

# Status Analysis and Suggestion Research on Chinese Enterprise's Direct Investment in Laos with the Background of "The Belt and Road" Strategy

Ying Liu<sup>a</sup> and Jian Deng<sup>b</sup>

School of Economics and Management, LeShan Normal University, Leshan 614000, China;

<sup>a</sup>liu\_yingg@126.com, <sup>b</sup>380583679@qq.com

## Abstract

In recent years, the speed of Laos opening to the outside world is accelerating, and the direct investment of Chinese enterprises to Laos is also showing a growing trend. The article analyses the present situation of Chinese enterprise's direct investment in Laos with the background of "The Belt and Road" strategy, and gives the corresponding policy recommendations at last, the author points out that after doing well in risk control, the future to directly invest in Laos will be bright.

## Keywords

Chinese enterprise, direct investment in Laos, "The Belt and Road" strategy.

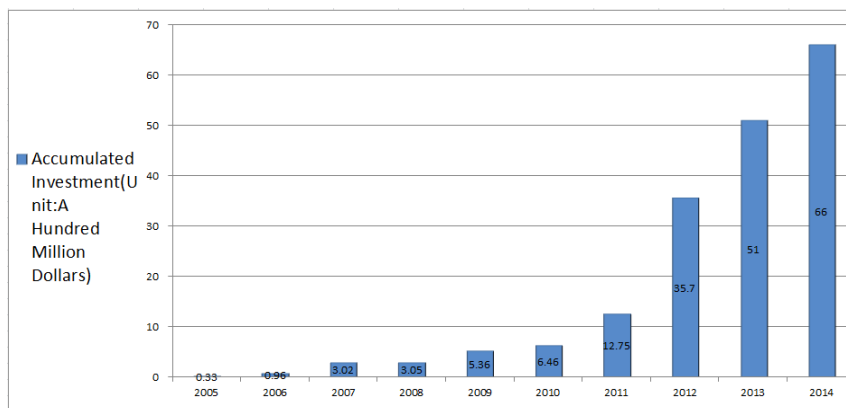
## 1. Introduction

Lao People's Democratic Republic (referred to be Lao or Laos) is located in the northern part of Indochina Peninsula, Asia. Lao is the only landlocked country in Southeast Asia. Lao economy is backward. Agriculture is the leading industry in Lao, while the base of industry is weak and its development is slow. In recent years, Lao government has been opening the domestic market more to the world and constantly adjusting policies for economic development. By doing so, five years in a row, Lao maintained a growth rate about 8% in economy and became one of the ten fastest growing economies in the world. Among ten ASEAN countries, Lao has an outstanding geographical advantage. Hence, Lao is not only an important country in the China-Asian Free Trade Area (referred to be CAFTA), but a major partner that China has economic cooperation in Mekong River area.

## 2. Introduction Status of Chinese Enterprises' Direct Investment in Laos

### 2.1 The Amount of Direct Investment

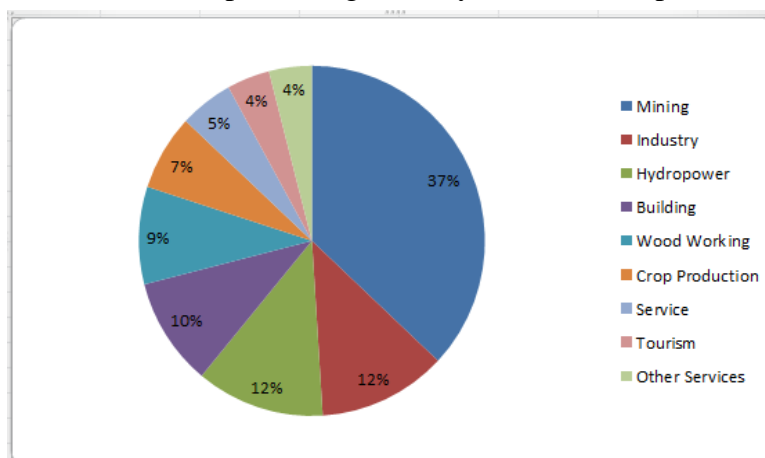
In terms of the amount of direct investment, we can see from the picture one that the amount rose year by year. Before 2013, with the affection of international regional politics and ideology, China was fallen behind Vietnam and Thailand in the aspect of accumulated investment to Laos. After the subprime crisis, despite the pressure of slow recovery of world economy, China unexpectedly increased the amount of direct investment to Lao and became the most main country that directly invested to Lao in 2014. From January to July, 2015, Chinese enterprises directly invested 48 countries along the Belt and Road 8.59 billion dollars in total. The amount grew 29.5% year-on-year. Lao is one of the most dominant countries that China invested.



