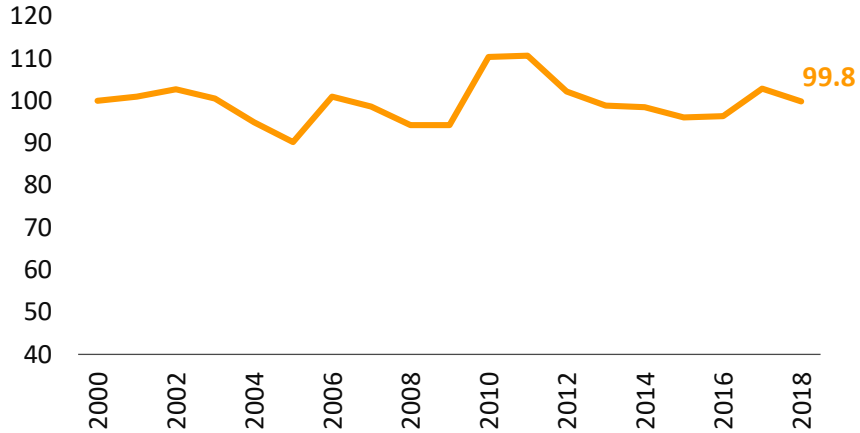
Trade (% of GDP) of the CLMV economies



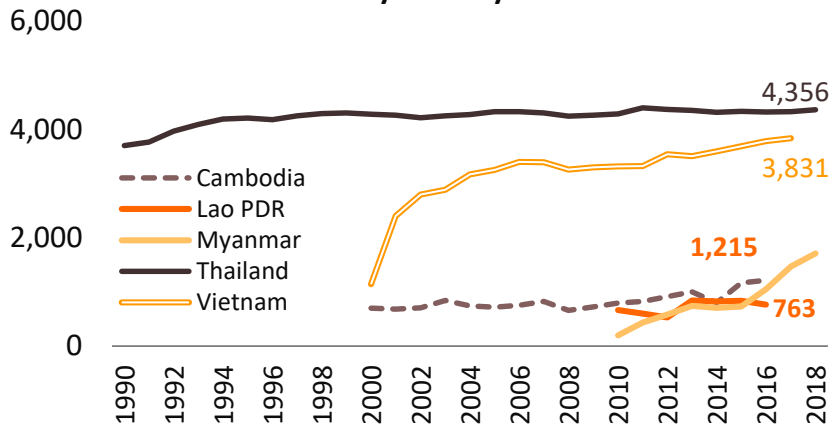
Trade (% of GDP, 2019)



Lao PDR's Net Barter Terms of Trade Index



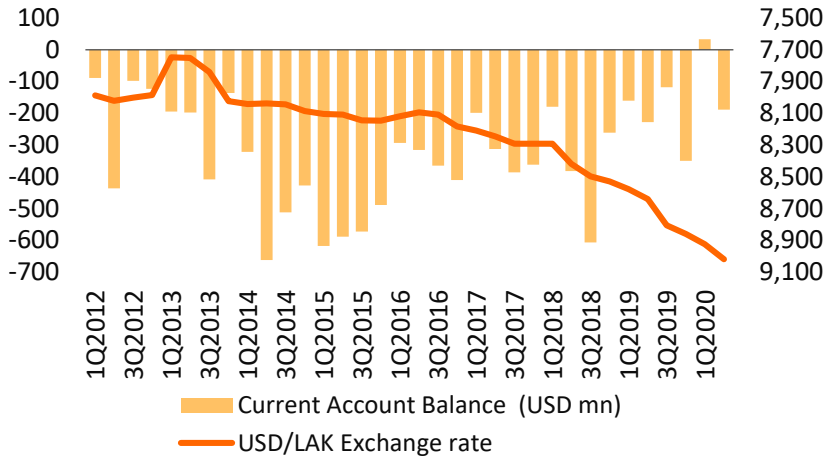
Number of Exported HS6 digit Products by Country



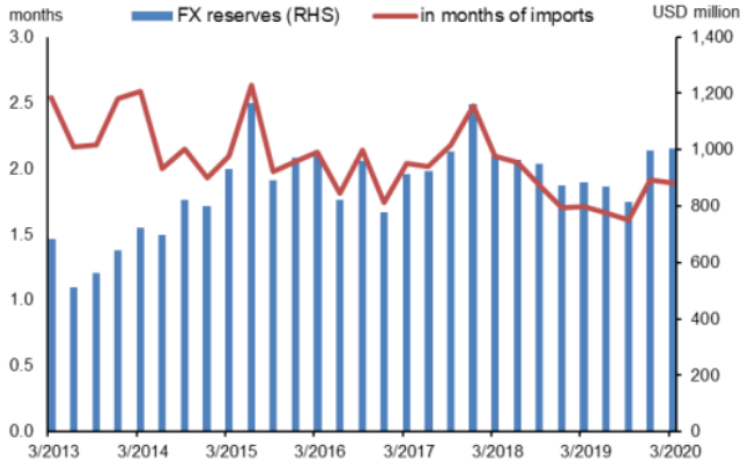
Source: CEIC

Protracted twin deficits have undermined the external sector stability and led to mounting external debts

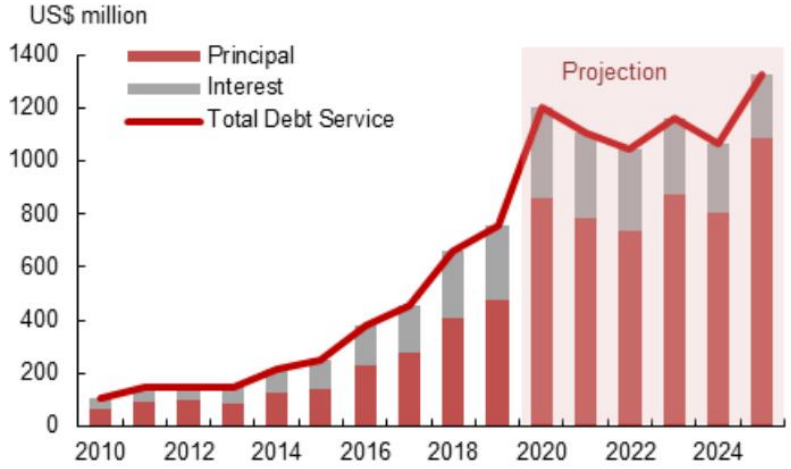
Current Account Balance and USD/LAK Exchange Rate



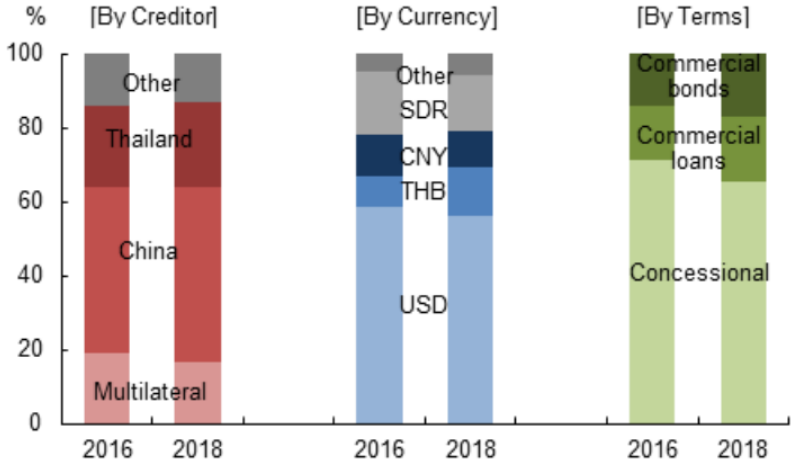
Foreign exchange (FX) reserves remain at a low level by international standards



Total debt services for Lao PDR will be over USD1bn exceeding the FX reserves in the medium term



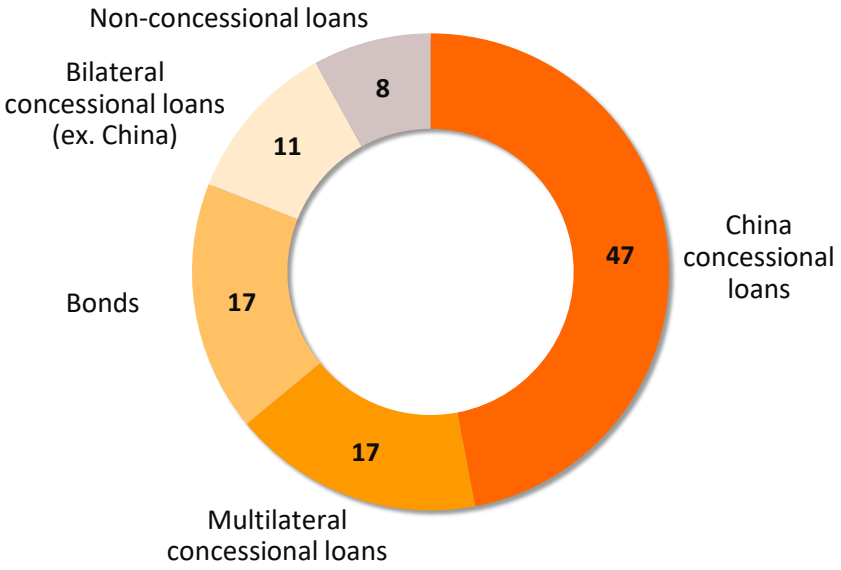
China and Thailand are among the major creditors of Lao PDR and the majority of debts is USD dominated



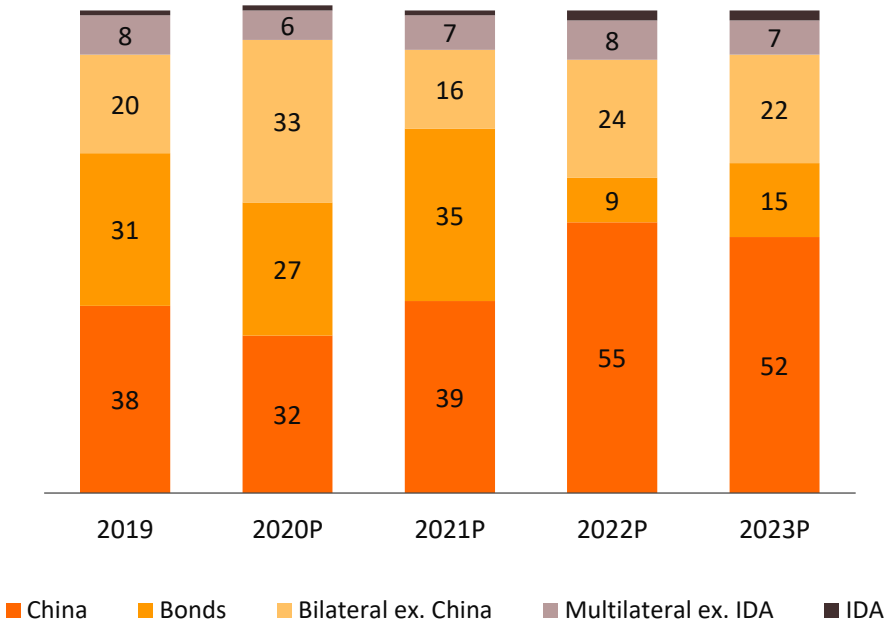
Source: CEIC, AMRO: 2020 Lao PDR-Annual Consultation Report

Lao PDR's external debt profile has shifted to bilateral borrowing

Structure of Lao PDR's total public external debt (% of total, 2019)

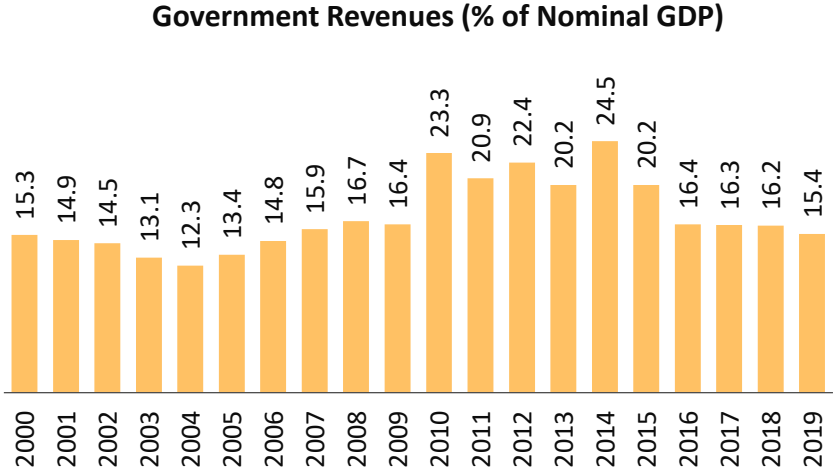


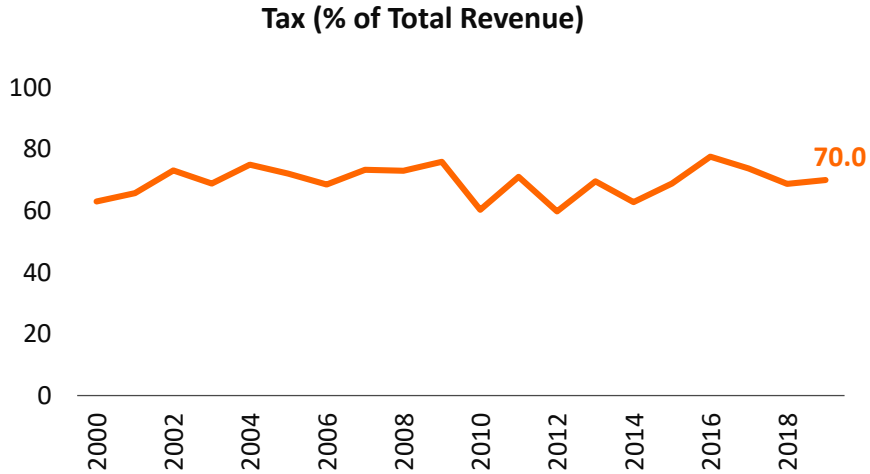
Composition of debt service will shift to bilateral creditors (% of GDP)

