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THE UNIVERSITY OF DANANG**

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**STRENGTHENING THE ATTRACTION  
OF FOREIGN DIRECT INVESTMENT  
TO DEVELOP THE INDUSTRY  
IN LAOS PDR**

**Major : Development Economics**

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**SUMMARY OF DOCTORAL ECONOMIC THESIS**

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## **I. INTRODUCTION**

### **1. Urgency of the topic**

In the socio-economic development orientation and objectives in general and industry in particular of Laos, FDI is considered the engine of growth for the sector and the lead to promote other economic sectors. Therefore, the Lao government has made great efforts in attracting FDI through improved investment environment towards increasing location advantages. However, the scope and quality of FDI projects in Laos industry has not met the expectations. The problem is to understand the trends and structure of FDI flows in the industry in recent years, the barriers as well as the factors of location advantages that affect investment decisions of foreign investors in the industry. Therefore, the studies related to trends and factors affecting capital flows as the premise to attract FDI in Laos is necessary and urgent. The choice of the theme "*Promoting attraction of FDI to develop Laos industry*" means both theory and practice, with a desire to contribute more in terms of decision theory in FDI location in the economic sector and the factors affecting FDI in the sector in a specific nation, and to establish a consulting framework for Laos' government and FDI policies.

### **2. Overview of the research situation**

Studies of factors affecting FDI attractiveness of a place have been widely conducted around the world, mainly in three directions: assessing the factors based on time-series data and table data. This research is prevalent by the data available, but many variations observed no data to measure. The second direction of research is evaluating influential factors based on business survey data, this research study can observe many variables, but the data are limited and expensive due to difficulties in accessing companies' surveys.

The third direction of research is evaluating influential factors based on a situational analysis of these factors, in the conditions that the Lao statistical data is not systematical and companies' surveys are rather expensive. The author selects the third research direction to assess the status of these factors and to propose proper solutions.

### **3. Objects and objectives of the research thesis**

- Objects of the research: the topic focuses on FDI inflows into the industry in Laos.

- The objective of this study is to assess trends in the FDI inflows to Laos' industry and analysis of factors affecting FDI flows to propose measures to enhance FDI in industrial development of Laos.

### **4. The scope of the research thesis**

- The study focuses on the location advantage factors, factors affecting FDI into the industry, in which the scope and space limits are the factors of location advantages in Laos.

### **5. Research Methodology**

The thesis is done by qualitative research methods to identify the factors that influence.

### **6. Structure of the thesis**

In addition to the introduction, conclusion, references, the dissertation is organized into three chapters. Chapter 1: Rationale and practice of attracting foreign direct investment for industrial development; Chapter 2: Analyzing the situation to attract foreign direct investment for industrial development of Laos; Chapter 3: Solutions to further attract foreign direct investment to the industrial development of Laos.

## **CHAPTER 1. RATIONALE AND PRACTICE FOR ATTRACTING FDI FOR INDUSTRIAL DEVELOPMENT**

### **1.1. Attracting foreign direct investment**

### **1.1.1. The concept of foreign direct investment**

There are many different definitions of FDI by IMF, WTO; however, of all these definitions, FDI has some similar features:

- FDI is a form of moving capital on international financial markets from one country to another to make a profit;
- Foreign investors must contribute a minimum capital ratio of total capital to take control of the invested companies; their income depends on operating results.
- FDI is transferring a package including capital, technology, management and organization skills from one country to another.

In conclusion, "FDI is a form of investment that foreign investors invest capital in whole or in part so as to gain control or participate in business control in the host country".

### **1.1.2. The types of foreign direct investment**

In the form of penetration, FDI includes new investment and acquisition or merger. According to the level of capital participation, there are many forms such as 100% foreign capital; venture; economic cooperation agreement; other forms of BOT, BT and BTO. For the purposes of investment, FDI invests both horizontally and vertically. According to the engine of investors, FDI seeks efficiency, markets, resources and strategic assets.

### **1.1.3. Concept of attracting foreign direct investment**

Attracting FDI is a set of policies and measures by host country authorities to increase the attractiveness of a location for investment, stimulating investors' investment decisions. With this approach, this thesis studies how to assess the policies of the host country to create competitive advantage factors compared with other countries. That can be done based on the orientation of national development in

conjunction with the experience of developed countries and proposals of measures to further attract FDI under targets set.

