The lawless jungles of Laos

The enthusiasm of foreign corporations for Vietnam has spilled over into neighbouring Laos. But what have the visiting droves of executives discovered about its eighteen month old liberalisation programme?

BY BEN DAVIES

VIENTIANE

The flights from Bangkok to Vientiane are crammed with businessmen. The only respectable hotel, the Lanexang, in the sleepy capital is reserved weeks ahead by Thai, French and Australian executives and entrepreneurs. But almost eighteen months after the government announced foreign investment laws, designed to bring back capitalist money to Laos, the anticipated flood of investment has failed to materialise.

At the last count, according to official figures, 70 projects had been approved by the Foreign Investment Board worth a total of US$50 million. Of these fewer than 40 were joint ventures, worth just US$41 million.

Unofficial estimates put the figure even lower with only a handful of joint ventures actually operating. "I'd be surprised if the total figure exceeded US$20 million," said a local diplomat. "If there is business going on, its mostly outside government control and as for the statistics, they don't mean a thing." Asiamoney found the commercial attaches at all major embassies equally downbeat.

The official machinery is not well oiled. In the Ministry of Trade and External Economic Relations, the first port of call for prospective joint venturers, a list of operations was unavailable. "We certainly do have a record of existing ventures," said director Sisounthone Sithimolada, "but I do not have it in my possession and my colleague who does have a list does not have a phone."

While there is little doubt that the authorities are keen to encourage joint ventures, foreign investors say their orchestrations are likely to cut little ice until regulations are put in place to safeguard investment.

Under the existing code, foreign companies which can provide technology and capital in key infrastructure and export related areas are invited to take up a minimum 30% of capital, subject to approval by the Foreign Investment Board. These companies will command tax breaks for up to six years and will be allowed to repatriate profits after paying taxes ranging from 20% in the government's priority areas to 35% in the trading and hotel sectors. The new law also allows up to 100% foreign ownership and guarantees against nationalisation.

The problem however is that there is no existing legal framework to implement the code. Laos has no constitution, no effective banking laws, no mineral resource laws or land ownership laws. Commercial banks can grant loans but they cannot accept land as collateral. Theoretically any dispute could be referred to an independent arbiter.

But in practice there is no civil court in the country to handle commercial or trade conflicts and it there was it would be controlled by the government giving foreign companies no higher authority to appeal to.

So far only the smaller companies have been prepared to run the gauntlet of legal uncertainties and bureaucratic hurdles. And almost all these companies have chosen to sign joint ventures with state enterprises rather than the nascent private sector. Of the 36 joint ventures approved by the end of September, 80% are estimated to be involved in areas such as forestry, wood processing, textiles and consumer goods which produce quick profits without long term commitment. And of these almost all came from neighbouring Thailand which has linguistic and cultural similarities said to be a prerequisite for doing business with the Laotians.

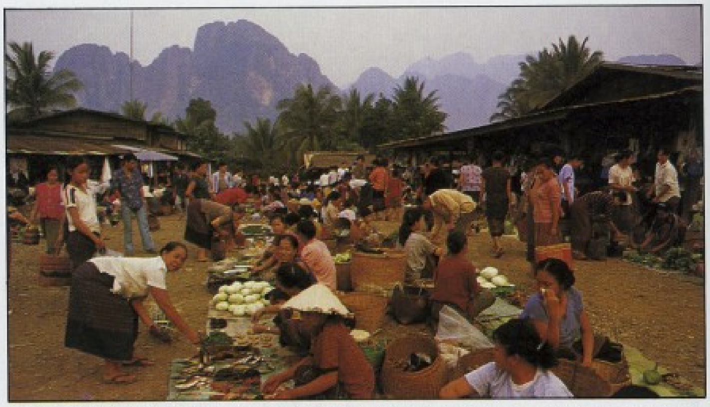
But even this does not guarantee success. In the latest turn of events Lao Pacific Airlines, a joint venture between a Thai/Brunei company and the Lao government, suspended flights after only two months because the Lao authorities imposed unrealistic fare structures and because of a sudden decision to close the country to tourists. Several other Thai businessmen are said to have returned home because of uncertainties about the future of their investments. "Unless new laws are introduced soon to protect Thai businessman investing in Laos, it will be too risky to invest," Thai ambassador Niran Phanupong said recently.

There are however some optimists. The Kow Yoh Hoh group from Bangkok recently announced that it was setting up the Agricultural Development Co in a joint venture with the Lao Ministry of Commerce. The company will export rice, corn and other agricultural products to Thailand.

Another trading concern, Department Store Number One, jointly owned by Osothsapha from Bangkok and the Lao government has thrived despite foreign exchange fluctuations and soaring inflation. Manager Choob Chuayboon says that the operation, which imports goods from Thailand, has recorded an increase in turnover and may soon move to more spacious premises.