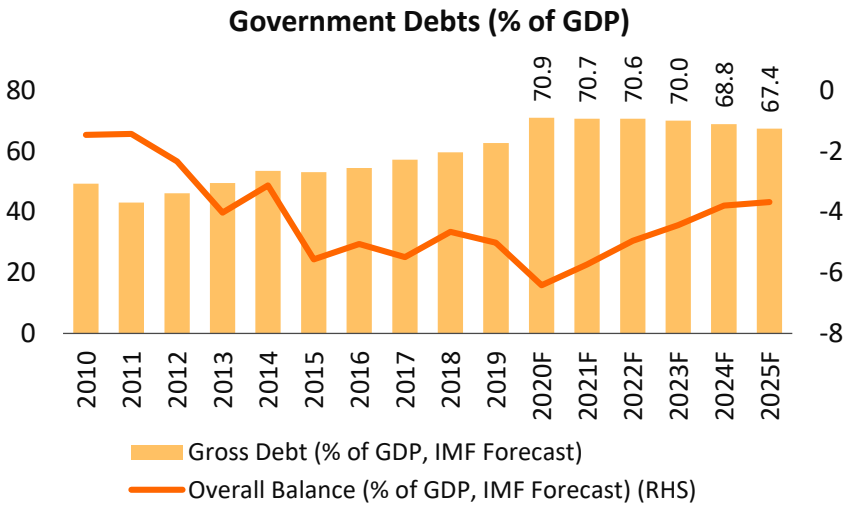


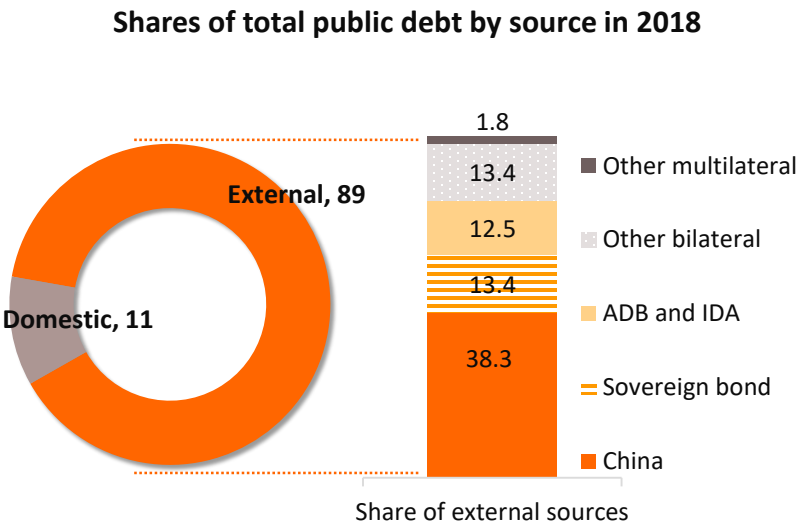
Source: World Bank: Lao PDR Economic Monitor, June 2020

Rising debts may be a signal for Lao PDR government to pursue a large-scale fiscal consolidation and fiscal reforms





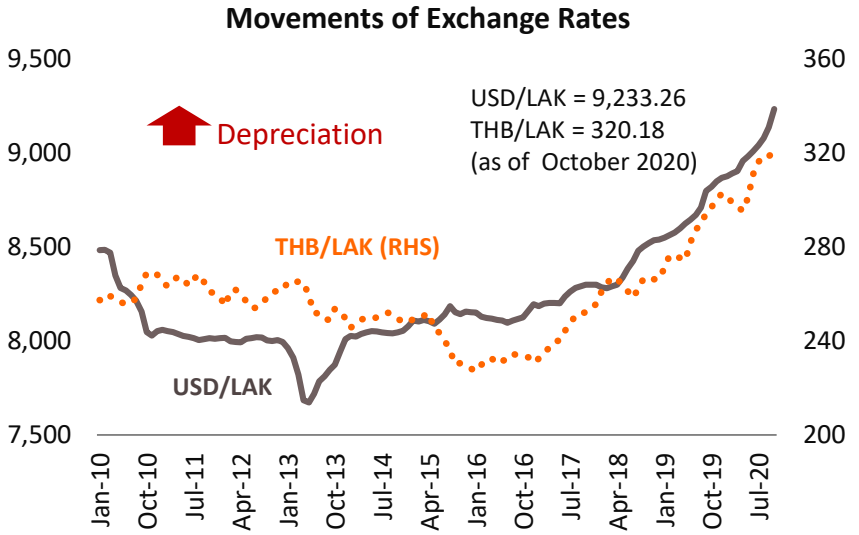


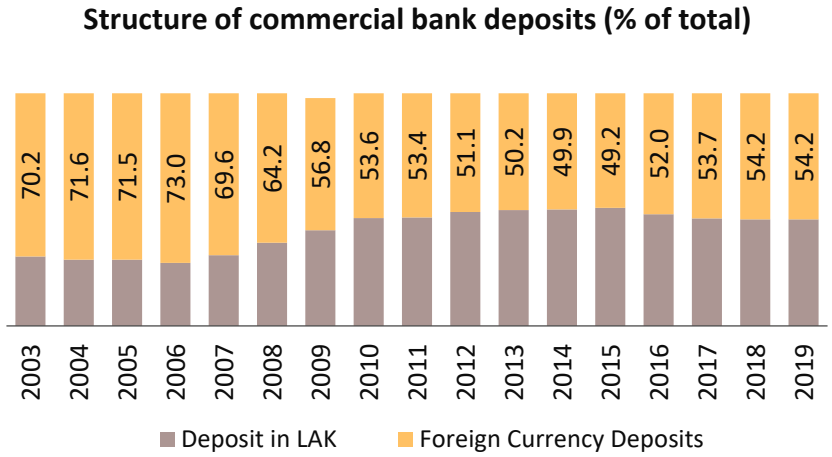


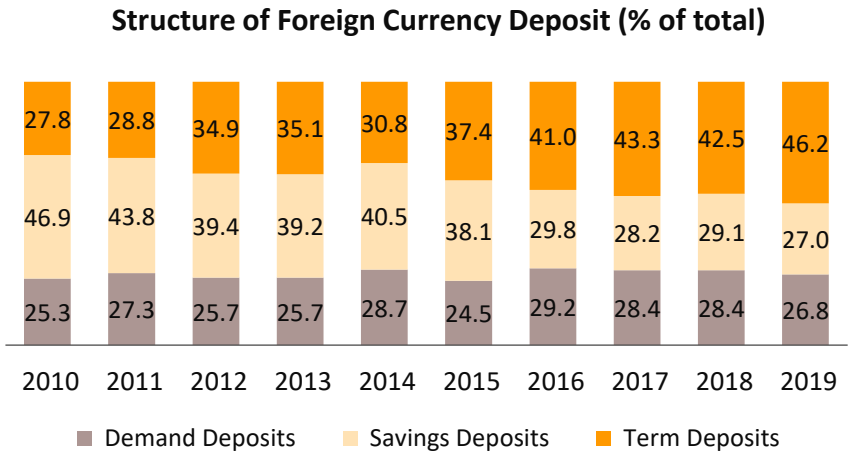
Source: CEIC, IMF, World Bank: Lao PDR Economic Monitor (June 2020)

A high degree of dollarization has constrained roles the use of monetary policy to support the macroeconomy

Country	Exchange Rate Regime	
	De jure	De facto
	Managed float	Other managed
	Managed Float	Crawl-like arrangement
	Managed Float	Other managed
	Managed float	Stabilized arrangement

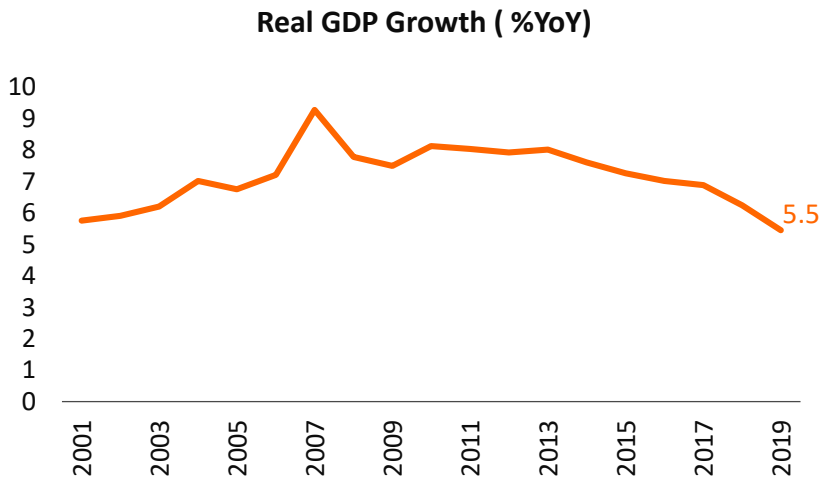


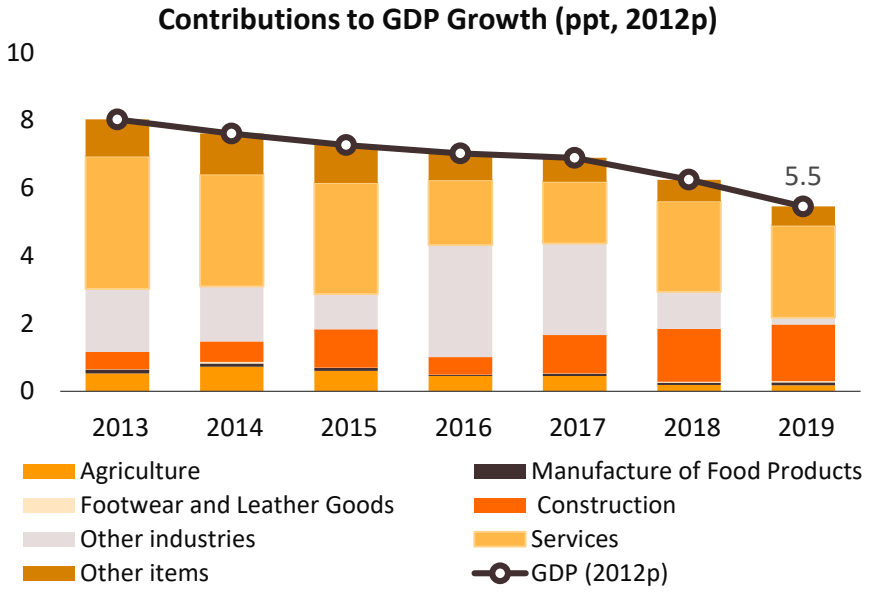


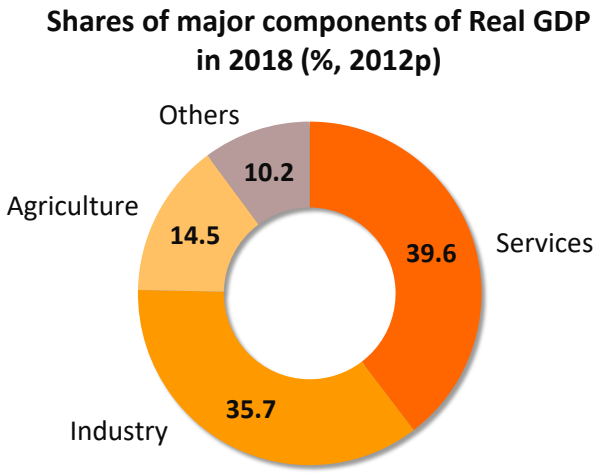


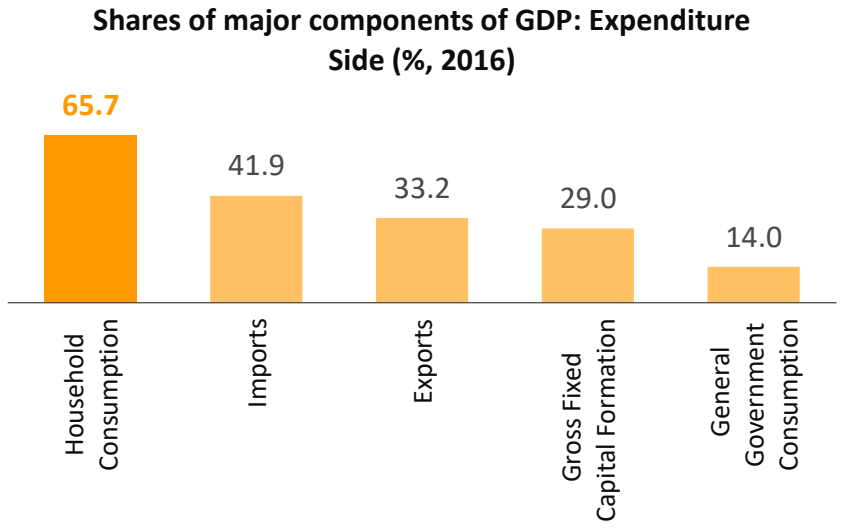
Source: CEIC, IMF: AREAER Reports

Sustained high economic growth in the past decades has been driven by a narrow set of drivers