## **1.2. The basic theory of foreign direct investment**

### **1.2.1. Theoretical advantages private ownership**

This theory explains that FDI occurs where it gets proprietary advantages over local companies in the host country.

### **1.2.2. Theoretical advantages of internalization**

This theory suggests that the company does not only have the advantage of owning the property but also has the advantage of exploiting ownership in the process of internalizing.

### **1.2.3. Location advantage theory**

Some approaches to explain the location advantages are as follows:

- Neoclassical theory based on comparative advantage views of the participating countries, says that international production location is determined by comparative advantages in cost factors, which should contribute to local advantage. Attractions to foreign investors include: geographical location, infrastructure, market size, labor costs, resources, supporting policies.

- Localization theory claims that economic accumulation creates favorable external factors arising from Industrial Clusters (ICs), it positively affects the attractiveness of the location for FDI. Investors are also negatively affected so they should decide whether to participate in ICs or not depending on the characteristics and motivations of each company.

- The institutional view suggests that institutions play an important role in international business because they represent the cost of uncertainty factors, help reduce costs related to legal, political, administrative, tax, land lease and unofficial costs, and facilitate access to location advantages. In addition, institutions

contribute to the improvement of factors such as labor, infrastructure, SI. Consequently, a stable institutional framework that can facilitate business is a determinant of FDI attractiveness of the location.

- The cost information approach believes that locations in urban areas, cities, neighborhoods, industrial zones are often more attractive to foreign investors as the needed information is easy to access to business and can minimize information costs incurred. This method is essentially a combination of theoretical accumulation and institutional perspectives to explain the factors that make up the appeal of the investment location.

- Product cycle theory, which explains the decisions for exports and overseas production, claims that factors affecting location decisions of FDI depend on period of product life, thereby, explaining the different attractiveness between developed countries and other countries towards FDI.

- Strategic investment motives theory points out that every industry has different advantages of ownership and internalization, thus it differs in investment motives for location advantages. Depending on investment motives, factors such as geographical location, natural resources, labor, markets and infrastructure will attract FDI incentives.

#### **1.2.4. Dunning's eclectic theory**

Dunning has integrated a theory on international production model to explain the general ability, the willingness of companies to engage in FDI. FDI premise is both ownership advantage, location advantage and internalizing advantage. This is a common analytical tool on FDI determinants.

### **1.3. Attracting FDI for industrial development**

#### **1.3.1. Characteristics of the industry**

The industry has its own characteristics. For instance, industrial production uses machinery with highly concentrated nature, requiring more technical expertise and labor on a certain area to create production volume; and including more complex, meticulous industries and coordination among the various sectors to create the final product. Therefore, to attract FDI into this sector, host country governments need to create the necessary conditions suited to the characteristics of the industry, creating advantages for foreign investors.

### **1.3.2. Factors affecting FDI in the industry**

- Natural Environment: giving the host country a favorable geographical position and abundant natural resources.
- Political environment, culture and society.
- Institutional Environment: including the law; the provisions under the law and institutional perceptions that will influence intention, investment behavior.
- Macroeconomic Environment: including operating models, the state of the economy and infrastructure systems.
- Microeconomic Environment: including the size and potential of the host country market, workforce, SI.
- The International Environment: economic events, international politics, the investment shift across the world.

### **1.3.3. The impact of FDI on industrial development**

FDI has positive impacts, such as significantly adding investment for the industry, promoting growth in industrial production value; value-added products for export, import-substituting consumption products; innovating technological advances in industries, creating spillover effects in economy; expanding domestic consumer market through job creation and increased income for farmers and increased revenue. Besides, FDI also has negative effects such as political

lobbying influence on the development of some industries; threats towards small-scale enterprises; outdated technology transfer; mining resource depletion, environmental pollutants.

#### **1.4. Experience of attracting FDI in industrial development of countries in the world and lessons to Laos**

##### **1.4.1. The experience of other countries to attract FDI**

- Experience in attracting FDI in countries NICs is: political and social stability; exploitation of the advantage of abundant labor force, low labor costs and favorable natural conditions to attract FDI; successful use of many FDI attracting forms through the EPZs; relations between domestic economic sectors with FDI activity is done in a flexible and dynamic mechanism; FDI can promote its most positive effects when it is deployed in a favorable environment; exploiting foreign technical knowledge in a positive and reasonable way.

