

Laos

RISK & COMPLIANCE REPORT

DATE: March 2017

Executive Summary - Laos

Sanctions:	None
FAFT list of AML Deficient Countries	Yes
Higher Risk Areas:	<p>US Dept of State Money Laundering Assessment</p> <p>Non - Compliance with FATF 40 + 9 Recommendations</p> <p>Weakness in Government Legislation to combat Money Laundering</p> <p>Not on EU White list equivalent jurisdictions</p> <p>Corruption Index (Transparency International & W.G.I.)</p> <p>World Governance Indicators (Average Score)</p> <p>Failed States Index (Political Issues)(Average Score)</p> <p>International Narcotics Control Majors List</p>
<p>Major Investment Areas:</p> <p>Agriculture - products:</p> <p>sweet potatoes, vegetables, corn, coffee, sugarcane, tobacco, cotton, tea, peanuts, rice; cassava (manioc), water buffalo, pigs, cattle, poultry</p> <p>Industries:</p> <p>mining (copper, tin, gold, and gypsum); timber, electric power, agricultural processing, rubber, construction, garments, cement, tourism</p> <p>Exports - commodities:</p> <p>wood products, coffee, electricity, tin, copper, gold, cassava</p> <p>Exports - partners:</p> <p>Thailand 32.8%, China 20.7%, Vietnam 14% (2012)</p> <p>Imports - commodities:</p> <p>machinery and equipment, vehicles, fuel, consumer goods</p> <p>Imports - partners:</p> <p>Thailand 63.2%, China 16.5%, Vietnam 5.6% (2012)</p>	

Investment Restrictions:

The government of Lao PDR officially welcomes both domestic and foreign investment as it seeks to graduate from Least Developed Country status by the year 2020. The pace of foreign investment has increased over the last several years. Mining and hydropower compose eighty percent of Foreign Direct Investment (FDI).

Goods prohibited for import and export range from explosives and weapons, to literature that presents a negative view of the Lao government, to certain forestry products and wildlife.

Agriculture production and most manufacturing production are private. State-owned enterprises (SOEs) currently account for only one percent of total employment. Over 90% of manufacturers have fewer than 10 employees. Equity in medium and large-sized SOEs can be obtained through a joint venture with the Lao government.

Contents

Section 1 - Background	4
Section 2 - Anti – Money Laundering / Terrorist Financing	5
FATF status	5
Compliance with FATF Recommendations	5
Key Findings from latest Mutual Evaluation Report (2011):	5
US Department of State Money Laundering assessment (INCSR)	7
US State Dept Narcotics Report	11
US State Dept Trafficking in Persons Report 2014 (introduction):	12
US State Dept Terrorism Report 2009	13
Current Weaknesses in Government Legislation (2014 INCRS Comparative Tables):.....	8
EU White list of Equivalent Jurisdictions.....	9
International Sanctions	14
Bribery & Corruption.....	15
Corruption and Government Transparency - Report by US State Department	15
Section 3 - Economy	16
Banking.....	17
Stock Exchange	17
Section 4 - Investment Climate.....	18
Section 5 - Government.....	30
Section 6 - Tax.....	31
Methodology and Sources	32

Section 1 - Background

Modern-day Laos has its roots in the ancient Lao kingdom of Lan Xang, established in the 14th century under King FA NGUM. For 300 years Lan Xang had influence reaching into present-day Cambodia and Thailand, as well as over all of what is now Laos. After centuries of gradual decline, Laos came under the domination of Siam (Thailand) from the late 18th century until the late 19th century when it became part of French Indochina. The Franco-Siamese Treaty of 1907 defined the current Lao border with Thailand. In 1975, the communist Pathet Lao took control of the government ending a six-century-old monarchy and instituting a strict socialist regime closely aligned to Vietnam. A gradual, limited return to private enterprise and the liberalization of foreign investment laws began in 1988. Laos became a member of ASEAN in 1997 and the WTO in 2013.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Laos is on the FATF List of Countries that have been identified as having strategic AML deficiencies

FATF Statement re AML Strategic Deficiencies: 24 February 2017

Since June 2013, when Lao PDR made a high-level political commitment to work with the FATF and APG to address its strategic AML/CFT deficiencies, Lao PDR has substantially addressed its action plan at a technical level, including by: (1) establishing mechanisms for domestic AML cooperation; (2) adequately criminalising money laundering and terrorism financing; (3) establishing a legal framework for the confiscation, freezing, and seizing of the proceeds of crime; (4) establishing a targeted financial sanctions framework; (5) improving the legal status and resources of the FIU; (6) strengthening its STR legal framework and financial sector supervision; (7) and developing a cross-border declaration system. The FATF will conduct an on-site visit to confirm that the process of implementing the required reforms and actions is underway to address deficiencies previously identified by the FATF.

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Laos was undertaken by the Financial Action Task Force (FATF) in 2011. According to that Evaluation, Laos was deemed Compliant for 1 and Largely Compliant for 2 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2011):

1. There is a lack of awareness of AML/CFT international standards and the required implementation measures, which is compounded by a lack of dedicated resources and insufficient political commitment to undertake the required reforms.
2. The Lao PDR has not undertaken a formal AML/CFT risk assessment, although drug related illicit proceeds is estimated to be about 10 percent of GDP or USD750 million. While opium cultivation fell by 94 percent and opium addiction by 80 percent in the last decade, the Lao PDR has emerged as a key transit and storage country for ATS, precursors and heroin from neighbouring countries.

3. There has been a significant expansion of the banking sector. In the past two years, six new commercial banks commenced operations. There are now 23 banks with total assets of USD 576 million that accounts for 99.2% of the financial sector's total assets.

4. There are major deficiencies in the criminalisation of ML in Article 64 of the Penal law, including the physical and material elements of the ML offence required in Article 3 of the Vienna Convention and Article 6 of the Palermo Convention; and gaps in predicate offences, notably organised crime, terrorism and financing of terrorism (FT). There is the absence of a freezing mechanism and a deficient mutual legal assistance (MLA) framework on criminal matters.

5. There is no terrorism or FT offence and the measures adopted to implement UN Security Council Resolutions (UNSCRs) are insufficient and contain major deficiencies. The absence of a FT offence has an impact on other related issues such as the investigative powers of law enforcement agencies; freezing, seizure and confiscation of terrorist funds; FT as a ML predicate offence; and the possibility of affording MLA.

6. There has been no confirmed case of ML investigation, prosecution or conviction.

7. Only 28 suspicious transaction reports (STRs) have been submitted to the Anti-Money Laundering Intelligence Unit (AMLIU) since 2007. Further, AMLIU has never disseminated a STR, and any report to be disseminated must first be approved by the Bank of Lao (BOL) senior management.