Picture one, Accumulated Investment of Chinese Enterprises in Laos

### 2.2 The Field of Direct Investment

Lao imported FDI chiefly in two fields: power and exploitation of mineral resources. The construction of infrastructure in these two fields occupies 25% and 27% respectively, which is more than half of the total FDI to Lao. Agriculture and service are other two important fields that attract FDI, which occupy more than 20% of total FDI. Chinese enterprises started to invest in Lao since 1990s. In the early stage, Chinese enterprises mainly invested in the construction of hydropower infrastructure, exploitation of mineral resources, agriculture, service and foreign trade. From then on, as the transformation of Chinese economy, the implementation of Asian Infrastructure Investment Bank (referred to be AIIB) and the proposal of “The Belt and Road” strategy, Chinese enterprises tried to invest multiply such as Lao tourism, processing industry, wood development and trade.



Picture Two, Industry Distribution Map of Chinese Enterprises' Direct Investment in Laos

### 2.3 The Origin of Direct Investment Sources

Before 2008, because of geographic advantages, YunNan province had the largest amount of investment to Lao. It once accounted for 80% of Chinese enterprises' investment in Laos in total. More and more provinces began to invest in Lao with the development of export-oriented economy. For example, Shanghai, GuangDong province and HaiNan province. During the period from 2005 to 2013, YunNan province, Guangdong province and LiaoNing province were Top 3 in accumulated investment to Lao. They are 1.53 billion dollars, 0.87 billion dollars and 0.81 billion dollars respectively. In general, Maritime Provinces are dominant provinces to invest in Lao owing to geographic advantages.

### 2.4 The Form of Direct Investment Subject

There are about 20 central state-owned enterprises or state-owned enterprises choose to invest in Lao. In the early stage of China-Lao cooperation, these state-owned enterprises made a difference. They are distributed in mineral, hydropower, agriculture, telecommunication and other fields of infrastructure construction. Taking Sinohydro Group Ltd for example, this enterprise began to invest

in Lao since 1996. So far, this enterprise managed to invest 4 water conservancy projects in Lao and was thought highly by Lao government. In 2013, Lao government and Sinohydro Group Ltd cooperated more deeply. Sinohydro Group Ltd got the right to exploit and construct 8 hydropower stations. It does not only symbolize that Chinese enterprise manages to have roots in Lao, but set a good example for other Chinese enterprises. In the meantime, Chinese enterprises' investment in Lao hydropower and road construction brought convenience to Lao remote districts.

At present, the main force of China's direct investment in Laos is the individually-owned business and private enterprises, which take up two-thirds of total China's direct investment in Laos. Totally, there are about 700 enterprises invested in Lao and about 300 enterprises were registered in the embassy. Among them, private enterprises and local enterprises occupy the largest proportion. As the implementation of "The Belt and Road" Strategy, more and more Chinese minor enterprises choose to invest in Lao. The only one large-sized supermarket in Luang Prabang was set up by a private enterprise from HuNan province. Although the number of private enterprise is much, these private enterprises do not have advantages in technical level and fund size. Therefore, Chinese private enterprises commonly are not so competitive in Lao market.