- Experience in attracting FDI in China is: improving the regulatory environment, increasing investment in infrastructure development; encouraging foreign investment by extending the list of sectors to encourage investment; developing high-quality labor force; mobilizing forces from overseas investment; encouraging investment in export and investment in disadvantaged areas; testing and successful operating of special economic zones; supporting policies for developing the securities market; tax policy should be advantageous for industries, sectors, priority areas; development of SI.

- Experience in attracting FDI in Thailand is shown in three laws: the Law on Foreign Trading, Investment Promotion Law, the Law on Industrial Zones.

- Experience in attracting FDI in Malaysia is: constantly improving and perfecting the legal system related to FDI; building a series of policies to encourage foreign investment; implementing investment promotion activities with a rich variety of forms.

- Experience in Vietnam FDI is: actively improving the regulatory environment in the direction of facilitating foreign investors; developing policies to encourage foreign investment, which are highly competitive compared to those of other countries in the region.

#### ***1.4.2. Applied lessons to Laos***

Research has drawn a number of lessons to apply for Laos, including: improving the investment climate; boosting administrative reform; gradually opening up of each sector, optimizing the structure of FDI; gradually setting up open areas, key areas; implementation of incentives to attract FDI; seriously developing human resources; actively undertaking investment promotion activities; infrastructure development; development of SI.

## **CHAPTER 2. ATTRACTING FOREIGN DIRECT INVESTMENT FOR INDUSTRIAL DEVELOPMENT OF LAOS**

### **2.1. Overview of the environmental effect on FDI in Laos**

#### ***2.1.1. Natural environment***

#### ***2.1.2. Political, cultural and social environment***

#### ***2.1.3. Institutional environment***

#### ***2.1.4. Macroeconomic Environment***

#### ***2.1.5. Microeconomic environment***

#### ***2.1.6. The international environment***

### **2.2. Situation of attracting FDI for industrial development in Laos**

#### ***2.2.1. General situation of FDI in Laos***

As of 31/12/2015, there are 2,387 licensed FDI projects with total registered capital of 16.77 billion USD. Overall, FDI inflows into Laos tend to increase but are not stable over the years. In the period of 2010 – 2015, due to the previous economic crisis, the registration number of projects dropped significantly, but the amount of

investment in Laos is still high, capitalized medium on each project are still on the rise.

### **2.2.2. Characteristics of FDI in Laos**

The projects are concentrated in Vientiane, Savannakhet, Kham Muon,... with the condensity of 89.6% of total projects and 80% total invested capital. The average registered capital is small, 7.03 million/project, foreign investors mainly come from China, Thailand, Vietnam. FDI structure by sector tends to change, the number of projects and registered capital has focused more on the sectors which the government encourages investment into, such as agriculture and hospitality. However the number of projects and registered capital into industry sector is still prominent.

### **2.2.3. FDI attraction for industrial development**

\* *The development of industry in Laos:* Laos' industry is generally small, outdated, fragmented, low-level, with low economic efficiency and exporting mainly primary products. Although there have been positive changes recently, the impact of industry sector on agriculture sector is not strong enough in the right direction. With the restructure of the industry sector, industry sector is still poorly developed, difficult to climb out of backwardness and low growing economy.

\* *Results in attracting FDI into the Laos' industry:*

- *About the size of FDI projects:* the average size of a project has not yet stabilized. Specifically, in the period 2000-2007, the average size of capital is low, less than 5 million / project, except in 2002, 2006, 2008 with an average size of larger projects, respectively, 25.22; 19.18; 17.15 million USD / project. In recent years, while the number of investment projects in industry decreased (122 projects in 2008 dropped to 8 projects in 2015), the amount of capital is maintained. That makes the average size of capital projects from

2012 to 2015 to be still high; in 2015 the average capital scale reached the highest of 67.33 million USD / project.

