



ASEAN Business Guide

Laos

2018 edition



ASEAN Business Guide

This country report is extracted from *ASEAN Business Guide: The economies of ASEAN and the opportunities they present.*



LAOS

With the establishment of the ASEAN Economic Community in 2015, the country has seen developments and growth in key areas and in 2016, was ranked the second-fastest growing economy, by GDP, in the world. Factors that contributed to this high growth include its rich reserve of resources namely in energy and hydropower, the setting up of trade agreements, China's One Belt One Road initiative, low cost labor, and increased governance and transparency.

In the coming years, Laos' economy is expected to continue to grow at a rapid pace. With the signing of more trade agreements, and more pro-business policies and initiatives that support investment, for example, double taxation agreements, Laos will be an attractive market for foreign investors. The country's rich hydropower potential will also allow it to help meet its neighbors' increasing demand for energy.

KPMG in Lao PDR provides a wide range of Audit, Tax and Advisory services. Integrity, quality and independence are the building blocks of KPMG's audit approach. Our tax practice helps entities and individuals to reduce their tax burden while meeting the highest standards of compliance. Our advisory team helps entities to become more efficient. We provide support in all stages of an organization's lifecycle, helping clients to tackle a minefield of challenges.

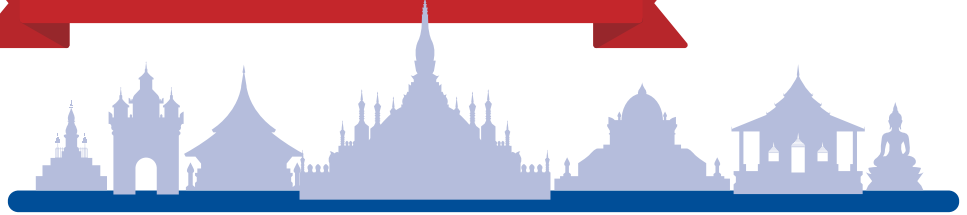


Ganesan
Kolandavelu

Partner in Charge
KPMG in Laos

LAOS

KEY COUNTRY FACTS



Laos was ranked as the second fastest growing economy in the world in 2016 by The Economist¹ as the country opened up following the launch of the ASEAN Economic Community (AEC) in 2015. The country is a popular tourist destination, boosted by the designation of the city of Luang Prabang as a UNESCO World Heritage site in 1995². Its abundant natural resources and infrastructure investment plans provide opportunities for further growth.



GOVERNMENT

A republic with a democratic government



POPULATION

7
MILLION (2017)



CURRENCY

Kip (LAK)



LANGUAGES

Lao (official), French, English, various ethnic languages

RELIGIONS

Buddhism, Others

Source: Economist Intelligence Unit, Association of Southeast Asian Nations

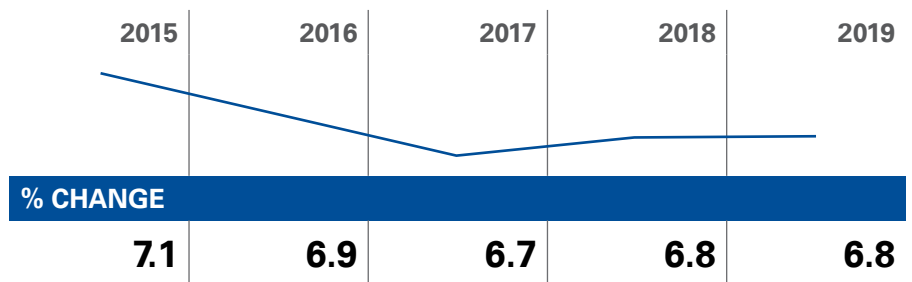
OPEN MARKET ECONOMY

Laos welcomes foreign investment and experience that can fuel infrastructure-led growth, including big projects under China's One Belt One Road (OBOR) policy. Ongoing efforts by the government to attract foreign investment to the energy and tourism sectors have the potential to boost growth further, and the country's vast potential for hydropower offers the opportunity of exporting energy.

In 2016, Laos had a credit rating of BBB+³, with a market capitalization of USD87.25 million. Although Laos' economic growth rate was slowed due to a general lull in global trade, lower commodity prices, and unfavorable weather affecting its agriculture sector, the country is predicted to maintain momentum over the near future due to its low cost of labor, natural resources and improved governance.