8. The key ML preventative instrument is AML Decree 55. The Decree contains a range of basic preventative measures but despite the wording of some provisions consistent with the FATF standards, the Decree does not meet the FATF definition of law, regulation or other enforceable means due to a lack of sanctions. The exception is the inclusion of sanctions in the Decree for STR reporting violations.

9. Implementation of AML Decree 55 has occurred only in the banking sector. The overall implementation of Decree 55 within the commercial banking sector is difficult to assess due to the absence of AML/CFT supervision by the AML regulator, AMLIU. There has been no implementation of AML Decree 55 provisions by competent authorities for the DNFBP sectors in the Lao PDR.

10. Key recommendations made to the Lao PDR include:

- criminalise ML and FT consistent with international requirements;
- provide a clear legal framework and mechanisms for freezing and confiscation, both for ML and FT;
- improve the operational effectiveness of AMLIU through enhanced STR reporting, analysis and autonomy with STR dissemination;
- introduce binding and enforceable requirements for preventative measures both for the financial and DNFBP sectors, beyond STR reporting;
- enhance regulation and supervision for AML/CFT purposes;
- ensure that the competent authorities are properly designated and provided with adequate funding, qualified staff and technical resources, and effective AML/CFT training;
- enhance licencing requirements for all financial institutions, particularly banks;

- introduce effective, proportionate and dissuasive civil or administrative sanctions, applicable to financial institutions and DNFBP; and
- provide an appropriate legal framework and mechanisms for MLA and extradition.

US Department of State Money Laundering assessment (INCSR)

Laos is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

OVERVIEW

The fast-growing economy, weak governance, and Laos' geographic position at the heart of mainland Southeast Asia combine to make it vulnerable to money laundering. Cash-based transactions, even for large purchases such as vehicles and real estate, remain commonplace, and government efforts to move toward electronic records and transactions continue to proceed slowly. The financial sector in Laos has expanded rapidly over the last decade, and while the government has enacted several new regulations aimed at preventing money laundering, officials' knowledge remains relatively limited and implementation is untested, leaving Laos an attractive target for money launderers.

Corruption is widespread, though the government of Prime Minister Thongloun has focused greater government attention on the issue. Drug trafficking, wildlife trafficking, and human trafficking are major concerns. Traffickers are likely taking advantage of poor recordkeeping, weak enforcement of new regulations, and prevalence of cash transactions to launder the proceeds of their crimes. Smuggling is made easier by porous borders. Bulk cash smuggling to and from Thailand, China, and Vietnam is likely occurring. Laos has a large informal economy and uses informal value transfer systems.

Laos still needs to show improvement in several areas, including demonstrating fit and proper controls of banks and amending the penal code to include legal persons.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Major sources of illicit funds in the jurisdiction are thought to include narcotics trafficking, wildlife trafficking, and proceeds of corruption. Money can easily be laundered in Laos' cash-based economy, remote casinos remain a vulnerability, and large real estate developments are thought to be another vehicle for large-scale laundering. Authorities are poorly equipped to investigate. Central government control and ability to investigate outside of the capital can be inconsistent.

KEY AML LAWS AND REGULATIONS

Law No. 49/NA on Anti-Money Laundering and Combatting the Financing of Terrorism (AML Law), took effect on February 24, 2015. Under the law, covered entities are required to verify the identity of customers as well as the intention and objectives behind the transactions.

Laos has comprehensive KYC and STR regulations. Reporting units must report large

transactions that exceed certain monetary thresholds and those under suspicion of being connected to money laundering.

The new "Regulation on the Establishment of Commercial Banks and Commercial Banks' Branches" was issued in January 2016. This regulation includes controls over bank license holders and checks on sources of capital.

Laos is a member of the APG, a FATF-style regional body.

There is no current records exchange mechanism in place with the United States; Laos' AML systems are nascent, though the government is exploring international cooperation mechanisms.

AML DEFICIENCIES

Laos' major deficiencies include legal persons not being covered under existing legislation, though this should change with the new penal code, expected in mid-2017; lack of oversight for MVTS providers; and weak implementation capacity. Additionally, there is no protection against liability for individuals reporting suspicious activity, although safe harbor regulations have been discussed over the last year.

Laos' system to identify, freeze, and seize assets is new and untested. Laos is not an Egmont member but is exploring membership.

Laos continued its AML reform efforts during 2016.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Enforcement capacity is weak, and political will can be inconsistent. However, Laos has increasingly engaged the international community on AML issues and has requested assistance where it is needed. Laos is working to implement the entirety of its action plan.

There were no AML-related prosecutions reported during the period.

The Bank of Lao People's Democratic Republic and its Anti-Money Laundering Investigations Office are actively seeking assistance from donors and have worked closely with international experts during 2016 to build capacity and address deficiencies.

Laos is not subject to any U.S. or international sanctions or penalties.

Current Weaknesses in Government Legislation (2014 INCRS Comparative Tables):

According to the US State Department, Laos does not conform with regard to the following government legislation: -

Record Large Transactions - By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

Maintain Records over time - By law or regulation, banks are required to keep records, especially of large or unusual transactions, for a specified period of time, e.g., five years.

System for Identifying/Forfeiting Assets - The jurisdiction has enacted laws authorizing the tracing, freezing, seizure, and forfeiture of assets identified as relating to or generated by money laundering activities.

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

Ability to freeze assets without delay - The government has an independent national system and mechanism for freezing terrorist assets in a timely manner (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and/or other property belonging to terrorists or terrorist organizations)

Disclosure Protection - "Safe Harbour" - By law, the jurisdiction provides a "safe harbour" defense to banks or other financial institutions and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.

Criminalised Financing of Terrorism - The jurisdiction has criminalized the provision of material support to terrorists and/or terrorist organizations.

Know Your Customer Provisions - By law or regulation, the government requires banks and/or other covered entities to adopt and implement Know Your Customer/ Customer Due Diligence programs for their customers or clientele.

Reports Suspected Terrorist Financing - By law or regulation, banks and/or other covered entities are required to record and report transactions suspected to relate to the financing of terrorists, terrorist groups or terrorist activities to designated authorities.

Criminalised Tipping Off - By law, disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party, is a criminal offense.

EU White list of Equivalent Jurisdictions

Laos is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Laos is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2017

Introduction

The Lao People's Democratic Republic is a major transport hub for amphetamine-type stimulants (ATS), opium, and heroin, and is a major producer of opium. Geographically, Laos sits at the heart of the regional drug trade in mainland Southeast Asia and shares remote and poorly-controlled borders with Burma, Thailand, Cambodia, Vietnam, and China. Economic development and the improvement of road, bridge, and communications networks in Laos have created opportunities for the illicit drug trade to grow.

