Determinants of Foreign Direct Investment Flows to Lao PDR

By

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LIST OF ABBREVIATIONS

ADB	:	Asian Development Bank
AFTA	:	ASEAN Free Trade Area
ASEAN	:	Association of Southeast Asian Nations
F1	:	Infrastructural and technological factors
F2	:	Political/government regulatory factors
F3	:	Economic and market factors
F4	:	Financial factor
F5	:	Social and cultural factors
FDI	:	Foreign Direct Investment
GATT	:	General Agreement on Tariffs and Trade
GDP	:	Gross Domestic Product
GMS	:	Great Mekong Sub-region
GNP	:	Gross National Product
IMF	:	International Monetary Fund
IPR	:	Including Intellectual Property Rights
LDCs	:	Least Developed Countries
Lao PDR	:	Lao People’s Democratic Republic
M&A	:	Merger & Acquisition
MOIC	:	Ministry of Industry and Commerce
MNEs	:	Multinational Enterprises
MPI	:	Ministry of Planning and Investment

N/A	:	Not Available
NEM	:	New Economic Mechanism
NGPES	:	National Growth and Poverty Eradication Strategy
NSEDP	:	National Socio-Economic Development Plan
NT2	:	Nam Theun 2
OECD	:	Organization for Economic Co-operation and Development
OLI	:	Ownership/Location/Internalization
R&D	:	Research & Development
SD	:	Standard Deviation
SMEs	:	Small and Medium Enterprises
SPSS	:	Statistical Package for the Social Sciences
UK	:	United Kingdom
UN	:	United Nations
UNCTAD	:	United Nations Conference on Trade and Development
UNDP	:	United Nations Development Program
UNESCAP	:	United Nations Economic and Social Commission for Asia and the Pacific
USA	:	United Nation of America
USD	:	United States Dollars
WB	:	World Bank

WDR	:	World Development Report
WTO	:	World Trade Organization
WWI	:	World War I
WWII	:	World War II

ABSTRACT

This master's thesis examines the determinants of Foreign Direct Investment (FDI) flows of the Lao People's Democratic Republic (Lao PDR). The aim of this study is to investigate the factors that have important effects on FDI flows to Lao PDR and to study the constraints foreign firms when doing business in Lao PDR. The conceptual framework used in this research is adopted from the Eclectic Paradigm or the OLI paradigm developed by (Dunning, 2008). The paper covers five main factors, which are (F1) Infrastructure & Technology, (F2) Political/Government Regulation, (F3) Economy & Market, (F4) Financial, and (F5) Social & Cultural factors. Under each of these, there are various sub-factors that are well known to have significant influences on FDI flows to the host country. The details of all factors are mentioned in the questionnaire found in appendix 3.

The study was conducted in two phases. The first one is to review relevant literature from various sources such as books, reports, journals, publications and other related documentations. The second phase is to do a survey through out the collects of primary data utilized by questionnaire. The populates of the study is 3088 FDI firms running their investment in all types of business activities in the Lao PDR since (1988-2015). Accordingly, the research questionnaires are randomly distributed to 100 foreign firms or respondents (one company = one respondent = one questionnaire). However, only 70 usable questionnaires have received. They consist of 35 wholly foreign - owned enterprises, 27 joint-venture

enterprises, and 8 other enterprises.

The random sampling method was also applied to focus on the existing foreign entrepreneurs who have set up their businesses in the Lao PDR. These firms have also been operated based on the FDI enterprises that have active performance and good management records, particularly the firms that located or have established their head offices, branches, and representative offices in Vientiane Capital. This means that the selected samples are merely existed, Vientiane Capital.

The collected primary data from the research questionnaire have coded and processed by using Statistical Package for Social Science (SPSS) program in order to facilitate the computation of frequency, percentage, mean and standard deviation. These were to help in determining the factors that the significant level of affecting FDI flows and also the constraining factors in doing business in Lao PDR.

Based on the result from the statistical analyzes, regarding the five main factors, the study reveals twelve factors that are considered to be the most relevant or important in explaining FDI flows to Lao PDR. They consist of Electricity, Roads and internet (F1), Investment Law, Government Stability, Enterprises Law, Bureaucracy (F2), Low Labor Costs, Economic Stability, Market Growth Potential (F3), Exchange Rate Fluctuation (F4), and Social Stability (F5). In addition, the study also finds three factors that are considered as the very problematic factors faced when doing business in Lao PDR. They are Water Supply, Roads, and Bureaucracy.

Based on these findings, a recommendation is made to the government and organizations that are responsible for or related to dealing with FDIs and their relevant issues. The information provided in this study can also be a reliable source for policy making and strategy formulation in order for a comprehensive and effective and direction, which is consistent with the investment potentials of Lao PDR and for promotion and attracting FDIs across the country.

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Since late 1960s, Foreign Direct Investment (hereinafter FDI) and its impact on the economic development process had received extensive discussion (OECD, 2001). More recently, FDI has become an important topical development issue among scholars and policy-makers. The FDI inflows to developing and transition countries have significantly increased and become one of key drivers for their economies as well as for increasing the world economy integration. In general, a long-term economic growth is mainly determined by the investment rate, which in turn is mostly determined by the national level of savings. FDI is one of the alternative foundations of capital to reduce the gap between savings and required investment level (Mmieh, F and Binsaeed).

As a result, it has been widely recognized that FDI can potentially stimulate economic growth originating from a number of ways. *Firstly,* FDI inflows can benefit from the capital inflows, savings and foreign exchange in an economy, which can develop the balance of payments account in particular with the current account. *Secondly,* FDI can be a channel of knowledge and skills transfered within a host country. *Thirdly,* FDI can facilitate the transfer of technology from developed countries to developing countries and thus, give rise to more competition and global economic interaction. *Fourthly,* FDI can supply a variety of goods and services to the recipient countries' residents. *Fifthly,* FDI can create more employment and capital under new investments as well as endowing with access to profitable exporting markets. *Lastly,* FDI can bring the development of infrastructure and increase the gross domestic product (hereinafter GDP) of host countries (ADB, 2003), (Heshmati and Davis, 2007).

According to the United Nations Conference on Trade and Development (UNCTAD), the volume of global FDI inflows had fluctuated since the 1990s, and (1991-1992) was a period of FDI recession. From 1993 to 2000 the trend of global FDI inflows gradually grew in both developed and developing countries. However, the inflows declined from approximately US$ 824 billion in 2001 to US$ 651 billion in the following year), (UNCTAD, 2003). Since then, the inflows, which have grown continuously, have diverted into developing countries, particularly in Asia and Oceania economies. In 2004, these countries received approximately USD 148 billion of FDI, which was marked the largest rate ever. East Asia received US$ 105 billion, accounted for 46 percent, while South East Asia grew up at 48 percent with US$ 26 billion, in South Asia; including India at the forefront was US$ 7 billion, accounted for 30 percent a growth (UNCTAD, 2005).

In 2007, the global FDI inflow was at its peak in the historical record reaching US$ 1,979 billion. This substantial growth was due to the world effective economic performance, especially in developing and transitional countries. However, due to the world financial crisis, the global FDI inflows in 2008 was decreased by approximately 14 percent from 2007 to US$ 1,697 billion, even though it was the second highest level ever. It gradually continued to decline in 2009 respectively. However, the FDI inflows to both developing and transition countries rose in 2008. In 2007, the developing country's shares in global FDI inflows increased from 27 percent to 37 percent, and the transition countries' FDI inflows shared the growth from 5 percent to 7 percent (UNCTAD, 2009). At the same time, the volume of FDI inflows to the developing regions in Asia was the largest amount of FDI, and its share was 17 percent of a rise in inflow. In South Asia, FDI inflows also grew approximately 49 percent. However, FDI inflows dropped approximately minus 14 percent in South East Asia (UNCTAD, 2009) .

According to (ASEAN, 2009) ASEAN FDI inflows also declined in 2008 due to global economic recession. ASEAN FDI inflows grew from the lowest point of US$ 18 billion in 2002 to its peak in 2007 with the total amount of US$ 69.9 billion. In 2008, the inward FDI inflow to ASEAN was decreased by 14.6 percent to US$ 59.7 billion. In addition, FDI flows to Lao PDR in 2008 were recorded at US$ 227.9 million declining by 29.6 percent from US$ 323.5 million in 2007. Main capital inflow in 2008 went to the Manufacturing sector which was US$ 76.4 million, Electricity-US$ 55 million, Services-US$ 28.6 million, Mining and Quarrying- US$ 1.3 million, and agriculture-US$ 9.4 million. (UNCTAD, 2009).

In order to achieve the target of more FDI flows to Lao PDR, the government has put more efforts to increase FDI attractiveness by officially promulgating a number of Laws and regulations such as the Law on Promotion of Foreign Investment (1988, 1994, 2004 and 2009), Business-Law (1994), Customs-Law (1994) and Tax-Law (1995) respectively, which are related to FDI management and stimulance and the structure of the legal basis for development of private sector (UN, "Trades' Manual for Least Developed Countries, Lao PDR", 2005). The first Constitution in 1991 was also amended in 2003, and Article 15 mentioned that the amended constitution widely supported opening the nation's doors to outside world. Article 20 also stipulated all participation in the international society and economic unification; it mentioned that the State shall protect and develop all business forms of State, collective and individual ownership, including the private ownership of domestic and foreign entrepreneurs, who have been doing business in Lao PDR. The State shall encourage all economic sectors to compete and cooperate with one another in expanding their production and businesses, as all sectors are equal according to the law.

Lao PDR welcomes a range of foreign investments under the legal forms including wholly foreign-owned enterprises, joint ventures and business by contract. Each investor is free to choose its optimal form. The government and Lao law assure foreign investors of: (1) the right to repatriate capital and dividends; (2) the protection against expropriation of their investments; and (3) the right to own personal property and to use and transfer real property. In early 1990s, Lao PDR signed and followed the Bilateral Investment Agreements (BIA) with many countries (State, 2010)[1]. The FDI inflows have steadily increased since the enforcing of Foreign Investments Promotion Law in 1988. The FDI has

[1] For detail available at: http://www.state.gov/e/eeb/rls/othr/ics/2010/138096.htm

rapidly flowed, especially in the resource sector[2] since 2002 due to its resource-richness with more than 570 mineral deposits and prospects. 47 percent were found to contain gold copper, lead and zinc (IMF, 2007); (WB, 2006). In addition, it is also traditionally known as a high potential hydropower producer, approximately 26,500 MW[3]. This endowment can lead Lao PDR to become the battery of Southeast Asia (WB, 2010). For example, in 2007, the actual FDI inflows were estimated at about US$ 950 million, which showed an increase of 60 percent from 2006, but about 90 percent of the value went to the resource industry (WB, 2010) According to IMF (IMF, 2007, 2008), Thailand was a top investor (1,734 million US$) followed by China (1,296 million US$) and Vietnam (698 million US$) based on the total registered capital from 2002 to August 2008. However, China was ranked as a top investor in (2007-2015).

1.2. Problem Statement

During the 1990s-2008, Lao economy had grown at the annual growth rate of 6.8 percent per annum; therefore, it could reach the per capita income level attained by current average of ASEAN countries. Nevertheless, its gross domestic

[2] Mainly mining and hydropower sectors.

[3] According to WB (2005:29), its potential was about 23,000 MW.

savings as shared of GDP is currently low[4]. Additionally, it has faced a national budget deficit since the establishment of the Lao PDR; it is unlikely to reach this rate of growth by mobilizing the scarce domestic savings. At present, the Lao government has encountered the meagerness of domestic capital and also recognized the need for FDI to be major source to contribute to the development process through become national industrialization and modernization[5]. Thus, the government has opened various business sectors to FDI, especially electricity, mining, processing industries in order to supply to domestic consumption and export, and some industries could contribute to agricultural and rural economic development[6] (MPI, 2006-2010).The government has also introduced diverse investment incentives to encourage FDI including tax holiday, a duty of one percent for import of capital equipment, spare parts and other means of production. Other imports are subjected from five to ten percent duties, and no

[4] The share of private savings to GDP is approximately 10 percent (Hara: 2010).

[5] For example, "A favorable environment will be created to attract foreign direct investment (FDI), especially from the main companies in Asia. It is necessary to be aware that FDI is an organic part of the economy and will be further developed in parallel with the country's socio-economic development process. The present situation of the Lao PDR indicates that foreign investments have played a key role in developing the country's economy and they will be major factors for development in the next decades. Despite the abundance of natural resources in the country, the discovery and utilization of such resources has not been made due to the lack of funds, skilled labor and management capacity. If the country manages to explore and utilize these resources, it will strengthen commodity production" (NSEDP 2006:127-128).

[6] Including fertilizer, machinery manufacture, electronics, garments, footwear and food processing

duties or import turnover taxes are payable on any imports for export production. In terms of corporate tax, the usual rate of 35 percent was reduced to 15 and 10 percent in rural and mountainous areas respectively. Moreover, the Ministry of Planning and Investment (MPI) and Provincial Planning and Investment Section (local level) have been officially assigned and more involved to provide support and services to foreign investors or to approve, monitor and promote all FDI activities and to streamline the procedures and environment of the investment. Nevertheless, Lao PDR's performance in attracting FDI is poorer than other ASEAN countries. For instance, Lao PDR received the smallest amount of FDI flows with only 0.38 percent of the total ASEAN FDI flow shares while Singapore was of 38.6 percent which was the highest percentage (ASEAN, 2009) Furthermore, it has been placed at the last ranking on attraction and capacity for FDI among 9 ASEAN countries whereas Singapore was the highest followed by Malaysia (Karimi, 2009) The development characteristics of Lao PDR are unlikely to help attracting more foreign direct investment (FDI). Some of the factors that have made Lao PDR an unattractive scenario for some investors are: its undeveloped infrastructure networks, there is no access to the sea, illegal trading across national boundaries, unstructured Law and tax systems, a budget deficit, and low saving for a long time period. In addition, procedures involved in international trade are quite complicated. There are inefficient and inadequate investment-related services from Lao government, and non-transparent and lengthy documentation and procedure. There are no industrial clusters, which put the neighboring countries in a better position to attract FDI. In terms of market sizes, Lao PDR has a small domestic market, due to the small size of the population with a low GDP per capita. In addition, Lao PDR has insufficient technological knowledge, knowhow, and skilled labor force. Furthermore, there is no training school or facility (Freeman, 2001) (UNESCAP, 2005); (Susuki, 2008). At this moment, identifying the determinants of FDI flows is very significant and needed in order to know the factors that are accountable for the poor performance on attracting FDI. Moreover, there are very few studies on determinants of FDI flows to Lao PDR, and the existing data and information are also fragmented and informal. (Syviengxay, 2010). Research found that infrastructures[7] and regulation framework were classified to be necessary for that infrastructures[8] and regulation framework were classified to be necessary for industrial development, but they are still insufficient and ineffective. Additionally, it showed that the purpose of

[7] Including electricity, water supply, telecommunication, and transport system
[8] Including electricity, water supply, telecommunication, and transport system

surveyed FDIs was to produce for exporting to foreign market. However, the data was only collected from 30 companies in industrial zone in Vientiane and 30 companies in special economic zone in Savannakhet.

1.3. Objective of the study

The purpose of this research is to investigate the determining factors that affected by the FDI inflows to Lao PDR in the Lao context. This research could help to identify what are the most important factors strongly influenced on foreign investors' decision to invest and do their business operation. In addition, it could examine what are the constraints or problematic factors that foreign firms are facing for doing business in Lao PDR in order to streamline the business or investment environment and increase FDI flows across the country.

1.4. Research Questions

In accordance with the problem stated above and to fulfill the research objectives, the following research questions are set to get clear answer to the problem as follows.

Main questions

Q1. What factors affect foreign direct investment flows to Lao PDR?

Q2. What are problematic factors to business operation in Lao PDR?

◆ **Sub-questions**

Q1. What infrastructural and technological factors are important for FDI flows to Lao PDR?

Q2. What political/government regulatory factors are important for FDI flows to Lao PDR?

Q3. What economic and market factors are important for FDI flows to Lao PDR?

Q4. Which financial factors are important for FDI flows to Lao PDR?

Q5. What social and cultural factors are important for FDI flows to Lao PDR?

1.5 Research Methodology

This research will be conducted base on the conceptual framework, which is drawn from the OLI or eclectic paradigm. This theory was developed by Dunning and Lundan (2008). The study will be conducted by focusing on five main factors. Each main factor includes sub-factors that can affect the MNEs' decision to invest in recipient countries. All factors (both main and sub-factors) will be categorized and grouped in a questionnaire (For detail, see questionnaire in appendix 3) that are critical to determinants of FDI flows to Lao PDR.

This quantitative and qualitative data will be processed by Statistical Package for Social Science (SPSS) program for window. The questionnaires will be distributed to the foreign company owners or managers, who are operating their business in Lao PDR, particularly, the companies that are located or have set up their head offices, branches and representative offices in Vientiane Capital.

To ascertain the consistency of the research, literature review will be carried out from a secondary data. Various books, journals, publication, reports and other related documentations from Lao PDR, Japan and other sources will be utilized in this purpose and referred to as the supportive information. In addition, several articles and other files from electronic sources, such as internet will also support my finding in the literature section.

1.6 Scope of the study

There are many FDI enterprises including 100% foreign ownership and joint venture that have been operating their business in Lao PDR since 1988. All of them have been playing an important role for the Lao National socio-economic development and economic growth of the country since early 1990s. As such, the scope of this study is to simply determine some of the important factors that have strong influence to FDI flows to Lao PDR by collecting the primary data from some foreign investors in Lao PDR, particularly those whose companies are located or established in the Vientiane Capital.

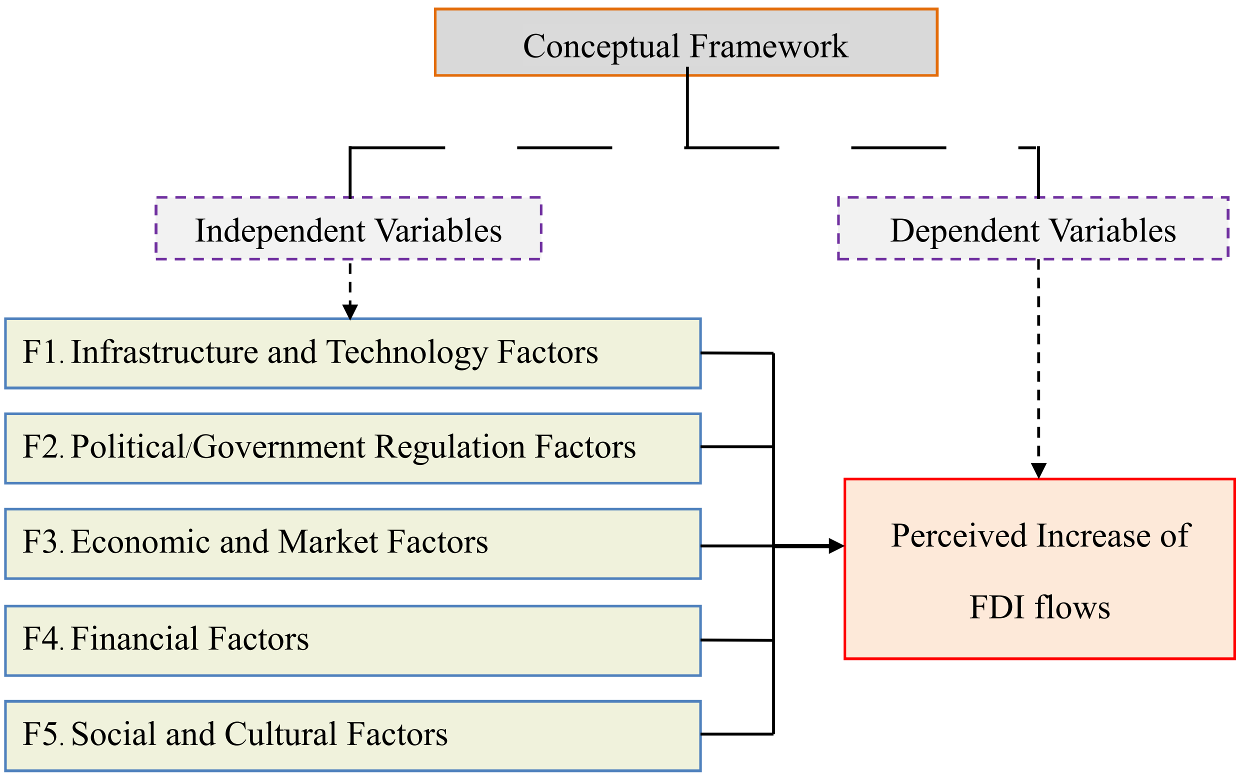
1.7 Research Significance

The result of this study will provide valuable insights, policy implication and recommendation for the in-country and international business communities regarding to the factors that influentee FDI flows to Lao PDR. The study will also serve as the facilitator for policy-makers who shall formulate and draw an appropriate FDI policy to improve the investment environment and to increase FDI attractiveness. In addition, the findings will be useful for further FDI liberalization opportunities and also contribute to future academic research work related to FDI in Lao PDR. This will also produce recommendations to the Government of Lao PDR on FDI and will guide those who are interested in FDI.