Economic Performance

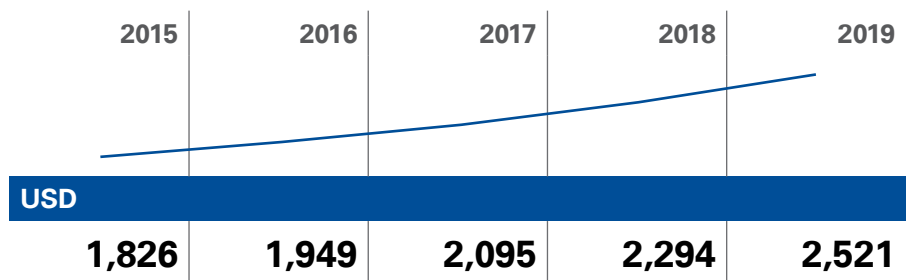
GDP constant prices*



* 2010 market price; percentage change after 2016 are estimates

Source: BMI Research, Laos Country Risk Report, second quarter of 2017

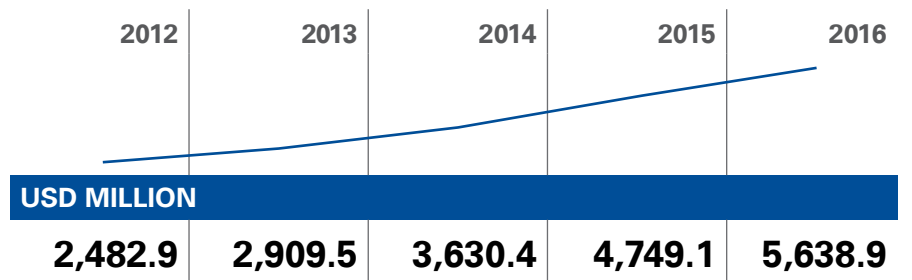
GDP per capita, current prices (CAGR 6.66%)



Figures after 2016 are estimates

Source: BMI Research, Laos Country Risk Report, second quarter of 2017

Foreign direct investment inflows



Source: UNCTAD Statistics

Main FDI investors



Vietnam
USD 466.1 mil



Malaysia
USD 430.3 mil



China
USD 88.9 mil



Hong Kong
USD 18.6 mil



United Kingdom
USD 4 mil

Source: Laos Ministry of Planning and Investment. Figures as of 2015

RICH IN NATURAL RESOURCES

Laos is located in the mountainous, landlocked area which borders Thailand, Vietnam, Cambodia, China and Myanmar. Its geography provides an abundance of water, forests and mineral resources, especially hydropower, timber, gold and copper. Consequently, Laos is an attractive location for investment in mining, hydropower, agriculture, and tourism — all growth sectors following the launch of the AEC.

More political stability



- No party congress or election will be held before 2021, ensuring political and policymaking stability
- Renewed anti-graft efforts by the new administration which took power in January 2016⁴

Improved governance and transparency



- Several landmark reforms such as the Law on Anti-Corruption in 2012, Decree on Asset Declaration in 2013, and the Law on Anti-Money Laundering Act in 2015
- Prime Minister Thongloun Sisoulith is perceived as a reformer following the arrest of 71 officials and 25 others across the country for graft since the beginning of his tenure⁵

Open for business



- The creation of the AEC in 2015 led to major reforms of economic policies and regulations to improve the trade and investment environment
- Hongsa Lignite power project provides opportunities for international agreement with Thailand, Myanmar, and Malaysia to import electricity from Laos
- Closer economic ties with China support regional integration with the Greater Mekong region as part of the One Belt One Road initiative introduced by Chinese President, Xi Jinping⁶
- Infrastructure projects between Vietnam and Laos — 707km highway connecting Vientiane and Hanoi⁷ and railway connecting Vientiane and Jung Ang

Rankings

+ All rankings are global unless otherwise indicated

Source: *Doing Business 2018*, World Bank; *Global Competitiveness Index 2017 - 2018*, World Economic Forum; *Corruption Perceptions Index 2016*, Transparency International

Index	Ranking ⁺
Ease of Doing Business	141
Intellectual Property Protection	85
Transparency of Government Policymaking	88
Corruption Perceptions Index	123
Global Competitiveness Index	98

Low-cost labor



- Competitively low minimum wage
- Low labor tax relative to regional peers
- Attractive for labor-intensive industries such as garment-making⁸

Natural resources



- Rapid economic growth mostly driven by the exploitation of natural resources and development of hydropower with state and foreign investors
- Rich in mineral resources, river network, ample arable land, cultural and natural sites which offer attractive opportunities for investment in mining, hydropower, agriculture and tourism⁹

Tax environment¹⁰



- Personal income is subject to tax at progressive rates ranging from 0% to 24%
- Corporate tax rate is 24%. A registered company at the stock market is granted profit tax reduction of 5% from normal rate for a period of four years from the date of registration
- Corporate tax rate is 26% for legal entities which produce, import and supply tobacco products, of which 2% is contributed to a cigarette control fund
- VAT rate is 10%. A 10% rate is applied to import of raw materials, chemicals, equipment and machinery for production, and 0% is applied to export of finished goods
- Tax and other incentives available:
 - Profits tax exempt for 4-10 years based on promotion zone and business activities
 - Import VAT and customs duty exemption may be possible, subject to approval on a case-by-case basis
 - Exemption of rental or land concession for 5-10 years, subject to conditions
 - Laos has signed double taxation agreements with Brunei, China, Korea, Malaysia, Myanmar, Thailand, Vietnam, Singapore and Russia. It also has an agreement with Luxembourg which is not yet in force.