The Lao government recognizes the threat posed by illegal narcotics production and trafficking and has well-articulated policies to address it. However, the Lao government relies heavily on donor aid for implementation. Lao law enforcement often lacks the resources and knowledge to independently combat internal drug crime. Additionally, Laos must police 3,000 miles of mountain and riverine borders, often very remote, exploitable by drug traffickers.

According to U.S. government estimates, opium poppy cultivation decreased 96 percent between 1998 and 2007 due to aggressive government action and international cooperation, particularly U.S. alternative development assistance. Cultivation, however, has rebounded recently, with an estimated 5,700 hectares (ha) reported in 2015, according to the United Nations Office on Drugs and Crime (UNODC). Although ATS production within Laos appears to be minor, drug seizures indicate that the volume of ATS smuggled through Laos is substantial.

Conclusion

Counternarcotics cooperation between Laos and the United States continues to evolve, but the significant gains in poppy eradication and crop substitution of the 1990s and 2000s are increasingly at risk due to factors that include high opium demand. The amount of ATS trafficking and usage in Laos is also troubling. ATS addiction is exceedingly hard to treat and the effort is straining Laos' limited treatment resources. ATS smuggling also weakens controls along Laos' borders with China, Burma, Thailand, Cambodia, and Vietnam.

Laos' justice, law enforcement, and security systems lack the resources necessary to counter the rise in narcotics-related crime that has accompanied the country's growing economic development and growing sophistication of criminal groups. Institution-building within the Lao government and basic law enforcement training are needed, emphasizing interdiction, investigation, prosecution, and corrections. Regional law enforcement cooperation among Vietnam, China, Burma, Thailand, and Cambodia is also vital to Laos' fight against drug trafficking.

The United States will continue to work on improving cooperation with Laos as it seeks to address these problems.

US State Dept Trafficking in Persons Report 2014 (introduction):

Laos is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Laos is a source, and to a lesser extent, a transit and destination country for women, children, and men who are subjected to sex trafficking and forced labor. Lao trafficking victims often are migrants seeking work outside the country—sometimes with the assistance of brokers who charge high fees—who encounter conditions of labor or sexual exploitation after arriving in destination countries, most often Thailand. Many victims, particularly women and girls, are exploited in Thailand's commercial sex trade and in forced labor in domestic service, factories, or agricultural industries. A small number of these girls are as young as 11 or 12-years-old. Lao men and boys are victims of forced labor in Thailand in the fishing, construction, and agricultural industries such as duck farms. NGOs report that individuals offering transportation services near the Thai border facilitate the placement of economic migrants into forced labor or sex trafficking in Thailand. Many trafficking victims may be among the more than 17,000 migrants deported or "pushed back" from Thailand without official notification, often sent back to Laos in boats across the Mekong River. Mini-van drivers sometimes intercept these migrants when they arrive back in Laos and facilitate their re-trafficking. A small number of women and girls from Laos are sold as brides in China and South Korea and subsequently subjected to sex trafficking. Lao women have been subjected to sex trafficking in Malaysia and possibly Indonesia. A small number of Lao have been subjected to trafficking in Vietnam.

Laos is reportedly a transit country for some Vietnamese and Chinese women and girls who are subjected to sex trafficking and forced labor in neighboring countries, particularly Thailand. Local organizations reported concerns that some of the Vietnamese men and women working in or near large-scale—and often illegal—logging and construction areas along the Lao-Vietnam border may be victims of trafficking. There is little data on the scope of trafficking within Laos, but some Vietnamese and Chinese women and girls, as well as girls and boys from Laos, are subjected to sex trafficking in the country, usually in close proximity to borders, casinos, or Special Economic Zones, or in the country's larger cities, reportedly to meet the demand of Asian tourists and migrant workers. Some Lao adults and children are subjected to forced labor within Laos in the agricultural sector.

The Government of Laos does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government continued to prosecute trafficking offenses and convict traffickers, and to provide short-term assistance to some victims with a heavy reliance on support from foreign donors. Despite these measures, the Government of Laos did not demonstrate evidence of overall increasing efforts to combat trafficking since the previous reporting period; therefore, Laos is placed on Tier 2 Watch List. It did not provide case details to establish that all reported cases involved trafficking. The government relied almost entirely on local and international organizations to implement anti-trafficking programs in Laos. It did not report identifying any victims of trafficking; its official statistics include only those victims identified by authorities or

organizations in Thailand. The government's continued failure to expeditiously approve Memoranda of Understanding (MOUs) with anti-trafficking organizations hampered the overall effectiveness of anti-trafficking activities in the country.

US State Dept Terrorism Report 2009

Since 2002, the Government of Laos has consistently denounced international terrorism and expressed a willingness to cooperate with the international community on counterterrorism. While domestic opposition elements have in the past employed terrorist tactics, such as ambushing civilian buses in 2003 and bombing civilian targets in 2004, Lao officials at many levels saw international terrorism as an issue of only marginal relevance to Laos. They believed that Laos, as a small and neutral country, would not be targeted or exploited by international terrorists.

Laos does not have a separate counterterrorism law, but the Lao judicial system allows for the prosecution of acts of terrorism as crimes under the Lao criminal code, and Lao officials have amended the criminal code to strengthen counterterrorism sanctions. Laos' border security was weak; border officials could not effectively control access to the country at any of the country's border checkpoints. Crossing the border along the Mekong River into Burma, Thailand, and Cambodia could be accomplished easily and without detection. Border delineation remained poor in more remote sections of the country, especially along its land borders with Vietnam and China. It was likely that unmonitored border crossings by locals occurred on a daily basis. Since September 11, 2001, Lao authorities have strengthened airport security, and airport security forces have participated in U.S.- supported security seminars to raise their standards, but security procedures at land immigration points remained lax compared with those of most other countries in the region. In addition, official Lao identity documents, including passports and ID cards, were easy to obtain.

Lao authorities have issued orders limiting the amount of cash that could be withdrawn from local banks or carried into or out of the country and strengthened reporting requirements of state and privately owned commercial banks. Banking regulation remained extremely weak, however, and the banking system was vulnerable to money laundering and other illegal transactions.