1.8. Conceptual framework

The study will yield to various findings about the factors that affect FDI flows to Lao PDR**.** The study adopts the conceptual framework of the OLI or eclectic paradigm which will be explained under the literature review as illustrated in Chapter 2.

Figure* 1.1 *A conceptual framework of determinants of FDI flows to Lao PDR



The above figure presents the research conceptual framework. The independent variables considered as drivers of foreign investors' decision-making toward investing in Lao PDR comprising five major factors. Each of them contains various sub-factors which will be presented in the questionnaire[9].

1.9. Organization of the thesis

This study is organized into six chapters. Chapter 1: Research introduction including background, problem statement, objectives, methodology, scope, research significance and conceptual framework. Chapter 2 reviews the related literature regarding definition, classifications and FDI determinants. In addition, it also introduces the theories on FDI determinants, and FDI institutional framework which leads to conceptual framework development and research methodology formulation. Chapter 3 describes an overview of the economy, FDI and related issues in Lao PDR. Chapter 4 discusses the conceptual framework and research methodology in details. Chapter 5 presents the data analysis and research results. Chapter 6 sums up the conclusion comprising the discussion on findings, limitation and recommendation for FDI development policies and the possibility for further study.

[9] For questionnaire detail, see the Appendix 3

CHAPTER 2

LITURERATURE REVIEW

2.1. Definition of Foreign Direct Investment (FDI)

In recent times, many international and national organizations and scholars have defined FDI in a variety of ways denpeinding on their perspectives. The reasons why there is no single standard FDI definition clearly stated because different institutions and countries may have their own terms and apply with different accounting approaches or statistic formula to determine FDI (UNTAD, 2009). One of the assumption is that "Foreign direct investment is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy". This definition is very similar to the clarification of (OECD, 2008).

In addition, the author clarifies own FDI definition as foreign investment refers to foreign investors invest, transfer and manage all of their resources that includes capitals, assets, technology and know-how in running any legal types of business in host countries.

2.2 . Brief historical overview of FDI

The emergence of FDI is not a contemporary or a new phenomenon. The activities of MNEs were initiated in the mid or late 19^{th} century. However, (Wilkins, 1988) Wilkins mentioned that '1870-1914 was the initial era of the modern multinational enterprises. The type of capital flows that dominated at that time was mostly British portfolio investments, but since 1914, there were more MNEs and the international productions became parts of the global economy. During that period huge amounts of capital flows were from Western Europe, particularly the U.K. , to the perimeter regions of Europe and the new world (United States of America). Indeed, the scope of FDI in a century ago was limited and much different from FDI that has been recently observed in many countries. Previously, FDI influenced only narrow industrial sectors, which was mainly relevant to natural resource extraction and infrastructure. The policy on FDI was also simple. For instance, the capital had flowed to recipient countries for operating projects which in turned allowed those countries to be able to export more merchandise, mainly on agricultural and natural resource products to the opened markets of investing countries. During the interruption of World War I, the outflows of the net capital attained as 9 percent of GDP on an annual average basis for Britain (Bordo, M. D, Eichengreen.B. and Irwin. D,A, 1999). In 1914, United Kingdom (UK) was the largest volume of the global FDI stock which was estimated approximately 45.5 percent (US$ 6.5 million) while USA was second one with 18.5 percent (US$ 2.652 million) (John H. Dunning and Howard Archer, 1987), and it was the largest recipient country of the global FDI inflows due to its large size of market, high tariffs, and natural resource abundance (Wilkins, 1988). During WWI, it was not only challenging for world economy interconnections, but it also destroyed huge amounts of substantial capital, which comprised a real share of the European FDI stock. However, during the inter-war, there was an increase in both of global FDI stock and subsidiary number of MNEs, but the value of global FDI stock in the pre-war period was never surpassed until the 1930s (Dunning, J.H., 1983).

The World War II was one of the serious economic destructions, but it caused more activities of MNEs and real capital. It was also a good climate for activities of MNEs due to the Bretton Woods system that emerged several key institutions such as the World Bank (WB), International Monetary Fund (IMF), General Agreement on Tariffs and Trade (GATT)[10]. Nevertheless, the new military technologies developed during WWII were used for increasing new opportunities in economic and socio-development. At the same time, USA had strong and huge power and dominance in both political and economic themes and became the significant source of country of FDI instead of the U.K. USA accounted for approximately 60 percent of outward FDI stock of developed countries in 1960 (Dunning J. , 1979). A process of FDI movement was the change of inward FDI from developing economies to developed economies. For instance, FDI flows to developing economies were around two thirds in 1938 while the flows to developed economies were two thirds in 1960 (Dunning, The Investment Development Cycle Revisited, 1986).

After the end of WWII, both volumes of FDI and trade flows rapidly increased. 1960s was the period of high growth, the global FDI inflows doubly

[10] GATT was changed to World Trade Organization (WTO) in 1995.

raised as fast as the gross national product (GNP) of the world. This grew faster than the global export by approximately 40 percent. After 1960s, the importance of the primary sector and developing countries as destination of FDI was decreased, and developed countries continued to grow at the larger share. In 1970s, it increased diversity among the FDI source countries. The total outward FDI stock of USA and UK declined while Japan and West Germany become more significant, and the first small outward FDI flows also emerged from developing countries at beginning of 1970s. In the same decade, the manufacturing sector appeared and became the most important destination for FDI inflows. The service sector also became increasingly important, especially manufacturing sector. This trend continued until 1990s (Johnson, 2005). In 1970s and the first half of 1980s, FDI growth and trade were at the equal stage. Still, FDI growth took off during the second half of 1980s with average rate of growth at 28 percent per year. The volume of international trade and FDI flows substantially increased during the period of intensified globalization, and MNEs were recognized as an important stimulant to process of economic development (Johnson, 2005).

2.3. Types of FDI

According to Dunning and Lundan (Dunning, Multinational Enterprises and the Global economy, second edition, 2008), there were four types of FDI which were categorized accordingly into their business objectives behind the investment from the feature of MNE activities: Natural resource-seeking investment, Market-seeking investment, Efficiency- seeking investment, and Strategic asset-seeking investment.

Natural resource-seeking investment is another kind of investments abroad, which seeks to acquire inputs of international production. These specific resources are high quality, lower real cost and more available than obtainable in the home country of the MNEs. In some cases, they may not have any at all in the home country (e.g. natural resources, raw materials, agricultural products, and lower real labor costs).

Market-seeking investment corresponds to MNEs that attempts to invest in a particular country targeting and benefiting from local market and neighboring countries market. It also aims to maintain existing or promote new markets. There are many reasons behind this kind of FDI including the regulations of government and transport costs. These MNEs may also represent a profound involvement of the company pursuing massive exports or the extension of the company to a completely new market.

Efficiency-seeking investment refers to enterprises that expect to reach the cost efficiency as much as possible through low cost production process in regions that have, for example, low labor costs. This particularly takes place in the industry where there is abundance of unskilled or semi-skilled labors, and wages represent a key part of the product costs. The aim of this type of FDI is also to rationalize the operations of the existing enterprises. The target of enterprises may be the utilization of comparative benefits of the nearest territories, particularly economic integration or exploitation process under the scale and scope of economies.

Strategic asset-seeking investment is a tactical investment aiming to protect the loss of resource to a competitor or expand the subsisting particular benefits of companies and reduce the number of competitors. It is also to acquire strategic assets that may be critical to a long-term strategy of enterprise but are not available in the home country.

Apart from Dunning's classification of four FDI motives, many researchers also categorized FDI by focusing on diversification in process of production. According to (Shatz, H. and Venables, A. J, 2000) and (Lim, 2001), having said that FDI has been classified into two types: horizontal FDI and Vertical FDI. Their motives are to be better serve in the local market and to get lower cost inputs.

Hence, FDI is engaged to serving in local market is called horizontal FDI. It usually implicates spare parts of the production process as additional plants are set up to supply in different locations and consumers. This type of FDI usually substitutes for trading because mother companies replace exports with local production. The motive of this form of FDI is to diminish the costs in supplying market (for example, reducing tariffs or transport costs) or in some cases, it is to improve the competitive position of company in the market (Shatz, H. and Venables, A. J, 2000).

2.4 . Theories of FDI

Since the second half of twentieth century, there have been various theories which have attempted to explain the concepts of FDI determinants. These theories have played important role in development of a systematic framework for FDI emergence.

According to Dunning and Lundan (Dunning, 2008) mentioned that the theory of determinants of MNE activity must not only include the explanation of the location of value adding activities, but also the ownership and organization of these activities. The first one is the theory of international resource allocation, which is based upon the spatial distribution of factor capabilities and endowments. This theory mainly presents itself to the production location. The second one is the theory of economic organization, which substantially concerns with ownership of production and method in which their transactions are managed and organized (include those which may encroach on its location).

2.4.1. Internalization Theory

According to (Casson, Buckley and, 1976)'s theory, which was of the view that FDI motivation is due to the existence of imperfect markets. The imperfections happen in the market that has many necessary intermediate products such as patent, know-how, human capital, management skill, trademark, reputation and marketing. These products are difficult to evaluate their values during the transaction in the external market. In order to earn maximum profits in the form of imperfect competition, the incentives are usually ulitize by the firms through establishing additionally internal markets more than dealing with the external markets. The external market is concerned to connecting different activities, which cause delay and create more transaction costs to companies. The intermediate goods, particularly knowledge, are considered as public products of companies and any subsidiaries can utilize them at the minimizing cost. The process of knowledge transmission is created in the internal markets through countries. As a result, there is a need to establish internal markets in order to avoid imperfections in the host market. Finally, the internationalization of markets across national boundaries leads to generation of FDI.

Internalization theory supports the idea of MNEs found their firms' branches in foreign countries in order to acquire advantages of technology when the licensing becomes more difficult to deal with in the indigenous enterprises. It will generate FDI when the ownership-specific advantages can be profitably internalized. The enterprise will obtain more advantage to employ its own outputs rather than to lease or sell them to other enterprises.

2.4.2. The Eclectic Paradigm or OLI Paradigm

The eclectic paradigm theory of FDI was presented by (Dunning J. H., Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach, 1977, 1988, 1993) and (Dunning, Multinational Enterprises and the Global economy, second edition, 2008). This theory integrated three stands of economic theory, namely location theory, industrial organization theory, and internalization theory. The general framework based on this theory is to explain why, how, and where the MNEs engage in international production, particularly the FDI activities. It is also to discuss the alternative of MNE between licensing, export and FDI in order to serve an oversea market. This alternative has been determined as following components: “Ownership specific advantages (O)”, “Internalization advantages (I)”, and “Location specific advantages (L)”. As a result, this new theory on FDI has been called “OLI Paradigm” or “Eclectic Paradigm”.

It consists of three conditions for a firm to become a MNE and engage in the international production. Firstly, the international enterprise must own sufficient self-comparative advantages over the other enterprises arising from ownership of some intangible assets, in addition, having more ownership advantages in order to be able to manage the cost of international production or to get more benefit than doing business in their countries. Secondly, the enterprise has to have full capacity to utilize the internationalization advantages in order to compete with local enterprises. Thirdly, the enterprise has to be able to combine their ownership and internalization advantages with the utilization of some certain resources of the host country. This means the enterprise can gain more profit from foreign production than the home production and exporting to global market through utilizing of the location advantages. In fact, it is a must that the firms have to possess the three OLI advantages if they require to employ in FDI activities. The enterprises probably need to choose domestic production and exporting overseas if they have only the ownership and internalization advantages but lack of the location advantages. Moreover, the enterprises cannot transfer the comparative advantage within their organizations if they have only ownership advantages. They will sell this competitive advantage and choose licensing, which means transferring the intangible asset in the external market. Dunning's eclectic paradigm can differently and precisely summarize the reasons why MNEs choose FDI instead of exporting and licensing (See Table 2.1).

Table 2.1 OLI advantages and MNE channels for serving a foreign market

Alternatives of FDI, Export, and Licensing			
Channel for serving foreign market	Ownership advantage	Internalization advantage	Location advantage in foreign country
FDI	Yes	Yes	Yes
Export	Yes	Yes	NO
Licensing	Yes	No	NO

Source: (Dunning, 1988).

The ownership specific advantages: Its nature comes in the form of assets that their competitors do not exist. For example, firstly, the tangible assets such as natural resources, labor, capital, information and others; secondly, intangible assets or property rights including propriety technology and trademarks. These advantages greatly gain the form of privileged possession of intangible asset as well as those which emerge as the result of common governance of cross-border value-added activities. These advantages are presumed to boost prosperity generating capacity of an enterprise and thus the value of its asset. In order to provide an ownership advantage, the possessing company has to be able to exclude competing companies from utilizing the asset (Dunning, 2008).

Location Specific Advantages: (Dunning, 1988) refers it to advantages of a company to engage in international production with a view that the company recognizes that the spatially transferable intermediate products from a home country can be linked with immobile factor endowment or other intermediate products in another country. MNEs must firstly have higher comparative advantages (the ownership specific advantages) than companies in global market. Then, in order to make an important decision to choose exporting or FDI in a country, MNEs will next have to take the country factor endowments (location specific advantages) into account if they are sufficiently worthy to invest in this country. However, there is a possibility to gain more profit from exporting from the home country. For example, there are comparative advantages in the home country such as most important resources for production are available and in the low cost. In contrast, through direct investment, an affiliate in host countries may produce more effectively and make more profit. At last, to ensure the profitability, the firm specific advantages of MNEs will finally be transferred to the host country and combined with the location specific advantages in order to minimize the disadvantages of international production.

Location specific advantages generally refer to where the host country has its own advantages of which MNEs could make use to maximize their production. These advantages can be categorized into four groups as follows: Firstly, natural resources advantages such as spatial distribution of natural and created resource endowments[11]. Secondly, economic environment advantages such as input price, quality and productivity[12], international transport and communication cost; economies of centralization of R&D production and marketing[13]; investment and trade environment[14]. Thirdly, cultural and social advantages such as a psychic distance between the home and recipient country[15]; societal and infrastructure provisions (include education and well-established infrastructures). Finally, political power and legal environment[16] (Dunning, 1993); (Dunning, 2008).

Internalization Advantages: (Casson, Buckley and, 1976)'s internalization theory on the internalization advantage sub-paradigm can possibly be the most

[11] Including energy, raw material, components and geographical location and so on.
[12] Including cheap or well-trained labor, advanced technology, semi-finished goods and so on.
[13] Including R&D facilities and experts, market size and so on.
[14] Including trade barrier, tariff and quotas.
[15] Including cross-country ideological, language, cultural differences, and general attitude towards foreigners.
[16] Such as political stability and sustainable economy, improved legal and institutional environment, FDI preferential policies and regulations and so on.

abstract concept in this eclectic paradigm. It refers to a situation where MNEs has high capacity to internalize their ownership specific advantages in order to minimize the transaction cost during the international production. The MNEs believe that transferring their privileged firm-specific advantages to their own organizations nationwide in other countries is better than simply selling them (Dunning, 1988), because the international companies can launch an internal market under their administrative authorization in order to minimize high risk on transaction cost caused by market failure (so-called market imperfection).

2.5 . Theoretical studies of FDI determinants

2.5.1. Main FDI determinants

There are various theories on determinants of FDI. Recently, the literature categorizes determinants of FDI into two sets of variables. The first set is pull factors or specific factors of a country. These factors reflect opportunity and/or risk in host countries, for example, a large size and a growth potential of a market, natural resource endowment, and low-cost labor. The government of recipient countries can utilize these factors to some extent. The second one is push factors, or global factors, for instance, business cycle in investing countries or a global inflow of FDI in specific regions (Anh, 2007).

Main FDI determinants are similarly clarified by a few scholars as follows. First, according to (Lall, 1997), FDI determinants are described in the below table.

Figure 2.1 Determinants of FDI in Developing Host country by (Lall, 1997).

Economic conditions	**• Markets**	**Size; income levels; urbanization; stability and growth prospects; access to regional markets; distribution and demand patterns.**
	• Resources	Natural resources; location.
	• Competitiveness	Labor availability, cost, skills, trainability; managerial technical skills; access to inputs; physical infrastructure; supplier base; technology support.
Host country policies	• Macro policies	Management of crucial macro variables; ease of remittance; access to foreign exchange
	• Private sector	Promotion of private ownership; clear and stable policies; easy entry /exit policies; efficient financial markets; other support.
	• Trade and industry	Trade strategy; regional integration and access to markets; ownership controls; competition policies; support for SMEs.

	• FDI policies	Ease of entry; ownership, incentives; access to inputs; transparent and stable policies.
	• Risk perception	Perceptions of country risk, based on political factors, macro management, labor markets, policy stability.
MNE strategies	• Location, sourcing, integration transfer.	Company strategies on location, sourcing of products /inputs, integration of affiliates, strategic alliances, training, technology

Source: Adopted from (Lall, 1997).

Second, (Lim, 2001) suggested a list of important variables to use for the determinants of FDI flows toward countries. The Lim's theoretical concept pointed out that FDI inflows to a country was influenced by the following variables: (1) economic distance/ transport costs; (2) size of the host market; (3) agglomeration effects; (4) factor cost; (5) fiscal incentives; (6) business /investment climate; (7) trade barriers/openness; (8) political stability/ risk; and (9) economic stability/risk.