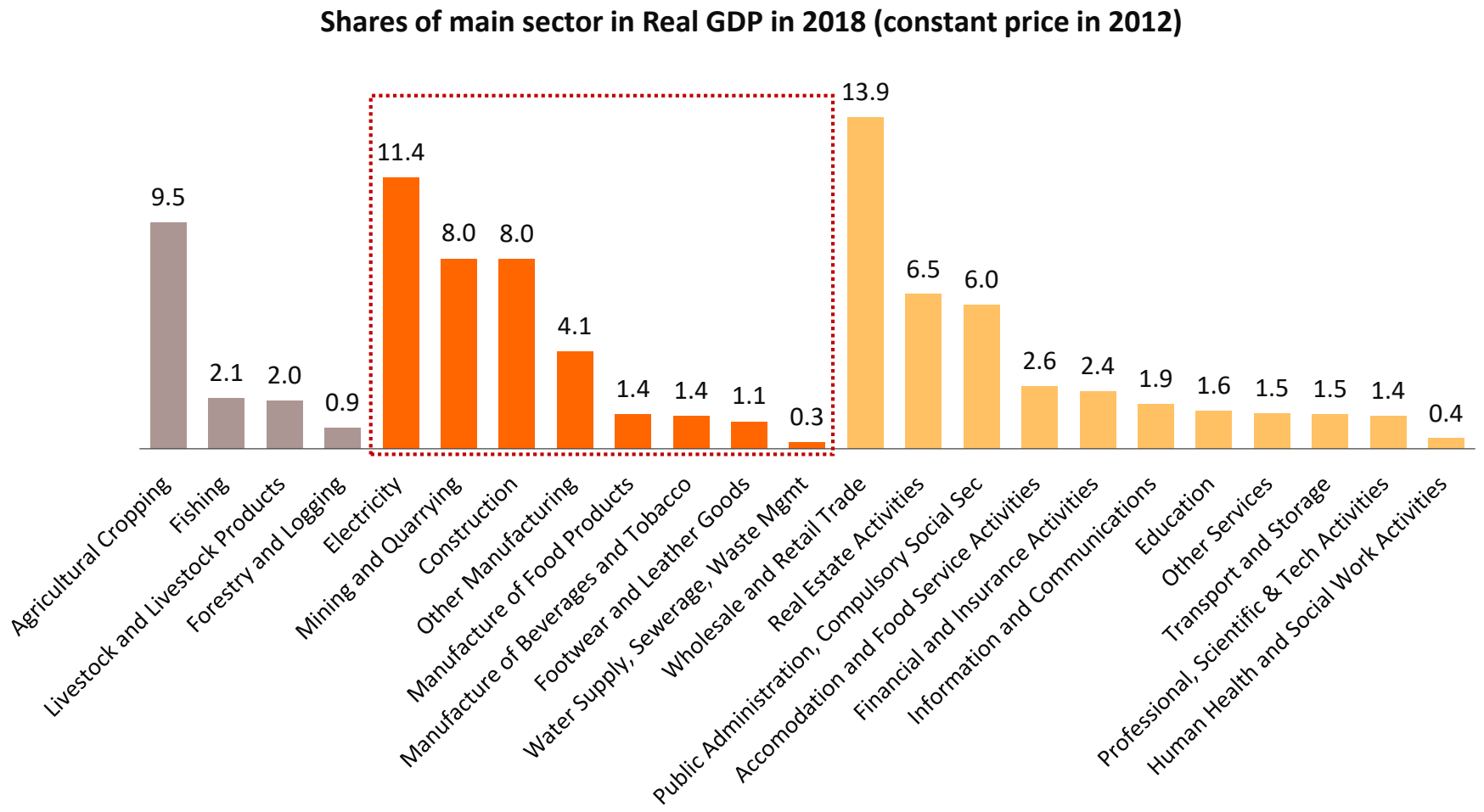






Source: CEIC

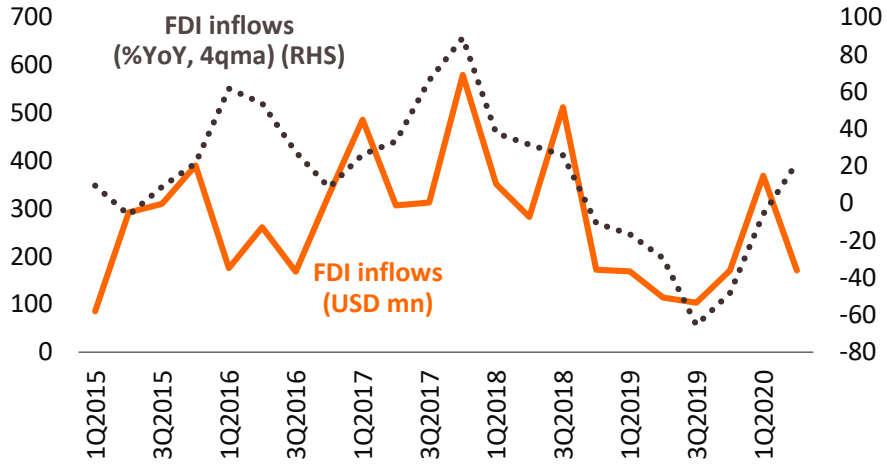
Manufacturing sector remains at the early stage of development dominated by the electricity production



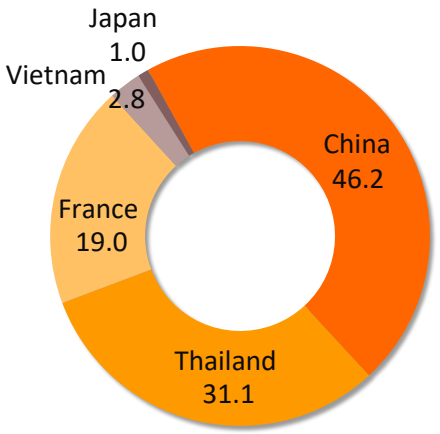
Source: CEIC, Krungsri Research

Foreign investment inflows have been directed to the extractive industry and non-manufacturing sector

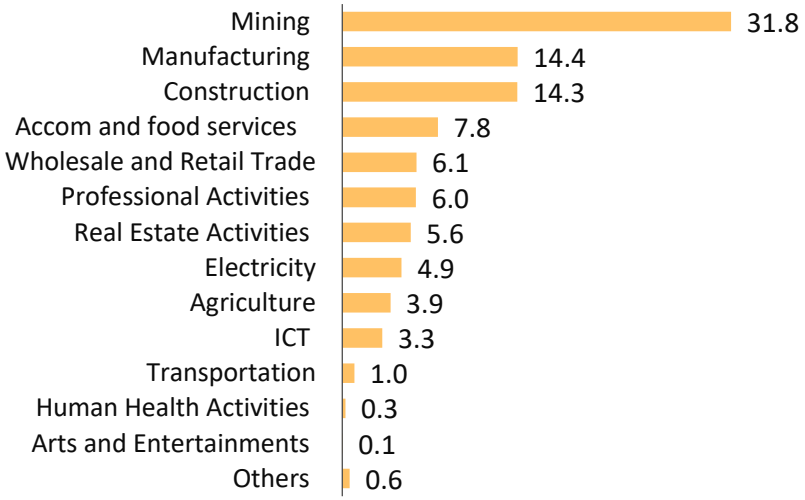
FDI inflows to Lao PDR



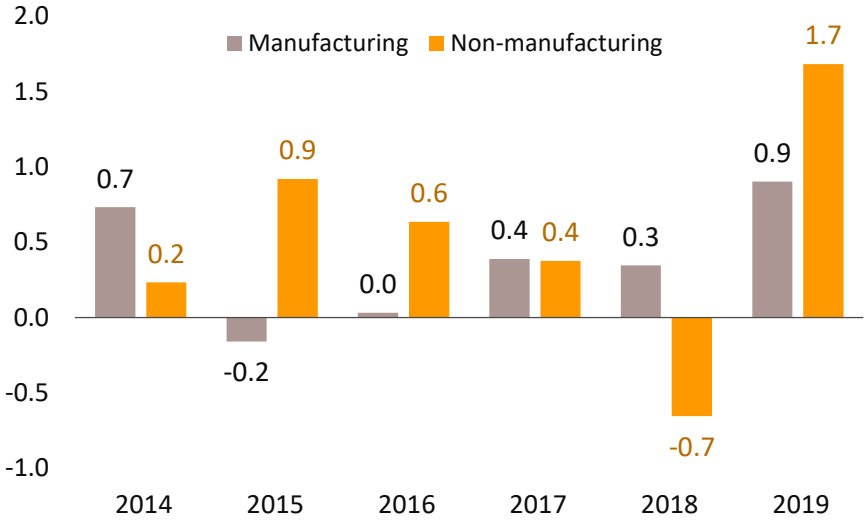
Major sources of FDI inflows (% of total in 2019)



FDI flows by economic sector (% of total in 2019)



Annual FDI Inflows from Japan (JPY bn)

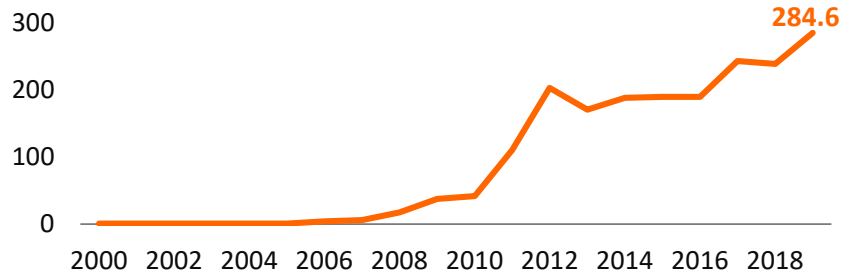


Source: CEIC

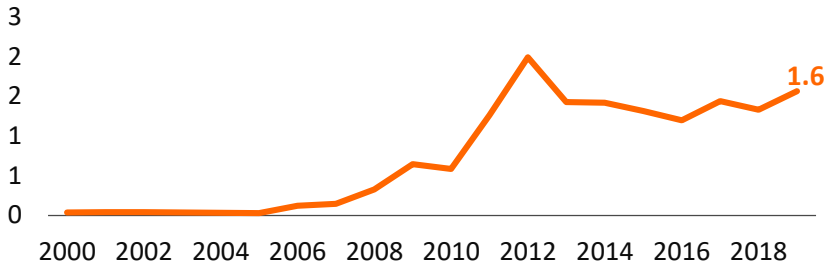
Cross-border remittance flows financing 12% of total households is expected to be disrupted by the pandemic

Although cross-border flows of remittances currently account only for about 2% of Lao PDR's GDP (as of 2019), those flows play a crucial role as another main source of income for around 12% of the total households, according to the figure provided by the ADB. We expect that inflows of remittances should resume strongly once the pandemic is effectively contained and the regional economic activity starts to recover in the medium term.

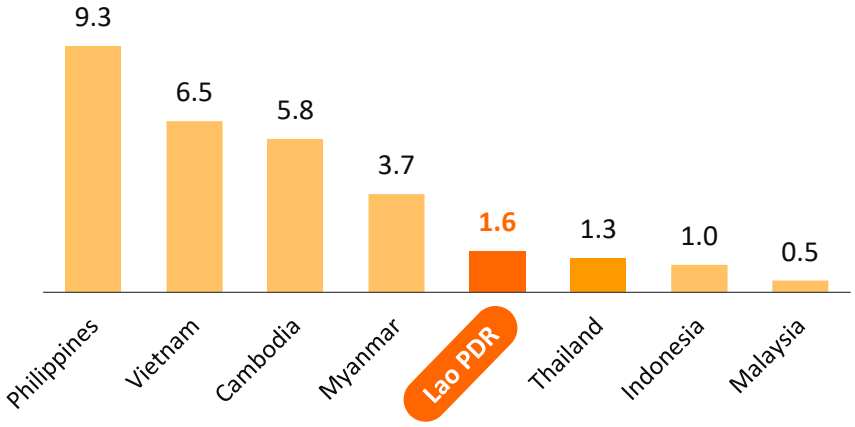
Lao PDR's Personal Remittance Received (USD mn)



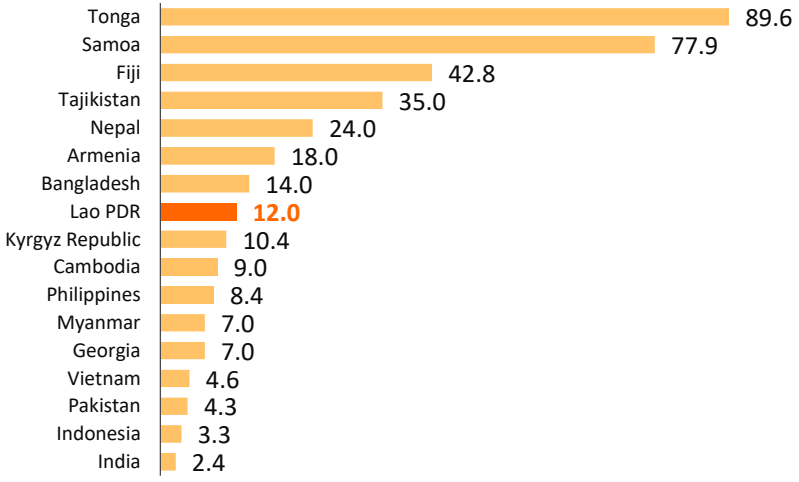
Lao PDR's Received Personal Remittances (as % of GDP)



Personal remittances, received (% of GDP, 2019)