### **2.5 Mode of Direct Investment**

Chinese enterprises have a lot of investment modes in Lao. Different fields have different investment modes. In terms of enterprise type, on the whole, wholly owned enterprise is the most popular. In 2007, wholly owned enterprise contributed 70% of aggregate investment in Lao. In terms of project distribution, wholly owned enterprises got 68 of total 99 projects, which was more than two thirds. Among 99 projects, 3 projects were joint investment. State-owned enterprises mainly choose to invest projects of infrastructure construction including transportation infrastructure and hydropower infrastructure. The major modes of investment are BOT and TOT.

Chinese government also constantly deepens cooperation with Lao government and provides Lao with assistance such as interest-free loan, hospital construction and things like that. The construction of Luang Prabang hospital and the enlargement of Vientiane Wattay International Airport were two examples. What is more, China offers chances of training talents and related technical supports to Lao. All of these were praised highly by Lao people and government.

## **3. Suggestions for Chinese Enterprises to Invest Directly in Lao**

### **3.1 Suggestions for Chinese Government**

#### **3.1.1 Strengthen the implementation of "going out" strategy**

Nowadays, Chinese enterprises have made great progress in investing in Lao. However, these transnational investors are still chiefly made up by private and small-scale enterprises, few SOEs or large-scale enterprises invest in Laos. Therefore, it is necessary for Chinese government to strengthen the implementation of "going out" strategy and encourage SOEs or large-scale enterprises to invest in Lao by policies. What is more, Chinese government also needs to realize obstacles in investing in Lao and pay attention to improving the environment of investment especially in the field of agriculture, tourism and mineral.

#### **3.1.2 Promote the improvement and implementation of Lao law**

In detail, there are three methods to help Lao improve Investment Environment by law. Firstly, Chinese government should urge Lao government to simplify the approval process so that it will be easier for Chinese talents especially agricultural talents to go to Lao. Hence, they can help Lao develop agriculture. Next, Chinese government should urge Lao government to give full play to administrative functions, make huge efforts to advocate laws of foreign investment and actively improve the efficiency of government departments. Ultimately, Lao should set up a fair, just and transparent funding mechanism. Therefore, Chinese enterprises could have a stable investment environment.

### **3.1.3 Increase investment in infrastructure construction of Laos**

Chinese government should actively encourage enterprises to invest in Lao especially in transportation field. Chinese and Lao government could cooperate in area navigation. Specifically, they can set up joint venture airlines and cooperate to operate regional aviation. It will be beneficial for improving Lao transportation infrastructure. As a result, it does not only be propitious to economic and cultural communications between two countries, but also promote the development of Lao tourism. Moreover, it will attract more Chinese enterprises to invest in Lao. Finally, the construction of transportation infrastructure will give the development of other fields such as telecommunication, health services and so on.

### **3.1.4 Guide bilateral enterprises to communicate by government policies**

Chinese government should strengthen communications with Lao government with the guide of “The Belt and Road” Strategy. First, Chinese government urges Lao government to pay attention to communicating with Chinese enterprises and setting up the guidance mechanism for Chinese enterprise. Next, Chinese government should actively hold all kinds of workshops to promote cooperation between two countries’ enterprises, set up platforms for two countries’ enterprises to communicate and actively grasp market opportunities for Chinese enterprises to invest in Laos. Meanwhile, Chinese government should also introduce policies to promote Chinese enterprises’ activities in Lao, improve Chinese enterprises’ competitiveness and expand operational scale. What is more, bilateral governments should actively solve problems that Chinese enterprises face in Lao, promote diversified development of Chinese enterprises and help Chinese enterprises spread risks.

## **3.2 Suggestions for Chinese Enterprises**

### **3.2.1 Consummate development strategies of enterprises**

Chinese enterprises should strengthen transnational management abilities, maintain good international images and establish brand strategies. It can be divided into following points. In the beginning, strengthen human resource management of enterprises and cultivate international talents such as outstanding managers, legal staffs and skill. Therefore, the competitiveness of Chinese enterprises could be improved. Secondly, during the process of investing in Lao, Chinese enterprises should have awareness of international competition, avoid vicious competitions and tree good images in FDI. Thirdly, Increase investment in hi-tech products and abandon low cost and inferior products so that good reputations and images of Chinese enterprises could be treed.