Third, according to (Dunning, 2008), these factors are effective and complete determinants for host a country to attract FDIs. Those factors are as follows:

2.5.2 Additional description of some important FDI determinants

a) ***Natural resource availability*****:** These FDIs are normally natural resource-seeking types whose aims are commonly to exploit natural resources in host countries. Therefore, a country contains abundant natural resource that it will attract more FDI than other countries (C.E. Moolman, 2006). For example, (Kyophilavong, 2009) to points out that one reason of major FDI inflows to Lao PDR is because of their available natural resources.

b) ***Labor costs***: Lim (Lim, 2001) observes in according with the product life cycle theory that FDIs put lower labor costs into accountability as well as the skilled labor availability before making decision to invest in the host country. The objective of efficiency-seeking FDI is to identify locations of imperfections in labor markets in many countries; FDI inflows tend to more when there is more skilled labor availability.

c) ***Market size***: In regard to the market-seeking FDI, it is better to have a large market in order to efficiently get used of the host country resources; the production cost can be reduced emanating from lower fixed costs because of economies of scale (Lim, 2001). The more the market size grows, the more FDI inflow is expected to increase because more products and services can be produced and demanded. The investors prefer to invest under this kind of circumstance where economy is growing and thus, a positive relationship is promising.

d) ***Regional Integration (Access to Regional Markets)*****:** (Mwilima, 2003) contends that regional integration is one of the important determinants of market-seeking FDI. However, regional integration can be beneficial when the host country, compared to other member countries, has a high level of developed infrastructure, large domestic market size, and availability of cheap and skilled labor force. This also refers to degree of openness of the host country.

e) ***Openness***: FDI inflows tend to increase in a host country that more opens to the global economic interaction such as international trade transactions and integration with neighborhoods and other regions. FDI inflows are encouraged by less capital controls and liberal trade policies, and strict policies would discourage FDI (IFC, 1997) and (Onyeiwu, 2004).

f) *Technology*: Availability of technology in the host country is one of the important variables in attracting FDI flows. It significantly notes that the degree of research and development expenditures is not essentially combined to higher degree of technological advancement (Gilmore, 2003).

g) *Level of Infrastructure*: In the current global environment where there is a growing global business competition, the countries that remain posing undeveloped infrastructure can present not only high transaction costs for the already existing business, but also a restriction to attract new firm to enter to the country. Having sufficient and developed infrastructure means having easier access to natural resources and potential market, which highly affects expansion of FDI. (Onyeiwu, 2004) noted that major factors that also attract FDI are availability and reliability of telecommunication services, developed and adequate road and air transport services, reliable water and electricity supply facilities.

h) *Exchange rate*: The exchange rate can influence FDI flows in two aspects: First, lowering costs of production by MNEs; and second, affecting the competitiveness of manufactured products, which benefit FDI. From the two viewpoints, the relationship between exchange rate and FDI is not existed (Rusike, 2007) However, (Lim, 2001) has an opposite view and argues that an increase in the exchange rate (depreciation of a currency) implied that MNEs could pay cheaper and get more inputs in the host country, such as raw material and technologies; therefore, FDI is increased. In contrast, a decrease of exchange rate also tend to has an appreciation as it implied that FDI inflow could increase from more foreign currency earnings for the foreign investors.

i) ***Inflation***: FDI inflows generally have a negative impact on high inflation. One common view explains that poor macro-economic conditions are influenced by insufficient monetary and fiscal discipline. In addition, (Shrestha and Onyeiwn, 2004) noted that high inflation could give rise to more capital cost which would in reversely affect the return from FDI. Evidence on trends of inflation likely show that increases of medium inflation could relatively have positive impact to FDI; this is normally found in countries with smooth business cycle environment.

j) ***External debt***: FDI is generally discouraged by high level of external debt because it implies that the country does not have appropriate macroeconomic policies. (Shrestha and Onyeiwn, 2004) concluded that most FDIs prefer to operate their business in countries with smaller debt burdens as they tend to be able to supply and provide basic infrastructure such as roads, telecommunication, electricity and water.

k) ***Fiscal Deficit***: FDI cannot increase the real benefits if there is a fiscal deficit of a government, either through financing extra bank note printing or through taxation, which in fact gives rise to inflation (Serven, L and Solimano, 1992). In addition, governments in several developing countries cannot largely borrow from available fund and resources for improvement of private sector, for example, the interests are very high. However, expansionary fiscal policy is considered to be significant for the expansion of public investments on infrastructure (UNCTAD, 1998). Although various empirical studies of overall impact of fiscal deficit are generally imprecise, the negative relationship between FDI inflows and fiscal deficit exists theoretically (Accolley, 2003).

l) ***Political stability***: FDI tends to occur more in host countries that stabilize political environment. The countries that have less democracy tend to have less respect for property rights and the rule of law. Most FDIs generally prefered to secure their business operation and investments, thus they want to ensure that any political and governmental changes will not have much negative impact to their businesses (Mwillima, 2003).

m) ***Government size***: The government size and FDI has no inter-relationship. Some study results found that a bigger government, a huge spending, would discourage FDI; while a smaller government would attract FDI (Asiedu, 2012). However, other viewpoints argued that a government that spends much on infrastructure improvement would attract more MNEs. On the other hand, governments could increase more FDI through expanding foreign investors' expenditure.

n) ***Taxes***: One of FDIs' common considerations is the nature of tax laws of host countries. (Shrestha and Onyeiwn, 2004) argue that FDI was actually discouraged by high levels of taxation; therefore, a negative relationship with FDI is existed. Thus, many host countries have attempted to create a lower tax environment. Nevertheless, (Rajneesh Narula & John H. Dunning, 2000) suggested that FDI's decision-making may not only relate to the tax rate, but also other factors that may have much more influence, such as location specific advantages.

o) *Fiscal incentives*: The eclectic theory explained that location advantage is one form of fiscal incentives that a host country simultaneously has and can provide to foreign investors in order to attract FDI. (Lim, 2001) noted that the location advantages can be increased by the fiscal incentives. The forms of these incentives are lower corporate tax rates as well as lower import and export duties or specific concessions, for example, tax holidays and so on. The FDI policies are normally interlinked with these incentives; therefore, a positive relationship is expected to occur[17].

p) *Privatization*: It can promote and support foreign investors' business and thus increase a large number of FDI flowing into many developing countries. Reliable privatization programs have three key characteristics as follows: business orientation, political commitment and transparency. Large-scale privatization programs in the host country depend on the government's commitment to take action on improving business climate in order to attract FDI. Hence, privatization of infrastructure and state owned enterprises (such as telecommunications and roads) and industrial

[17] For example, the Department of Trade and Industry (DTI) in South Africa developed the industrial development zones (IDZs) because they aimed to encourage export oriented manufacturing FDI through duty free imports of raw materials and tax incentives (Streak 1998:6).

enterprises would greatly affect other FDI inflows (IFC, 1997) ***Business environment***: The attitude of a host country toward foreign investors can attract FDI positively, if it is deemed the friendly. For instance, a business environment that can provide lower costs of doing business includes lower judicial hurdles, labor regulations, property rights and the general macroeconomic and political circumstances (Lim, 2001). In addition, provision of incentives can also be one of the friendly business environments that can attract FDI inflows.

q) ***Financial development/Access to local finance***: FDI is likely to occur more in countries with the proper financial markets as they can easily manage their financial transactions in both short and long term; thus they can meet their budget needs in the domestic markets (Faisal Ahmed, Rabah Arezki and Norbert Funke, 2005). A good financial environment makes it easier to access credit from the banking sector or through the utilization of debt instruments in the financial markets. The better the service the financial sector can provide, the more the country can potentially attract FDI.

r) ***Agglomeration effects***: The number of existed FDI stock is very important. The host country that has many FDI running their businesses poses high potentials to attract more other FDIs. (Lim, 2001) argued that agglomeration effects gave rise to clustering effectiveness because it can attract more MNEs to the host country. Moreover, the two chief factors that other FDIs will highly consider before deciding to invest are the infrastructure circumstance and the size of existing FDI stock.

s) ***Cultural closeness***: The cost for opening a new market in a host country that has cultural difference to the home country is less than the one that has more cultural similarities. Nevertheless, many researchers argue that FDI preferred to enter to do their new business in the country that has similar norms and cultures. In contrast, most FDIs are likely to invest in markets that have increasingly cultural differences from their home countries (Gilmore, Audrey, O'Donnell, Aodheen, Carson, David and Cummins, Darryl, 2003).

t) ***Geographical Proximity***: (Jianyu, 2007) argued that determining factors such as geographical proximity, cultural and linguistic affinities and recent global economic structure are getting increasingly important for FDI flows. Moreover, the (IFC, 1997) study evidently reports that geographical proximity affects FDI from developed to developing countries[18].

[18] For example, the West European firms are likely to open their markets in East Europe,

2.6 . Empirical literature on FDI determinants

The following discussion is based on some empirical studies which are considered to be important and quite consistent with the purpose of this study.

The most important factors determining a large market share of the global FDI flows remain the economic factor, such as large markets, trade barriers and non-tradable services. The host country's FDI inflow is also greatly influenced by location specific determinants. The various location-specific determinants at least based on three aspects of investment, namely the investment motivation (resources-seeking investment, market-seeking investment), the investment type (services or manufacturing), and the investment size (small, medium or large MNEs) (UNCTAD, 1998).

(Dunning J. H., 2002) recommended that traditional economic variables remain more important for FDI from large developing countries. In contrast, FDI from more advanced industrialized economies tend to look for resources and capabilities that create complementary knowledge intensity; communication and infrastructure are supportive and transparent commercial and legal; and government policies that are favorable to globalization, innovation and

whilst Japanese enterprises tend to do their new businesses in China and some newly industrialized Asian countries.

entrepreneurship. However, there is no empirical test for this result.

A study by (Kumar, 2001) illustrated that in 66 countries found that the quality of infrastructure was very significant in attracting FDI. One of them was the quality of hard infrastructure such as roads, energy and internet service, and the soft infrastructure such as transparency, bureaucracy and custom administration. (Ahmed, Franklin R Root and Ahmed A, 1979) conducted researches the determinants of non-extractive FDI in 70 developing countries and found that FDI inflows were increased by urbanization, better infrastructure and higher GDP per capita.

According to (Brewer, 1993), there are diverse types of government policies that can directly and indirectly influence FDI through their effects on market imperfections. He argued that utilizing same government policy could increase and/or decrease market imperfections; therefore, could also increase and/or decrease FDI inflows. The review regarding host country determinants is interlinked with the role of national policies, especially policies on liberalization, globalization, profit repatriation, capital and access to international exchange for intermediary import, and technology and raw materials.

(Friedrich Schneider and Bruno Frey, 1985) conducted a research in 80 developing countries, and they also found that a country's level of development is the most important determinant of FDI. They also described that the country's political instability gives rise to a quick decline in the inflow of FDI. Examined the effect of three sets of the main factors, namely political, social and economic factors regarding determinants of manufacturing FDI in developing countries. Their research found four factors that are related to economic factors such as per capita GDP, real GDP growth rate, economic integration, and transport, commerce and communication. In terms of social factor, it refers to degree of urbanization, while political factor is the number of constitutional changes in government leadership. These factors practically influence FDI. The study of (Noorbakhsh, 2001) found that human capital was the main determinant in export-oriented and labor-intensive industries.

CHAPTER 3

OVERVIEW OF THE ECONOMY, FDI AND RELATED ISSUES IN Lao PDR

3.1. Overview of Lao PDR's Economy

Lao People's Democratic Republic (Lao PDR) is a small, mountainous and landlocked country with a land area of 236,800 square kilometers. Its location is in the Southeast Asia and shares borders with five surrounding countries: namely China in the North; Cambodia in the South; Vietnam in the East; Thailand in the West and Myanmar in the North West. Lao PDR is divided into three main regions: northern, central and southern regions. The total population is approximately 6.77 million as at 2014 with the annual growth rate of 2.0 percent (ADB, 2015). The nation's population density of 29.1 persons per square kilometer is one of the lowest rates in Asia. It employs nearly 80 percent of the labor force. There are 49 official ethnic groups and most Lao people believe in Buddhism constituting 67 percent, while Christianity is made of 1.5 percent, Islam 0.6 percent, and in animism and other religions 30.9 percent (UNDP, 2015).

Lao PDR is classified as a Least Developed Country (LDC) with Gross Domestic Product (GDP) per capita of USD 1.793 in 2014 (WB, 2015) and ranks 141 out of 182 countries in UNDP's Human Development Index (UNDP, 2015). The Lao citizens' average rate of life expectancy are 66.2 years (2015), about 30.3 percent of populations live below the national poverty line (WB, 2015).

After its national independence from American colonization and ending up with the rule of the Royal Lao Government of the Kingdom of Laos in the late 1975, "Laos" transformed into "Lao People's Democratic Republic" with a single Party regime so called Lao Revolutionary party. At the same time, it launched and followed a centrally-planned socialist economy, and foreign investments, domestic prices and trade were strictly controlled by the State (Kyophilavong, 2009); In addition, after reforming the overall economy could not be accelerated economic development and growth by using the centrally planned economy. The GDP grew at an average rate of 2.8 percent only between 1975 and 1985 (Bourdet, 1995).

With the result from declined rate of its national economy from centrally planned economy, the government initiated to introduce the Newly Economy Mechanism so call NEM. Since 1986, Lao PDR has implemented the "Newly

Economic Mechanism" (NEM), and began the transition from a centrally planned to a market-oriented economy (WB, 2008). Under NEM regime, the government has attempted to implement reforms in the agricultural sector, the state-owned enterprises, fiscal, the banking and financial system, and foreign investment policy, as well as a unification of multi-exchange rate system, trade and price liberalization, and legal and institutional frameworks (Arshad, 2003). Lao PDR has many challenges in terms of country development, such as the commitment to achieve the Millennium Development Goals (MDGs) in 2015; in addition, Lao PDR has to prepare itself for significant changes after sharing ASEAN Economic Community (AEC) by the end of 2015. In order to achieve the goal of emerging from the group of Least Developed Countries (LDCs) status by 2020, the Lao government has implemented the National Socio-Economic Development Plan (NSEDP) (five year-plan) and the National Growth and Poverty Eradication Strategy (NGPES) aiming increasing economic growth and putting on track sustainable development, and to strike from the Least Developed Countries (LDC) by 2020 as well. To meet the challenges above, the Lao People Revolution Party and the Lao government have fully modernized and industrialized directions for national socioeconomic development (MPI, 2010).

In the year 2010, real GDP growth rate is projected to accelerate to 7.8 percent. This rate of growth will mainly result the rapid expansion of natural resource sectors; particularly the Nam Theun2 (NT2) hydroelectric dam that has largely produced electricity being exported abroad. Hydropower generation shares 3.7 percent but 3 percent points belong to NT2. On the other hand, the growths of non-resource sectors, agriculture, construction and a rebound in processing industry are projected to be steadily with total share of 4.1 percent. Agriculture is 0.9 percent (declined by 0.1 percent from 2009); manufacturing is 0.8 percent (increased by 0.5 percent from 2009); construction and services are 0.4 percent 1.9 percent respectively (WB, 2010).

Although the high rate of economic growth can continually be maintained, and inflation and exchange rate remain stable, Lao PDR is still faced with serious concerns regarding macroeconomic development. Since the establishment of Lao PDR, its national budget has always been in the deficit. In FY 2005/06, it was 2, 266 billion kip, at the same time the expenditure was 6,206 billion kip. The main financing source to fill this fiscal gap was from the foreign funds (mainly ODA and FDI) (Susuki, 2008). In addition, the rate of domestic savings is low because Lao people's average incomes are low. The average GDP per capita is under USD

1,000 (see figure 3.1) (ADB, 2010). The finance sector has not received much improvement. Thus, the large gap between savings and investment has widened in Lao PDR. In addition, it has crucially faced the external debt such as in 2007, Lao external debt accumulated over 60 percent of GDP (Kyophilavong, 2009).

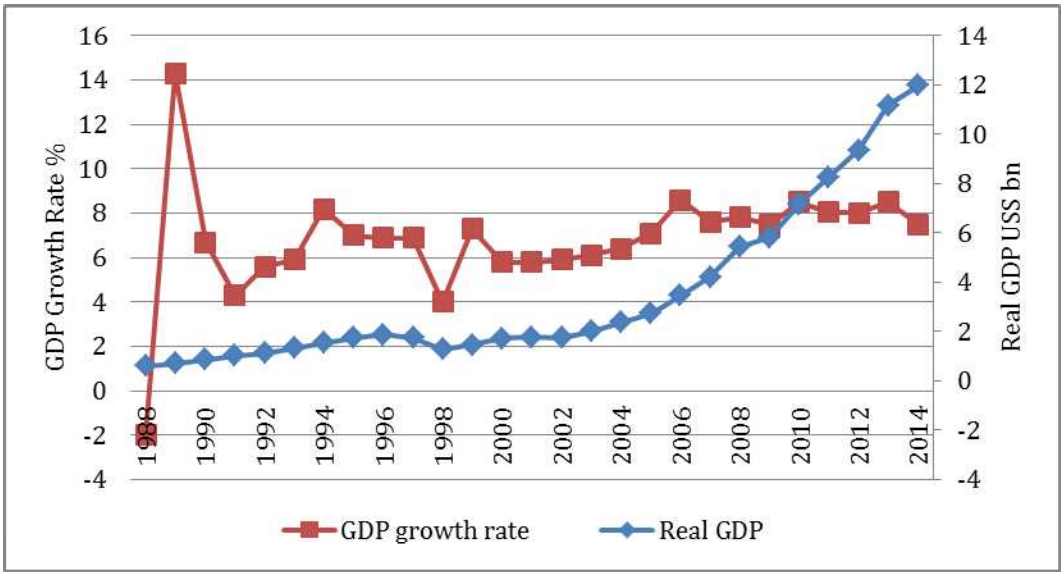


Figure 3.1 Real GDP and GDP Growth Rates of Lao PDR (1989-2014)

Source: World Bank Lao Indicator 2016.

Figure 3.1 illustrates the overall real GDP and GDP growth rates of Lao PDR during (1989-2014). It shows that the GDP growth rates at beginning of (1989s to 1997) grew at an average rate of 6.9 percent per annum. Unfortunately, during (1998-1999), the Asian financial crisis occurred, which damaged the process of economic development around many countries in the region including Lao PDR. It made the economic growth rate declined from 6.9 percent in 1996 to 4.4 and 4.1 percent in 1998 and 1999 respectively, as well as the real GDP decreased to the lowest point with USD 1.28 in 1998. However, the economy has gradually recovered as the GDP growth rate had slightly increased in early 2000s with its average real GDP rate of 6.9 percent per annum in (2000-2009) and GDP per capita had also continuously increased from USD 320 in 2001 to 913 in 2009.

Lao PDR has reached stable economic growth within late years. Given many efforts by government on structural reforms of the economy, real GDP growth gained average 8.02 percent level within (2009-2014) yesrs. If economic growth was pushed forward due to industry in (2009-2010), shae of service gradually increased and overgrew industry in (2012-2013). Service sector kept its overwhelming position in (2013-2014). And stood for 9.3 percent growth. In general, economy-driving sectors were tourism, mining and electricity, trade, manufacturing, agriculture and services (see Figure 3.2).

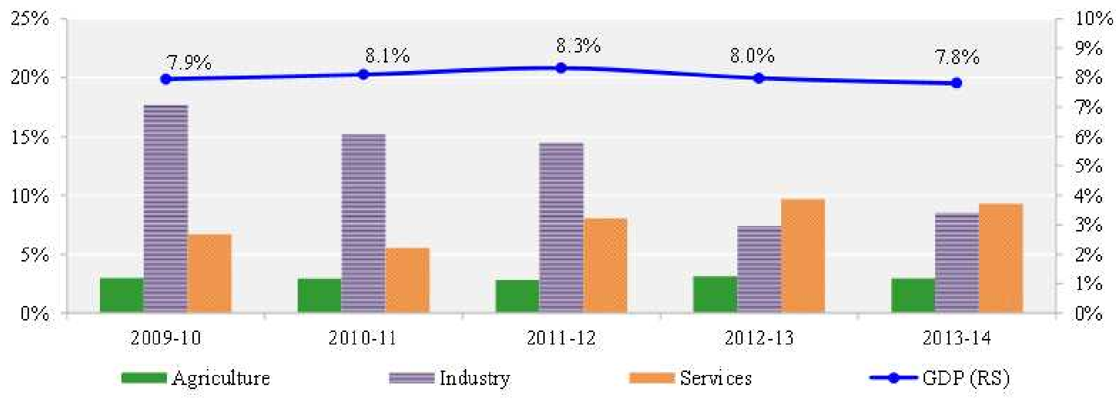
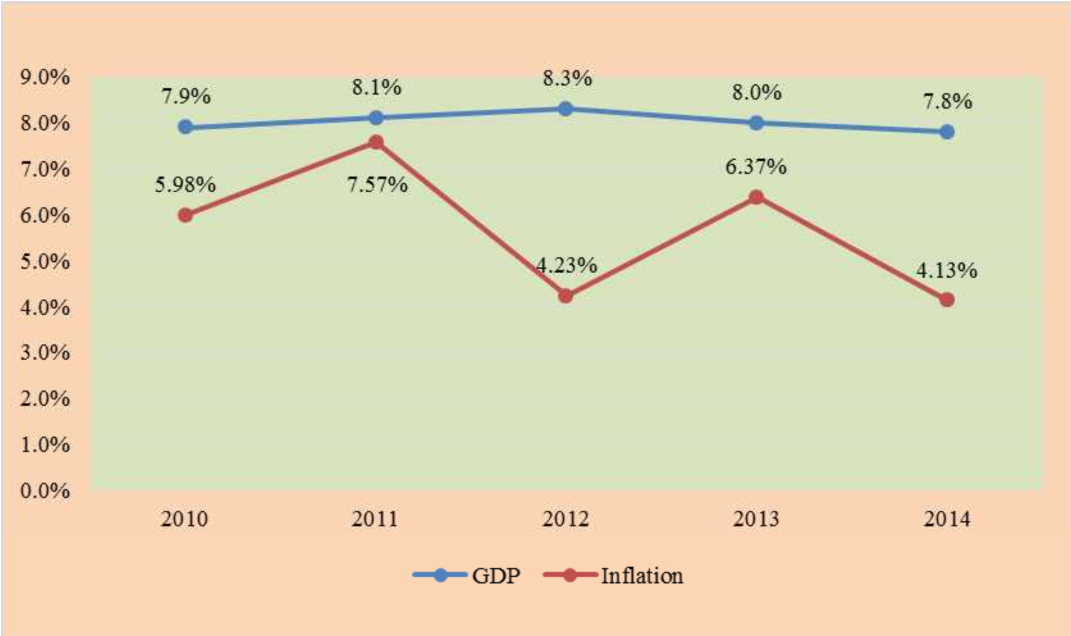


Figure 3.2 Economic Growths by Sectors

Source: Lao Statistic Bureau, Ministry of Planning and Investment

Lao economy underwent serious volatility during 1990s. Currency of Lao vastly depreciated against US dollars causing hyperinflation. Inflation ballooned out of 87.39 percent in 1998 into 134 percent in 1999. It was the highest level throughout the Lao PDR economic history. Economy suffered from finalcial crisis in the East Asia and high price for oil in the world market. As a result of taken measures inflation rate was dramatically curbed. If inflation rate was 26.95 percent in 2000, coming to 2010 it was only 5.98 percent. Averaged inflation rate constituted mere 5.65 percent within (2010-2014) time periods. It touched historical how point of 4.13 percent in consistent with low price for the rice and oil in the international market see Figure 3.3).