- *Regarding investment structure by sector:* In period 2000 - 2015, 2,387 licensed FDI projects with total registered capital of US \$ 16 771 million are classified into 3 groups of industries; agriculture and commerce. The industry has attracted 918 FDI projects with registered capital of US \$ 11346.84 million, an average of 12.3 million USD / project. The industry sector has the highest FDI capital and the highest average FDI registered capital per project. Besides, the mining industry has attracted more projects (182 projects with registered capital of US \$ 4230.36 million), registered capital size is larger than average (23.24 million USD/project); electrical industry has attracted 34 projects with registered capital of US \$ 5059.46 million, an average size of 148.81 million USD capital/project. These are two sectors with competitive advantages in resources that have attracted FDI.

- *Regarding investment structure in Territory:* in terms of number of projects, as of 2014, the majority of FDI in industry mainly focuses on key economic areas such as Vientiane country, Bo Ly Kham Xay, Kham Muon, Savannakhet and some other provinces, accounting for about 89.6% of total FDI in industrial projects registered and ongoing projects in Laos. Vientiane accounts for 75% of the projects implemented, Savannakhet constitutes 14.6% of projects. On considering each stage to attract FDI into Laos, we will notice that FDI allocation structure according to regions has gradually made clear changes, in accordance with the requirements of economic development and structure of the country in the direction of industrialization and modernization.

- *Regarding investment forms:* Joint venture forms account for only about 34.31% of total projects, but makes up for 67.83% of total

capital. Meanwhile, 100% FDI investment forms in this sector accounts for 65.69% of projects but only 32.17% of the total investment. However, in recent years foreign investors tend to lower their interest to form a joint venture and 100% foreign-invested projects increase accordingly.

- *Regarding investment partners:* From 2005 to date, more than 1,320 companies from 53 countries and territories invest in the country, 10 countries with the largest investment in Laos are mainly Asian countries, which ASEAN countries constitute 36.9% of the total registered capital, Northeast Asia with 7.7%, the United States with 6.6% and the European Union with approximately 5.3%. It can be noted that nearly 59% of FDI in Laos mainly come from Asian countries, yet the technology is not advanced and the scale is small.

\* *The approval, evaluation and licensing investment:* for projects to be licensed, foreign investors have to solve many of the same administrative procedures and contact with state agencies at central and local level, which is quite complex and caused by: the unclear hierarchy assignment between local and central authorities; local construction has not developed with detailed planning; heavy bureaucracy of the provincial government and cities which is very popular; in addition, there are six state agencies involved in the review and approval of investment projects

\* *The management of investment projects after being licensed:* after getting the license, foreign investors need to have more than one license and procedures to implement the projects. The main reason is: the procedures and licenses must go through many stages, knocking many doors; infrastructure (electricity, water, transport) in Laos are less advanced, the regulations on commercial activities, the provisions on the use of labor are troublesome, financial and banking activities are difficult.

## **2.3. The impact of FDI to industrial development in Laos**

### ***2.3.1. Additional investment for the industry in Laos***

The contribution of FDI on investment in Laos' industry grows year by year since 2000 to 2015, FDI implemented capital into the industry reached 11.35 billion US dollars; equivalent to 67.65% of the total implemented capital.

### ***2.3.2. Adding value to manufacturing industry in Laos***

Laos' FDI mainly focuses on the processing industry sector so the area has great contribution to the creation of industrial value of Laos, contributing to accelerating the pace of development of the industry and pushing industry out of crisis.

### ***2.3.3. Adding value to exports and consumer products***

In the industrial production enterprises, FDI accounts for main proportion. On the other hand, through joint ventures, Laos has produced the import - substitution products such as beer, wine, soft drinks, material products for construction.

### ***2.3.4. Innovation and technological advancement in industry sector of Laos***

The existing production capacity of the enterprise should be exploited and improved; technology and new techniques should be implemented, the initial conditions for long-term development of a number of high-tech industry should be created, which include electrical and electronic companies; continue to adapt a number of technologies, advanced equipment in the industry of food processing (soft drinks, beer, wine) and consumer goods (footwear, wood processing).

### ***2.3.5. Expanding domestic consumption market***

As of 2015, the agricultural sector with foreign investment contributed to 12.5% of GDP budget, in particular: in 2004 to 2006 it contributed to the state budget of about \$ 23 million; in 2008-2011 it

was more than \$ 50 million. According to 2013 statistics, the FDI sector attracts around 480 201 employees working directly and thousands of other workers working indirectly.