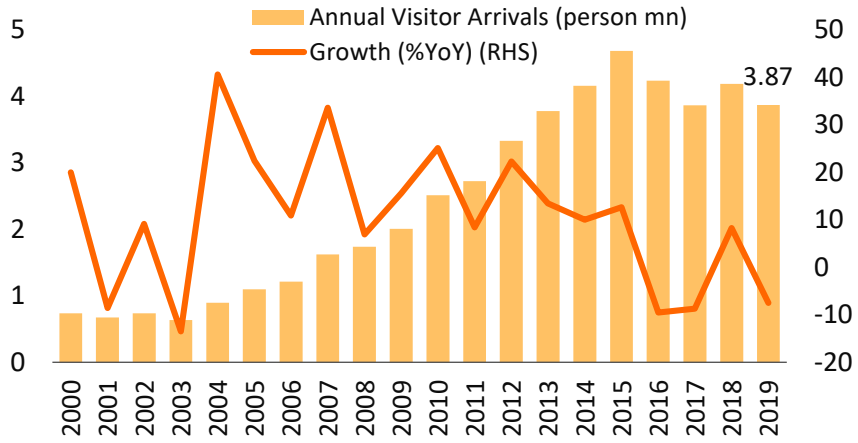
Share of recipient households with international remittances (% of total, 2020)



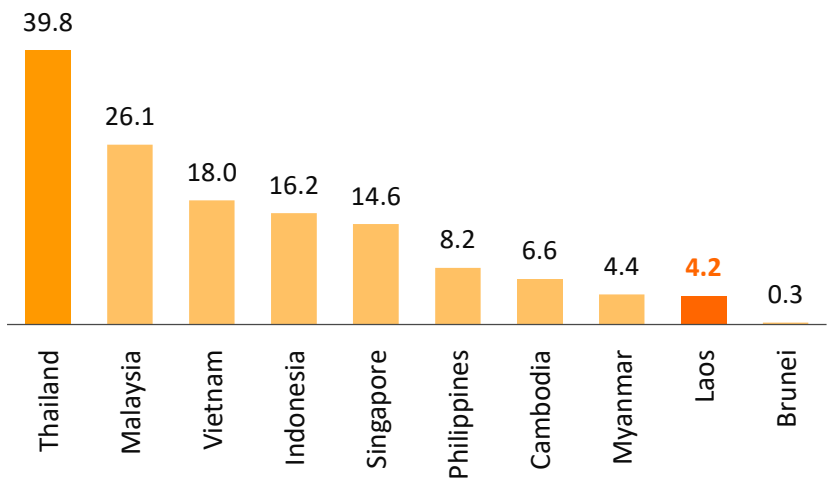
Source: World Bank: World Development Indicators, ADB, CEIC

Tourism sector, another key source of revenues, is hit severely by the pandemic

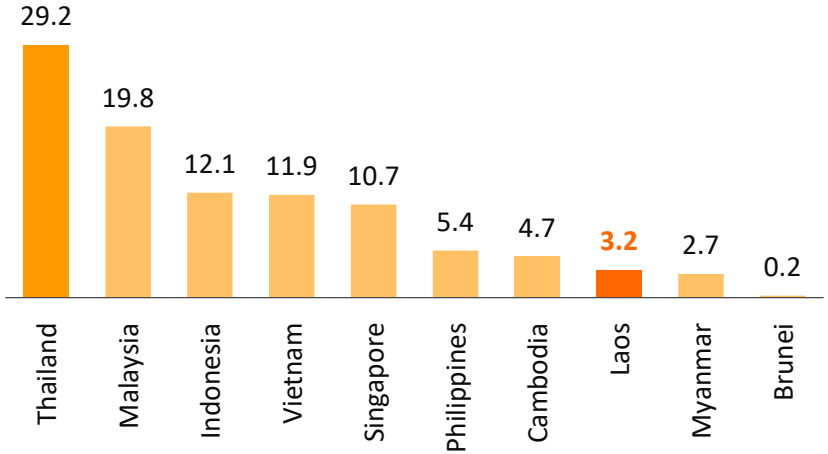
Annual Tourist Arrivals in Lao PDR



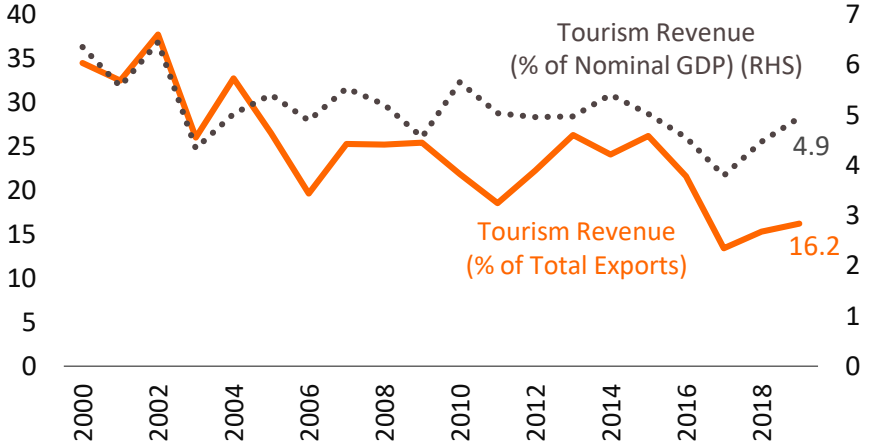
Visitor Arrivals in 2019 (person mn)



Annual Visitor Arrivals (% of ASEAN, 2018)



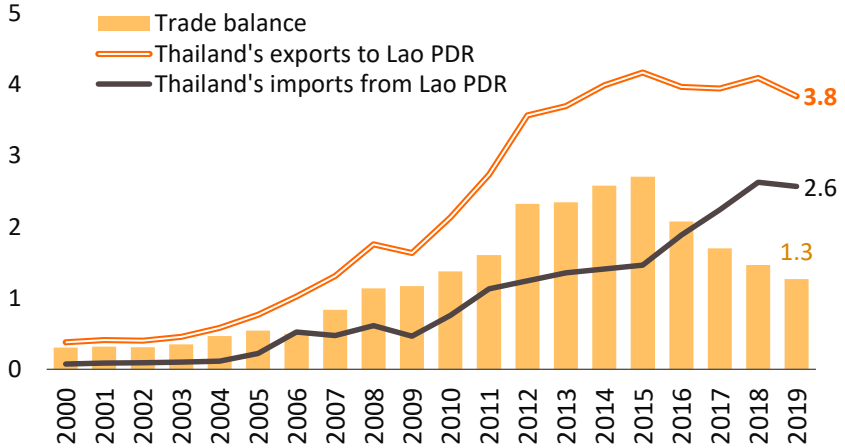
Lao PDR's Tourism Revenues



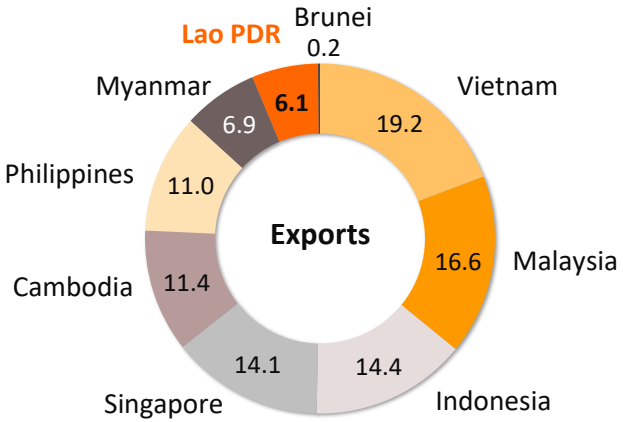
Source: CEIC, Bank of Thailand

Lao PDR is one of the key trading partner in ASEAN for Thailand

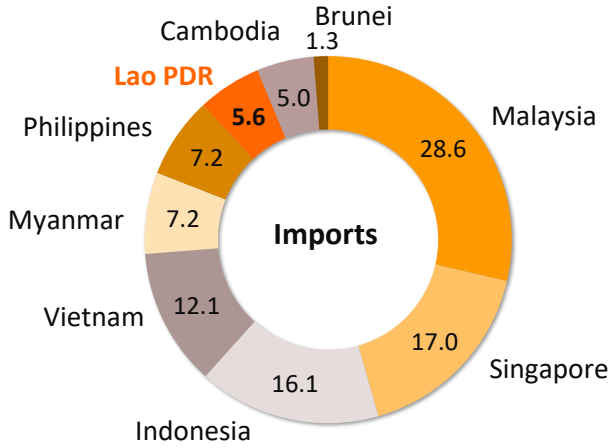
Thailand's Bilateral Trade with Lao PDR (USD bn)



Share of Thailand's export to ASEAN (%, 2019)



Shares of Thailand's import from ASEAN (% , 2019)



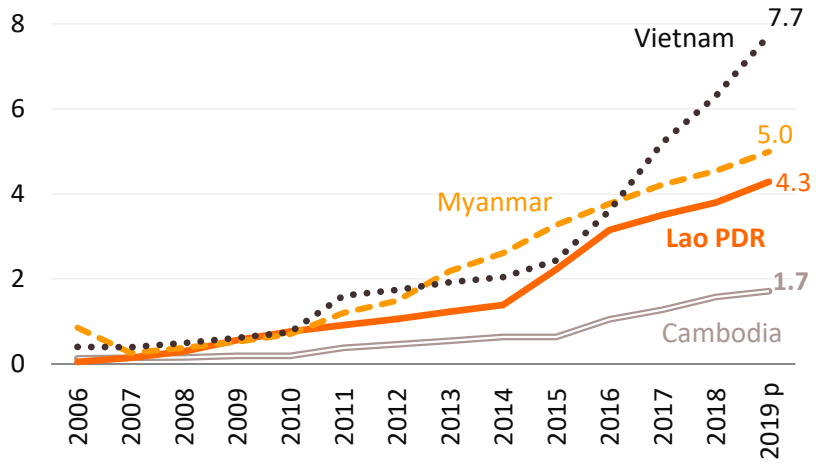
Major goods traded between Thailand and Lao PDR (2019)

Major Thailand's Exports to Lao PDR	USD mn	Major Thailand's imports from Lao PDR	USD mn
1. Refine fuels	728.98	1. Electricity	1,385.18
2. Other livestock products	245.10	2. Other metal ores, metal waste scrap and products	405.74
3. Motor cars, parts and accessories	239.80	3. Electrical machinery and parts	235.53
4. Iron and steels	181.27	4. Electrical household appliances	107.76
5. Chemical products	170.12	5. Fruits, vegetables, fruit and vegetable preparations	101.65

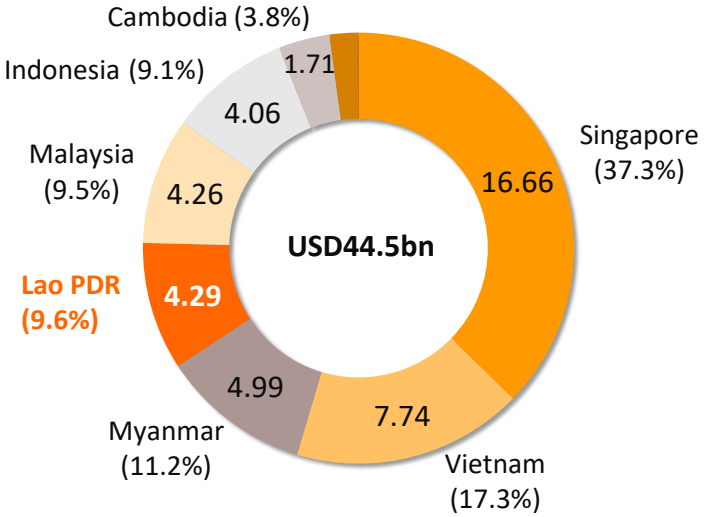
Source: CEIC, Thailand's Ministry of Commerce

Thai direct investment (TDI) in Lao PDR is also rising

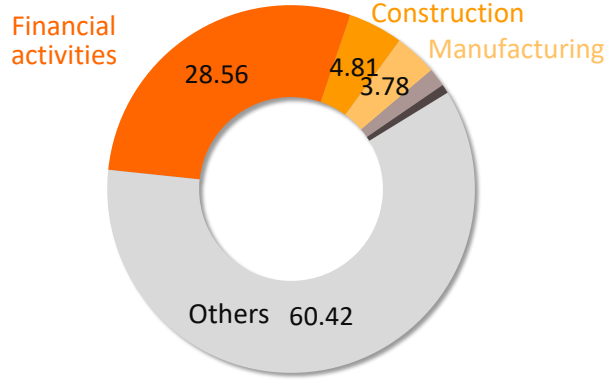
Thai Direct investment Position Abroad Classified by Country (USD bn)



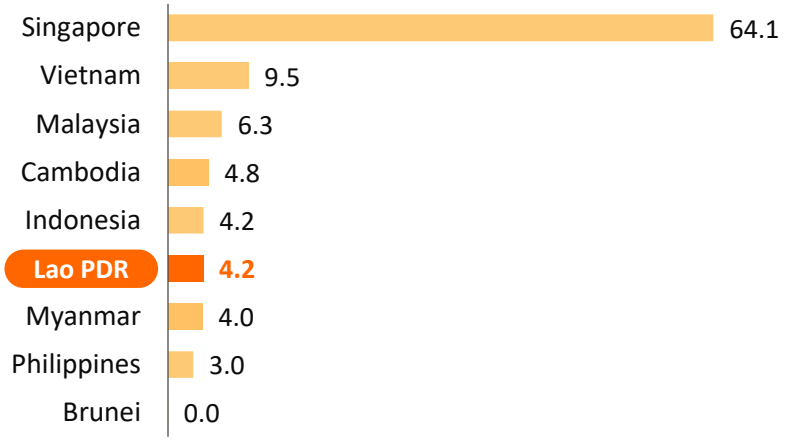
TDI Position Abroad Classified by Country/Economic territories (USD bn, as of 2019)