Figure 3.3 Comparisons between GDP Growth and Inflation Rate



Source: *Lao Statistic Bureau, Ministry of Planning and Investment*

3.2 Role of FDI in Lao economy.

However, Laos' performance in attracting FDI is still poorer than other ASEAN member countries. With the result that, Laos received almost the smallest amount of FDI flows with only 0.39 percent in 2013 of the total ASEAN FDI flow shares while Singapore was 54,91 percent which was the highest percentage and Vietnam was 6.74 percent[19] (UNCTAD, 2012). While Laos is a country doesn't perform well in attracting FDI, with FDI flowing into the country in small

[19] In 2011, the total of FDI inflows to ASEAN countries recorded USD 116.559 million

quantities, Vietnam is a neighboring country of Laos that has well performance on attracting FDI and relatively good compared to other countries in the region. According to (Mai Anh, 2008). She said that: “Vietnam has great potentials in attracting FDI, because of its attractive location in Asia, stable political environment, and availability of land and labor force”.

Vietnam started the way of reform the economy in 1986, which they call “doi moi” in the meaning of innovation. With the high GDP growth rate 7 percent and sharply decreasing poverty rate (from 58.1 percent to 22 percent) during the last two decades, Vietnam has become one of most rapid growing economies in the world. Behind the remarkable economic performance is the boost from continual and substantial international trade and FDI inflow (Du, 2011).

In the early years both countries have attracted very little foreign investment, but Vietnam gradually increases the amount of FDI, while Laos has increased very modest.

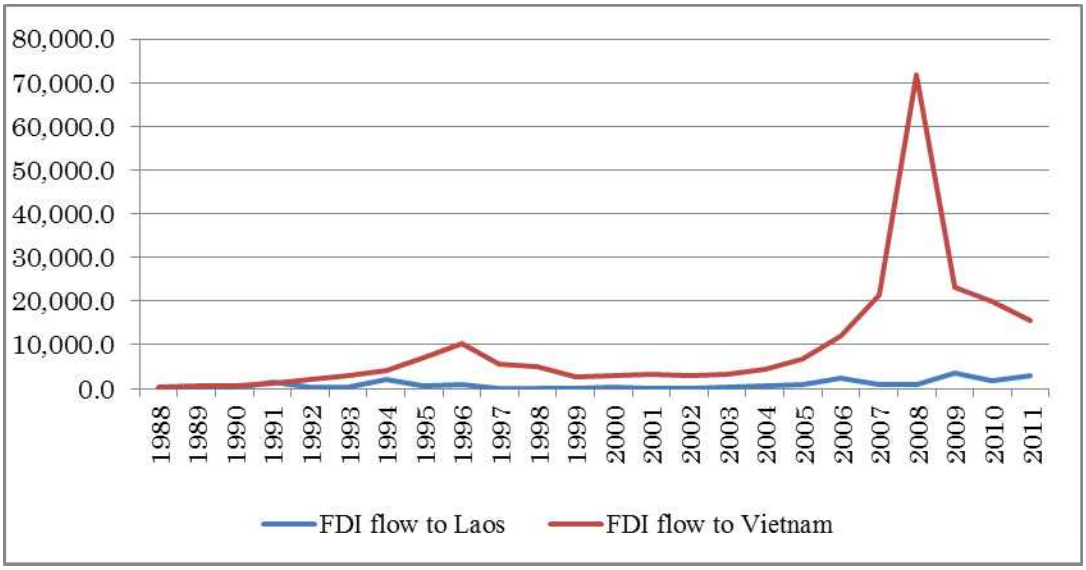


Figure* 3.4 *Compare FDI flow in to Laos and Vietnam (1988-2011).

Source: Asian Development Bank (ADB) indicator 2011.

The overall strategy of 7th National Socio-Economic Development Plan (2011-2015) NSEDP concerning FDI is to generate a more favorable environment to encourage the private sector and to attract FDI. Laws, regulations and procedures related to FDI management have been improved and reformed to accelerate the process of business establishment. The various investment activities are freely opened A highlight has been the opening of the one-door investment service starting from 01 October 2011, which helps facilitate fast and transparent investment, ensuring public benefits. In addition, a website has been developed to allow investors easy access to investment information. This has attracted domestic and foreign private investment of 88,394.7 billion kip or about USD 9,121.52 million, equivalent to 124.50% of the plan target (MPI, 2010) target is 64,000-71,000 billion kip or 50-56% of total investment) to attract FDI. However, there is a need to maintain the improvements of economic and social stability as private investors prefer predictability (MPI, 2006-2010). The major strategies of national growth and poverty eradication (NGPES) relating to FDI are (1) promoting industries and medium-sized enterprises (SMEs) and handicrafts production, (2) developing and promoting all economic sectors, particularly the private sector, including FDI in order to expand business opportunities through placing emphasis on export-oriented sectors that have a comparative advantage, and (3) enhancing market linkages and trade facilitation (NGPES, 2004).

FDI is the important key that has contributed to the process of Lao economic development. This process is driven by (1) many foreign investments in various sectors, which creates revenue resources; (2) majority of foreign investors' routine consumption; (3) money transfer through the financial system, which creates more benefits from interests and service fees; (4) job creation which increases people's incomes; (5) FDI that can increase domestic production to pursue international and national market; and (6) FDI that brings the transfer of technologies and managerial skills from investors' countries, which subsequently enhances the human resource development in Laos (Arshad, 2003).

From now to the year 2020, the goal of Lao government is achieving average GDP growth of above 8 percentages annually. In order to achieve this goal, Laos need to have total investment inflows of at least 32 percentages of the total GDP or USD15.8 billion, of which USD 8.9 billion will be from FDI, equivalent to 56% of the total investment. Thus, Lao PDR very clearly show that they are giving priority to the FDI. Other hand the Lao government is inviting all entrepreneurs from other country around the world come to invest in Laos in several sectors such as manufacturing, tourism, agriculture and services.[20]

The Lao government started to officially welcome FDI since late 1988. In 2015, total investment value of USD 20,638,969,969. The figure3.6 clearly illustrates that FDI flows' volume had fluctuated during the two decades. During the 1990s to the early 2000s, 1994 was the peak year of investment value with approximately USD 2,074,677,000. FDI volume started to decrease in the following years due to Asian financial crisis in (1997-1998). Its investment value

[20]Mr.Somdy Douangdy, Minister of Planning and Investment spoke at the "Laos Investment Forum", On July 05, 2012, at Republic of Korea, more detail available: http://www.mofa.gov.la/en/speeches/other-presidential-statement/117-remark-of-h-e-somdy-douangdy-minister-of-planning-and-investment-laos-investment-forum

was approximately USD 97,785,000 in 1998. In the early 2000s, although the number of FDI flow did not change much, but with small value of investment, and it was the lowest investment value with only USD 54,097,712 in 2001.

In order to improve investment environment and FDI attractiveness, in 2004, the government promulgated a new Law on foreign investment promotion together with improvement of related regulations and Laws. This allowed foreign investors to be able to set up their business as wholly foreign enterprise to deal with the mining and energy sectors. Consequently, the trend of FDI volume rose from USD 968,156,577 in 2005 to USD 3,448,037,521 in 2009. It was the largest investment value ever in Laos, which accounted for 16.71 percent of total investment value from (1988-2011), after that starting to decline again until 2013 due to declining of oil price and global financial crisis.

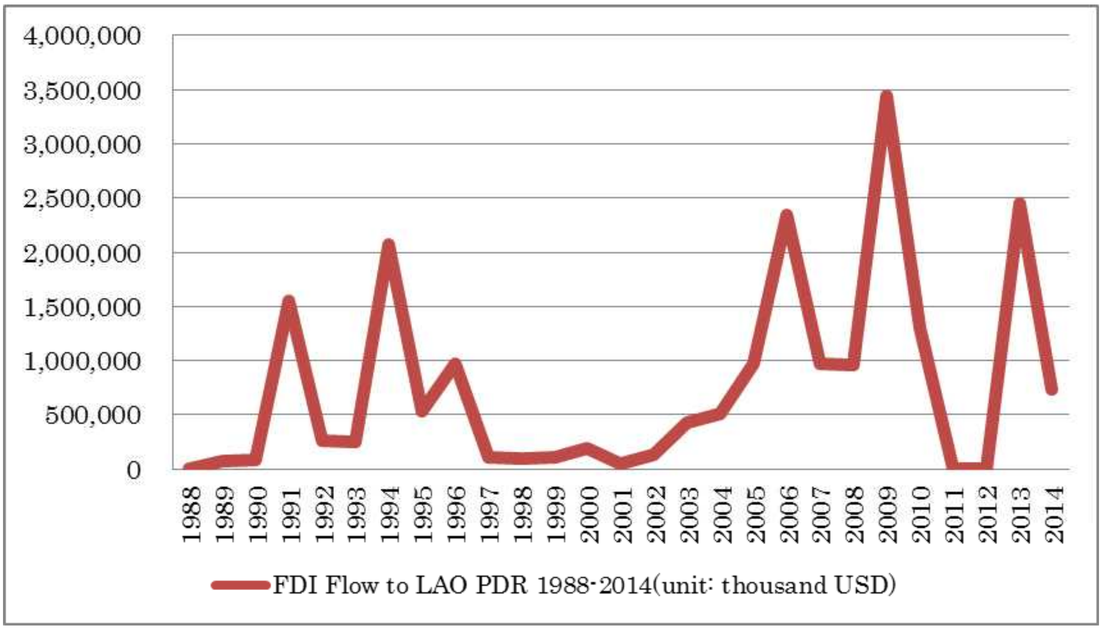


Figure 3.5 FDI Inflows In Lao PDR (1988-2014).

Source: Investment Promotion Department, MPI (2015), Lao PDR.

Foreign direct investment (FDI) is an investment transferred assets or funds from their own country by company into a country to build a new company or joint venture with local companies suhardi (2010) states that the host country will gain a lot of advantage to create job opportunities, increase local economic growth, provide residuals form of machines and technology, open export channels, increase foreign exchange reserves and tax revenue, endure interest rate and foreign exchanges fluctuation, and provide political and security protection . Therefore, the role of FDI is non-trivial in economic growth of the country, especially in developing countries like Lao PDR. Central planning economy has been transformed into market economy by government since 1986. Political stability, macroeconomic policy and enhanced investment environment were proposed as key factors to attract FDI. Lao became member of Asean Free Trade Area (AFTA) in 1997 and World Trade Organization in 2013. Foreign investors are granted with several preferences on tax-exemption for equipment and raw materials, lower income tax, VAT along with special land lease policy. However, FDI inflow into Lao is small enough relative to Greater Meking Sub-region and ASEAN countries while investment policies of these countries almost resemble. Less developed infrastructure, unskilled and constrained labor force can serve as deflecting factors. Starting from 2002, FDI inflows were heavily concentrated on hydropower, mining, services and agriculture sectors. Five major investors in to Lao economy are China, Vietnam, Thailand, South Korea and France.

Figure 3.6 Foreign Direct Investment (in percentage of GDP)

Source: *World Bank Indicator 2013*.

Figure 3.6 shows that the foreign Direct Investment in flow was nearly zero around 0.7 percent prior to change in the market policy in 1991. After the government amended laws and regulation to encourage investment in order to boost economic development activities, the FDI began to grow from 0.7 percent to 8.5 percent during 1992 to 1996. In contrast, from 1996 to 2002, the FDI inflow had steeply declined at 0.3 percent due to the Asian financial crisis occurred in 1997, and then gradually increased until 2005. From 2005 to 2007, the FDI inflow started to go up sharply at 7.7 percent, after that starting to decline again until 2013 due to declining of oil price and global financial crisis.

3.3 Law and regulation on FDI

The first Lao foreign investment law was adopted by People Supreme Assembly with No. 07/PSA, dated April 19, 1989 and effectively promulgated in the same year. However, the foreign investment law was amended by National Assembly with No.01/NA, dated March14, 1994. The main purpose of revision is to allow 100% foreign-owned enterprise to fully operate their business, and to contain liberalization for repatriation of profits as well as to broaden more various the ranges of business sectors for FDI. In 2004, the law was secondly amended in order to streamline the legal framework for FDI, to simplify procedure and reduce the constraint of investment and to improve more investment environment. This amendment was adopted by National Assembly with No. 11/NA, dated October 22, 2004. The Law was thirdly reviewed in 2009 by National Assembly No. 02, dated July 08, 2009. It merged the Laws on foreign investment promotion and domestic investment promotion. The new investment Law [21] removes the

[21] For detail available at: http://www.investlaos.gov.la/files/Promulgated%20Investment%20Promotion%20Law-English%20Edit%2007_07_2010.pdf

distinction between local and foreign investors. It means that both local and foreign investors have the same level of rights and benefits in term of operating any business activities in Lao PDR, such as having same tax exemptions and access to one-stop-services. In addition, it also provides improvement, standardization and harmonization of business requirements, procedures and incentives for all investors. Apart from that, interestingly, foreign investors now have the right to purchase local land[22]. The new investment Law and other related regulations significantly provide simple procedures and speed up the approval of business enterprises such as reducing the business registration period from 45 days to 10 days

[22] Based on investment Law 2009, foreign investors with registered investment capital at least USD 500,000 have the right to purchase own land for business or residential purposes.

CHAPTER 4

RESEARCH METHODOLOGY

This chapter presents the methodology applied in this study**.** It includes research design, population size, Sample size, questionnaire design, and data analysis method**.**

4.1. Research design

This study focuses in two stages. The first stage is to review the secondary data derived from academic text books, research papers, journals, publications, official reports and other printed materials. The second stage is to analyze the primary data collected from foreign investors through structured questionnaires. This study employs qualitative method to investigate the determining factors that affect the FDI inflows to Lao PDR in the Lao context

4.2. Population and Sample Size

4.2.1. Population size

The target population of this study is foreign investors who have invested in Lao PDR**.** According to the MIP, the number of foreign investment companies between 1988-(June) 2010, are about 1936 companies which have their business running. However, the research questionnaires were randomly distributed to 100 foreign companies or respondents (one company = one respondent=one questionnaire). Nevertheless, only 70 sets of questionnaire were responded to and useable for this research.

4.2.2. Sampling method

In order to select the sample for this research, a random sampling method is applied focusing on the existing foreign entrepreneurs who have set up their businesses in Lao PDR. These companies have also being operating as FDI enterprises with active management, particularly those companies that are located or have established head offices, branches, and representative offices in Vientiane Capital. It means that this research only sampled FDIs which are located or have offices in Vientiane Capital largely because of time and budget limitations.

4.3. Data source

This study uses to apply primany and secondary data, primary data is obtained from the interviews with foreign investors through structured questionnaires. Secondary data was collected from various sources, including government's documents, reports from international oraganizations, particularly from WB, ADB, IMF and UNCTAD as well as from previous surveys and studies.

4.4. Questionnaire design

To achieve the purpose of the study, the FDI determinants are summarized based on Dunning and Lundan (2008:325) from literature reviews of FDI determinant theories. As a result, the questionnaire (Appendix 3) is concisely designed to be as simple as possible for the respondents, and to be consistent with the current FDI situation in Lao PDR. The questionnaire consists of two main parts. The first one is to focus on the general information (personal and company's profile) of the respondents. The second part presents the related factors that determine FDI flows to Lao PDR. Those factors are measured by the Likert-type Scale method with one representing as the least important and five as the most important.

4.5. Data analysis method

4.5.1. Criteria for result interpretations

The statement in the research questionnaire was based on Likert-type scale which is ranked from 1=least important to 5=most important level. The higher score it is, the more important variable it is as estimative criteria.

Based on five rating scales, the interval or ratio scale is divided into the five scales for the analysis. Each variable is computed as follows:

$$\text{The interval score} = \frac{\text{Max score} - \text{Min score}}{\text{Total amount of level}} = \frac{5-1}{5} = 0.8$$

Table 4.1 Five rating scale and its degree

Scores between	Significance level	Problematic level
4.21-5.00	5-most important	5-most problematic
3.41-4.20	4-very important	4-very problematic
2.61-3.40	3-Important	3-problematic
1.81-2.60	2-less important	2-less problematic
1.00-1.80	1-least important	1-least problematic

With regard to the important level of the factors influencing flows of FDI, each five rating scale is different at 0.08 intervals, which means that the scores are placed among its series. This method is also used for measuring the degree of problematic issues or constraints FDIs face for doing business in the country. It means that the rank from 1=least problematic to 5=most problematic level. The higher score it is, the more problematic variable it is as estimative criteria.

4.4.2. Data analysis

In order to analyze the primary data obtained from the field survey, the data was coded and processed by SPSS program for Window. This package was used to compute the summary statistics such as Frequency, percentage, mean, standard deviation, and the significant level of each factor. The following steps were followed: the first one is to organize the data from questionnaire by coding into the SPSS program. The second one is to display data resulted from the SPSS program, which are presented in the tables with descriptive explanations. The third one is to draw conclusion and interpretations. Therefore, the data analysis includes the finding and analyzing the determinant of FDI flows into Lao PDR. It also comprises the interpretation of research findings in accordance with the study objectives as well as theoretical and conceptual framework of the study.

CHAPTER 5

DATA ANALYSIS AND RESULT

5.1. Data analysis

The aim of this chapter is to analyze and interpret the primary data that was collected by using a structured questionnaire.

5.1.1. Analyze characterization of samples

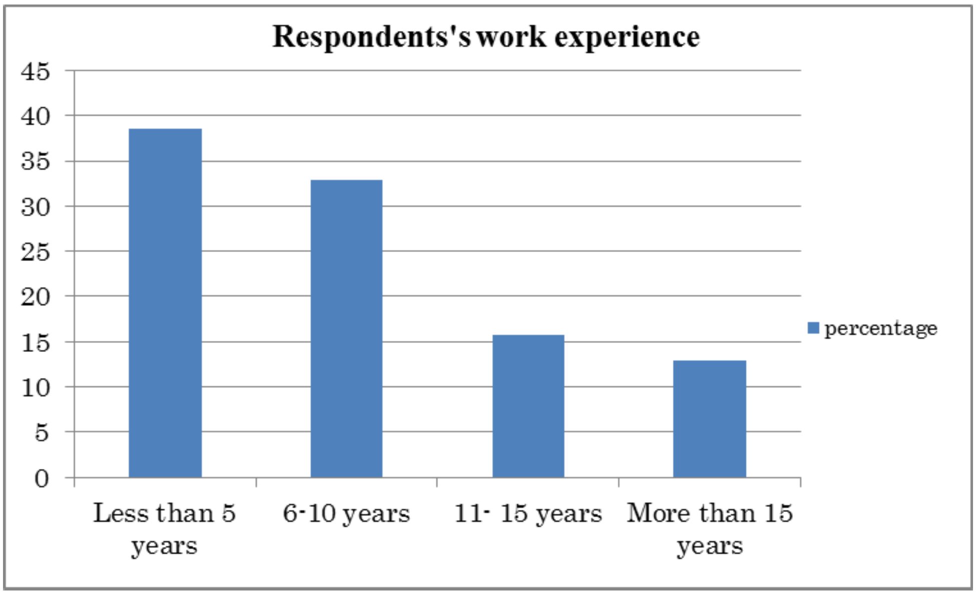


Figure 5.1 Respondents' work experience

Source: Field Survey, 2015

Figure 5.1 shows the number of years that the company has been operating in the country. As mentioned previously, the total number of firms which responded to the questionnaires is 70. The majority of them have worked in those firms with a number less than 5 years which accounted for 38.6 percent, while the second range is between 6-10 years with 32.9 percent. The respondents who have worked more than 15 years are only 15.7 percent, out of all the respondents. This survey results suggest that most firms or FDIs are new in Lao PDR.