International Sanctions

None Applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	30
World Governance Indicator – Control of Corruption	20

Corruption and Government Transparency - Report by US State Department

Corruption is a serious problem in Laos and appears to be growing alongside the economy. The GOL has developed several anti-corruption laws but enforcement remains weak, with no high-profile cases ever having been brought to trial. According to the State Inspection Authority, the Lao Government has prosecuted some individuals for corruption but it cannot publicize the information. In September 2009, Laos ratified the United Nations Convention Against Corruption.

The State Inspection Authority, located in the Prime Minister's Office, is charged with analyzing corruption at the national level and serves as a central office for gathering details and evidence of suspected corruption. Additionally, the State Inspection Department in each Ministry is responsible for combat internal ministry corruption. Laos is not a signatory to the OECD Convention on Combating Bribery. Both giving and accepting bribes are criminal acts punishable by fine and/or imprisonment. Foreign businesses frequently cite corruption as an obstacle to operating in Laos. Officials commonly accept bribes for the purpose of approving or expediting applications.

In 2014 an asset declaration regime entered into force for government officials requiring them to declare income, assets and debts for themselves and their family members. Assets over \$2500 are required to be disclosed, including land, structures, vehicles and equipment, as well as cash, gold, and financial instruments. However, the effectiveness of this program has yet to be determined.

Section 3 - Economy

The government of Laos, one of the few remaining one-party communist states, began decentralizing control and encouraging private enterprise in 1986. The results, starting from an extremely low base, were striking - growth averaged 6% per year from 1988-2008 except during the short-lived drop caused by the Asian financial crisis that began in 1997. Laos' growth exceeded 7% per year during 2008-13. Despite this high growth rate, Laos remains a country with an underdeveloped infrastructure, particularly in rural areas. It has a basic, but improving, road system, and limited external and internal land-line telecommunications. Electricity is available in 83 % of the country. Laos' economy is heavily dependent on capital-intensive natural resource exports. The labor force, however, still relies on agriculture, dominated by rice cultivation in lowland areas, which accounts for about 25% of GDP and 73% of total employment. Economic growth has reduced official poverty rates from 46% in 1992 to 26% in 2010. The economy also has benefited from high-profile foreign direct investment in hydropower, copper and gold mining, logging, and construction though some projects in these industries have drawn criticism for their environmental impacts. Laos gained Normal Trade Relations status with the US in 2004 and applied for Generalized System of Preferences trade benefits in 2013 after being admitted to the World Trade Organization earlier in the year. Laos is in the process of implementing a value-added tax system. Simplified investment procedures and expanded bank credits for small farmers and small entrepreneurs will improve Laos' economic prospects. The government appears committed to raising the country's profile among investors, but suffered through a fiscal crisis in 2013 brought about by public sector wage increases, fiscal mismanagement, and revenue shortfalls. The World Bank has declared that Laos' goal of graduating from the UN Development Program's list of least-developed countries by 2020 is achievable, and the country is preparing to enter the ASEAN Economic Community in 2015.

Agriculture - products:

sweet potatoes, vegetables, corn, coffee, sugarcane, tobacco, cotton, tea, peanuts, rice; cassava (manioc), water buffalo, pigs, cattle, poultry

Industries:

mining (copper, tin, gold, and gypsum); timber, electric power, agricultural processing, rubber, construction, garments, cement, tourism

Exports - commodities:

wood products, coffee, electricity, tin, copper, gold, cassava

Exports - partners:

Thailand 32.8%, China 20.7%, Vietnam 14% (2012)

Imports - commodities:

machinery and equipment, vehicles, fuel, consumer goods

Imports - partners:

Thailand 63.2%, China 16.5%, Vietnam 5.6% (2012)

Banking

The Lao banking sector is in flux, with new private and foreign banks opening to provide modern banking options to Lao and foreign businesses. Laos does not have a national deposit insurance system and supervisory standards are low. Technical expertise and the ranges of services offered at domestic banks are limited. While continuing to receive outside assistance, central bank supervision of the sector remains somewhat weak. Although non-performing loans have decreased significantly since 2003, through work-outs, write-offs, and transfers off balance sheets, the three state-owned commercial banks (SCBs) remain, according to IMF estimates, insolvent.

Stock Exchange

In January 2011, The Lao Securities Exchange opened for business. Initial trading was in just two companies. Despite the attractions for foreign investors in this resource-rich country, outside participation in the bourse will be limited at first. The funding for the set-up of the exchange has come from South Korea, which has invested \$9.8m, or 49% of the capital, for the venture. The Bank of Laos, the country's central bank, has invested the rest.

Executive Summary

After a decade-long experiment with a pure Marxist economy following the founding of the Lao People's Democratic Republic, the Lao PDR launched the "New Economic Mechanism" in 1986. Since that time, the country has gradually implemented the reforms and built the institutions necessary to a market economy. Over the last thirty years, the trend has been slow but steady progress, culminating in accession to the World Trade Organization in February, 2013. Since 2009, annual GDP growth has averaged approximately eight percent.

In order to meet the requirements for entry to the WTO, Laos engaged in major reforms of its economic and trade laws and regulations. The Lao government is now working to implement the commitments embodied in those laws, and to meet the 2015 goal for creation of the ASEAN Economic Community (AEC), which will further liberalize the trading environment and economy. Additionally, WTO and AEC requirements reinforce fuller implementation of the conditions of the 2005 U.S.-Laos Bilateral Trade Agreement.

Economic progress and trade expansion in Laos remain hampered by a low level of human resource development, weak education and health care systems, and a poor, although improving, transportation infrastructure. Institutions, especially in the justice sector, are a work in progress, and regulatory capacity is low. Additionally, increasing corruption has recently become a major concern, and the country has suffered through fiscal and monetary crises in the past year. The Lao economy is highly dependent on exploitation of natural resources, particularly in copper mining and hydropower. Although the services and industrial sectors have grown in recent years, the economy is in need of further diversification, and the majority of the Lao population is still employed in agriculture.

According to the 7th National Socio-Economic Development Plan (NSED) 2011-2015, Laos seeks to continue an annual economic growth rate in the neighborhood of 8%. To accomplish this, the government of Laos estimates that it needs approximately US\$15 billion of total investment in the next five years, US\$7 to US\$8 billion of which it plans to source from foreign and domestic private investment. The plan directs the government to formulate "policies that would attract investments in addition to attracting Overseas Development Assistance; begin to implement public investment and investment promotion laws; and increase cooperation with friendly countries and international organizations."

1. Openness To, and Restrictions Upon, Foreign Investment

The government of Lao PDR (GOL) officially welcomes both domestic and foreign investment as it seeks to graduate from Least Developed Country status by the year 2020. The pace of foreign investment has increased over the last several years. Mining and hydropower compose eighty percent of Foreign Direct Investment (FDI). China, Vietnam, Thailand Korea, and Japan are the largest sources of foreign investment.