TDI (Outflows) to Lao PDR Classified by Business Sector of Thai Investors in 2019 (% of total)



Share of TDI to ASEAN by country (% share of total TDI,2019)



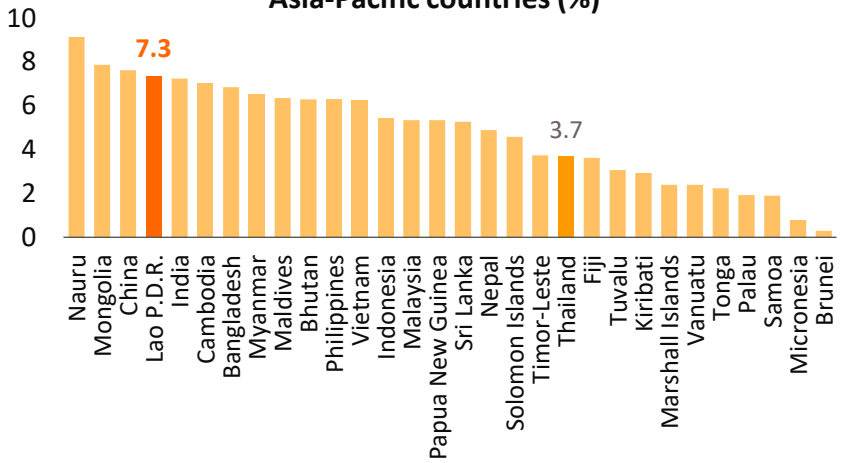
Source: CEIC, Bank of Thailand

Underlying fundamentals driving Lao PDR's Long-term Prospects

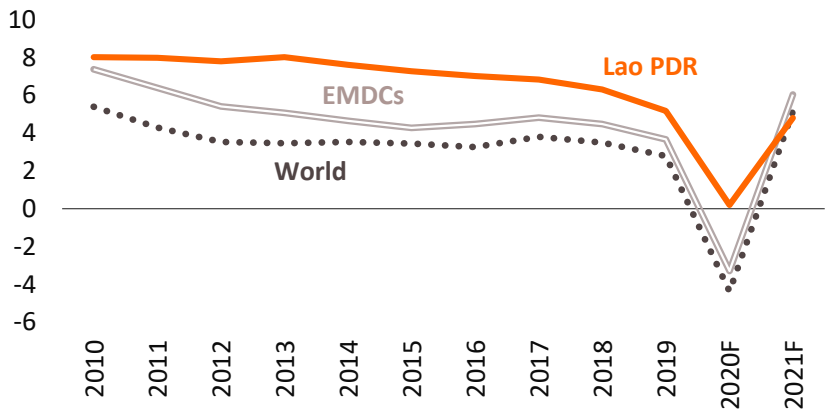


A strong growth trajectory of 5.0-6.0% p.a. is likely to be resumed should near-term vulnerabilities are well managed

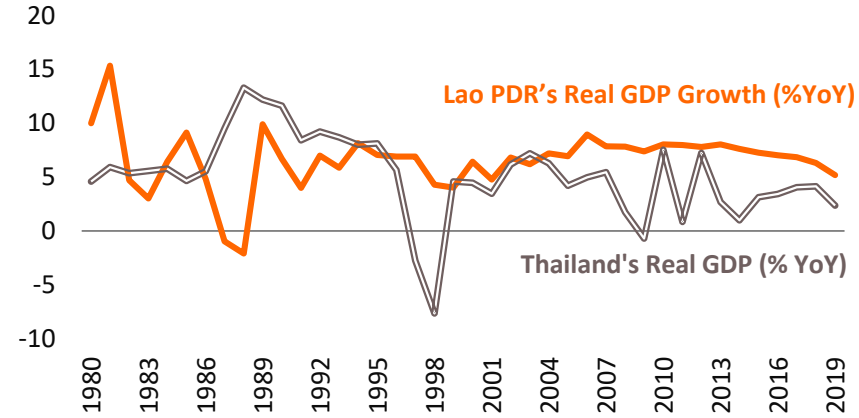
10-year average of annual growth rate of Asia-Pacific countries (%)



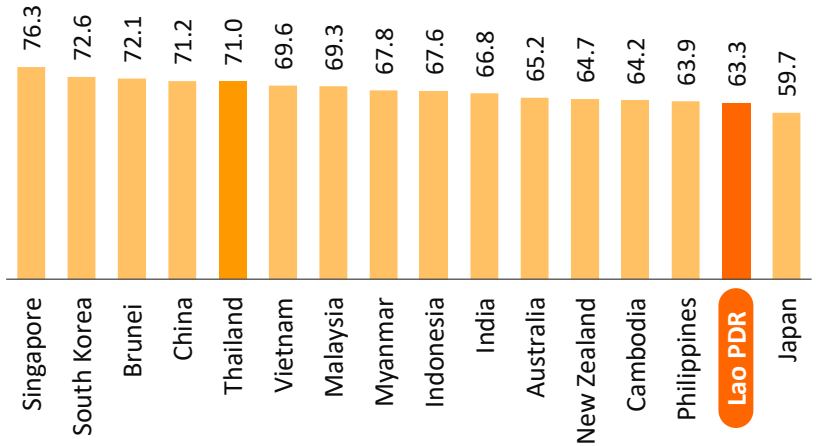
Growth outlook for Lao PDR and the global economy (%)



Economic Growth of Lao PDR and Thailand (2010 price)



Population ages 15-64 (% of total population) in ASEAN+6 countries (2018)



Source: IMF WEO (October 2020), CEIC, Krungsri Research

Favorable fundamentals will underpin Lao PDR's growth trajectory in the years ahead

Although the pandemic is expected to substantially erode Lao PDR's potential growth path, over the medium to long term, we view that the economy should be able to eventually follow its potential trajectory of 5.0%-6.0%. There are 4 main drivers comprising (1) demographic dividend, (2) structural reforms, (3) Regional integration, and (4) foreign direct investment (FDI) inflows. These factors will enable Lao PDR to remain one of the most dynamic frontier economies regionally.



1

Favorable demographic structure (young labor force)

- Growing middle-class consumers and sizeable domestic market as young workers earning higher income
- Expanding physical and digital urbanization



2

Structural reforms and infrastructure investment (rail links)

- Raising the country's long-term potential growth by eliminating structural bottlenecks
- Enhancing the country's overall productivity and competitiveness
- Promoting ease of doing business
- Closer integrating the manufacturing sector into regional supply chains
- Underpinning confidence and attracting FDI inflows



3

Regional economic integration



4

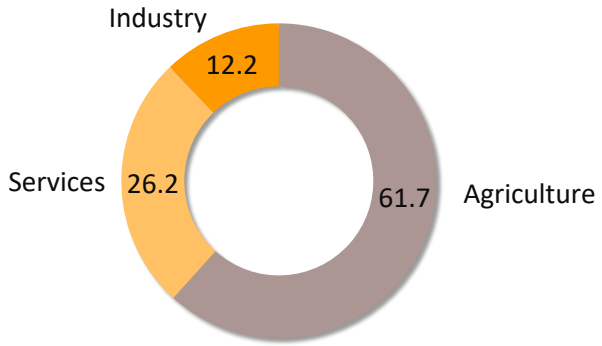
Foreign Direct Investment (FDI) inflows

- Further supporting and facilitating Indonesia's industrialization
- Supporting the integration to regional supply chains and value chains
- Creating jobs and new business opportunities for growing young workers.

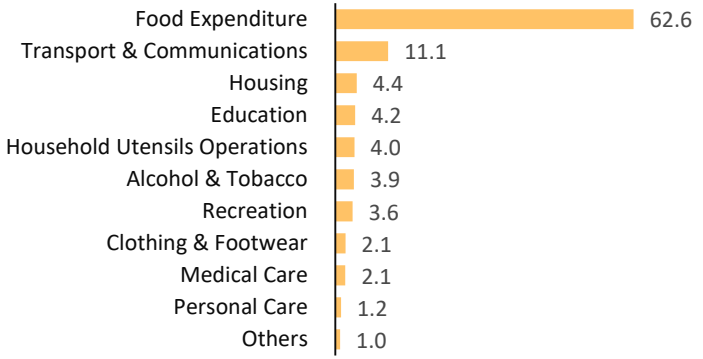
Source: Krungsri Research

1 Sizeable youthful population will enhance Lao PDR's attractiveness as a growing consumer market

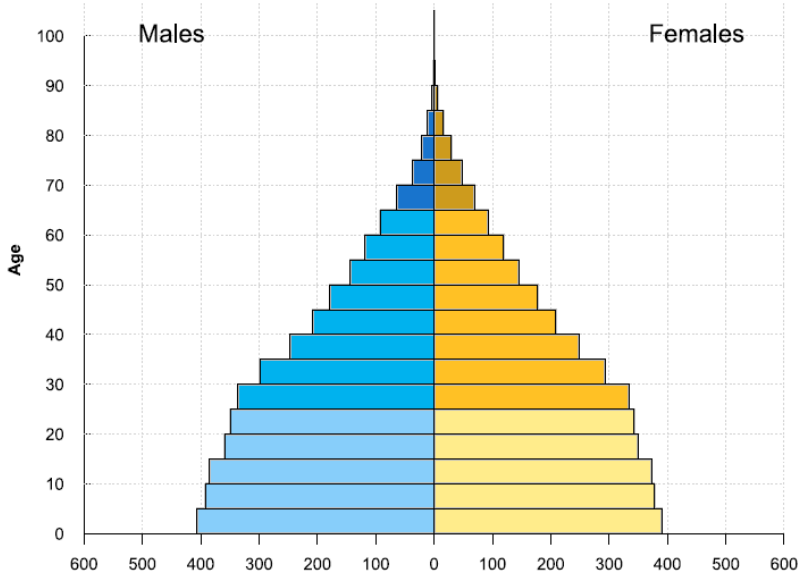
Shares of employment by economic sector (% of total, 2017)



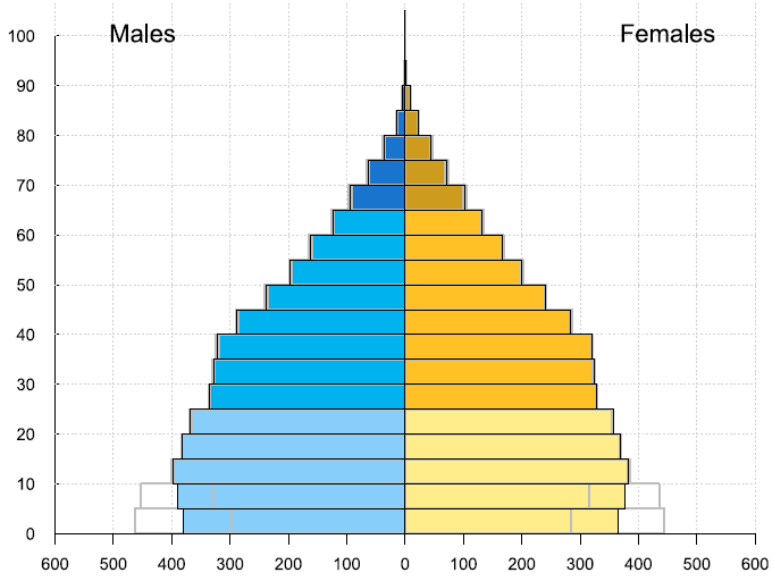
Pattern of household consumption expenditure (% of total, 2019)



Population in 2020



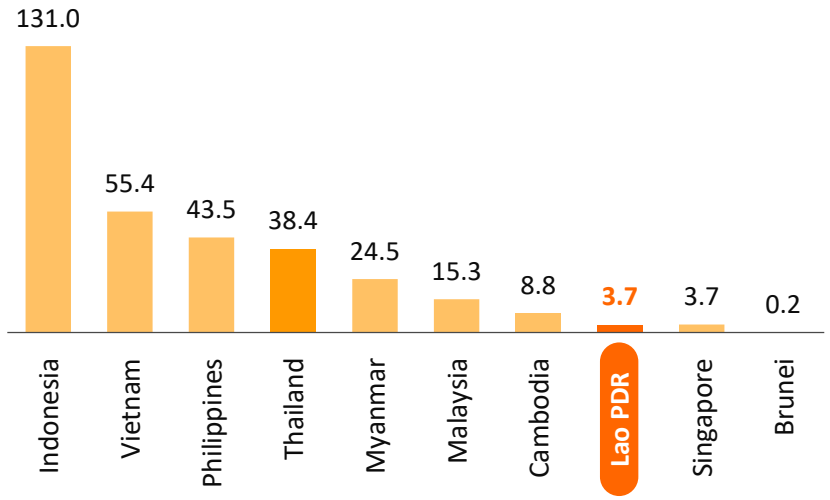
Population in 2030



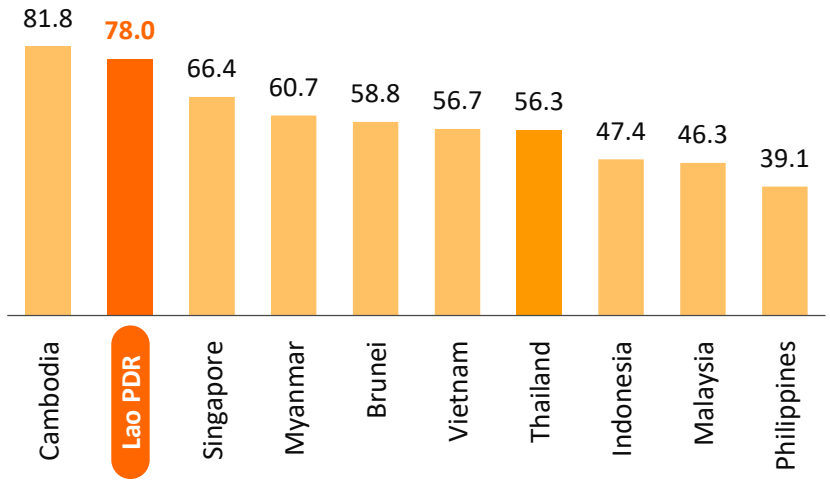
Source: CEIC, UN Population Prospects 2019, Krungsri Research