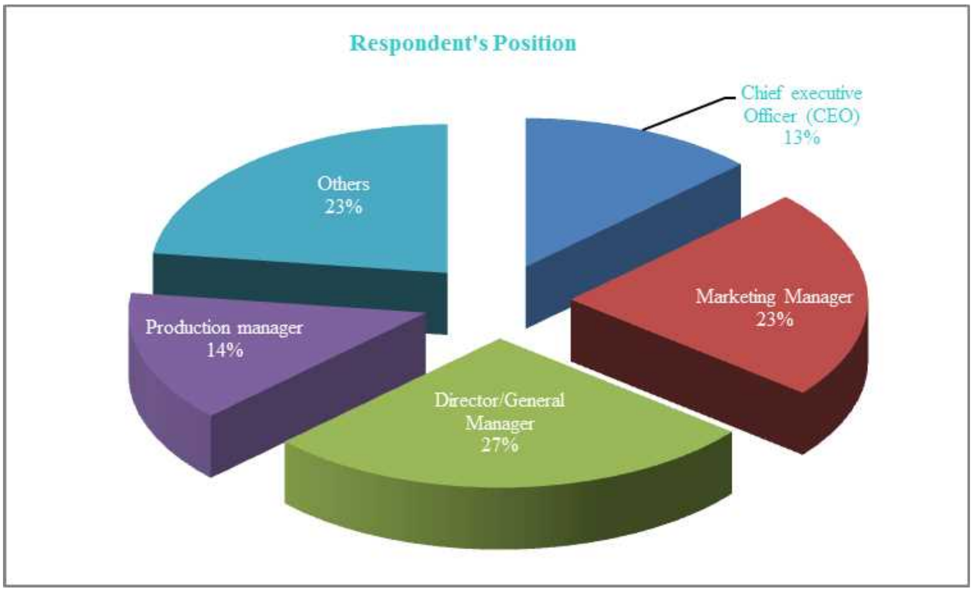


Figure *5.2 Respondents' position.*

Source: Field Survey, 2015

Figure 5.2 illustrates the number and percentage of respondents' position in their companies in Lao PDR. The Director or General Manager occupies around 19 percent which is the largest among the respondents. The respondents of

Marketing Manager, Product Manager, and Chief Executive Officer (CEO) are 16, 10, and 9 percent respectively. Other positions accounted for 16 percent. Those positions are Finance Manager, H.R Manager Proprietor, Legal Department Manager, Chief Representative, Country Head, Deputy Director, Audit Assistant, Factory Manager, Admin and Finance officer, Senior Accountant and others.

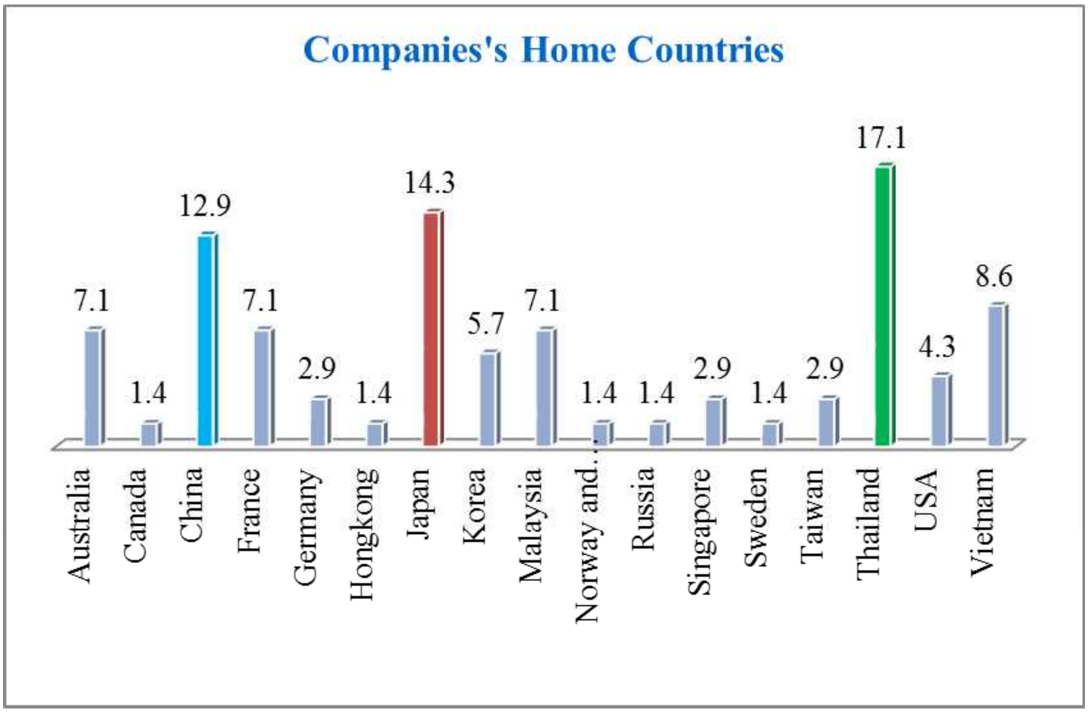


Figure 5.3 Original countries of respondents

Source: Field Survey, 2015

From the figures 5.3 above, Thailand leads in the origin of FDIs currently operating the country accounting for 18.6 percent. China follows 15.7 percent of the total firms in Lao PDR in 2001-2015. However, Thailand is the highest rate accounted for 20.7 percent out of 70 respondents. The following responses are from China occupied 13.9 percent. Japan, France, Australia, Korea and Singapore accounted for 12.9, 7.1, 7.1, 2.9 and 2.9 percent respectively; finally, about 11 percent of respondents did not identify their home country.

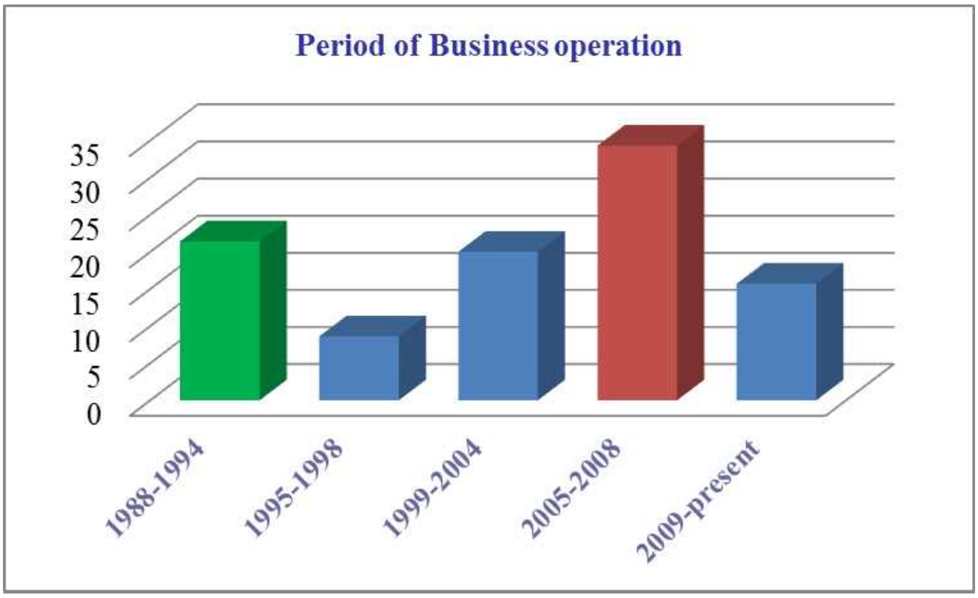


Figure 5.4 Period of business registration

Source: Field Survey, 2015

Figure 5.4 shows the number of companies registered the years specified in Lao PDR. The vast number of company registration occurred during 2005 to 2008. It accounted for 34.3 percent of total respondents. This was a result of the implementation of a new Law on the promotion of foreign investment in Lao PDR in 2004. However, this figure fell to 15.7 between the period 2009 and 2010, similar to the period before 1999.

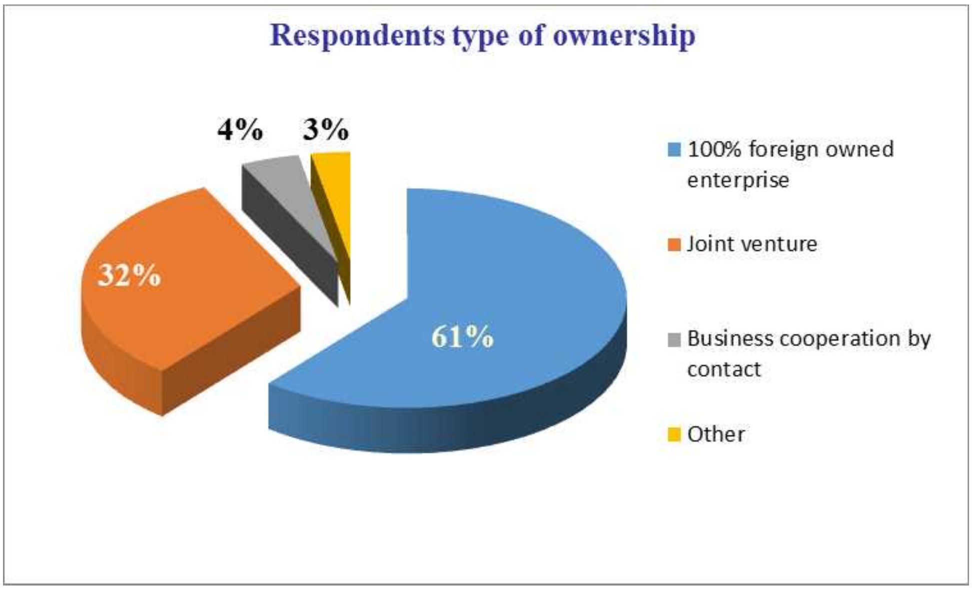


Figure 5.5 Respondents by type of ownership

Source: Field Survey, 2015

In terms of distribution of ownership type presented in the chart above, approximately 61 percent of the responding companies are wholly foreign owned enterprises, Joint venture enterprises which cover 32 percent and business cooperation by contract is only 4 percent. The reason why the wholly foreign owned enterprise is more than the joint venture enterprise is that Lao government allows foreign investors to establish own 100 percent of shares of an enterprise as mentioned in the Law on the promotion of foreign investment of Lao PDR.

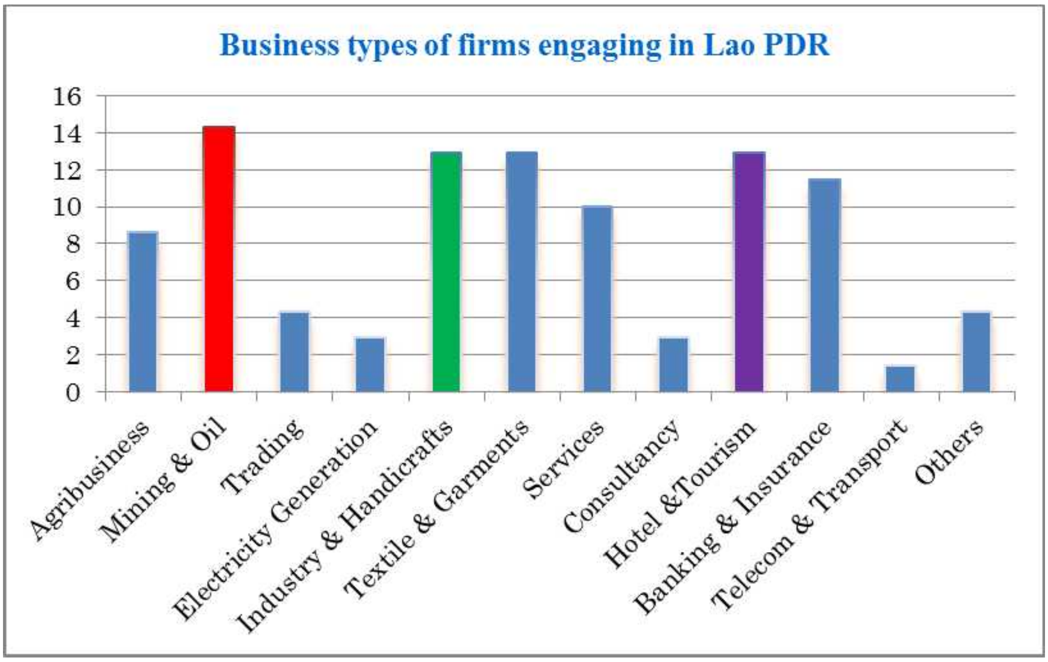


Figure 5.6 Type of business of firm in Lao PDR.

Source: field survey September 2015.

As seen in graph 5.6, categoried businesses are classified into 12 types by the statistical record method of Lao government (MPI) since the implementation of the opened-door policy on FDI. Countrywide, a number of textile & garment and hotel & tourism arefamous factors represented at 50 firms and 209 companies, but the survey results show that they closely represent the largest frequency of 30 (14.4 percent) and 29 (13.9 percent) respectively. However, there is almost an even distribution of the following types: Mining & Oil, Service, Agriculture, Industry & Handicraft, Banking & Insurance, and Trading. Electric Generation, Construction and Telecom & Transport represent approximately 4, 3, and 1 percent respectively.

Table* 5.1 *Opinion of respondents about Lao PDR as investment destination.

Investment Destination	Frequency	Percent
Very Good	10	14.3
Good	56	80.0
Poor	1	1.4
Very Poor	1	1.4
No idea	2	2.9
Total	70	100.0

Source: field survey September 2015.

The above Table 5.1 show that approximately 80 percent of respondents wsa satisfied with investment destination 14.3 percent remained good condition. However, only one respondent (1.4 percent) think it was poor and very poor.

In sum, the overall picture of perspective from respondents is favour of investment destination in Lao PDR.

However, in order to achieve more, there is a need for government to develop more for the sake of more investment destination.

***Table* 5.2**
Opinion of respondents from current incentives of Lao government to attract FDI for all sectors.

Respondents' opinion	Frequency	Percent
Satisfied	61	87.1
Dissatisfied	7	10
N/A	2	2.9
Total	70	100

Source: field survey September 2015.

Table 5.2 shows the opinion of respondents from the current investment incentive by Lao Government to attract FDIs. The majority of respondents were stil satisfied with the current incentives and policy representing 61 firms (approximately 87.1 percent). In contrast, respondents who are dissatisfied were about 10 percent out of 68 respondents. Thus, it can be implied that the current investment incentives of Lao government are considered to be satisfactorily in terms of attracting FDI flows to Lao PDR.

***Table* 5.3**
Plan to extend the investment in Lao PDR.

Future plan	Frequency	Percent
Extension	59	84.3
No extension	10	14.3
N/A	1	1.4
Total	70	100

Source: field survey September 2015.

Regarding the future plan of companies in respect of whether they would better extend their investments in Lao PDR, the majority of respondents who are decisive to increase their business activities accounts for approximately 84.3 percent of the total respondents. On the other hand, those who are not interested in extending their business are only 10 firms accounting for approximately 14.3 percent.

Table 5.4
Respondents' opinion on type of FDI in Lao PDR.

FDI type	Frequency	Percent
Market-seeking Investment	24	34.3
Resource-seeking Investment	17	24.3
Efficiency-seeking Investment	23	32.9
Asset-seeking Investment	64	91.4
N/A	6	8.6
Total	70	100

Source: field survey September 2015.

As explained in the literature review, FDI consists of four types according to Dunning's theory of FDI. The above table shows that the respondents' opinion about type of FDI in Lao PDR. Market-seeking Investment occupied approximately 34.3 percent (24 people), The next cited is Resource-seeking Investment accounted 24.3 percent, with Efficiency-seeking Investment (23 percent) following. The last type is Assert-seeking Investment which is the most cite by respondents.

It can be implied that Lao PDR is posinga good position for foreign investment destination that aims to benefit from supplying the local market or market of near territories and to maintain existing or promote new markets as well as to catch up the benefits from successful export or the extension of the company to success in a new market.

5.1.2. Descriptive Statistics of the important factors which influence FDI flows

This part is to analyze the primary data which constitutes the second part of the questionnaire. Using SPSS program for window, this research computed frequency, mean, and standard deviation. The frequency is the total number of cases that are occurred in each variable. The mean is the average score for each variable which indicates the significant level of that variable, while S.D score indicates the degree of deviation from the central value or mean score. All variables are divided into five main groups; under each are sub-factors. All these are to help us determine which factors are significant in attracting more FDI into Lao PDR. As explained in the Chapter 4, Research Methodology, a Likert scale is used to measure the level of significance of factors that are likely to affect FDI flows in Lao PDR. The Likert type scale consists of five point scales which indicate that the higher the score of the variable; the greater its importance in determining FDI flows.

***Table* 5.5**

Factors affecting FDI flows as relate to Infrastructure and Technology.

No.	Attributes (F1)	Mean	S.D	Important Level
I	*Access to physical infrastructure*	*3.98*	*0.88*	*Very important*
1	Electricity	4.36	0.89	Most important
2	Roads	4.28	0.78	Most important
3	Internet	4.22	0.86	Most important
4	Water supply	4.13	0.95	Very important
5	Telecommunication	3.81	0.98	Very important
6	Terrain/topography	3.06	0.80	Important
II	*Technology*	*3.61*	*0.79*	*Very important*
1	Availability of well qualified work force	4.16	0.87	Very important
2	Level of technology development	4.05	0.80	Very important
3	Access to reliable and cooperative suppliers	3.14	0.70	Important
4	High industrial concentration (Clustering)	3.09	0.80	Important
	Total	3.79	0.84	Very important

Source: field survey September 2015.

Table 5.5 illustrates the views of respondents on the significance of which of the factors relating to F1, are important driving FDI flows or influence investors' decision making to invest in Lao PDR. In the first group, which relates to infrastructure factors, comprised six sub-factors. Three variables such as Electricity, Roads, and Internet Services had the greatest mean scores and considered as the most important factors under infrastructure that influence FDI flows. Since the scale used to measure is a five point scale, the mean "between" 4.41-5.00 represent the most important factors affecting FDI flows. Thus, these three variables scoring at 4.36, 4.28 and 4.22, and S.D at 0.89, 0.78 and 0.86 respectively are ranked as the most important determinants of FDI flows.

The second group relating to technological factors consists of four variables, namely Availability of well qualified work force, Level of technology development, Access to reliable and cooperative suppliers, and High industrial concentration. None of variables can be classified as the most important factors influencing FDI. Two of them, Availability of well qualified work force and Level of technology development factors, were rated very important level with mean score of 4.16 and 4.05, S.D 0.87 and 0.80 respectively. The last two factors were at the important level: Access to reliable and cooperative suppliers, mean score of

3.14 and S.D of 0.70; and High industrial concentration, mean score of 3.09 and S.D of 0.80.

In conclusion, all variables under F1 are very important with total mean score of 3.79 and S.D of 0.84. Each factor has played a key role to increase the volume of FDI flows, particularly factors such as Electricity, Roads, and Internet services.

Table 5.5.1

Most important factors from F1 (Infrastructure and Technology) per sector.

Sectors FDI	**Factors affecting FDI**													
	Infrastructure factors							**Technology**						
	No. of obser-vations	Mean (sd)	1	2	3	4	5	No. of obser-vations	Mean (sd)	1	2	3	4	5
Agribusiness	6	4.55 (0.34)					✓	6	4 (0.68)				✓	
Mining	10	4.18 (0.30)				✓		10	3.75 (0.88)				✓	
Trading	3	4.16 (0.44)				✓		3	3.5 (0.86)				✓	
Electricity	2	4.66 (0)					✓	2	4 (0)				✓	
Industry	9	4.25 (0.34)					✓	9	4.02 (0.52)				✓	
Textile	9	4.11 (0.37)				✓		9	4.27 (0.49)					✓
Services	7	4.11 (0.32)				✓		7	3.82 (0.65)				✓	
Construction	0							0						
Consultancy	2	4.08 (0.11)				✓		2	4.75 (0.35)					✓
Hotel	9	3.85				✓		9	3.61				✓	

		(1.19)							(1.10)					
Banking	8	4.02 (0.84)				✓		8	4.34 (0.49)					✓
Telecom	1	3.66 (0)				✓		1	4 (0)				✓	
Other	4	4.33 (0.45)					✓	4	4.37 (0.59)					✓
Overall	**70**	4.15 (0.55)				✓		**70**	3.99 (0.72)				✓	

Notes 1: The answer based on Likert-type scale which is ranked from 1 to 5, in which: 1-least important, 2-less important, 3-important, 4-very important, 5-the most important.

