

# Discussions

## (FDI motives and determinants in Lao PDR)

Pick one of these business to invest in the Lao PDR

- Thai restaurant and/or coffee shop
- Coffee bean plantation or any agricultural product plantation
- Beauty clinic
- Zipline tourist activity business
- Hydropower project or any infrastructure project
- Factory producing cloth or other manufacturing industry



The map of Lao PDR

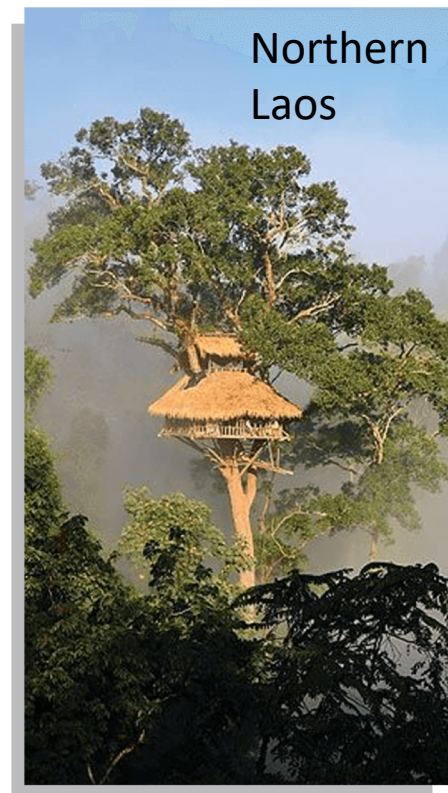


Xyaburi Hydropower Project in the Lao PDR

(Thai SOEs and private sector 80%, the Lao PDR government 20%)

Coffee plantation in the Lao PDR





Zipline business in the Lao PDR



Wuttisak Clinic in Vientiane



Black Canyon in Vientiane

# Discussions

## (FDI motives and determinants in Lao PDR)

Based on the industry the group pick analyse

- **FDI motives** (natural resource seeking, market seeking, efficiency seeking or/and strategic asset seeking)
- **Home country specific advantages (and disadvantages)** --- in this case study home country is Thailand
- **Host country specific advantages (and disadvantages)** --- in this case study host country is Lao PDR
- **Firm specific advantages**: this part the group can assume

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# Discussions

## (FDI motives and determinants in Lao PDR)

- Some data or information that can be used for the analysis provided in slides no. 26 – 32.
- you may look for supplement information relevant to your group FDI industry to support your analysis

# Motives of FDI in the Lao PDR

## ➤ Natural resource-seeking FDI

E.g. in **Mining, electricity generation** (especially in hydropower generation), **agriculture**.

## ➤ Market-seeking FDI

- ✓ **Domestic market**: e.g. investment in **service sectors**, construction
- ✓ **Regional market**: e.g. Most of **electricity** produced in the Lao PDR have been exported to neighboring countries (such as for Thailand, Vietnam and Cambodia)
- ✓ **Other regions market**: e.g. investment in **agricultural sectors** in the Lao PDR to gains **GSP (generalized systems of preference)** from other countries such as the U.S. and countries in Europe

# Motives of FDI in the Lao PDR

## ➤ Efficiency-seeking FDI

- ✓ **Low labor cost in the Lao PDR**
- ✓ **Labor cost in neighbouring countries** (such as Thailand) **increase** so that Thai MNEs and other country MNEs that used to use Thailand as production base move some of their production (especially, the one with labor intensive production) to the Lao PDR.
- ✓ **Corporation in the region brings about efficient regional production supply chain.**

E.g. **Toyota Boshoku (Japan), Nikon (Japan), Siam Cement Group (Thailand), HP (U.S.), Coca-Cola (U.S.)**

## ➤ Strategic-assets seeking FDI

- ✓ Many MNEs invested in the Lao PDR joint invest with the Lao PDR government or Laotian private sector to gain access to intangible assets regarding **their experience of doing business in the Lao PDR** and strategic asset in terms of **local networking** (for their material sourcing, product distribution, and other business network)

# Determinants of FDI in the Lao PDR

- **Host country specific advantages**  
(Host CSAs or Pull Factors)
- **Home country specific advantages**  
(Home CSAs or Push Factors)
- **Firm-specific advantages (FSAs)**