However, FDI partners come from Asian countries with backward technology, small-scale investment and virtually no choice of MNEs towards Laos, FDI projects do much focus on mining industry resources, industrial engineering, fabrication and assembly.

## **2.4. Analysis of the causes affecting FDI into the industry**

### ***2.4.1. The institutional environment***

- *In terms of institutional awareness for FDI:* as awareness of the role and position of FDI in the real economy has not yet been uniformed and not fully grasping the views and policies of the Party to attract FDI at all levels.

- *Regarding the legal system for FDI:* FDI legal system is in the process of finishing up thus resulting in the lack of uniformity, stability, clarity, transparency, consistency and unpredictability, the documents of specific instructions for the implementation of laws and regulations are quite slow, lack of specific regulations, lack of institutionalization thus cannot create conditions for implementation of FDI projects with ease.

- *In terms of institutional enforcement:* the enforcement of FDI has not been serious, appearing that bodies of local functions do not comply with the regulations of the State, which deliberately complicate the process implementation, making it difficult for foreign investors. State management of FDI is still ineffective; planning process also has some shortcomings affecting FDI attraction; law and policy enforcement is not strict, the phenomenon of negative harassment have not been blocked; many localities do not understand the operation of the business, especially economic and financial activities, several arising phenomena are resolved slowly,

not with timely treatment, lack of coordination between relevant agencies; the administrative regulations on capital investment, taxes and regulations on inspection, testing, regular auditing are still changeable, inconsistent, overlapping, causing doubts to investors on policies of Laos.

#### ***2.4.2. Infrastructure***

Laos' quality of infrastructure is still lacking, poor and backward, affecting the project implementation and strongly affecting the FDI attraction to encourage investment in particular and in the country in general. Infrastructure systems, particularly infrastructure needed for economic activities such foreign international airports, highways from the economic center to transport center, telecommunication systems, power supply, water, the IZ, EZ have failed to meet the requirements of foreign investors. Besides, the transport infrastructure in provincial and rural areas is very poor indeed. In addition, the infrastructure system of inter-provincial transportation and that among local investment have not been uniformed and lacked coherence.

#### ***2.4.3. Policies to encourage FDI***

- *Land policy*: land policies applicable to the field of FDI are still limited, such as prolonged land lease procedures, allocation, complex compensation and clearance, by which investors may waste their time and lose their opportunities. Besides, due to lack of detailed planning of land for attracting FDI, some local authorities themselves handle land issues of foreign investors. In addition, the views, perceptions of staff, military, police, business people are misled about the use of land. The implementation of laws relating to the management, preservation, development and use of land does facilitate some illicit advantages, unlicensed land encroachment, especially local people's encroachment of state's land.

- *Tax policy*: tax policy system is complex, making no specific tax rates that can lead to arbitrary application, the phenomenon of overlapping tax collection, duplication still exist. It is not really suitable for the multiplexing market economy and the integration into practices of international tax system. Complicated reimbursement procedures can cause not in time incentive effects of financial instruments, while the tax refund is slow, then the taxpayers need to force companies to adhere to the prescribed time in tax payment. The lack of equality between officials and investors generate functional phenomena as authoritarianism in management and a loophole caused the harassment.

- *Credit policy*: loan procedures are troublesome, complex mortgage regulations make foreign investors have little chance of access to capital in the country.

#### **2.4.4. Low quality of human resources**

- The level of awareness of the staff of state management in the field of FDI is still limited, leading to poor handling of specific issues related to FDI in all levels, sectors and localities. Moreover, managers of some state agencies are still weak and incapable, especially in the case of implementation of the mechanism of state policy issues. That can raise several problems that the human resources are not qualified enough to address.

- Not yet establishing regulations on labor, especially in the area of FDI.

- Hiring employees with professional qualifications and technical managers in Laos faces many difficulties.

- Policies on training and retraining of workers has improved, which help opening more vocational schools, improving training quality, but still have not met the requirements both in terms of

quantity and quality of labor, especially the requirements of skilled workforce in FDI.