Notes 2: Overall represents the whole sample with 70 respondents from all 13 sectors.

The table shows the view of respondents on the significant of which of the factors are relating to F1 factors with the highest frequency of response per FDI sectors the indicator from 1=least important to 5=most important level. The finding shows that for individual sectors each factor has a different level of importance. The 21 companies out of 70 respondents which considered infrastructure factors as the most important variables in the agribusiness, electricity, industry and other sectors and 49 respondents considered infrastructure factors as important variables for mining, trading, textile, servicing and banking sectors, etc. With the overall mean= 4.15; S.D=0.55, see Table 5.5.1.

However, there are 22 companies of the total respondents selected technology factors as the most important factors for textile, consultancy, banking and other sectors which influencing FDI to Laos, see Table 5.5.1 for the mean and S.D. The rest of respondents considered technology factors as important variables for agribusiness, mining, trading, hotel, banking and etc., with overall mean= 3.99 and S.D=0.72, see Table 5.5.1.

***Table* 5.6**

Factors affecting FDI flows as relate to Political/government regulation.

No.	Attributes (F2)	Mean	S.D	Important Level
I	*Political Risk*	*3.38*	*0.80*	*Important*
1	Government Stability	4.39	0.76	Most important
2	Terrorism	3.12	0.88	Important
3	Civil war	3.08	0.78	Important
4	Racial or ethnic tension	2.91	0.80	Important
II	*Government regulation*	*3.80*	*0.85*	*Very important*
1	lengthy approval procedure (Bureaucracy)	4.21	0.81	Most important
2	Protection policy on FDI	4.07	0.92	Very important
3	Tax incentive	4.02	0.93	Very important
4	Trade policy (tariffs and non-tariff	4.01	0.96	Very important

	barriers)			
5	International trade agreements	3.98	0.87	Very important
6	Decree of expropriation	3.23	0.71	Important
7	Immigration Policies	3.05	0.75	Important
III	*Related Laws on FDI*	*3.90*	*0.81*	*Very important*
1	Investment Law	4.43	0.80	Most important
2	Enterprise Law	4.33	0.82	Most important
3	Tax Law	4.18	0.80	Very important
4	Customs Law	4.13	0.85	Very important
5	Environment Law	4.02	0.84	Very important
6	Banking regulation and Law	3.84	0.92	Very important
7	Competition & Intellectual Property Law	3.78	0.96	Very important
8	Labor Law	3.34	0.70	Important
9	Land Law	3.08	0.64	Important
IV	*Processes of FDI Dispute Settlement*	*3.50*	*0.77*	*Very important*
1	International Dispute Settlement processes	3.85	0.72	Very important
2	judicial organizations	3.79	0.87	Very important
3	Domestic Litigation processes	3.26	0.70	Important
4	Lawyer or attorney	3.09	0.80	Important
	Total	3.64	0.81	Very important

Source: field survey September 2015.

Table 5.6 shows the respondents' opinions on which variables coming under the F2 are important determinants of FDI flows into Lao PDR. These factors were divided into four small groups, namely political risk, Government regulations, Related Laws on FDI, and Processes of FDI dispute Settlement. Each small group consists of different number and category clarified case by case as follow:

Political risk factor includes four variables, namely Government stability, Terrorism, Civil war, and Racial or ethnic tension. Among them, only Government stability variable was considered as the most important with mean score=4.39 and S.D=0.76.

The Government regulatory factor comprises six variables. Among them, there is only lengthy approval procedure (Bureaucracy) is ranked as the most important level with the highest mean score of 4.21 and S.D value is 0.81. The following items, Protection policy on FDI, Tax incentive, Trade policy (tariffs and non-tariff barriers), and International trade agreements are rated as very important level with mean score of 4.07 (S.D=0.92), 4.02 (S.D=0.93), 4.01 (S.D=0.96), and 3.97 (S.D=0.87) respectively.

As regard to factors that fall under related Laws on FDI, there are nine variables as can be seen in the Table 5.13 above. Among them, only Investment Law and Enterprise Law are scored at the highest mean of 4.43 and 4.33 and S.D of 0.80 and 0.82 respectively. It means that the Investment Law and Enterprise Law are considered as the most important factors attracting FDI to Lao PDR.

In conclusion, under F2, there are four variables, namely Government stability, Lengthy approval procedure, Investment Law, and Enterprise Law are considered as the most important determinants of FDI flows to Lao PDR. Other sub-factors such as Protection policies on FDI, Tax incentive, Trade policy, International trade agreements, Tax Law, Customers Law, Environment Law, Banking regulation and Law, Competition & Intellectual property Law, International dispute settlement, and Judicial organizations, were all ranked as very important to FDI flows. Lastly, Terrorism, Civil war, Racial or Ethnic tension, Decree of expropriation, Immigration policies, Labor Law, Land Law, Domestic litigation processes, and Lawyer or attorney were marked at important level to FDI in Lao PDR.

Table 5.6.1

Most important factor from F2 (Political/Government Regulation) per sector.

Sectors FDI	Factor affecting FDI																										
	Political Risk							Government Regulation							Related Law on FDI							Process of FDI dispute settlement					
	Obs.	**Mean**	**1**	**2**	**3**	**4**	**5**	**Obs.**	**Mean**	**1**	**2**	**3**	**4**	**5**	**Obs.**	**Mean**	**1**	**2**	**3**	**4**	**5**	**Obs.**	**Mean**	**1**	**2**	**3**	**4**
Agribusiness	6	4.5 (0.41)					✓	6	4.30 (0.24)					✓	6	4.33 (0.53)					✓	6	3.87 (0.13)				✓
Mining	10	4.2 (1.01)				✓		10	3.71 (1.21)				✓		10	4.17 (1.2)				✓		10	3.95 (1.01)				✓
Trading	3	4.25 (0.75)					✓	3	4.33 (0.71)					✓	3	4.25 (0.72)					✓	3	4.25 (0.25)				
Power	2	4.5 (0)					✓	2	3.85 (0)				✓		2	3.88 (0)				✓		2	3.75 (0)				✓
Industry	9	4.16 (0.45)				✓		9	3.88 (0.59)				✓		9	3.71 (0.76)				✓		9	3.47 (0.49)				✓
Textile	9	4.27 (0.57)					✓	9	4.11 (0.47)				✓		9	4.06 (0.53)				✓		9	3.75 (0.90)				✓
Services	7	3.67 (0.57)				✓		7	3.81 (0.93)				✓		7	4.01 (0.88)				✓		7	3.71 (0.48)				✓
Construction	0	0						0							0	0						0					
Consultant	2	3.75 (0.70)				✓		2	4.21 (0.10)					✓	2	4.27 (0.54)					✓	2	4.21 (0.73)				
Hotel	9	3.77 (1.01)				✓		9	3.52 (0.90)				✓		9	3.51 (1.13)				✓		9	3.27 (0.78)				✓
Banking	8	4.56					✓	8	3.92				✓		8	4.20				✓		8	4.21				

		(0.54)							(0.55)							(0.58)							(0.73)					
Telecom	1	4 (0)				✓		1	2.88 (0)		✓				1	2.88 (0)		✓					2.25 (0)		✓			
Others	4	4.5 (0.84)					✓	4	4.32 (0.51)					✓	4	3.99 (0.84)				✓			4.12 (0.25)				✓	
<u>Overall</u>	***70***	*4.17* *(0.72)*				✓		***70***	*3.90* *(0.77)*				✓		***70***	3.99 (0.84)				✓		***70***	*3.77* *(0.73)*				✓	

Notes 1: The answer based on Likert-type scale which is ranked from 1 to 5, in which: 1-least important, 2-less important, 3-important, 4-very important, 5-the most important.

Notes 2: Overall represents the whole sample with 70 respondents from all 13 sectors.

Note 3: The standard deviations are in the parentheses.

The table 5.6.1 shows the respondents' opinions on which factor coming under the F2 are important determinants of FDI flows into Lao PDR. The table and calculating showed that the 32 respondents out of the total samples considered the political risk factor as the most important variables for agribusiness, trading, mining and banking sectors, and the rest of the respondents selected the political risk as important variables, which are important for industry, hotel, telecom, consultancy and etc., with overall mean=4.18 and S.D=0.72, see Table **5.6.1.**

The 15 companies out of 70 respondents considered the government regulation factors as the most important indicators in the agribusiness, trading, consultancy sectors, which affecting FDI inflow to Laos, and the rest considered the government regulation as important variables for mining, power, industry, textile, service and etc, with the overall mean=3.90 and S.D.=0.77, see Table 5.6.1. For law on FDI, the 15 companies ranked it as the most important variables which will be influenced in the agribusiness, trading, consultant sectors and the rests considered law on FDI as important variables, with the overall mean=3.77 and S.D=0.73, see Table **5.6.1.** In addition, process of FDI dispute settlement factors are also considered as the most important indicators for trading, consultant and banking sectors, see table 5.6.1.

Table 5.7
Factors affecting FDI flows as relate to Economy and Market.

No.	Attributes (F3)	Mean	S.D	Important Level
I	*Economy*	*4.16*	*0.85*	*Very important*
1	Low Labor costs	4.35	0.80	Most important
2	Economic stability	4.31	0.81	Most important
3	Energy cost	4.10	0.85	Very important
4	Low cost of raw materials	4.02	0.95	Very important
5	Low transportation/Logistic cost	4.00	0.85	Very important
II	*Market*	*3.79*	*0.84*	*Very important*
1	Market growth potential	4.29	0.82	Most important
2	Level of competition in market	3.97	0.90	Very important
3	Access to market(regional and global)	3.94	0.90	Very important
4	Small size market and per capita income	3.57	0.91	Very important
5	Technology and innovative capacity	3.18	0.67	Important
	Total	3.97	0.85	Very important

Source: field survey September 2015.

Table 5.7 shows the degree of importance of each of the variables that are grouped under F3 to FDI in Lao PDR. In the opinions of foreign investors, the most important variables under Economic factors affecting FDI flows are Low labor costs and Economic stability factors scoring the highest with mean score of

3.45 and 4.31 and S.D of 0.80 and 0.81 respectively. The other variables such as Energy cost (mean=4.10 and S.D=0.85), Low cost of materials (mean=4.02 and S.D=0.95), and Low transportation/Logistic cost (mean=4.00 and S.D=0.85) were ranked as very important level.

Under the group of Market factor, only Market growth potential factor that was scored to be the most important factor affecting FDI with mean=4.29 and S.D=0.82. However, three factors such as Level of competition in a market, Access to market (regional and global) and small size market and per capita income were all rated as very important factors for FDIs in Lao PDR scoring mean of 3.97 and S.D of 0.90, mean of 3.94 and S.D of 0.90 and mean of 3.57 and S.D of 0.91 respectively.

In conclusion, under F3 there three variables, namely Low labor costs, Economic stability, and Market growth potential are considered the most important to FDI, while the factors such as Energy cost, Low cost of materials, Low transportation/Logistic costs, Level of competition in market, Access to market, and small size market and per capita income play very important role for FDI in Lao PDR. Only one factor, Technology and innovative capacity, is considered as important.

Table 5.7.1
Most important from F 3 (Economy and Market) factors per sector.

Sectors FDI	**Factors affecting FDI**													
	Economic factors							**Market**						
	No. of obser-vations	Mean (sd)	1	2	3	4	5	No. of obser-vations	Mean (sd)	1	2	3	4	5
Agribusiness	6	4.73 (0.32)					✓	6	3.86 (1.21)				✓	
Mining	10	4.36 (0.59)					✓	10	3.78 (1.10)				✓	
Trading	3	4.6 (0.40)					✓	3	3.46 (0.41)				✓	
Electricity	2	4.2 (0)				✓		2	3.8 (0)				✓	
Industry	9	4.22 (0.27)					✓	9	3.8 (0.43)				✓	
Textile	9	4.31 (0.52)					✓	9	3.75 (0.88)				✓	
Services	7	4.28 (0.50)					✓	7	4.2 0.54				✓	
Construction	0							0						
Consultancy	2	4.3 (0.14)					✓	2	4.1 0.42				✓	
Hotel	9	3.24 (1.12)			✓			9	3.51 (1.20)				✓	
Banking	8	3.65 (0.74)				✓		8	3.97 (0.44)				✓	
Telecom	1	3 (0)			✓			1	3 (0)			✓		
Other	4	4.55 (0.9)					✓	4	4.35 (0.55)					✓
Overall	**70**	4.13 (0.75)				✓		**70**	3.83 (0.82)				✓	

Notes 1: The answer based on Likert-type scale which is ranked from 1 to 5, in which: 1-least important, 2-less important, 3-important, 4-very important, 5-the most important.
Notes 2: Overall represents the whole sample with 70 respondents from all 13 sectors.

Table 5.7.1 shows the degree of importance of each individual factors that are grouped under F3 to FDI in Lao PDR. The 50 companies out of 70 respondents which considered economic factors as the most important variables in the agribusiness, service, industry, consultancy, trading sectors and etc., and the rests choose economic factors as important and least important, with overall mean= 4.13 and S.D= 0.75. For market factor, most of respondents considered market as the most important factors for all sectors, overall mean= 3.83 and S.D=0.82, see Table 5.7.1.

***Table* 5.8**
Factors affecting FDI flows as relate to Finance.

No.	Attributes (F4)	Mean	S.D	Important Level
1	Exchange rate fluctuation	4.22	0.86	Most important
2	High inflation	4.11	0.90	Very important
3	High interest rate	3.92	0.98	Very important
4	Limited repatriation of dividends	3.17	0.76	Important
5	Difficult to access to capital	2.94	0.80	Important
	Total	3.67	0.86	Very important

Source: field survey September 2015.

In the above Table (5.8), it shows factors that are related to the financial environment in which FDIs operate in Lao PDR. Among the five variables, only Exchange rate fluctuation factor is the most important variable which affects FDIs. This has a mean=4.22 and S.D=0.86. Two other factors, High inflation (mean=4.11 and S.D-0.90) and High interest rate (mean=3.92 and S.D=0.98) are classified as very important.

In conclusion, the result reveal that financial factors play very important role for FDI operations in Lao PDR because their overall mean score is 3.67 and S.D is 0.86. The most important for foreign investors, however, is Exchange rate fluctuation.

5.8.1 Table
Most important F 4 (Finance) factors per sector.

Sectors FDI	**Factors affecting FDI**						
	Finance Factor						
	No. of observations	**Mean (sd)**	**1**	**2**	**3**	**4**	**5**
Agribusiness	6	4.2 (0.97)				✓	
Mining	10	3.76 (1.3)				✓	
Trading	3	4.86 (11.0)					✓
Electricity	2	4 (0)				✓	
Industry	9	3.62 (0.64)				✓	
Textile	9	4.37 (0.46)					✓
Services	7	4.14 (0.42)				✓	
Construction	0						
Consultancy	2	3.9 (0.14)				✓	

Hotel	9	3.46 (0.89)				✓	
Banking	8	3.92 (0.90)				✓	
Telecom	1	1 (0)	✓				
Other	4	4.45 (0.83)					✓
Overall	**70**	**4.15 (2.41)**				✓	

Notes 1: The answer based on Likert-type scale which is ranked from 1 to 5, in which: 1-least important, 2-less important, 3-important, 4-very important, 5-the most important.

Notes 2: Overall represents the whole sample with 70 respondents from all 13 sectors.

Table 5.8.1 showed that there were several differences of the important degree that mentioned in this factor (F4). Most of respondents in our samples considered financial factors as important variables in the agribusiness, service, industry, consultancy, banking, hotel sectors and etc., and a few respondents considered financial factors the most important variables in trading, textile and other sectors, with overall mean= 4.15 and S.D= 241, see Table 5.8.1.

Table 5.9

Factors affecting FDI flows as relate to Society and Culture.

No.	Attributes (F5)	Mean	S.D	Important Level
I	*Society*	*4.01*	*0.78*	*Very important*
1	Social stability	4.33	0.85	Most important
2	Education Level	3.69	0.70	Very important
II	*Culture*	*3.24*	*0.79*	*Important*
1	Attitudes (manner)	3.77	0.85	Very important

2	Language and Communication	3.31	0.71	Important
3	Values	3.24	0.80	Important
4	Cultural distance	3.13	0.78	Important
5	Belief/tradition	3.09	0.73	Important
6	Religion	2.88	0.85	Important
	Total	3.62	0.78	Very important

Source: field survey September 2015.

Table 5.9 focuses on significance level of F5 affecting FDIs in Lao PDR. From the survey result above, Social stability factor (mean=4.07 and S.D=0.82) represented the most important variable, while Educational level with mean=3.69 and S.D=0.70 is considered as very important to FDI. Under the Culture group, only one variable, Attitude, is classified as very important degree with mean=3.77 and S.D=0.85. The rest of the variables, namely Language and Communication (mean=3.32 and S.D=0.71), Value (mean=3.24 and S.D=0.80), Culture distance (mean=3.13 and S.D=0.78), Belief/tradition (mean=3.09 and S.D=0.73), and Religion (mean=2.88 & S.D=0.85) are all categorized as the important levels.

In conclusion, the overall mean score of F5 is ranked as very important factors to FDI in Lao PDR. However, Social Stability variable can be said to be the most important that affect FDI since it was scored the highest mean score. The majority of other variables are graded at the important level to FDI in Lao PDR.

5.9.1 Table
Most important from F 5 (Society and Culture) sub factors per sector.

Sectors FDI	Factors affecting FDI													
	Social factors							Culture						
	No. of obser-vations	Mean (sd)	1	2	3	4	5	No. of obser-vations	Mean (sd)	1	2	3	4	5
Agribusiness	6	3.66 (1.16)				✓		6	3.36 (0.82)				✓	
Mining	10	4.5 (0.66)					✓	10	3.86 (0.79)				✓	
Trading	3	4 (0.5)				✓		3	3.77 (1.17)				✓	
Electricity	2	3.5 (0)				✓		2	3.5 (0)				✓	
Industry	9	4 (0.35)				✓		9	3.55 (0.59)				✓	
Textile	9	4.22 (0.66)					✓	9	3.64 (0.69)				✓	
Services	7	4.5 (0.76)					✓	7	4.07 (0.66)				✓	
Construction	0							0						
Consultancy	2	4.25 (0.35)					✓	2	3.41 (0.35)				✓	
Hotel	9	3.66 (1.03)				✓		9	3.24 (0.68)			✓		
Banking	8	4.31 (0.70)					✓	8	3.62 (0.65)				✓	
Telecom	1	3 (0)			✓			1	3.66 (0)				✓	
Other	4	4.25 (0.95)					✓	4	3.85 (0.49)				✓	
Overall	**70**	4.10 (0.78)				✓		**70**	3.63 (0.69)				✓	

Notes 1: The answer based on Likert-type scale which is ranked from 1 to 5, in which: 1-least important, 2-less important, 3-important, 4-very important, 5-the most important.

Notes 2: Overall represents the whole sample with 70 respondents from all 13 sectors.

Table 5.9.1 showed the significance level of F5 affecting FDIs in Lao PDR. The 40 respondents out of the total samples considered social factors as the most important variables in the mining, textile and service sectors and the rest considered social factor as important and least variables, with overall mean= 4.10and S.D= 0.78, see Table 5.9.1. However, all most of the respondents considered culture factors as important variables, with the mean= 3.63 and S.D=0.69, see Table 5.9.1.

5.2. The Results of Factor Analysis

According to the data (factors) collected and from the preliminary analysis above, this research has identified certain factors that are most important to FDI in Lao PDR. In the section that follows, we analyze these factors by grouping them into three in accordant with their level of importance.

5.2.1. The most important factors affecting FDI in Lao PDR

Table 5.10
The most important factors affecting FDI in Lao PDR.