1 Wealthier young workers are turning to be middle-class consumers amid rising urbanization

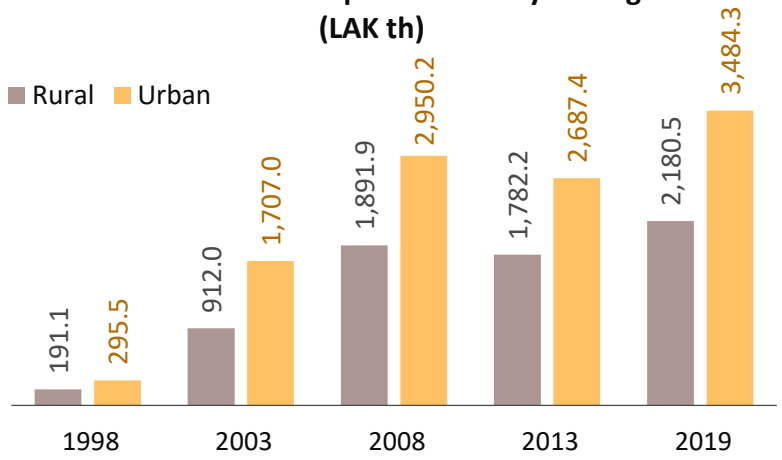
Labour Force (Person mn)



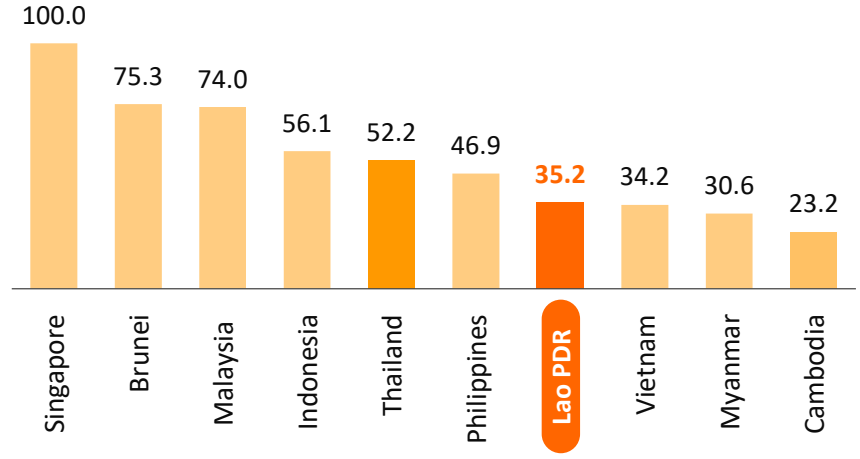
Employment to Population Ratio (% of total, 2019)



Household Consumption: Monthly Average (LAK th)



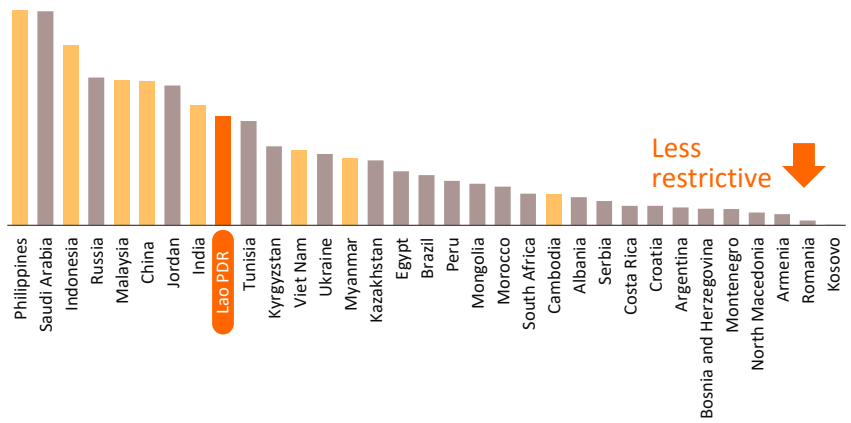
Urban Population (% of Total Population, 2018*)



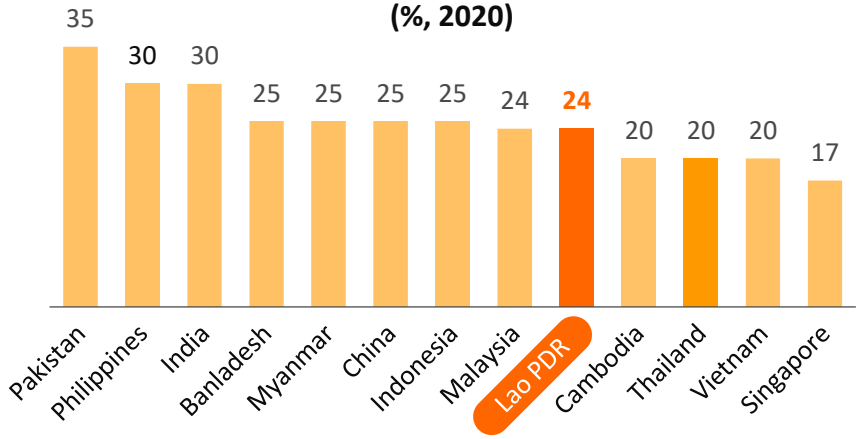
Source: CEIC

2 Ongoing structural reforms should help draw FDI inflows to Lao PDR in the long term

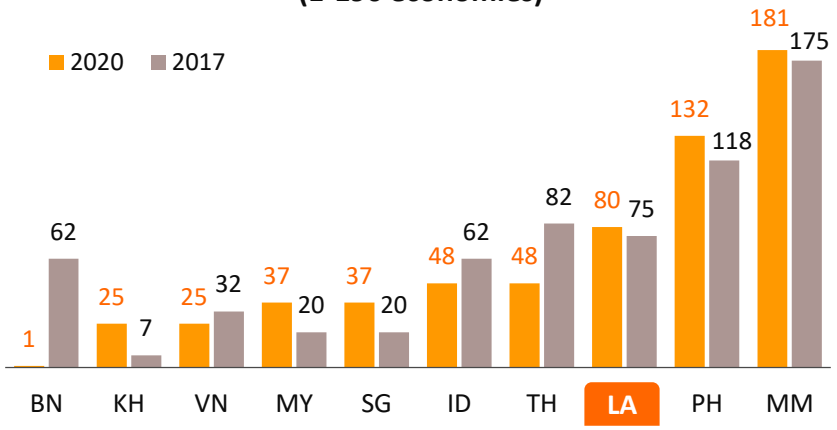
OECD FDI Regulatory Restrictiveness Index for some selected non-member countries (2018)



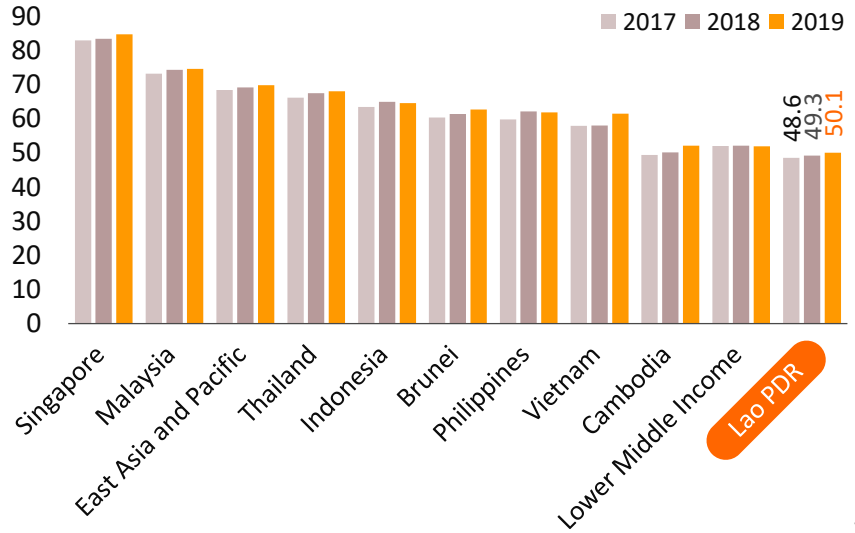
Corporate tax rates in some selected countries (%, 2020)



Ease of Doing Business: Getting credit ranking (1-190 economies)



Global Competitiveness Index: Overall Index (100 = the best)

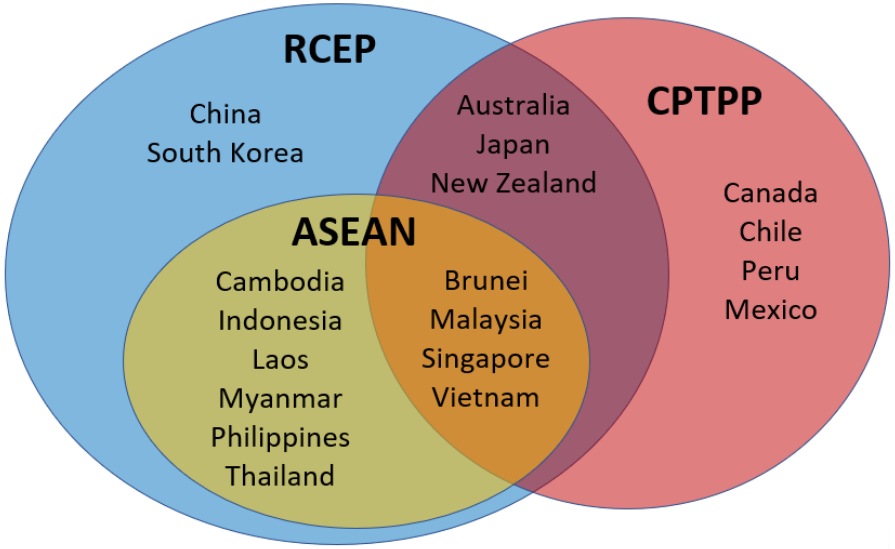


Source: CEIC, OECD, IMF 2019 Article IV Staff Report on Cambodia, Krungsri Research

2 High-speed rail links and regional trade agreements could potentially transform the country into a strategic land link



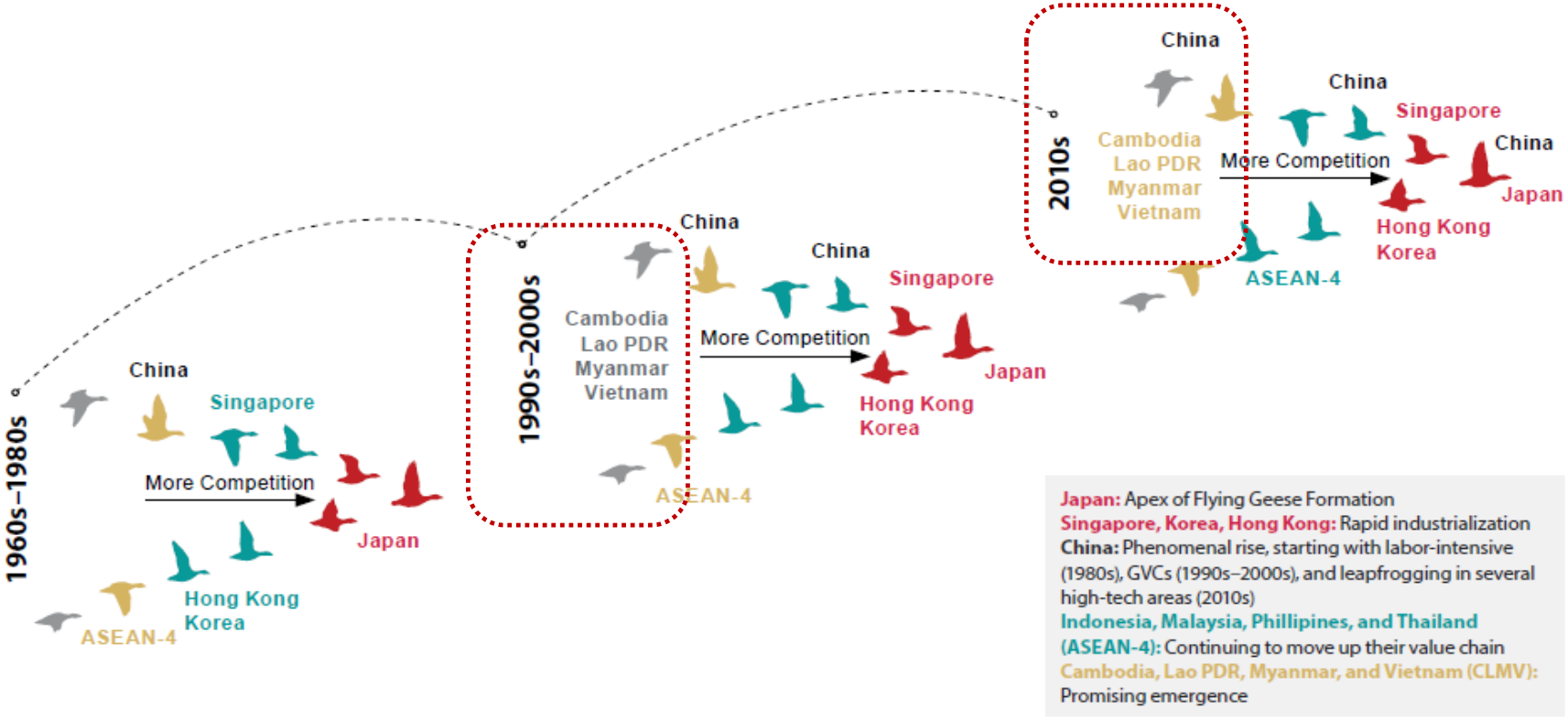
Regional Trade Agreements



Source: Asia Nikkei Review, CEIC

3 *Closer regional economic integration* will help spur the manufacturing sector in the years ahead