The 2010 Law on Investment Promotion introduced uniform business registration requirements and tax incentives that apply equally to foreign and domestic investors. Foreigners may invest in any sector or business except those that the government deems to be detrimental to national security, health or national traditions, or to have a negative impact on the natural environment. There are no statutory limits on foreign ownership or control of commercial

enterprises, but in practice, many companies seek a local partner. Companies involved in large FDI projects, especially in mining and hydropower, often either find it advantageous or are required to give the government partial ownership, frequently with money borrowed from the investor or multilateral institutions.

Foreign investors seeking to establish operations in Laos are typically required go through several steps prior to commencing operations. In addition to an investment license, foreign investors are required to obtain other permits, including; an annual business registration from the Ministry of Industry and Commerce; a tax registration from the Ministry of Finance; a business logo registration from the Ministry of Public Security; permits from each line ministry related to the investment (i.e., Ministry of Industry and Commerce for manufacturing; Ministry of Energy and Mines for power sector development); appropriate permits from local authorities; and an import-export license, if applicable. Obtaining the necessary permits can pose a challenge, especially in areas outside the capital. In 2013, the Lao government began allowing businesses to apply for tax registration at the time of incorporation, slightly simplifying the business registration process.

The Lao government has attempted to streamline business registration through the use of a “one-stop shop” model. For general business activities, this service is located in the Ministry of Industry and Commerce. For activities requiring a government concession, the service is located in the Ministry of Planning and Investment. For Special Economic Zones (SEZ), one-stop registration is run through the Secretariat to the Lao National Committee on Special Economic Zones (SNCSEZ) in the Office of the Prime Minister. According to PM Decree 177, the Savan-Seno SEZ authority is required to establish one-stop service to facilitate the issuing of investment licenses and improve the efficiency of business operations. In practice, it appears as though SEZ applications involve several different permissions and vary widely across SEZs. For clarification of one-stop shop procedures it is recommended that investors contact the SNCSEZ directly at: sez@sncsez.gov.la

Foreign partners in a joint venture must contribute at least thirty percent (30%) of the venture’s registered capital. Capital contributed in foreign currency must be converted into kip based on the exchange rate of the Bank of the Lao People’s Democratic Republic on the day of the capital contribution. Wholly foreign-owned companies may be either a new company or a branch of an existing foreign enterprise. Throughout the period of operation of a foreign investment enterprise, the assets of the enterprise must not be less than its registered capital.

Individual companies in the petrochemical industry are required to file an annual import plan. The government controls the retail price and profit margins of gasoline and diesel. Government documents articulating the restrictions and explaining the policy are difficult to obtain. Goods prohibited for import and export range from explosives and weapons, to literature that presents a negative view of the Lao government, to certain forestry products and wildlife. Agriculture production and most manufacturing production are private. State-owned enterprises (SOEs) currently account for only one percent of total employment. Over 90% of manufacturers have fewer than 10 employees. Equity in medium and large-sized SOEs can be obtained through a joint venture with the Lao government.

Although accurate statistics are difficult to obtain, there is no question that foreign investment has trended dramatically upward over the last several years, going from \$1.2 billion in 2012 to \$1.8 billion in 2013. There are also small but growing signs of growth in higher-

quality FDI, focused on manufacturing, largely through one Special Economic Zone in the southern part of the country.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	(140 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	(144 of 178)	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	(159 of 189)	http://doingbusiness.org/rankings
World Bank GNI per capita	2012	USD 1270	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

TABLE 1B – 2014 Lao PDR Millennium Challenge Scorecard:

MCC Scorecard Categories	Year	Percentage Score	Raw Score
MCC Government Effectiveness	FY 2014	56%	.04
MCC Rule of Law	FY 2014	60%	.07
MCC Control of Corruption	FY 2014	40%	-.13
MCC Fiscal Policy	FY 2014	49%	-3.1
MCC Trade Policy	FY 2014	12%	58.6
MCC Regulatory Quality	FY 2014	44%	-0.09
MCC Business Start-Up	FY 2014	23%	0.771
MCC Land Rights and Access	FY 2014	66%	0.68
MCC Natural Resource Protection	FY 2014	81%	93.9
MCC Access to Credit	FY 2014	36%	22

MCC Inflation	FY 2014	72%	4.3
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The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) or \$4,085 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>

2. Conversion and Transfer Policies

In 2013, Laos suffered fiscal and monetary difficulties which resulted in low levels of foreign reserves. In response, the Bank of the Lao PDR (BOL) imposed daily limits on converting funds from Lao Kip into U.S. Dollars and Thai Baht, leading to difficulties in obtaining foreign exchange in Laos. The BOL also imposed restrictions on loans made in USD and Baht, limiting them to businesses which generated foreign currency. There were no reports of restrictions on, or difficulties in, repatriating or transferring funds associated with an investment.

In order to facilitate business transactions, foreign investors generally open commercial bank accounts in both local and foreign convertible currency at domestic and foreign banks in Laos. The Enterprise Accounting Law places no limitations on foreign investors transferring after-tax profits, income from technology transfer, initial capital, interest, wages and salaries, or other remittances to the company's home country or third countries provided that they request approval from the Lao government. Foreign enterprises must report on their performance annually and submit annual financial statements to the Ministry of Planning and Investment (MPI).

The Bank of Lao PDR manages the Lao currency, the kip, under a managed floating exchange rate in which it seeks to maintain its value in a band of plus or minus five percent around the nominal exchange rate with the U.S. dollar and Thai baht. Lao PDR is listed as a high-risk jurisdiction for money laundering/combating the financing of terrorism by the Financial Action Task Force (FATF) and has strategic deficiencies in its AML/CFT regime. In 2013, the Bank of Lao PDR agreed with the Asia Pacific Group, a regional FATF-body, to implement an action plan to address AML/CFT deficiencies.

3. Expropriation and Compensation

Foreign assets and investments in Laos are protected by laws and regulations against seizure, confiscation, or nationalization except when deemed necessary for a public purpose, in which case foreign investors are supposed to be compensated. Revocation of an investment license cannot be appealed to an independent body, and companies whose licenses are revoked must then quickly liquidate their assets.

Since 2012, Sanum Investments, a subsidiary of Lao Holdings, Inc., a company incorporated in Aruba and owned by American citizens, has been involved in a business dispute with its Lao partner. Thus far, court decisions in the case have been uniformly in favor of the Lao partner and could be construed as implicitly forcing local ownership. In addition, the company was subjected to audits and tax enforcement decisions that Sanum has alleged

amount to expropriation. Sanum filed a case against the Lao PDR at the World Bank's International Center for the Settlement of Investment Disputes in 2012.