In one of the biggest joint ventures to date, the Phromsuwan Silo and Drying Co led by northeastern Thai businesswoman Suwanee Puapairojana, recently set up in Laos' first foreign-controlled private commercial bank. The Joint Development Bank, which has a registered capital of US$3.9 million is 30% owned by the national bank of Laos. General manager Thawat Kanthaset expects the bank to play a key role in advising Thai entrepreneurs on investment opportunities in Laos.

Persuading the big international companies to set up joint ventures is likely to prove a considerably harder task for the authorities. "Laos is not high up on our list of priorities," said William Heinecke, chairman of the Minor group which deals in hotels, food manufacturing and marketing. "Whenever you are pioneering it is costly in terms of management time and money. We don't want the headaches and bureaucracy and we see plenty of opportunities elsewhere."



Not many pickings for foreigners in the marketplace, but the potential held by the hilly landscape in the background is much more interesting

Sheraton Corp, Guma international and Caterpillar, all noted pioneers in doing business in unfamiliar terrain take a similar view. "We may be interested in the longer term," said Ganesha Askari, senior consultant at Summa, but currently we are looking to become much more active in Vietnam."

Given the chronic shortage of capital and the need to build up even the most basic infrastructure to support economic development, the government is doing everything in its power to make them change their mind. Only last month Premier Kaysone Phomvihan made an official visit to Tokyo in what was widely seen as an attempt to increase the flow of foreign investment and aid. The visit, which was the first to a capitalist country since the communists seized power, is likely to be followed by a visit to Paris early next year.

Changing the cumbersome mechanisms, the consequence of 15 years of self-imposed isolation, is likely to take time. Despite a flurry of measures designed to revive struggling state-owned factories and companies, Laos remains largely centralised and wholly reliant on its neighbours for trade. Industry remains almost non-existent with industrial production contributing only 6% of GDP. With a population smaller than Bangkok and with a per capita income of just US$200, demand is minuscule.

"You must understand we are a poor country," said Manivong Inpong, economist at the Ministry of Trade and External Economic Relations. "We do not have all the systems in place, but we welcome joint ventures in any field so long as they are of benefit to this country ."

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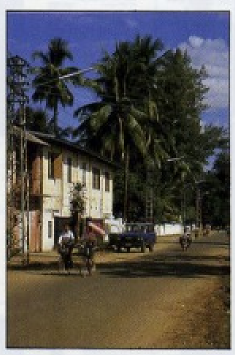
Over the next 12 months, the ministry is projecting a doubling of joint ventures as existing shortcomings in the investment code are ironed out. Much of the investment, it is hoped, will go into exploration for valuable resources such as oil, gold and gemstones which remain largely unexploited.

Alan Guy of Business Consultants Indochina, an investment firm with offices in Perth (Western Australia) and Vientiane, believes that mining and resource related activities could offer the biggest opportunity for the country's future.

"The pace of development in Laos over the last 18 months has been staggering,"he claims. "Major achievements have been made in every sphere. Over the next ten years you are going to see a lot of money pouring into the mining sector".



But until existing transportation and communications systems are improved, mining could prove a costly exercise. By contrast tourism is said to offer more lucrative prospects. A number of foreign companies have already tried to jump on the bandwagon. Earlier this year Thai owned Chateau Rouge international announced its intention to join Lao partners in a US$3 million project to build a hotel on the banks of the Mekong River. If it receive the go-ahead, construction could begin in 1990.

However, speculation surrounding a deal involving a US company could put further development in jeopardy. The Scott company had reportedly already signed a joint venture agreement with the Ministry of Commerce to build a US$6 million hotel in central Vientiane. But now the land is being used for a temporary housing project with no agreement in sight.

One diplomat summed up Laos' economic prospects this way: "The county is based around agriculture." he says, "there is basically enough for subsistence but very little for export. There is a little tin, possibly some oil, but it will need a lot of searching for; some gold but it needs a lot of digging for; they have wood, but so far it has not been used to build a manufacturing base; there is a small potential for tourism, but unlike Vietnam there are no beaches. I think the biggest immediate hope lies in hydro-electricity".

Laos could, literally, one day become Asia's powerhouse. It is estimated to have the potential to produce a staggering 20,000 megawatts of hydro-electric power. The only existing hydro-electric scheme, the 150 megawatt dam at Nam Ngum, provided Laos with 70% of its official revenue last year, about US$32 million. In the immediate future, there are signs that at least some of the stumbling blocks for joint ventures in Laos will be removed. A constitution, currently being drawn up by the Lao authorities with the help of the World Bank is expected to be promulgated by 1991. The French government is also advising the government on legal matters although local diplomats doubt that the proper safeguards will be in place for at least another four years.

Equally welcome, say investors, will be a new telecommunications system sponsored by the Australian government. The system, connected to a satellite, will replace the existing international service which comprises 9 lines to Bangkok, one radio phone to Hongkong (which has to booked six hours ahead) and a handful of unauthorised fax machines.

At some stage there may even be an official, published, list of joint ventures. But for the time being the consensus is that Laos will remain a place for the brave and wary with major league companies plumping for safer opportunities elsewhere.