#### ***2.4.5. Supporting industries***

Industry sector is still young, the main industrial products of Laos are hydropower, wood processing, textiles and leather, footwear, wooden products. SI is virtually undeveloped. The raw material for the production is mostly imported. Domestic enterprises have mainly small and medium-sized, low invested scale of production, the facility has very few large investments, in conjunction with backward technology, less competitive value, quality, design products compared to goods from countries in the region. Products are mainly for the domestic market and rural area, yet not capable of reaching out to regional and world markets.

#### ***2.4.6. Market scale and potential of host country***

Laos' population size is much smaller compared to regional countries, the average population density is low, the average income of the people is still much lower than the average of other regional countries. Lao economy is still agriculture-dependent with common characteristics: agriculture and forestry industry, processing industry, handicraft, forestry economy and mining is at a low level compared to other countries of the area.

#### ***2.4.7. The international environment***

International economic environment is becoming more volatile, negatively affecting FDI in Laos such as the financial crisis in Asian currencies in 1997, the world economic crisis (2008) activities which affected FDI in particular areas. In addition, competition in attracting FDI among countries in the region such as China, Singapore, Vietnam, Thailand is considered harsh, especially when these countries have implemented policies to attract FDI before Laos and rapidly improved the environment and policies to attract FDI. Delays

in policy implementation in Laos to timely adapt to the situation narrow the FDI inflows to Laos.

### **CHAPTER 3: SOLUTIONS TO FURTHER ATTRACT FOREIGN DIRECT INVESTMENT FOR THE INDUSTRIAL DEVELOPMENT OF LAOS**

#### **3.1. Viewpoints to attract FDI to Laos' industries**

The viewpoint is to promote international integration, to diversify FDI forms and diversify economic partnership relations; the viewpoint to attract FDI focuses on unification and effective administrative mechanism; to promote competitive investment environment; to allocate FDI flows to suit with the economy structure in the orientation of industrialization and modernization and attract FDI according to regional development orientation.

#### **3.2. Orientation and objectives to attract FDI to Laos' industries**

##### ***3.2.1. Orientation of attracting FDI***

General orientation of FDI in Laos 2020 is: maintaining social and political stability, building and amending administrative laws, strongly encouraging the attraction of FDI in all sectors which are not prohibited by law, including: manufacturing and production services; industrial processing of agricultural, forestry products, minerals and raw materials; manufacturing exports; information technology application, biotechnology, electronics, new materials, telecommunication projects; development projects in infrastructure, new urban areas. Continuing to attract and expand foreign direct investment projects in advantageous areas to promote the role of these key areas, industrial parks, special economic zones with business benefits that Laos has not yet exploited. Encouraging maximum incentives for FDI in areas with socio-economic difficulties. Strengthening the infrastructure construction projects in

these areas by using the state budget or ODA to create favorable conditions for FDI activities. Encouraging foreign investors from all countries to invest in the country, continuing to attract traditional investors from Asia, ASEAN and partners from Western Europe, Scandinavia, North America in order to enlist potential capital, technology, modern techniques and enhance the competitiveness of the economy. Restructuring administrative mechanism at all levels; proactively training high – quality human resources to meet administrative requirements in advantageous sectors such as hydropower electricity, mining, services and continuing to survey and determine economic potentials in various regions to attract investors.

### ***3.2.2. Orientation of industry development***

Orientation of industry development such as: choice of key appropriate industrial products; implementation of development strategies to take advantage of natural resources in the country; diversifying products' distribution forms; developing processing industries to serve domestic and export consumption, mining industry, petroleum processing, agricultural service industry, rural, supporting industries; focusing on improving product quality, minimizing production costs; strengthening the application of science and technology into production; development of semi – material industry to replace imports.

### ***3.2.3. Orientation of attracting FDI to industries***

Orientation of attracting FDI in industries such as: focusing on attracting FDI in key development industries such as electricity, production of construction materials and mining; attracting FDI into the industry to develop the scale, production capacity, product quality on the basis of market expansion, invest in technology, advanced equipment, improve skill levels; encouraging production

projects with competitiveness on the domestic market, strengthening international export and import substitution; attracting FDI into the industry to prioritize investment projects on labor-intensive industries, creating jobs and at the same time and developing agriculture and forestry to provide raw materials for the processing industry.