Trade agreements



- Laos has signed seven regional and one bilateral free trade agreements (FTA).¹¹

Bilateral FTA

Agreement signed between Laos and a single trading partner

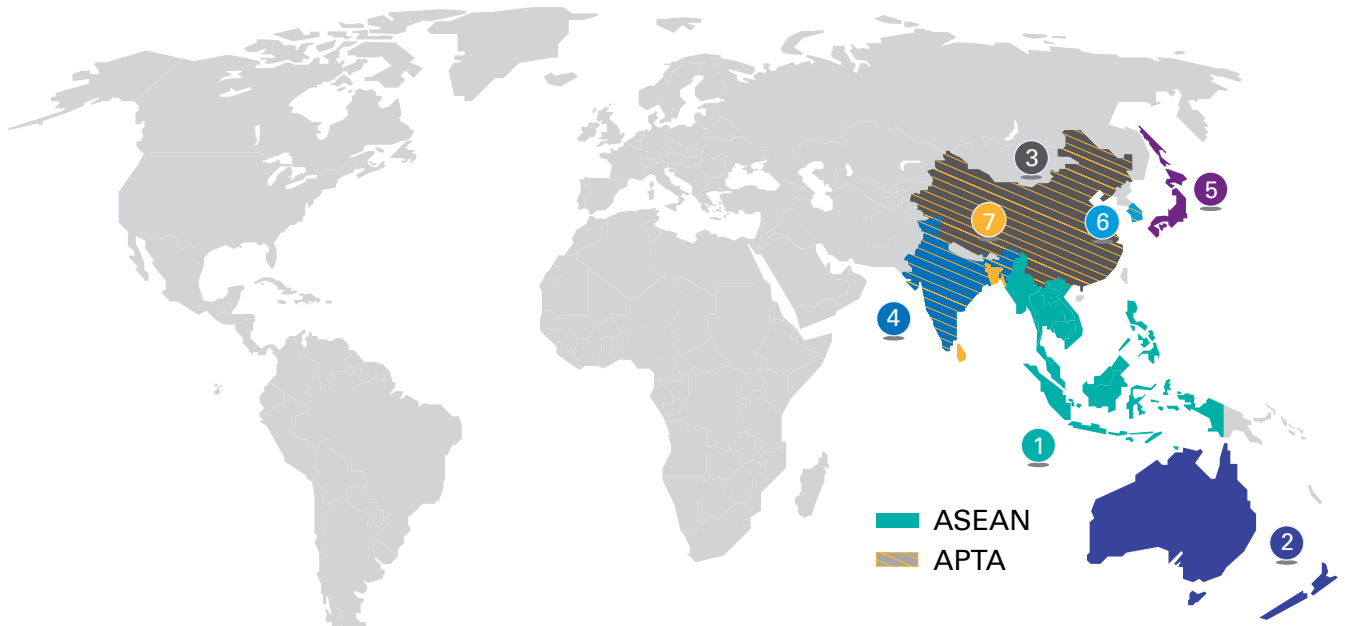


Laos-Vietnam Trade Agreement¹²

- Reduces rate on 32 tariff lines by 50% and all others by 100%, except for 155 tariff lines which fall under the General Exception List of Vietnam.

Regional FTAs¹³

Agreements signed between Laos and a group of trading partners



1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

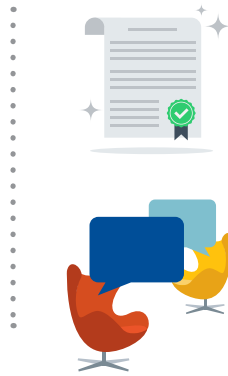
- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

7 Asia Pacific Trade Agreement

- Tariff exemption or reduction under this trade agreement with Bangladesh, China, India, Korea and Sri Lanka



Concluded / signed FTA

Completed negotiations

- ASEAN-Hong Kong, China Free Trade Agreement

FTA under negotiation

- Regional Comprehensive Economic Partnership

NEW PHASE OF GROWTH

Laos' strong GDP growth over the last ten years has been driven largely by its rich reserve of mineral resources as well as infrastructure projects including cross-border developments under China's One Belt One Road initiative.