4. Dispute Settlement

The Lao judicial system is not independent and faces challenges in meeting the needs of a modern market economy. Contract law in Laos is lacking in many areas important to trade and commerce. While it does provide for sanctity of contracts, in practice contracts are subject to political interference and patronage. A contract can be voided if it is disadvantageous to one party, or if it conflicts with state or public interests. Foreign businessmen have described contracts in Laos as being considered "a framework for negotiation" rather than a binding agreement. Although a commercial court system exists, in practice most judges adjudicating commercial disputes have little training in commercial law. Those considering doing business in Laos are strongly urged to contact a reputable law firm for additional advice on contracts.

According to the Law on Investment Promotion, investors should resolve disputes in the following order: mediation; administrative dispute resolution; dispute resolution by the Committee for Economic Dispute Resolution; and finally, litigation. However, due to the poor state of the Lao legal system and low capacity of most Lao legal administrators, foreign investors are generally advised to seek arbitration outside the country.

Laos is not a member of the International Center for the Settlement of Investment Disputes. It became a party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards on September 15, 1998, but Laos has never been asked to enforce a foreign arbitral award. Laos is a member of the United Nations Convention on International Trade Law.

In disputes involving the Ministry of Planning and Investment, decisions can only be appealed back to the Ministry itself. There is no separate independent body. Thus a company which feels it is receiving unfair treatment from the government has no independent recourse. Lao laws often contradict each other and lack implementing regulations. Some laws have been officially translated into English, including the business, tax, bankruptcy, customs, and secured transaction laws. The reliability of unofficial translations varies considerably. Application of Lao law remains inconsistent and knowledge of the laws themselves is often limited (especially outside the capital). The existence of a large number of government decrees, sometimes unpublished, further complicates the situation.

A commercial court does exist in Laos. Laos has no anti-trust statutes. The bankruptcy law permits either the business or creditor the right to petition the court for a bankruptcy judgment, and allows businesses the right to request mediation. There is no record of foreign-owned enterprises, whether as debtors or as creditors, petitioning the courts for a bankruptcy judgment.

5. Performance Requirements and Investment Incentives

Laos does not impose performance requirements and its regulations appear to be broadly consistent with WTO Trade Related Investment Measures (TRIMs), although it has notified the WTO that it will avail itself of transition periods for least-developed countries in completely phasing out local content and export performance requirements. Foreign investors are encouraged to give priority to Lao citizens in recruiting and hiring. Foreign personnel can be

hired, although they may not normally exceed 10% of the enterprise's total labor force, with exceptions for skilled labor or politically important projects. Before bringing in foreign labor, foreign enterprises must apply for work permits from the Ministry of Labor and Social Welfare. A list of foreign personnel must also be submitted to MPI.

Laos grants incentives for foreign investment depending on industry sectors and activities promoted by the government, and the level of infrastructure and socio-economic development in specific geographic zones. Under Articles 49, 50 and 51 of the Law on Investment Promotion, the government defines agriculture, industry, handicraft and services as promoted activities.

Investment promotion is divided into 3 levels: Level 1 - high, Level 2 - medium and Level 3 - low. Additionally, the country is divided into three promotion zones. Zone 1 is defined as areas lacking in socio-economic infrastructure – primarily mountainous and remote areas – and is assigned a high level of investment promotion. Zone 2 applies to areas with socio-economic infrastructure that is partially able to facilitate investments and is given medium priority. Zone 3 has infrastructure available to support investments and is assigned a low level of investment promotion.

In Zone 1, Level 1 investments receive profit tax exemptions for 10 years, Level 2 investments for 6 years and Level 3 investments for 4 years.

In Zone 2, Level 1 investments receive profit tax exemptions for 6 years, Level 2 investments for 4 years and Level 3 investments for 2 years.

In Zone 3, Level 1 investments receive profit tax exemptions for 4 years, Level 2 investments for two years and Level 3 investments for 1 year. Profit tax exemptions in all zones start from the date the enterprise commences operations.

Incentives related to customs duties, access to finance, and other taxes are described in Articles 52, 53 and 54 of the Law on Investment Promotion. As of 2011, foreign investors and workers must pay an income tax of 24% to the Lao Government, unless they are citizens of a country with which the Lao Government has signed a double-taxation agreement. Previously, this rate was 10%.

The United States does not have a double-taxation agreement with Laos. Article 67 of the Law on Investment Promotion stipulates that foreign investors and their families, including foreign professionals and foreign employees of an enterprise, may obtain multiple entry visas with a maximum term of five years. The government routinely approves long-term residence in the Lao PDR for foreign investors.

The government began replacing the turnover tax with a Value Added Tax (VAT) in 2010. Foreign investors are not required to pay import duty on equipment, spare parts and other materials used in the operation of their enterprises. Raw materials and intermediate goods imported for the purpose of processing and re-export are also exempt from import duties. Raw materials and intermediate goods imported for the purpose of import substitution are eligible for import duty reductions on a case-by-case basis.

Foreign enterprises are also eligible for profit tax and import duty reductions or exemptions on an individual basis, if the investment is determined by the GOL to benefit to Laos' socio-economic development. To date the Lao Government appears to have honored its incentives. Annual business license renewal is contingent upon certification that corporate

income taxes have been paid. Investors report difficulties in obtaining tax certifications in a timely manner.

6. Right to Private Ownership and Establishment

The GOL recognizes the right of private ownership, and foreigners may transfer shares of a foreign-invested company without prior government approval. However, the business law requires that all shareholders be listed in the articles of association, and changes in the articles of association of a foreign-invested company must be approved by Ministry of Planning and Investment. Thus, transferring shares in a foreign-invested company registered in Laos does require the indirect approval of the government.

7. Protection of Property Rights

Foreign investors are not permitted to own land in fee-simple. However, Article 58 of the Law on Investment Promotion stipulates that foreign investors with registered investment capital of US\$500,000 or above are entitled to purchase land use rights of less than 800 square meters in order to build housing or office buildings. The GOL grants long-term leases, and allows the ownership of leases and the right to transfer and improve leasehold interests. Government approval is not required to transfer property interests, but the transfer must be registered and a registration fee paid.

A creditor may enforce security rights against a debtor and the concept of a mortgage does exist. Although the GOL is engaged in a land parceling and titling project through the Ministry of Natural Resources and Environment, it remains difficult to determine if a piece of property is encumbered in Laos. Enforcement of mortgages is complicated by the legal protection given mortgagees against forfeiture of their sole place of residence.