#### ***3.2.4 Objectives of attracting FDI to industries***

Developing key sectors of the country such as: industry, mining, mineral processing, cement manufacturing, steel, consumer goods production to serve the development of agriculture and rural modernization. Focusing on developing industries with highly scientific and technological content such as: electronic assembly, computer science, biotechnology, new materials technology. Modernizing socio – economic infrastructure in right forms, BOT and some other forms. Attracting capital and appropriate technologies for the development of sectors to create jobs such as in industrial food processing, textile and handicraft industry. In addition, attracting FDI aims at boosting production towards domestic markets and maintaining high growth rate of industry sector with high – quality products.

### **3.3. Measures to enhance FDI inflows to industries of Laos**

#### ***3.3.1. Completing the institutional environment***

(1) Improving the legal system in order to create a competitive advantage in the ASEAN region, in line with resources, social conditions in the country and the international law, namely: construction of a library for national laws and regulations to satisfy inquiry requests; conversion the ordinances, regulations under written laws into law form; issues of missing laws such as antitrust laws, anti-dumping laws, laws protecting intellectual property rights, laws on measure standards of healthy investment climate; training

and appointing professional legal experts to suitable positions for better supervision of the legality of the legislation.

(2) Actively improving administrative procedures, reducing unnecessary procedures and modifying review process towards OSS projects, monitoring the implementation of "one stop " policy to make it favorable conditions for investors; evaluating focused contents such as commitment to the capital contribution schedule, technical science, technology, markets, environmental protection, social issues; openly planning to remove the ask-for mechanism; modeling and unifying management of domestic investment FDI towards a unified investment law; establishing state apparatus to manage FDI, strengthening management after licensing; clear division of functions of state management, administrative management for FDI; strengthening the regime of periodical reports on the activities of FDI enterprises.

(3) Improving policies to encourage FDI such as policies to encourage domestic enterprises to link with capital contribution of FDI projects, to harmonize domestic capital with FDI, ODA and FDI.

(4) Improving the tax system which is simple, understandable, consistent with qualifications and ability of tax officers and taxpayers, facilitating business subjects and improve competitiveness in attracting FDI; VAT regulations need to be suitable for BCC, BOT, applying taxed input in each stage in order to reduce losses to investors in projects with high value imported equipment, exempting import duty for expanded projects as new business projects, unifying tax policies between FDI and domestic enterprises.

### ***3.3.2. Infrastructure development***

Rapidly forming a network of modern infrastructure connecting the key areas to national infrastructure systems to reduce time,

reduce cost and traffic freight, to improve infrastructure of IZ, EZ, the SI, creating competitive cost advantage of doing business. Therefore, national highways and railway construction need to be upgraded; aviation transportation needs to be enhanced, modern airports of Vientiane, Savannakhet, Champa Sac should be expanded, transportation system, international roads; transport infrastructure, electricity, urban water system needs upgrading, communications systems to be improved.

### ***3.3.3. Improving the attractiveness of the economic environment***

To enhance the attractiveness of the macroeconomic environment of Laos, the government should: expand the domestic and abroad market through the implementation of policies to encourage investment spending, lower interest rates, cut down on taxes and relative prices, support the purchasing power for the population, in order to increase domestic purchasing power. The government should also open up the views on international economic integration in order to receive funding in science, modern technology from abroad to offset the country's industries, especially in its weak areas. Besides, Laos needs to develop financial markets to raise funds among public, break the habit of holding gold, hard currency, cash; develop banking system as a wide network to supply better banking services. Also, Laos should develop appropriate exchange rate policies.

### ***3.3.4. Development of supporting industries***

Government should build the SI, issuing policies related to development of SI; there should be adequate incentives for SI firms such as preferential loans, tax, construction sites, supportive science and technology, training support, to meet the expectations of enterprises and foreign entrepreneurs.

### ***3.3.5. Human resource development***

Human Resource Development should be: improving training apparatus and programs, such as education reform in higher education according to international standards; development of international and private universities; encouraging additional knowledge training; opening training centers for managers of foreign investment; improving the quality of labor resources, through development centers, professional schools, vocational training; encouraging non-governmental agencies to establish free training programs.