No.	Attitude	Mean	S.D
F1	*Infrastructures and Technology Factor*		
1	- Electricity	4.36	0.89
2	- Roads	4.28	0.78
3	- Internet	4.22	0.86
F2	*Political/Government regulation Factor*		

1	- Investment Law	4.43	0.80
2	- Government Stability	4.39	0.76
3	- Enterprise Law	4.33	0.82
4	-lengthy approval procedure(Bureaucracy)	4.21	0.81
F3	*Economic and Market Factors*		
1	- Low Labor costs	4.35	0.80
2	- Economic stability	4.31	0.81
3	- Market growth potential	4.29	0.82
F4	*Financial Factor*		
1	- Exchange rate fluctuation	4.22	0.86
F5	*Social and Cultural Factor*		
1	- Social stability	4.33	0.85

Source: field survey September 2015.

Under the five main factors, there are twelve variables that are considered to be the most important factors that affect FDI in Lao PDR as listed below: F1 consists of three variables namely Electricity, Roads, and Internet services. F2 has four variables, Investment Law, Government stability, Enterprise Law, and Lengthy of approval procedure. F3 comprises three variables, Low labor costs, Economic stability, and Market growth potential. F4 has only one variable namely Exchange rate fluctuation as same as F5, Social stability.

5.2.3. The important factors affecting FDI in Lao PDR

Table 5.11
The top three important factors affecting FDI in Lao PDR.

No.	Attitude	Mean	S.D
F1	*Infrastructures and Technology Factor*		
1	- Access to reliable and cooperative suppliers	3.14	0.70
2	- High industrial concentration (Clustering)	3.09	0.80
3	- Terrain/topography	3.06	0.80
F2	*Political/Government regulation Factor*		
1	- Labor Law	3.34	0.70
2	- Domestic Litigation processes	3.26	0.70
3	- Decree of expropriation	3.23	0.71
F3	*Economic and Market Factor*		
1	- Technology and innovative capacity	3.18	0.67
2	- N/A		
F4	*Financial Factor*		
1	- Limited repatriation of dividends	3.17	0.76
2	- Difficult to access to capital	2.94	0.80
3	- N/A		
F5	*Social and Cultural Factor*		
1	- Language and Communication	3.31	0.71
2	- Values	3.24	0.80

3	- Cultural distance	3.13	0.78

Source: field survey September 2015.

Similar to the other first two levels, only top three rankings of important level under the five main factors are summarized here although there are still many factors that are considered as important to FDI in Lao PDR. Under F1, they are Access to reliable and cooperative suppliers, High industrial concentration, and Terrain/topography. F2 has Labor Law, Domestic litigation processes, and Decree of expropriation; and under F5 is Language and Communication, Value, and Cultural distance. However, F4 has only two variables namely Limited repatriation of dividends, and Difficult to access to capital; and F3 has merely one variable, Technology and innovative capacity.

5.3. Problems related to doing business in Lao PDR

This research has also investigated the problems faced by FDI in doing business in Lao PDR. The method used to find out the constraints and to measure the degree of problems of doing business is similar as the one used above. We applied Likert five pointing scale to group the variables in accordance with their significant levels. From the survey data and applying SPSS program for windows, the study computed the mean score and S.D of each problem that FDI faced in doing business in Lao PDR. The results are presented in the three tables (table 5.24, 5.25, and 5.26) below.

Table 5.12
Factors considered very problematic to FDI.

No.	Problems	Mean	S.D
1	Water supply	3.64	0.94
2	Roads	3.63	0.92
3	lengthy approval procedure(Bureaucracy)	3.48	1.17

Source: field survey September 2015.

Table 5.12 shows the respondents' views on what they consider the most problematic factors that they face in operating their business in Lao PDR. The results show three factors that are very problematic for FDI in Lao PDR. These are Water supply with mean score of 3.64 and S.D of 0.94, Roads with mean score of 3.63 and S.D of 0.92, and Lengthy approval procedure (Bureaucracy) with mean score of 3.48 and S.D of 1.17.

Table 5.13
Factors considered less problematic to FDI.

No.	Problems	Mean	S.D
1	Level of competition in market	2.60	0.95
2	Labor Law	2.60	1.01
3	Environment Law	2.60	0.91
4	Land Law	2.60	1.04
5	Immigration Policies	2.59	0.98
6	Small size market and per capita income	2.53	0.91

7	Low Labor costs	2.45	1.03
8	Language and Communication	2.45	1.18
9	Government Stability	2.29	1.06
10	Values	2.26	0.96
11	Social stability	2.24	0.90
12	Attitudes(manner)	2.21	1.05
13	Racial or ethnic tension	2.12	0.99
14	Cultural distance	2.09	0.87
15	Belief/tradition	2.08	0.84
16	Civil war	2.04	0.89
17	Terrorism	1.97	0.98
18	Religion	1.97	0.82

Source: field survey September 2015.

These are 18 variables listed in the table 5.13 above that are considered as less problematic to running business of FDI in Lao PDR. This is because their mean scores are rated between "1.81 and 2.60", representing the third order on Likert-type scale. The first three top of less problematic factors to FDI are Level of competition in market with mean score of 2.60 and S.D of 0.95, Labor Law with mean score of 2.60 and S.D of 1.01, and Environment Law with mean score of 2.60 and S.D of 0.91. The last three less problematic factors are Civil War (mean score of 2.04 and S.D of 0.89), Terrorism (mean score of 1.97 and S.D of 0.98), and Religion (mean score of 1.97 and S.D of 0.82).

5.4. Interpretation

The goal of this section is to describe and analysis by using secondary from international and national sources. Analysis trend and pattern in term of sectors and countries contributed foreign direct investment to LAO PDR since 1988 until 2015.

5.4.1. FDI trend and patterns in term of sectors in Laos

Lao is considered as one of the wealth countries with mineral and natural endowments. Deposits of different ores, such as gold, copper, zinc and lead have been identified. Moreover, there are many rivers, which can serve a main factor to clean energy production. As budget constrained, government is incapable to invest. In that sense, FDI is one government strategy to be attracted to accelerate its economic development (kyophilavong, 2008). Since 2000, placement of investment has been boomed to the sectors of mining, electricity and garment. As a result, share of industry in GDP increased from 23.3 percent in 2000 to 39.0 percent in 2015. Mining and electricity absorbed 30 percent of overall investment in 2014 against 24 percent in 2000.

In contrast investment in other sectors declined because of unskilled and insufficient labor power. According to World Bank report 47 percent of labor force refers to unskilled workers. At the same time minimum wage gradually increased from 250.000 kip per month in 2000 to 800.000 kip in 2015. Even though there are difficulties in supply of skilled labors within industry, power generation has been priority it to neighboring countries. Today Lao PDR possesses 36 dams, 35 projects are under construction and more 22 power generators will be built.

As the result from the opinion from foreign companies sample about 70 companies in Vientiane capital in the first part of analysis. Therefore, in the data above in order to get the major attracted foreign investment by show the contributed as following:

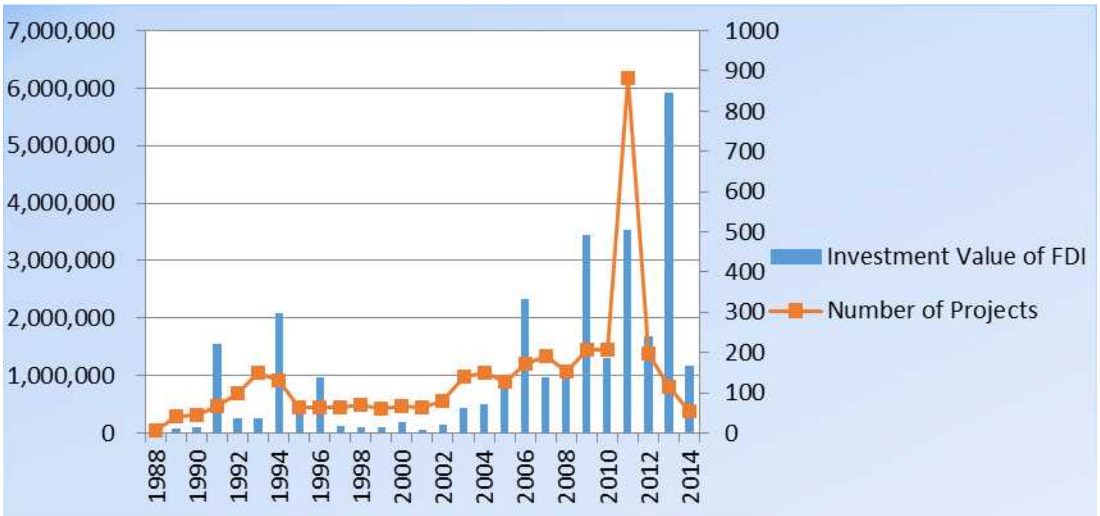


Figure 5.7 Approvals of FDI inflows in Lao PDR, (1988 –2014).

Source: Data (1988-2014) Ministry Of Planning and Investment and Ministry of Industry and commerce, Vientiane Lao PDR.

The Lao government started to officially welcome FDI since late 1988. In 2014, there are total about 3.081 projects were approved with a total investment value of USD 20,609,336,82 The Figure1 clearly illustrates that FDI flows' volume had fluctuated during the two decades, 1990s and 2000s, both in terms of total value and number of approved projects. During the 1990s to the early 2000s, 1993 was the peak year of FDI flows with 151 approved projects. However, 1994 was the peak year of investment value with approximately USD 2,075 milion. FDI volume started to decrease in the following years due to Asian financial crisis in (1997-1998). Its investment value was approximately USD 97,785,000 in 1998 (Freeman, 2001). In the early 2000s, although the number of FDI projects did not change much with the movement between 62 and 80 projects, they were small-scale projects with small value of investment, and in 2001, it was the lowest investment value with only USD 54,097,712.

In order to improve investment environment and FDI attractiveness, in 2004, the government promulgated a new Law on foreign investment promotion together with improvement of related regulations and Laws. This allowed foreign investors to be able to set up their business as wholly foreign enterprise to deal with the mining and energy sectors. Consequently, the trend of FDI volume rose from USD 968 million in 2005 to USD 3,448 million in 2009 with 208 approved projects. It was the largest investment value ever in Lao PDR, which accounted for 19.80 percent of total investment value from (1988-2015). Within this amount, approximately USD 2,280 million with 37 FDI projects was the share of mining sector. In terms of power generation, 2006 was the peak year of investment value at approximately USD 1,776,702,200. However, the percentage value of investment in 2010 has declined sharply, due to the financial crisis and after combined and improve operation environment for both domestic and foreign investment. It’s expected to harmonize investment incentive for domestic and foreign investment and simplify procedures. Since 2011 until now government announce no new mining licenses had been issued. This is some of the mining projects that had been inactive for an extended period of time and finding that mining operation were causing environment damage and social concerns. In addition, the government was working evaluation of all mining project in whole country, number of project decreased between 2012-2014 monitoring system and appropriate land management are implemented in the country.

5.4.2. Disbursement of Inward FDI by Sectors

Geographically, Lao PDR is a landlocked country with more than 570 mineral deposits including gold, copper, silver, barite, iron, lead (IMF, 2007) and many potential locations for hydropower activity, approximately 26,500 MW (UN, 2010). These sectors therefore have been a major attraction of FDI. According to the data from Ministry Of Planning and Investment (MPI), presented in Table 2, the volume of FDI flows during 2001 to 2010 has the electricity generation sector having the highest share which amounts to USD 4,596 million, representing approximately 34.8 percent of the total capital. This is amount of hydropower project increasing. In terms of the mining sector, in recent years it has attracted the interest of foreign investors. There were 209 mining projects with investment value of USD 3,207,721,813, accounted for 24.3 percent. This the second largest share of volume of FDI flows to Lao PDR in 2000s.

Lao PDR has significant mineral potential for the discovery of new ore deposits and the successful development of a medium to large scale mining industry. Known mineral occurrences as show in pie chart below:

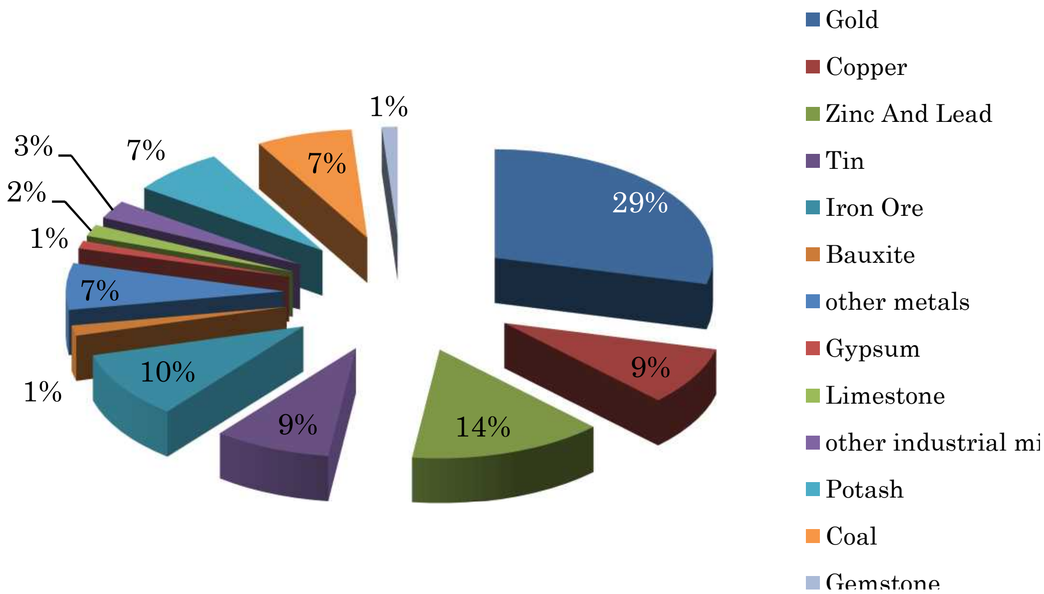


Figure 5.8 Mineral occurrences in Laos.

Source: Ministry of Energy and Mines, Vientiane Lao PDR 2015

Now there are 61 Local and Foreign Companies conducted mining construction, exploitation and mineral processing. Except 61 companies, there are more than 200 companies conducted prospect and explorion under monitoring and management of Department of Geology and Mineral (DGM) , Ministry of Natural Recourses and Environment (MONRE). Therefore the number of companies conducts mining and mineral processing activities will increase.

61 Mining Companies

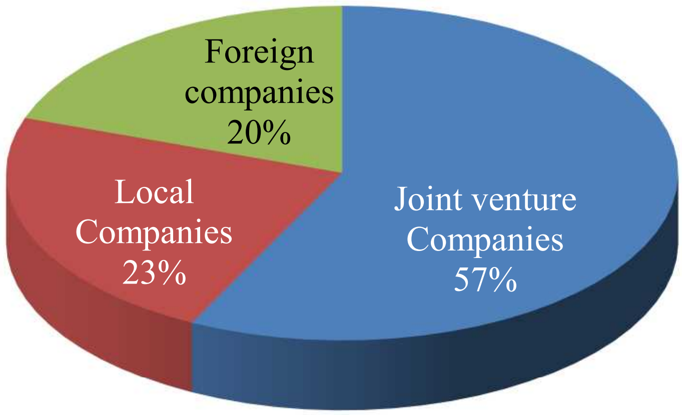


Figure 5.9 Mining Companies in Laos.

Source: Ministry of Energy and Mines, Vientiane Lao PDR 2015

In 2012, total trade in Laos was reported to be $4.7 billion which represented an increase of 3.1 percent compared with that of 2011. The value of mineral commodity exports amounted to $ 947 million (41.7 percent of total export). For electricity export amount $ 502 million (22 percent of total export). Mineral export included copper at $ 683 million or 30.1 % of total export, gold value of 151 $ million (6.6 percent of total export) (PDR, 2014).

In (2013-2014) the industry sector as a whole, which included the construction, electricity, manufacturing and mining and quarrying sectors, contributed 29.0 percent of GDP if compared with 28.3 percent in (2011-2012) did not change much with the movement only 0.7 percent in this period. Specifically, the mining and quarrying sector contributed about 7% of Laos GDP. If compare with last year grew by slower pace as 5.2 % due to a declining overall gold output and effect of lower commodity prices. In electricity and water supply 9.4 percent and construction 12 percent (PDR, 2014).

Figure 5.10 Also indicates the changes in the various sectors of the economy, particularly a great increase of two electricity and mining sectors, the sharp increase of energy sector between periods of “2001-2003” and “2007-2009” was about 1,304 percent, and mining sector rapidly increased at 23.22 percent. At the same time, the investment value of trading sector decreased 4.1 percent. However, a number of projects increased by approximately 25 percent. For example, garment & Textile sector decreased by 0.38 percent. However, its investment value increased by 4 percent.

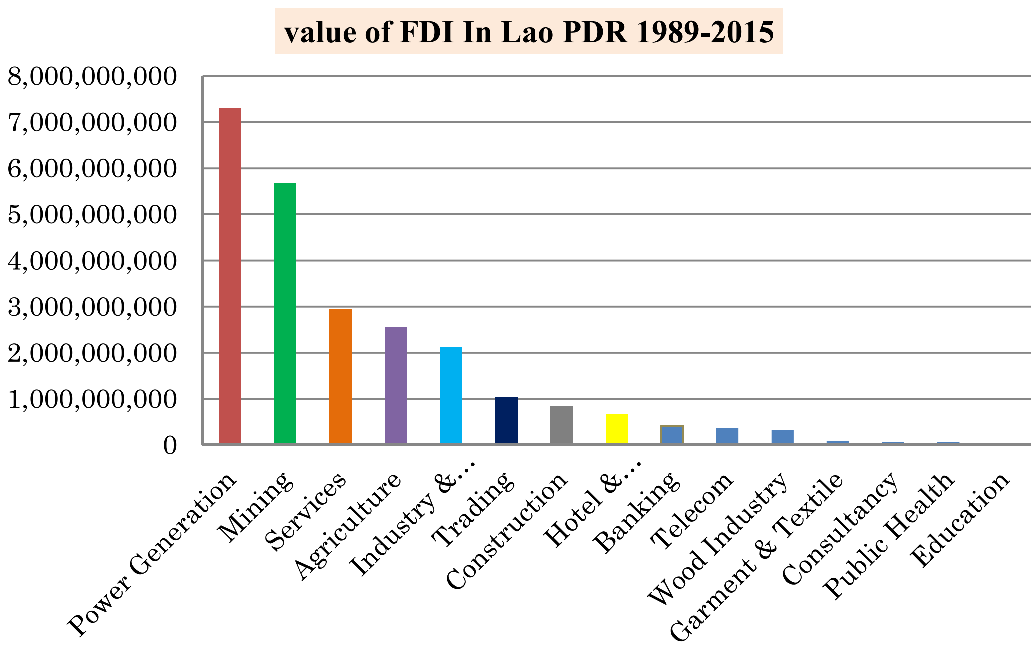


Figure 5.10 Approved Foreign Direct Investment by Sector in (1989-2015).

Source: Department of Promotion Investment (1989-2015), Ministry of Planning and Investment, Vientiane, Lao PDR.

Hydropower sectors is playing major role as the significant contributor of Lao PDR's economic growth and poverty reduction, the number of exports in this sector accounted approximately 30 percent of all of Lao PDR's exports. Many hydropower projects are in operation and under construction in several river basins which aiming to export electricity generation to neighboring countries and accounted seventy six in number for the projects in operation from 2000 to 2009. Most of the investment in this sector appeared in the type of public-private partnership and long-term concessions to foreign investors to finance and manage hydropower plants.

Lao PDR is considered as landlocked country which situated in Southeast Asia region and shares border with five countries: Myanmar, Cambodia, China, Thailand and Vietnam. However, the government of Lao PDR is converting the landlocked to land-link by connected the main roads to the every international border pointed. Thus Lao PDR geographically is going to be a trade hub in this region and huge market which providing access to ASEAN market plus connecting to the Southern part of China which attracting FDI in numerous sectors. Moreover, there is investment incentive in hydropower sector, due to the increasing demand on electricity from countries such as Thailand, Vietnam and China, which providing great opportunity to Lao PDR for exporting electricity to those neighbors.

Government of Lao PDR is continuing in enjoyment to receiving the request from foreign investors for the concession of the development in hydropower and mining. With the abundant in mineral and water resources, thus these two sectors are largely attracting FDI in the hydropower project, which lead Lao PDR to be major electricity export-oriented in Southeast Asia region. Furthermore, unexploited mining areas, which have plenty of mines such as: gold, copper, zinc, tin, and coal are attracting numerous foreign investors around the world.