The Flying Geese Model[1/] of Asian Economic Development



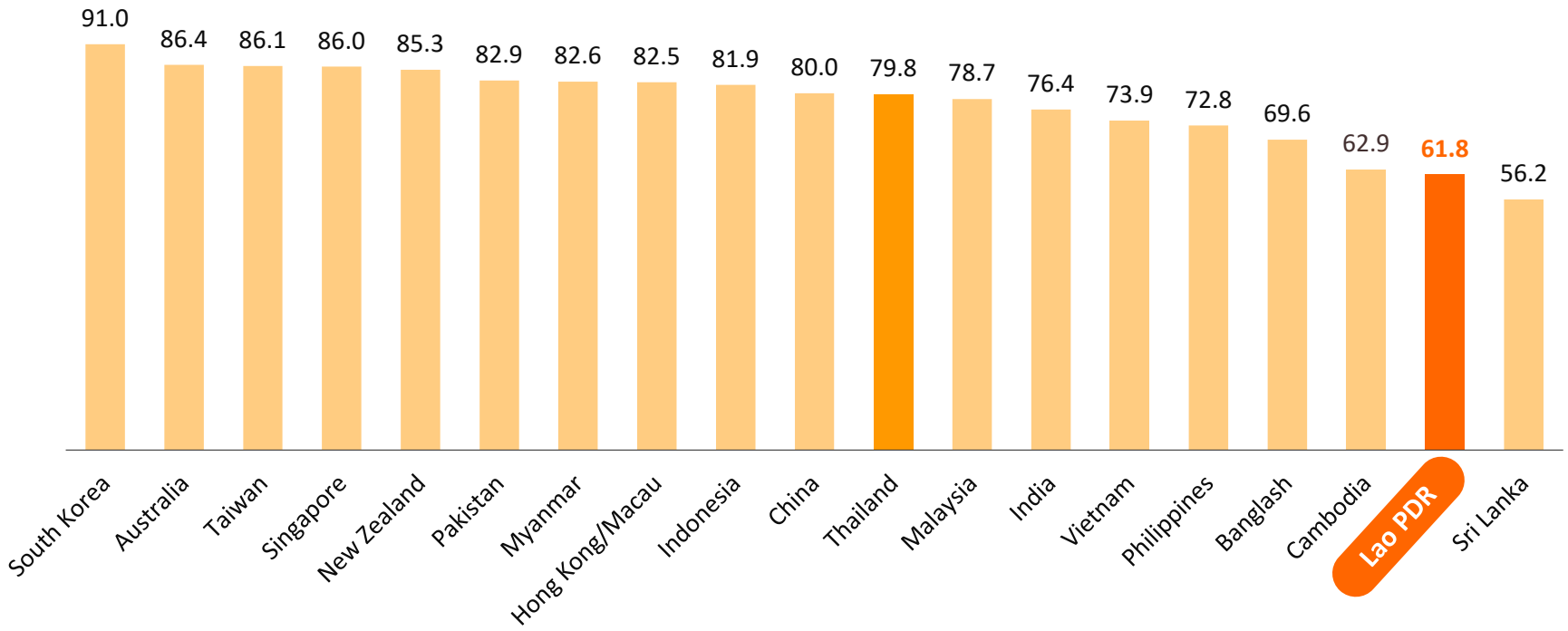
Low Value-added Manufacturing → **High Value-added Manufacturing**

Note: 1/ The Flying Geese Paradigm (FGP) is a theory explaining the international division of labor in East Asia countries based on dynamic comparative advantage. The paradigm postulated that Asian countries are likely to catch up with other industrialized countries as a part of a regional hierarchy where the production of commoditized goods would continuously move from the more advanced countries (Japan, China, NIEs) to the less advanced ones (e.g. ASEAN).

Source: AMRO: ASEAN+3 Regional Economic Outlook 2020

3 *Cost of production for manufacturing* in Lao PDR is among the lowest compared to that of regional peers

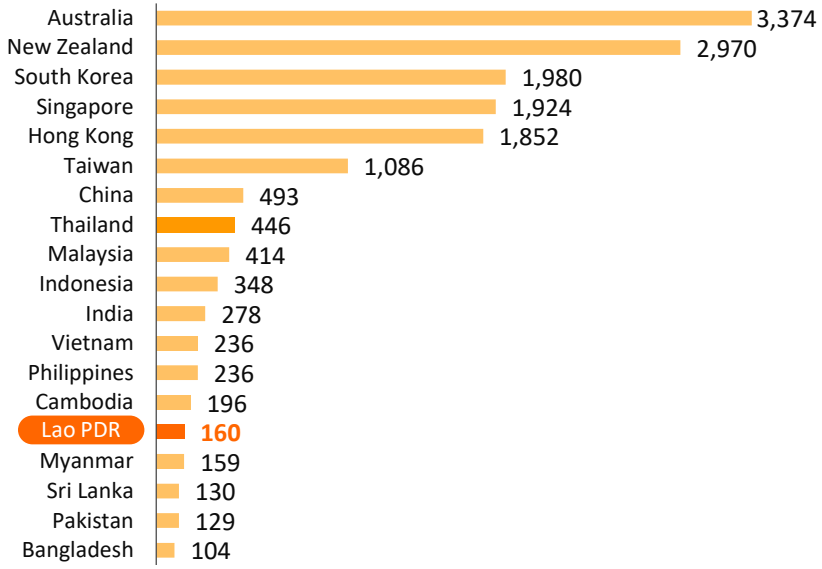
Local production cost in comparison with production cost in Japan, (Japan = 100, by country/region)



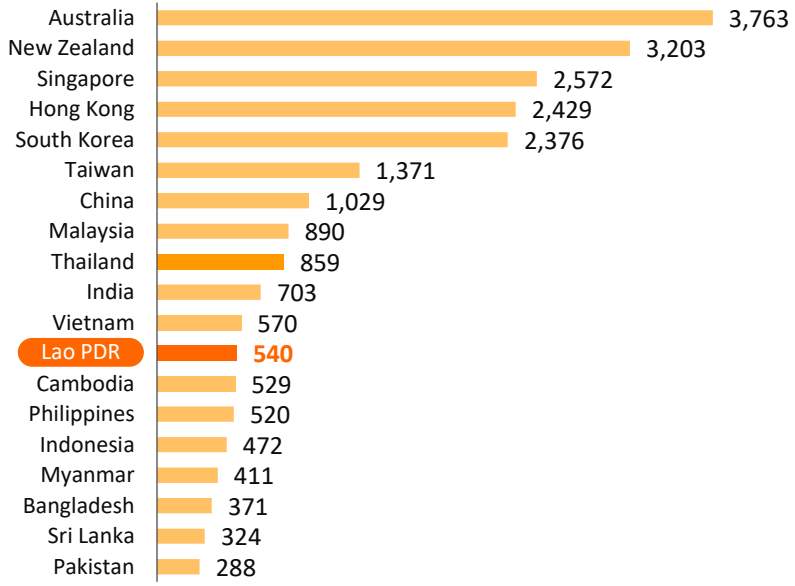
Note: Production costs for Japanese firms operating in those countries which include the costs of all resources consumed in producing a product, such as materials, labor, and others.
Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania

3 Wages which remain relatively lower than those of regional peers should also be conducive for foreign investment

Base monthly salary for manufacturing worker (USD, 2019)



Base monthly salary for non-manufacturing staff (USD, 2019)



Official minimum wage in the CLMV economies



The monthly minimum wage is USD190 in 2020 (compared to USD182 in 2019)



The monthly minimum wage for all businesses and factories is ranged from LAK900,000 (USD101) to LAK1.1mn (USD124).



Current daily minimum wage is set at MMK4,800 (USD3.29) for eight hours of work



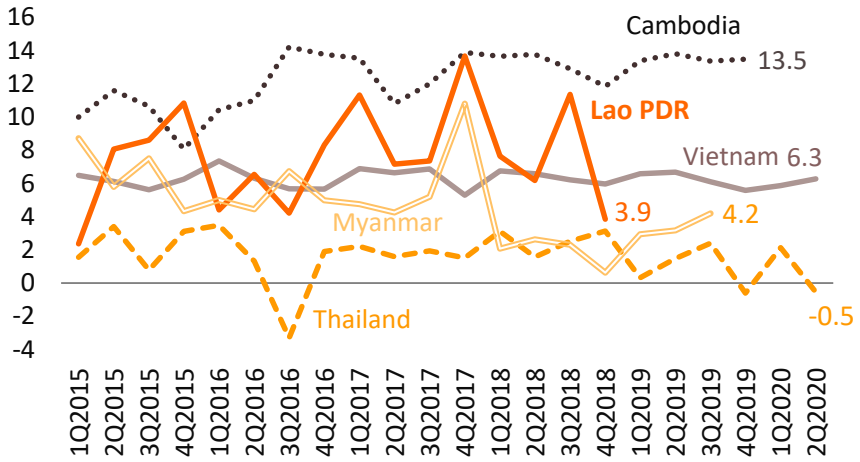
Current monthly minimum wage is set by region*:
Region I: USD190 (VND4.42mn)
Region II: USD169 (VND3.92mn)
Region III: USD148 (VND3.43mn)
Region IV: USD132 (VND3.07mn)

Note: *Region I covers urban Hanoi and Ho Chi Minh City
Region II covers rural Hanoi and Ho Chi Minh City along with Da Nang
Region III includes provincial and the district of Bac Ninh, Bac Giang, Hai Duong, Phu Tho, Vinh Phuc, and other provinces not listed in Region I and II
Region IV covers the remaining localities

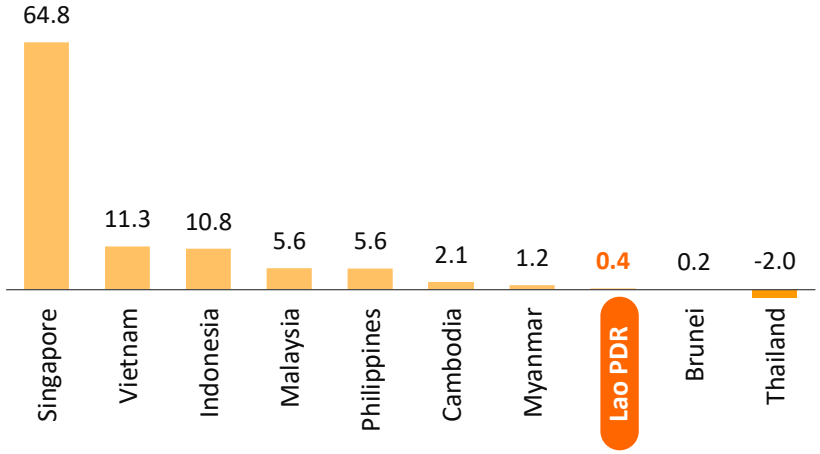
Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania, and various sources

4 Foreign investment should continue driving economic activities in the country in the post-pandemic era

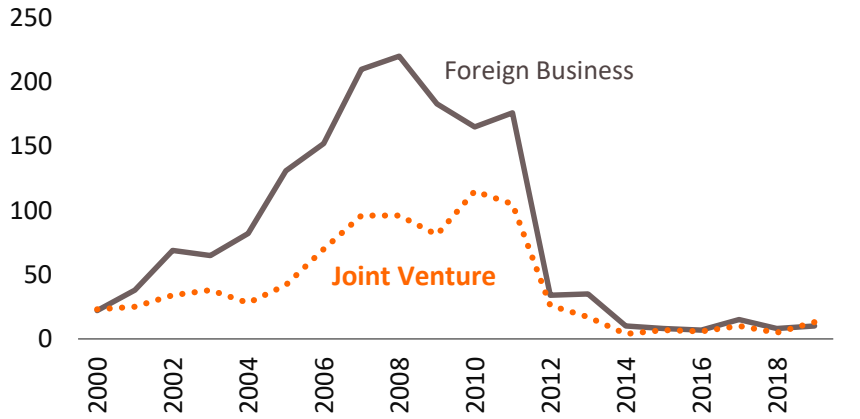
Foreign Direct Investment (% of Nominal GDP)



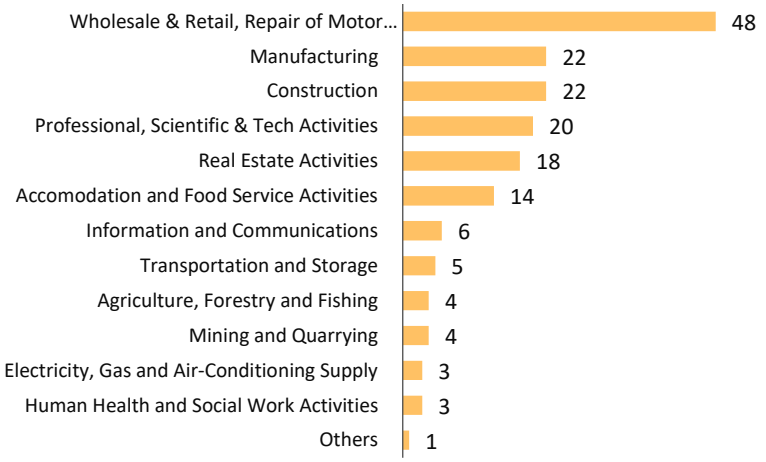
FDI Inflows (% of ASEAN, as of 4Q2019)