### ***3.3.6. Promote sectoral, regional and industrial zone planning***

Planning needs to be implemented on both large and detailed scale; elaborate planning of key industrial zones, industrial parks and export processing zones, current urban areas in local areas and planning a number of important industries based on requirements of Laos' economy restructuring.

### ***3.3.7. Stepping up investment promotion policy***

Government should promote the image of the country, people of Laos, investment opportunities, encouraging policy on official websites; launch programs to promote national investment; directly discuss with potential MNEs to invest in a number of key projects; strengthen bilateral cooperation, multilateral investment promotion with international organizations and foreign companies; organize promotion network in some key countries; improve human resources for investment promotion.

### ***3.3.8. Local marketing solutions***

- Build the investment environment
- Human Resources
- The infrastructure
- Investment promotion activities
- Investment incentive policy

- Market access policies

### **CONCLUSION**

FDI plays an integral role in economic and social development process in general and industrial development of the host country in particular, such as providing capital of total investment capital, promoting GDP growth rate, production output; to create job opportunities and government budget. It is pinpointed that Laos needs to proactively attract greater FDI.

Based on different approaches of location advantages theory, this research has summarized 06 groups of factors that contribute to location advantages for investment in industry sector, namely: the natural environment; political, cultural and social environment; institutional environment; macroeconomic environment; macroeconomic environment; and international environment.

Upon empirical analysis, FDI creates development opportunities for labor – intensive sectors. Results point out several positive impacts on Laos’ industries such as: providing capital, accelerating industrial output value, export value and import – substitute consumer products, increasing government budget, solving unemployment and adapting technological advances to exploit and improve production capacity.

The study also identifies factors that adversely affect the situation of FDI in Laos’ industries, namely: (1) inadequate institutional environment, in spite of relatively open policies and regulations, implementation and administrative procedures are still insufficient; (2) limited socio-economic infrastructure with low – quality and not sufficient transportation, electricity and water system; (3) low-level awareness of human resources, especially administrative staff in FDI field, the availability of high – skilled and technical workforce is still scarce; (4) small, low – level, low – quality industries with outdated

production infrastructure, low competitiveness and insufficient factors of industrial agglomeration; (5) small-sized domestic market with low population density, low – level average income per capita, compared to that of other regional countries.

Based on the fundamentals of FDI, previous experience of other countries and industrial development orientation of Laos, this research proposes several development orientation, views, goals and solutions to enhance the attraction of FDI to Laos' industries. They concentrated on 07 main views, which are: promoting international integration; diversifying FDI forms and economic partnership relations; balancing the links between different interests; respecting the unification and efficiency of administrative mechanism; building competitive investment environment; directing FDI flows to suit with expected industrial shift in line with the orientation of industrialization and modernization; and attracting FDI consistent with regional development orientation.

The solutions to promote FDI towards industries can be listed, namely: (1) improving the attractiveness of the economic environment through market expansion, investment resource mobilization;(2) enhancing institutional environment, tax policies, administrative procedures and improving efficiency of authority ; (3) boosting investment promotion; (4) developing supporting industries via expansion of industrial clusters, industrial zones and export processing zones; (5) enhancing high – quality human resources to improve the administration nature and high – skilled workforce; (6) promoting the development of infrastructure; and (7) replanning industries, regions and industrial zones and (8) Local marketing solutions.

**LIST OF AUTHOR'S PUBLICATIONS  
RELATED TO THE THESIS**

2. Lamngeun Sayasene and Nguyen Ngoc Anh (2015), *Identifying the factors affecting the attraction of foreign direct investment in the key central economic region - Comparative advantage theory based approach*, Scientific Conference on Orientations and solutions cooperate among local governments in attracting foreign direct investment in the key central economic region at University of Economics, The University of Da Nang.
3. Lamngeun Sayasene and Nguyen Ngoc Anh, “Attracting foreign direct investment into industrial branch of Laos - Localization theory based approach”, *Journal of Economic Studies*, University of Economics, The University of Da Nang, number 3(04) 2015, p 87-95.
4. Lamngeun Sayasene and Nguyen Ngoc Anh, “FDI attraction for industry development – Experiences from developed countries and applications for Laos”, *Journal of Science and Technology*, The University of Da Nang, number 12(97) 2015, p 86-90.