Laos provides for secured interest in moveable and non-moveable property under the 2005 Law on Secured Transactions and a 2011 implementing decree from the Prime Minister. In 2013, the State Assets Management Authority at the Ministry of Finance launched a new Secured Transaction Registry (STR), intended to expand access to credit for individuals and smaller firms. The STR allows for registration of movable assets such as vehicles and equipment so that they may be easily verified by financial institutions and used as collateral for loans.

Intellectual Property: A government reorganization in 2011 created the Ministry of Science and Technology, which controls the issuance of patents, copyrights and trademarks. Laos is a member of the ASEAN Common Filing System on patents but lacks qualified patent examiners. Since Thailand and Laos have a bilateral Intellectual Property Rights (IPR) agreement, in principle a patent issued in Thailand would also be recognized in Laos.

Copyright protection in Laos is weak. There is no system to issue copyrights in Laos, only a certification of copyright information. Laos is a member of the World Intellectual Property Organization (WIPO) Convention and the Paris Convention on the Protection of Industrial Property but has not yet joined the Bern Convention on Copyrights.

In 2011 the National Assembly passed a comprehensive revision of the Law on Intellectual Property which brings it into compliance with WIPO and Trade-Related Aspects of Intellectual Property standards (TRIPS). The consolidation of responsibility for IPR under the Ministry of Science and Technology is a positive development, but it lacks enforcement capacity.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Matt Younger youngermb@state.gov

Local lawyers list: <http://laos.usembassy.gov/attorneys.html>

8. Transparency of the Regulatory System

Principal laws, regulations, decrees and guidelines governing international trade and investment are available to the public, although not all have been officially translated into English. Laws and their schedules for implementation are customarily published in Lao daily newspapers, and relevant line ministries are beginning to put laws and regulations on websites.

The National Assembly includes a step for public consultations in the legislative process prior to sending laws to the Prime Minister for consideration. However, a highly centralized decision-making process, combined with difficulties in obtaining information, can make the regulatory system appear arbitrary and inscrutable. The government purports to seek the advice given of the business community through the Lao Business Forum.

In 2012, the National Assembly passed the Law on Making Legislation, which requires 60-day periods for public comment and regulatory impact assessment notes of all new draft legislation. In 2013, the Lao Official Gazette opened online, a landmark achievement in legal transparency for the country. The gazette will facilitate the 60-day comment period, and the Ministry of Justice has committed to publishing all current Lao laws on the site. The gazette can be accessed here: <http://laofficialgazette.gov.la/index.php?r=site/index>

9. Efficient Capital Markets and Portfolio Investment

Laos does not have a well-developed capital market, although government policies increasingly support the formation of capital and free flow of financial resources. Due to a monetary and fiscal crisis in 2013, there have been liquidity concerns, particularly related to foreign currency. The soundness of the banking system also appears to have suffered in the past year due to lending to off-budget infrastructure projects, and there are reports of some companies in the construction sector facing asset seizures by commercial banks.

The largest denomination of currency is 100,000 kip (about \$12.50). Credit is generally not available on the local market for large capital investments, although letters of credit for export can sometimes be obtained locally. In January 2014, Laos issued a second round of government bonds denominated in Thai Baht, raising approximately \$90 million. Its first foreign currency denominated bond sale, also in Thai Baht, raised \$49 million in 2013.

The banking system is under the supervision of the Bank of Lao PDR, and includes 32 banks with assets of approximately US\$6.8 billion. Private foreign banks can establish branches in all provinces of Laos. Domestic credit growth has been very high in the last decade and remained so at 31% year-over-year through September 2013. The BOL reports an increase in ATMs from 442 in 2012 to 622 through the middle of FY 2013. Technical assistance to Laos' financial sector has led to some reforms but overall capacity within the governance structure remains poor.

The Lao Securities Exchange (LSX) began operations in 2011 with two stocks listed, both of them state-owned – the Banque Pour l'Commerce Extérieur (BCEL), and electrical utility Electricity du Laos (EDL). In 2013, the LSX listed a third company that runs exhibitions and convention centers and appears to be largely privately-held. In 2012, the GOL increased the proportion of shares that foreigners can hold on the LSX from 10 to 20 percent.

10. Competition from State-Owned Enterprises

The GOL maintains ownership stakes in key sectors of the economy such as telecommunications, energy, finance, and mining. Where state interests conflict with private ownership, the state is in a position of advantage.

In 2011, under the auspices of the Ministry of Post and Telecommunications, four large telecoms with high state ownership stakes cut service to a foreign-owned telecom in retaliation for alleged marketing violations. In 2012, private carrier Lao Central Airlines opened service on international and domestic routes, challenging the monopoly previously enjoyed by state-owned Lao Airlines.

There are reportedly 139 State-Owned Enterprises in Laos with \$2.4 billion in assets. The government appears to be considering methods to increase private ownership in some SOE such as Lao Airlines, potentially through listing on the LSX.

11. Corporate Social Responsibility

Corporate Social Responsibility is not yet well understood and recognized by Lao producers and consumers, but protection of the environment and mitigation of social impacts are stressed by some foreign companies, particularly in the natural resources and energy sectors.

12. Political Violence

Laos is a peaceful and politically stable country. The risk of political violence directed at foreign enterprises or businesspersons is low.

13. Corruption

Corruption is a serious problem in Laos and appears to be growing alongside the economy. The GOL has developed several anti-corruption laws but enforcement remains weak, with no high-profile cases ever having been brought to trial. According to the State Inspection Authority, the Lao Government has prosecuted some individuals for corruption but it cannot publicize the information. In September 2009, Laos ratified the United Nations Convention Against Corruption.

The State Inspection Authority, located in the Prime Minister's Office, is charged with analyzing corruption at the national level and serves as a central office for gathering details and evidence of suspected corruption. Additionally, the State Inspection Department in each Ministry is responsible for combat internal ministry corruption. Laos is not a signatory to the OECD Convention on Combating Bribery. Both giving and accepting bribes are criminal acts punishable by fine and/or imprisonment. Foreign businesses frequently cite corruption as an obstacle to operating in Laos. Officials commonly accept bribes for the purpose of approving or expediting applications.

In 2014 an asset declaration regime entered into force for government officials requiring them to declare income, assets and debts for themselves and their family members. Assets

over \$2500 are required to be disclosed, including land, structures, vehicles and equipment, as well as cash, gold, and financial instruments. However, the effectiveness of this program has yet to be determined.