Efficient management of national resources is key to unlocking Laos' development potential. With rich mining resources, a river network, ample arable land, cultural as well as natural sites, Laos offers attractive investment opportunities in the mining, hydropower, agriculture and tourism sectors.¹⁴

Laos' 2017 GDP is forecast to grow at 6.7%, supported by on-going efforts by the Laotian government to attract foreign direct investment to emerging sectors such as transport infrastructure and hydropower projects for which the government has introduced aggressive capital expenditure plans. Also contributing to this growth are rising commodity prices and improved tax revenue administration.¹⁵

Emerging industries¹⁶



Mining

- Room for growth given the country's mineral resources potential
- Government support for domestic and foreign investment in the mining sector



Hydropower

- Develop hydropower to meet the region's growing demand for power
- Provide significant economic support for communities living in the Mekong Basin



Agriculture

- Expected to grow at a fast pace in the coming years supported by favorable weather, large water and land resources
- Strategic location – crossroads of Southeast Asia and China – puts Laos in the middle of agricultural trade



Tourism

- Tourist arrivals on a steady rise in the past decade, especially tourists from Asia Pacific with most visiting more developed border towns

Endnotes

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- ¹¹ <http://laotradeportal.gov.la/index.php?r=site/display&id=483>
- ¹² <http://laotradeportal.gov.la/index.php?r=site/display&id=483>
- ¹³ ASEAN Free Trade Agreements, ASEAN Secretariat. Retrieved from http://www.ajec.or.jp/koku/koku_semina/pdf/130306_presentation01.pdf; The Signing of the ASEAN–Hongkong, China Free Trade Agreement and ASEAN–Hongkong, China Investment Agreement, ASEAN. Retrieved from: <http://asean.org/the-signing-of-the-asean-hongkong-china-free-trade-agreement-and-asean-hongkong-china-investment-agreement/>
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- ¹⁵ Laos: Significant Growth Ahead, BMI Research. Retrieved from https://bmo.bmiresearch.com/article/view?article=1265297&advanced_search=1&matches=4001&page=1&position=1&keyword=laos%20significant%20growth
- ¹⁶ U.S. Geological Minerals Yearbook 2013, Department of Mines, Lao PDR, Ministry of Energy & Mines, Lao PDR, Vientiane Times, UN International Trade Center, Xinhuanet, Chinadaily, Asianews, Lao National Tourism Administration

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KPMG HAS A PRESENCE IN EVERY ASEAN NATION

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over 8,000
Staff

more than 300
Partners



BRUNEI
1 office



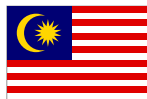
CAMBODIA
1 office



INDONESIA
1 office



LAOS
1 office



MALAYSIA
9 offices



MYANMAR
1 office



PHILIPPINES
5 offices



SINGAPORE
1 office



THAILAND
1 office



VIETNAM
4 offices

KPMG SERVICES

Audit

- Fundamental to a risk-based audit approach is understanding the way our clients run their businesses and drive performance.
- KPMG focuses on the areas which are critical to our clients in delivering their strategies and meeting goals.
- KPMG's extensive experience and proprietary tools have enabled us to provide seamless services to clients across industry sectors and geographical boundaries.

Tax

- Against a backdrop of increasing complexity in the business and tax landscapes, clients will need to weigh its tax options against many factors, such as tax ramifications against the financials, increased information sharing between tax authorities, evolving regulations, global competitions and new economies.
- Through two main service lines: tax consulting and tax planning and compliance, KPMG's tax practice consistently provides proactive advice and quality service. Our tax consulting service lines cover mergers & acquisitions & government incentives, global transfer pricing services, global indirect tax services, financial services tax and international tax. Our multi-national clients enjoy this single point of contact in Asia Pacific for all regional tax issues.
- In addition, our tax planning & compliance services include global mobility services, global immigration services network, global compliance management services, dispute resolution & controversy, tax management consulting and property tax / stamp duty advisory. With KPMG's vast network, clients' business commitments and tax needs will be best served by KPMG member firms in the region.

Advisory

- KPMG's Advisory team works with a range of clients, helping them meet challenges associated with growth, performance and governance.
- Our professionals can cover both operational and transactional activities.
- Our Advisory practice assembles skilled and experienced professionals in multi-disciplinary groups tailored to the needs of individual clients and their unique circumstances.
- In our clients' interests, we also draw on the capabilities and knowledge resources of KPMG's global network.
- We offer our clients a single point of contact to help streamline the relationship and enhance its productivity and usefulness to them.
- We understand and respect clients' needs and aspirations. Clients can draw from a range of management and risk consulting services covering a broad spectrum of business activity.

Contributors to the research, analysis, and development of this paper:

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