# Host country specific advantages (pull factors)

## ➤ Positive factors

- ✓ Lao PDR has **rich natural resources**.
- ✓ **Political stability** in the Lao PDR.
- ✓ **High level of economic growth**, but concentrated in some sectors.
- ✓ **Low labor cost**.
- ✓ **Exchange rate** of the Lao PDR currency **is quite stable**, especially with US dollars.
- ✓ **Corporation in the region** provide investors to access to larger market and be able to use Lao as one of the production base in the production supply chain.
- ✓ **Lao has adjusted the country's trade and investment regulations** to be more up to international standard, especially The **Law on Investment Promotion (2009)** that combines **domestic investment law with foreign investment law**.

# Host country specific advantages (pull factors)

## ➤ Negative factors

- ✓ **Small market size.**
- ✓ **Labor:** although with low labor cost, Lao has **limited amount of labor force, low labor productivity. Shortage of labor in all levels** (administrative, professional, skilled and unskilled labor).
- ✓ **Investment regulations:** although adjust laws and regulations regularly, there are still **problems when they have been implemented.**
- ✓ Still **lack of some necessary technology and infrastructure.**
- ✓ Still **have problems of corruptions and practices of informal sector**
- ✓ **Institutions**, especially justice, **have not been developed enough** to provide efficient monitoring and control.
- ✓ In some occasions, the **Lao government cannot fully deliver amount land specified in concession contract** with different reasons (such as use of land by local people).

# Home country specific advantages (push factors)

## China

- **China is the major investor in the Lao PDR** investing in various sectors but **important sectors are investment in energy and infrastructure** (especially hydropower generation), **electricity transmission and trade, road and railway construction projects.**
- **Chinese MNEs plays more roles in investment in ASEAN** (including the Lao PDR) **partly due to the support from Chinese government and banking sector.**
  - ✓ **Chinese government set up various institutions to support foreign investment of Chinese firms.** For example, the China-ASEAN Investment Corporation Fund (CAF), the ASEAN-China Centre, the ASEAN-China Business Council, ACFTA portal and Asian Infrastructure Investment Bank (AIIB), China-ASEAN Investment Corporation Fund (CAF), Asian Infrastructure Investment Bank (AIIB), etc.
  - ✓ **Chinese banks support Chinese MNEs investing abroad by being a financial source for those firm.**

# Home country specific advantages (push factors)

## Vietnam

- **Outward FDI of Vietnam are mostly state-owned enterprises (SOEs) and concentrated in resource incentive countries and in a few industries**
  - ✓ Example of Vietnam SOEs investing in the Lao PDR: Vietnam Rubber Group (VRG), Vietnam Oil and Gas Group (Petrovietnam), Viettel, Songda Group (leading company of construction and industry of Vietnam)
- **Vietnamese government plays a key role to support outward FDI of Vietnamese MNEs such as investment by SOEs and financial support.**
- **More Vietnamese banks have expanded to the Lao PDR. Those banks can support Vietnamese MNEs in terms of financial facilitation.**

# Home country specific advantages (push factors)

## Thailand

- **In general, investment of Thai MNEs in the Lao PDR normally occurs from host CSAs rather than measures or policy from Thai government to support Thai MNEs outward FDI.**
- **Thai banks play key roles to be financial source for Thai MNEs (especially for large investment projects in the Lao PDR). Besides, Thai banks also expand their branches to the Lao PDR and these bank can help Thai MNEs in terms of financial facilitation**
- **Other push factors**
  - ✓ **Large pieces of land in Thailand for agricultural plantation are scarce.**
  - ✓ **Wage in Thailand becomes higher.**
  - ✓ **Compared to China, Thailand does not have strong and explicit policy to support outward FDI.**

## Firm Specific Advantages, FSAs

### Different FSAs for each MNEs in the Lao PDR, e.g.

- Some MNEs may have **technology advantage** or **managing capability** over other MNEs
- **MNEs with high investment experience in the region** may have advantages over other MNEs in terms of their understanding of system process and limitation of doing business in developing countries in the region
- **Large State-owned MNEs or large private MNEs may have economies of scales advantages** in their production and management process.
- **Well-known MNEs in the region have advantage** over other MNEs **in terms of their brand recognition** in the Lao PDR before they even enter operation in the country.