Number of Investment Approved (Unit)

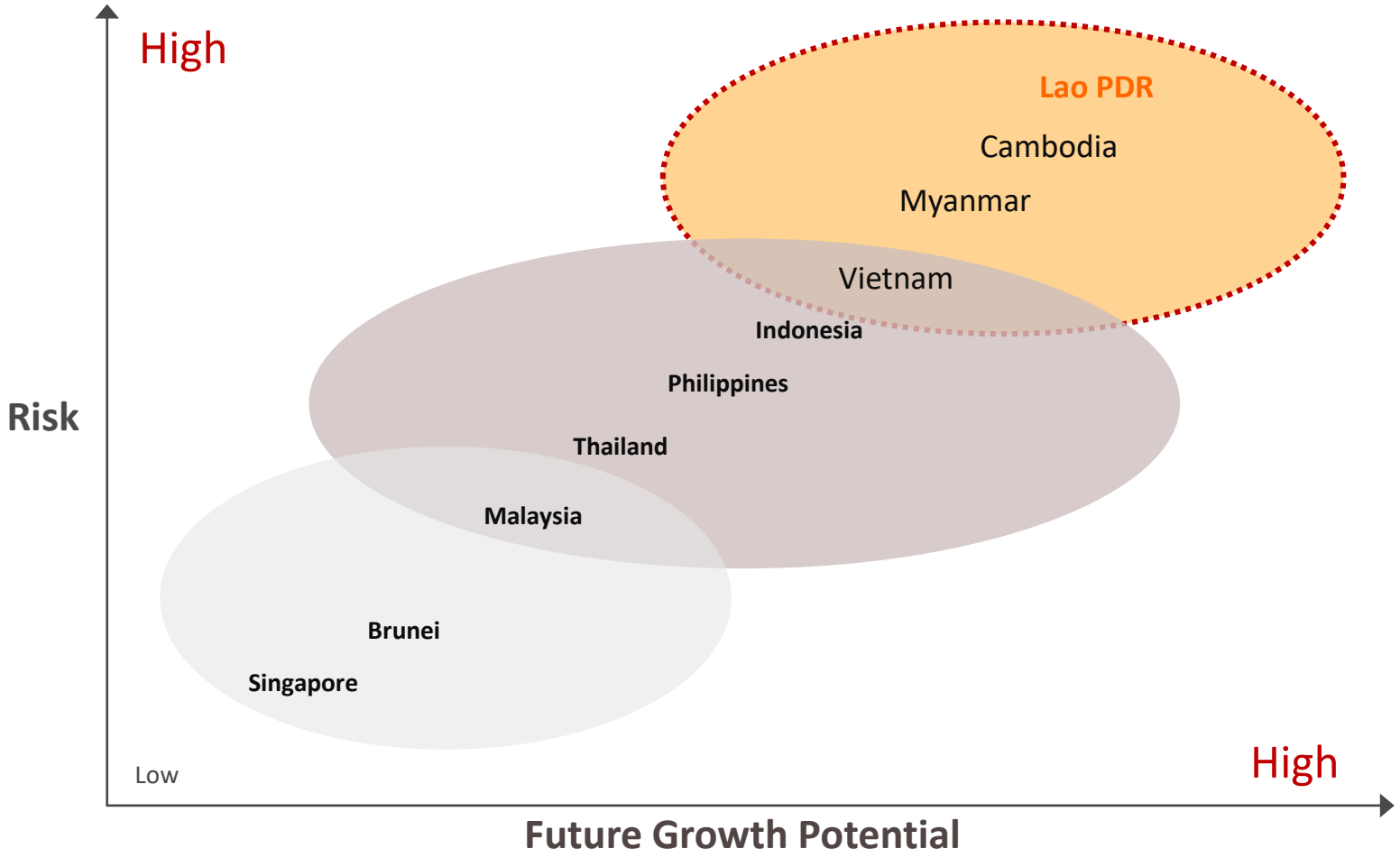


Number of Projects Approved (Unit, 2019)



Source: CEIC

In the medium term, Lao PDR will remain among the fastest-growing frontier economies regionally against its vulnerable macroeconomic stability



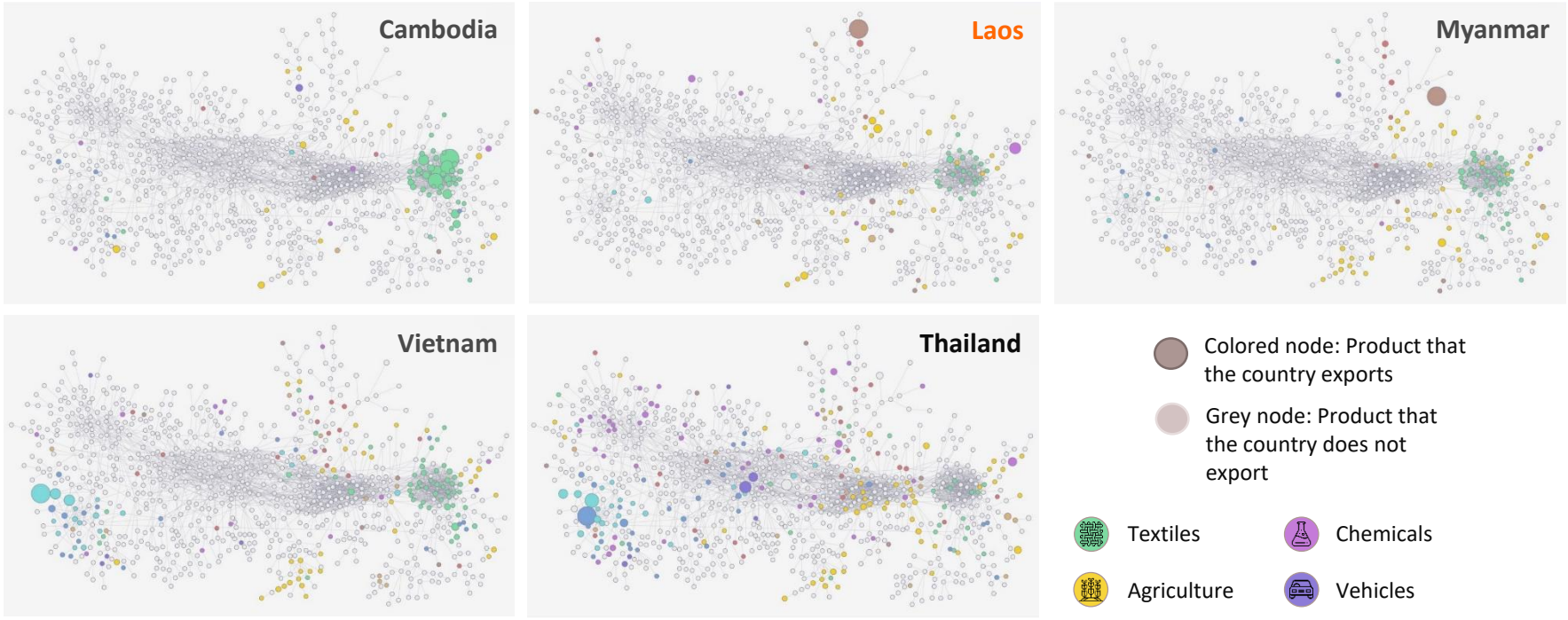
Source: ANZ Research

Business Opportunities in Lao PDR for Thailand



Thailand could link supply chains with neighboring countries including Lao PDR to leverage on comparative advantages of each country

Product Space highlighted for products with Revealed Comparative Advantage > 1

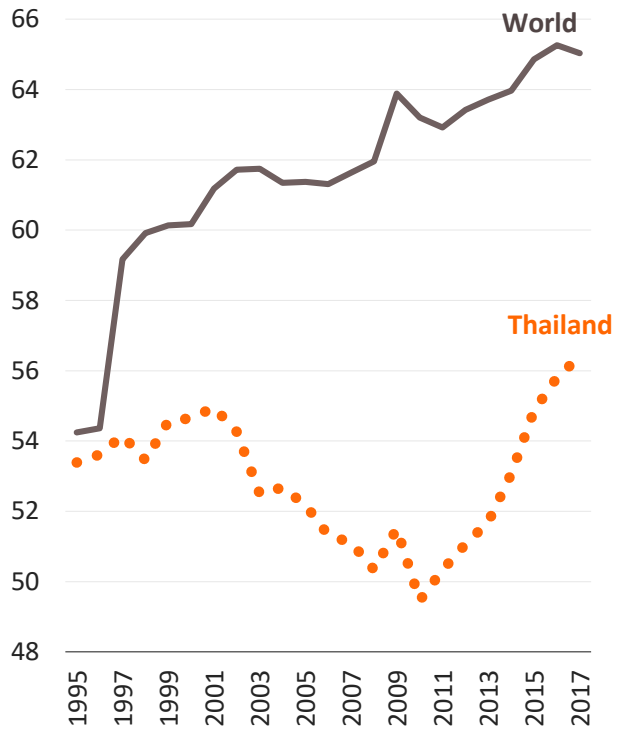


Source: Atlas of Economic Complexity 2017 by the Growth Lab at Harvard University

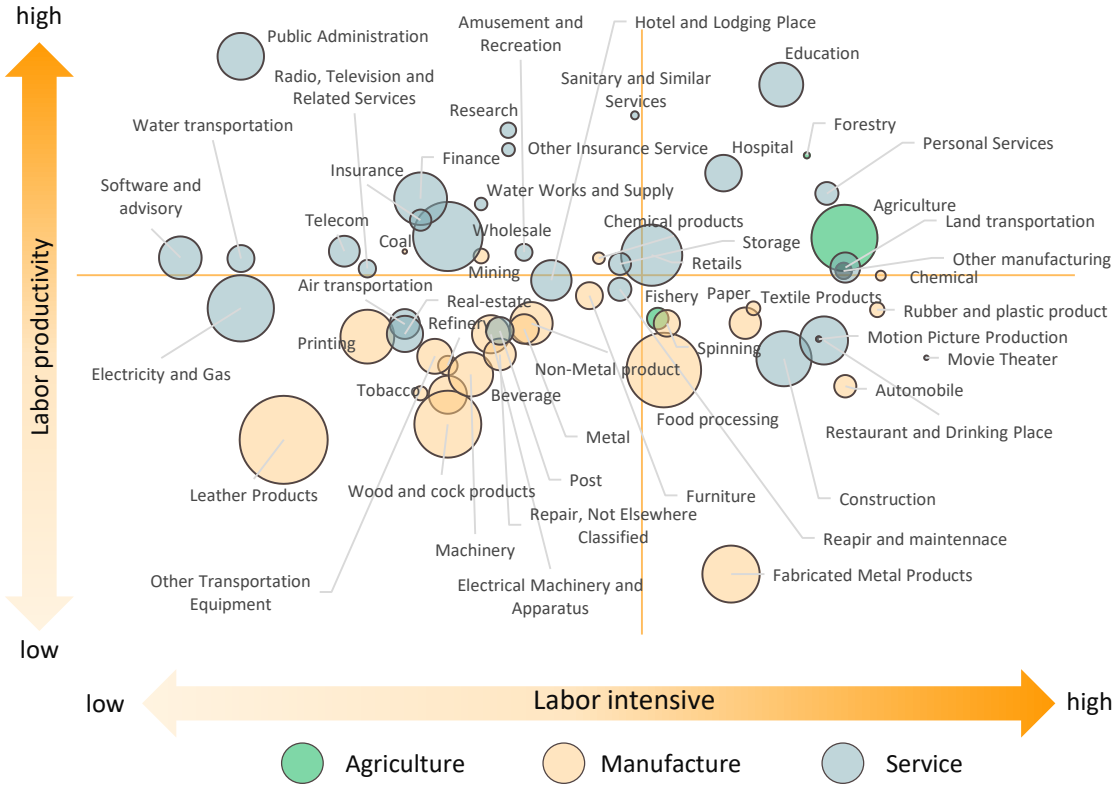
Some of labor-intensive activities and potential services could be shifted into to the region

Thailand is in line with the world economy in moving toward a service-based economy, and this is depicted by a rising contribution of service sector to GDP from 50.3% in 2008 to 56.9% in 2017. **Based on the recent data, we found that Thailand also has relatively high valued-added labor productivity in the services sector. Thai businesses may be able to reap the advantages to shift labour-intensive manufacturing activities as well as export services to countries in the region including Lao PDR.**

Value-added Services Sector (% of GDP)



Thailand's Labor dependency and productivity by industry (Input-Output Tables 2015)



Source: Office of the National Economic and Social Development Council (NESDC), National Statistical Office (NSO), World Bank, Krungsri Research

Growing domestic demand and growing wealthier middle-class consumers in Lao PDR offer business opportunities for Thailand

On the back of impressive economic growth record over the past two decades, this has resulted in a growing and wealthier young consumers in Lao PDR. Therefore, looking ahead, we expect that the country will remain one of the most vibrant economies regionally and this offers business opportunities for Thai firms seeking markets to grow their business in the region. In our view, some potential sectors in Lao PDR that are (1) food and beverage, (2) homewares, (3) healthcare and pharmaceuticals, (4) agribusiness, and (5) construction materials.

Food and beverage



Homewares



Healthcare services and Pharmaceuticals



Agribusiness



Construction materials



Underlying drivers in Lao PDR

1. **Sizeable and unmet domestic demand**
2. **Growing middle-class consumers**
3. **Urbanization**
4. **Shifting in consumer behaviors**

Source: Krungsri Research

KRUNGSRI RESEARCH

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