### **3.2.2 Increase local operation abilities of Chinese enterprises**

Localization is necessary for Chinese enterprises to decrease or avoid risks when they invest in Lao. It will be convenient for bilateral staffs to communicate. Hiring local labors does not only decrease costs but bring convenience for Chinese enterprises in that local labors are familiar with Lao markets. Even more, Chinese enterprises could hire local managers. Because Lao managers are more familiar with local laws and customs, they can adjust operational strategies and conceptions to local markets. Moreover, Chinese enterprises should hire talents of high quality and teach them Lao language, policies and culture. It does not only reduce problems in Lao, but also make up for disadvantages of some labors of low quality.

### **3.2.3 Increase projects cooperated by Chinese and Lao enterprises**

At present, Lao remains at the initial stage of industrialization. Industrial management level is not so high. Chinese enterprises, however, should see great potential of Lao market especially in tourism and hi-tech. As Lao economy goes up, all these industries are prospective. According to “2006-2010 Economic Development Plan” which was made by Lao Industry Department in 2005, the production of raw material, manufacturing, hi-tech and national defense are four prime industries of Laos. Therefore, Chinese enterprises should adjust to Lao industrial policies and make wise decisions.

### **3.2.4 Improve quality of local labors**

In general, the education level of Lao labors is not so high. Men begin to learn Buddhism at the age of 5, while they do not learn systematic knowledge that much. What is worse, with the affection of

the son preference concept, the education of women is ignored. In result, commonly, Lao labors are narrow-learned and weak, even some Lao labors are lazy and lack of discipline. Therefore, if Chinese enterprises hire local labors, it will be likely for Chinese enterprises to face problems of lacking talents with professional knowledge or rich working experience. If Chinese enterprises choose to hire Chinese labors, however, they will be restricted by Lao laws. Moreover, Chinese labors are not familiar with local situations. It is hard for Chinese labors to communicate with local officers or staffs. Accordingly, it is necessary to strengthen communications between two countries and set up categorized systems of talent cultivation. For one thing, Chinese enterprises need to do full pre job and skills training for Lao employees and help them learn related skills. For another, Chinese enterprises could strengthen language and culture learning for Chinese employees. Then, Chinese employees could get to know local culture and customs. It will make for avoiding cultural collisions, managing human resource better and decreasing risks.

### **3.2.5 Risk assessment of investing in Lao**

Lao investment environment is not steady especially in law. When Chinese enterprises directly invest in Lao, it is necessary for them to make overall assessments such as market advantages and resistance to risks. Then, they can choose suitable fields to invest according to assessment results. Chinese enterprises could get to know local economic environment, social environment and cultural environment through some organizations such as China-Lao Chamber of Commerce, Embassy of The People's Republic of China in The LAO PDR. Besides, Chinese enterprises could also investigate on-the-spot before investing. As the implementation of "The Belt and Road" Strategy, Chinese enterprises will be offered supports from policies.

## **4. Conclusion**

In conclusion, with the implementation of "The Belt and Road" Strategy, more and more Chinese enterprises are willing to invest in Lao. As more opportunities for Chinese enterprises to invest in Lao, more challenges will be existed. Ten years in the future, the medium and long term development of Laos economy requires to import a large number of infrastructure, capital, talent and technology. Therefore, it will have a bright future to directly invest in Lao after doing well in risk control.

## **Acknowledgements**

The content of this paper is a part of The study on the investment risk management of Chinese enterprises in Laos under the background of the Belt and Road, which is supported by the Co-construction project (No. SC15XK053) of Sichuan Federation of Social Sciences Circle and LeShan Normal University.

## **References**

- [1] Hao Li:Proposals for investment environment and investment in Laos in the next few years, Journal of Guangxi University(Philosophy and Social Science), Vol.3(2014) No.3, p.42-50. (In Chinese)
- [2] Guide for Investing in Lao PDR. Ministry of Planning and Investment of Lao PDR. <http://www.investlaos.gov.la> . 2011
- [3] Annual Report. Bank of the Lao PDR. . 1990-2015