14. Bilateral Investment Agreements

Laos has bilateral investment agreements with Australia, Burma, Cambodia, China, Cuba, Denmark, France, Germany, India, Indonesia, Japan, Kuwait, Malaysia, Mongolia, Netherlands, North Korea, Pakistan, Philippines, Russia, South Korea, Singapore, Sweden, Switzerland, Thailand, the United Kingdom, and Vietnam. On February 1, 2005 a Bilateral Trade Agreement (BTA) came into force between the U.S. and the Government of Laos. Laos and the United States do not have a bilateral taxation treaty.

15. OPIC and Other Investment Insurance Programs

The United States and Laos signed an Overseas Private Investment Cooperation (OPIC) agreement in March 1996. OPIC does not have any projects ongoing in Laos but the potential exists in the Lao economy for OPIC involvement. In 1998 Laos signed an agreement with the Multilateral Investment Guarantee Agency (MIGA). The Lao kip is not an internationally traded currency and fluctuated in a narrow range against the U.S. dollar in 2012.

16. Labor

70% of Laos' work force is engaged in subsistence agriculture. There are shortages in skilled labor across virtually the entire economy. The lack of a skilled workforce is consistently cited by foreign and domestic companies as the main constraint to growth. The estimated migration of Lao labor to Thailand numbers in the hundreds of thousands. At the same time, Laos has in recent years received a large influx of labor from China and Vietnam who largely come to work with Chinese and Vietnamese companies. Generally, the current extremely tight labor market places labor-management relations on a somewhat equal footing; if employees are not satisfied at their current job, they simply leave.

The 1994 labor law provides for the formation of trade unions; specifies working hours and compensation standards; allows for maternity leave and benefits; workers' compensation and retirement benefits; and establishes procedures for labor dispute resolution. There are, however, no unions independent of the Lao Federation of Trade Unions, a Communist Party organization. In January 2012, the Lao government raised the minimum wage for unskilled workers to US\$78 per month based on a six-day, eight hour per day work week. Reforms to the labor law passed in 2014 contained the first mention in Lao law of collective bargaining, but the country still lacks freedom of association for labor, independent unions, or a detailed framework for independent collective bargaining. There is virtually no avenue for, or risk of, labor strikes in Laos currently. In 2014, Laos approved a national plan of action to combat the worst forms of child labor and the Ministry of Labor and Social Welfare is working to improve its capacity for labor inspections.

Laos has human resource deficiencies in virtually all sectors. English is not widely spoken. In 2012, about 16 percent of the population age 15 and above remained illiterate. The shortage of skilled labor is particularly acute in high-tech sectors. The country has a few technical colleges, one scientific research facility-- the National Institute of Hygiene and Epidemiology--and almost no effective post-graduate degree programs.

The Lao Government has dedicated few of its own resources to improve the country's education system and tends to rely heavily on international donors for support; there are a few state training programs and some foreign funded programs. Potential investors should note the need to dedicate substantial resources, both human and capital, to train employees. It is not unusual for foreign investors to bring in Thai managers due to a lack of skilled local personnel.

17. Foreign Trade Zones/Free Ports

The Foreign Investment Law allows for the establishment of Special Economic Zones (SEZ) and Specific Economic Zones as an investment incentive. Prime Ministerial Decree 443 on Special Economic Zones and Specific Economic Zones was issued in 2010 and provides guidance on the establishment of the zones.

Special Economic Zones are intended to support development of new infrastructure and commercial facilities and include incentives for investment. Specific Economic Zones are meant to develop existing infrastructure and facilities and provide a lower level of incentives and support than Special Economic Zones. Laos plans to construct 25 special and specific zones in the next ten years via foreign direct investment of US\$3 billion.

There are currently 10 different economic zones across the country, including: Savan-Seno Special Economic Zone, Golden Triangle Special Economic Zone, Boten Beautiful Land Specific Economic Zone, Vientiane Industrial and Trade Zone, Saysettha Development Zone, Phoukyou Specific Economic Zone, Thatluang Lake Specific Economic Zone, Longthanh – Vientiane Specific Economic Zone, Dongphosy Specific Economic Zone and Thakhek Specific Economic Zone.

The Savan-Seno Special Economic Zone in Savannakhet province is legitimately developing as a production, supply, and distribution center with increasingly sophisticated manufacturing businesses and advanced infrastructure. Other SEZ's in the northern part of the country have experienced problems associated with casino gambling, prostitution and drug trafficking.

Lao laws pertaining to trade are supposedly applied uniformly across the entire customs territory of Laos, including all sub-central authorities, special economic zones, specific economic zones and border trade regions. In reality, however, customs practices vary widely at ports of entry in the provinces. Centralization of customs collection by the central government has led to more uniform practices and increased the flow of customs revenue to the central government. In order to comply with National Single Window requirements under the ASEAN Single Window, in 2012 Laos began operating the Automated System for Customs Data (ASYCUDA) at the busiest point of cross-border trade, the Lao-Thai Friendship Bridge linking Vientiane with Thailand and has slowly expanded the use of ASYCUDA at other border crossings as well.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Key Macroeconomic data, U.S. FDI in host country/economy

	Bank of the Lao PDR Annual Report		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (Millions U.S. Dollars)	2012	9100	2012	9400	http://www.worldbank.org/en/country
Foreign Direct Investment	Ministry of Planning and Investment		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (Millions U.S. Dollars, stock positions)	3.513	NA	Insert 2012	Amount 0	(BEA) click selections to reach. <ul style="list-style-type: none"> • Bureau of Economic Analysis • Balance of Payments and Direct Investment Position Data • U.S. Direct Investment Position Abroad on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Host country's FDI in the United States (Millions U.S. Dollars, stock positions)	NA	NA	NA	NA	(BEA) click selections to reach <ul style="list-style-type: none"> • Balance of Payments and Direct Investment Position Data • Foreign Direct Investment Position in the United States on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Total inbound stock of FDI as % host GDP (calculate)	Insert 2012	Amount 20.3%	Insert (Year)	Amount	

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

Civil law system similar in form to the French system

International organization participation:

ADB, ARF, ASEAN, CP, EAS, FAO, G-77, IAEA, IBRD, ICAO, ICRM, IDA, IFAD, IFC, IFRC, ILO, IMF, Interpol, IOC, IPU, ISO (subscriber), ITU, MIGA, NAM, OIF, OPCW, PCA, UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

For further information -

http://www.dfdl.com/images/stories/Articles/News/DFDL_Laos_DTA_Tax_Breakfast_Seminar.pdf

Treaty and non-treaty withholding tax rates

For further information -

http://www.dfdl.com/images/stories/Articles/News/DFDL_Laos_DTA_Tax_Breakfast_Seminar.pdf

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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