Social and political atability is another major reason that encourages the foreign investors for trustworthy invest or doing business in Lao PDR. With a very crime rate, no noticeable ethnic conflicts, no political issues and very peaceful country. Thus, it comes into view to be very low risk for short term and long term investment.

5.4.3. Country Wise of FDI Analysis

FDI by country origin is illustrated in Figure 3. China has the largest investment share, which accounted for 29.93% percent of total investment value during 1990-2014, mainly in the mining, power generation, services. The second largest investor is Thailand with 24.13 percent. The majority of investment is manufacturing, services and Vietnam follows with a share of 24.90 percent.

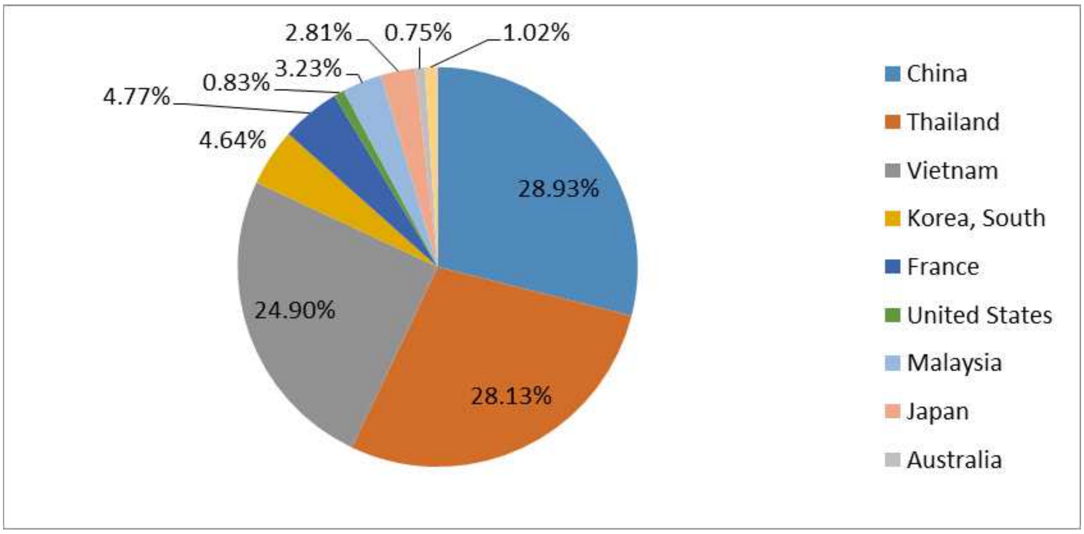


Figure 5.11 Foreign Direct Investments By Countries in 1990-2015.

Source: Department of Promotion Investment (1989-2015), Ministry of Planning and Investment, Vientiane, Lao PDR.

However, Figure 5.11 presented that the largest number of projects belongs to China with 28.09 percent of the total numbers of projects, the second is Thailand with 24.29 percent and the third is Vietnam with 24.74 percent. This new order or changes in FDI origins just occurred in 1990-2014. Formerly, the order from the largest investor was Thailand, China, and Vietnam respectively.

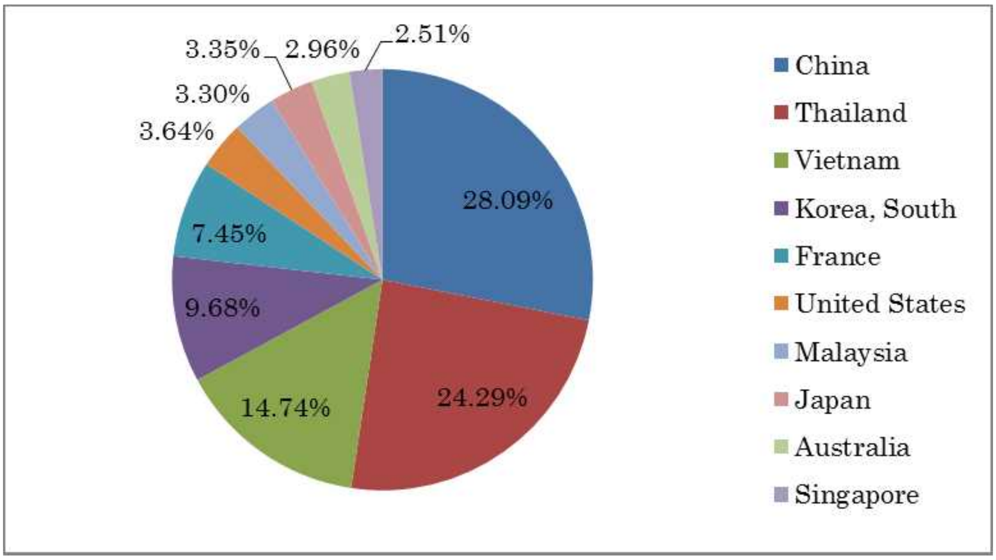


Figure 5.12 Foreign Direct Investments Countries By Number Of Project in 1990-2015.

Source: Department of Promotion Investment (1990-2015), Ministry of Planning and Investment, Vientiane, Lao PDR.

CHAPTER 6

CONCLUTION, RECOMMENDATION AND FURTHERED RESEARCH

6.1. Conclusion

This study has attempted to address the issue of determinants of FDI flows to Lao PDR. The research has discussed about five main factors affecting FDI flows, including (F1) Infrastructure and technology, (F2) Political /government regulation, (F3) Economic and market, (F4) Finance, and (F5) Social and Culture. Each factor comprises various sub-factors[23] that influence the foreign investors' decision to invest in the host country. Those variables provide a clear explanation as to which the factors are significant determinants of FDI flows to Lao PDR. Another objective of the study is to investigate the problematic side of those factors foreign investors face in doing business in Lao PDR.

In order to achieve the study objectives, a total number of 100 sets of the research questionnaires were administered to foreign investors or firms that are consider as FDIs. These firms are located or have their branches/headquarters in Vientiane, the capital of Lao PDR. At the end of the exercise, 70 usable sets of responses were received. The collected data was analyzed by SPSS program for windows in terms of frequency, percentage, mean score, and standard deviation. The questionnaire explanation focuses on two main parts as follows.

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[23] For detail, see the questionnaire in Appendix 3.

The first part (general information part) presents the respondents' and companies' profiles. The respondents from the Mining & Oil, Textile & Garment, Industry and Handicraft and Hotel & Tourism sectors cover the largest percentage, accounted for 14.43percent, while services accounted 14.3 percent and Banking & Insurance accounted 11.4 percent Agriculture sectors receive 8.6 percent. Apart from these sectors, it belongs to Banking & Insurance (8.7 percent), Trading (4.3 percent), Consultancy (2.9 percent), Electric generation (2.9 percent), Construction (2.9 percent), Telecom & Transport (1.4 percent), and other sectors (4.3 percent).

Respondents' viewpoints in terms of the rank of main eight factors influencing FDI attractiveness is adequately obtained; the first rank belongs to the Political stability (23.6 percent) and the second one is the Low labor costs (22.6 percent). Their interval is slightly different at one percent. While Availability of raw material, Location, and Government regulations factors were scored at the third, fourth, and fifth class by 14, 13, and 9 percent respectively. The other three factors, Tax incentive (1.4 percent), Easy access to the global market (0.5 percent), and Infrastructure facility (0.5 percent), were ranked as the last group with less attractiveness of FDI flows to Lao PDR.

Majority of respondents (77 percent) consider Lao PDR as a "Good" destination for investment, while the "Very Good" response covers only 16.8 percent. Nevertheless, only six respondents (2.9 percent) answer it is "Poor" for business operating, and the "Very Poor" answer is merely one respondent (0.5 percent). In terms of the future plan, approximately 91 percent of respondents will expand their investment in Lao PDR. Those future plans are “Increase capacity of production” (31.4 percent), “Establish the branch of company in the other area in Lao PDR” (20.1 percent), “Increase registered Capital” (15.4 percent), “Renew operating company’s activity” (14.9 percent), “Increase production by producing different product” (13.6 percent), “Share capital to other company (joint venture)” (3.9 percent), and other (0.8 percent).

The second part of questionnaire discusses on the respondents’ views on the five main factors related to FDI in Lao PDR. After the data was analyzed by SPSS program, it could rank the level of importance in terms of determinants of FDI flows. Each five main factor comprises several sub-factors which are listed in each group with its level of significance. Thus, F1 comprises three variables: Electricity, Roads, and Internet services; F2 includes four variables: Investment Law, Government stability, Enterprise Law, and Lengthy approval procedure (Bureaucracy); F3 consists of three variables: Low labor costs, Economic stability, and Market growth potential; F4 comprises one variable: Exchange rate fluctuation; F5 includes one variable: Social stability.

Regarding the problematic factors, the study found that Infrastructure, Water Supply, and Roads are considered to be very problematic factors on operating business. The lengthy approval procedure (Bureaucracy) is also a very problematic factor on establishing FDI firms in the country. While the medium problematic factors consist of total 35 items, for example in the following top 5 factors: Availability of well qualified work force, Internet service, Level of technology development, Energy cost, and Access to reliable and cooperative suppliers respectively.

6.2. Discussion

The study result provides very useful insight into the determinants of FDI flows to Lao PDR and various problems associated with doing business in Lao PDR. In addition, the findings provide encourage policy direction for formulating appropriate strategies in order to improve the business environment for foreign investment in Lao PDR. This is because Lao PDR like other developing countries, has characteristics such as having abundant natural resources, but lacking developed infrastructure; small size of market and per capita income; low level of technology development; and low availability of well qualified work force. Thus, the findings can be utilized by the Lao government to formulate foreign investment policies that are in tune with the problem on the grounds and to improve as well as to promote the business climate in the country.

Regarding the determinants of FDI, the study utilized preliminary descriptive analysis, such as mean score and standard deviation as well as the literature review, to investigate which factors are important determinants of FDI flows to Lao PDR. Therefore, the main point of this discussion is focused on those factors and leading us to prescribe some suitable recommendations.

6.2.1. Factors affecting to the flows of FDI to Lao PDR

Table 5.12 and Figure 1.1 indicate the descriptive statistics of factors determining FDI flows. These factors are considered as independent variables, while the FDI (flows) is dependent variable in Lao PDR.

(a). F1 consists of three sub-factors: Electricity, Roads, and Internet service with mean score of 4.36, 4.28, and 4.22 and S.D of 0.89, 0.78 and 0.86 respectively. They were classified as the most relative importance in attracting FDI flows. It means that if the supply of these facilities can sufficiently support the consumer's demand in both sides of quantity (their networks) and quality (their service and access) across the nation, the FDI flows will be likely to increase. In contrast, if these factors are lacking of development and their accesses are not improved sufficiently to meet investors' satisfaction, the volume of FDI flows will tend to decrease. The investment in the location that has a good development and improvement of infrastructure and technology tend to influence the business performance of the firms because they can reduce the productivity cost and consequently make more profits. It can be deduced that the location with a good quality and well-developed technology and infrastructure can increase the productivity potential of investments in the host country

(b). F2 composes of four sub-factors that are considered to be the most relative importance to FDI flows to Lao PDR. Each factor is rated its mean score and S.D as follows: Investment Law's mean score of 4.43 and S.D of 0.08, Government stability's mean score of 4.39 and S.D of 0.76, Enterprise Law's mean score of 4.33 and S.D of 0.82, and Lengthy approval procedures' mean score of 4.21 and S.D of 0.81. It can be deduced that if these factors are practical, reliable, and fair as well as become friendlier to foreign investors, the inflows of FDI will be increased. On the contrary, if the political/government regulation tend to provide more risk, FDI firms will not be interested in investing in the host country, and it also affects to volume of FDI flows to be declined because these factors are directly and mainly related to the FDI management and encouragement.

(c). F3 comprises three sub-factors with mean score and S.D in a level of the most relative important factors in determining FDI flows. The low labor cost is rated its mean score of 4.35 and S.D of 0.08, which means that FDI firms are interested in this advantage. However, many labor forces are unskilled and lack of sufficient knowledge on technology and knowhow. Therefore, it is recommended to the government to prioritize the human capacity building, for example, establishing more vocational training schools and facilities on labor skill improvement.

Economic stability obtained the mean score of 4.31 and S.D of 0.81 which is also the most relative important factor. If the economic performance is unstable, FDIs are reluctant to do business because the economic instability is likely to create inflation, deflation, decreasingly purchasing power, economic crisis, social instability and other inconveniences, which may lead to the bankruptcy. Thus, the stable and growing economy can effectively promote the investment environment and increasingly attract the FDI flows.

The Market growth potential factor is also the most relative important factors because its mean score is 4.29 and S.D is 0.82. This evinces that Lao PDR has gradually increased market growth potential because its economic growth has stably expanded since early 1990s, except the Asian financial crisis period in

1997. It means that purchasing power has risen when a socio-economic development is increased. Therefore, one of FDIs' target customers is a domestic market.

(d). Exchange rate fluctuation is only sub-factor representing in F4, which is the most relative important factor with a mean score of 4.22 and S.D of 0.86. If the exchange rate is unstable, it will negatively impact to the economic development and leads to the economic performance instability. If this situation frequently occurs, it negatively affects FDI attractiveness.

(e). Only the Social stability under F5 contains a mean score of 4.33 and S.D of 0.85, which is the most relative importance of FDI flows. If it has fewer criminals in the society, no civil war or less social risk, it can actively attract more volume of FDI flows.

6.2.2. Problematic factors affecting on doing business in Lao PDR

As resulted in table 5.12, three factors of Water supply, Roads, and Lengthy approval procedure (Bureaucracy) are classified to be very problematic to business operating because the condition and services of infrastructure; quality and network of water supply and roads are still insufficient, which can lead to imposition of high fixed costs. This is consistent with the findings of ADB & WB (2007: xx-xxi), which found that more than 50 percent of enterprises facing severe constraints of quality of infrastructure services. Lengthy approval procedure is also one of the deterrent issues on doing business because the restrictive and cumbersome regulations may hamper firms and also brings in other unnecessary fixed costs on starting and operating business.

6.3. Limitation

Although the study provides a number of useful and significant findings, this study also has some limitations as follows:

First, some of the respondents did not cooperate to provide their information or fully response to the questionnaire. Many questions in the questionnaire were not answered properly. They were probably misuse of their detailed information or the researcher may take their important information for other purposes other than academic research. They believe this may negatively affect their firms. , For example, some firms refused to provide the answers after skimming through the questionnaire.

Second, the scope of the research covers 13 business sectors of FDI in Lao PDR, but the number of the surveyed firms in each sector was different. For example, the number of samples from Textile & Garment sector was made up of 30 firms (14.4 percent), while electric generation is only 8 firms (3.8 percent) as mentioned in the Table 5.8. Therefore, study outcomes come be skewed towards the bigger samples, which may not be a proper representative sample and may bias the interpretations of the results as well as the recommendation. One other limitation is that the fieldwork only took place in Vientiane Capital with the exclusion of such large provinces as Luangphabang, Savannaket, or Champasack. Thus, the study outcome may not reflect the situation on the ground nationwide.

Third, the factors used in the survey were not compared to similar factors affecting FDI in other countries, particularly the less developed countries or the neighboring countries in order to compare and contrast our determinant factors with those of other countries.

Finally, since the literatures on the determinants of FDI in Lao PDR are woefully limited, this study somehow has limited information, data, and other evidence from Lao support the findings of this study.

6.4. Recommendation for implication

The factors found to be of FDI may not be the only reason attracting FDI in Lao PDR. Although considerable number of studies emphasized these main determinants of FDI, it is hard to provide a common prescription to boost the attractiveness of FDI flows to a country. One of the main reasons is that different countries have different physical conditions or preferences for a particular kind of FDI and thus require different support and promotion strategies. Therefore, the policy on FDI of each country should be based on the country specific characteristics and its natural resource endowment and potentials. Currently, due to the influence of the globalization, the economic circumstances of many countries around the world have rapidly changed. It requires each MNE to always catch up and up date with the competitive pace and pressure. These MNEs have to quickly find out new market opportunities in order to change their production methods and products to be able to meet recent demands of markets. It means that MNEs have to seek new investment locations, which usually offer their specific advantages. They also have to regularly improve the innovative capacity, technology development, managerial skills, marketing system, and production networks.

However, the strategy to attract FDI to Lao PDR should focus on improving and of streamlining the single-window-service and its full implementation as soon as possible. It means removing the unnecessary constraints or regulations in order to quicken the global competitiveness of Lao PDR's economy, especially in the context of FDI flows. Hence, the general procedure of FDI policy formulation in Lao PDR.

6.5. Direction for further research

Although this study presents a useful insight regarding the factors considered to be the most important element influencing determinants of FDI flows to Lao PDR, the result somehow has its own limitations. The field survey was only focused on one location, Vientiane Capital. In addition, the selected sub-factors are quite many and they largely cover numerous scoops of FDI's influences, and additionally, the analysis method was only descriptive statistics such as mean score, percentage and standard deviation.

Therefore, it requires further research that should be undertaken in at least three main locations with the same number of samples for each industry such as in the North, Central and South. The factors using for this survey should be reduced or be specifically selected to reflect the most important factors determining FDI flows in accordance with the existing literature. However, it should add factors including volumes of export and GDP growth in order to effectively conduct deeper research in terms of FDI contribution to the growth of export and GDP. In addition, further research should cover the negative impact that may occur from FDI flows.

Regarding the method used for data collection, further research should apply more various tools such as questionnaire, interview, and observation in the fieldwork. In analyzing the data, it should apply regression analysis methodology in order to obtain the actual significant levels of these variables and the correlation coefficients as well as the ANOVA, instead of basing the analysis on descriptive statistics alone.

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Appendix 1

Table 1 :Approvals of FDI inflows in Lao PDR, (1988 –2014).

No	Year	Investment Value of FDI (USD)	Percent	Number of Projects	Percent
1	1988	2,700,000	0.13	6	0.19
2	1989	68,000,000	3.29	40	1.29
3	1990	90,386,000	4.38	43	1.39
4	1991	1,555,547,000	75.4	68	2.20
5	1992	259,593,000	12.5	98	3.18
6	1993	245,425,000	11.9	151	4.90
7	1994	2,074,677,000	100.6	130	4.21
8	1995	534,240,000	25.9	63	2.04
9	1996	972,186,000	47.17	63	2.04
10	1997	113,611,000	5.51	62	2.01
11	1998	97,785,000	4.74	69	2.23
12	1999	108,133,000	5.24	60	1.94
13	2000	190,334,000	9.23	68	2.20
14	2001	54,097,712	2.62	64	2.07
15	2002	133,037,093	6.45	80	2.59
16	2003	426,249,889	20.68	139	4.51
17	2004	509,381,308	24.71	151	4.90
18	2005	968,156,577	46.97	128	4.15

19	2006	2,338,258,788	113.45	171	5.55
20	2007	971,471,905	47.13	191	6.19
21	2008	956,210,646	46.39	152	4.93
22	2009	3,448,037,521	167.30	208	6.75
23	2010	1,300,190,262	63.08	207	6.71
24	2011	3,519,727	0.17	443	14.37
25	2012	1,856.852	9.01	101	3.27
26	2013	2,453,959,731	119.0	47	1.52
27	2014	734,146,807	35.62	39	1.26
Total		20,609,336,82	100.00	3081	100.00

Source: Data (1988-1989), UN (2000); (1990-2010), MPI (2015).

Appendix 2

Table 2 :Approved Foreign Direct Investment by Sector in 1989-2015

No	sector	project	Value of Investment (USS)	Percent (%)
1	Electricity Generation	49	7,302,957,159	29.85541835
2	Mining	304	5,679,891,830	23.22012071
3	Services	990	2,946,221,863	12.04452996
4	Agriculture	671	2,544,274,905	10.40131963
5	Industry & Handicraft	932	2,111,101,228	8.63045051
6	Trading	430	1,023,113,120	4.182616651
7	Construction	150	826,474,695	3.378733742
8	Hotel & Restaurant	18	662,688,895	2.709156546
9	Banking	211	410,141,376	1.676710146
10	Telecom	31	372,063,622	1.521043441
11	Wood Industry	351	325,021,111	1.328727669
12	Garment & Textile	110	95,000,447	0.388373918
13	Consultancy	172	66,929,199	0.273615084
14	Public Health	14	64,222,736	0.262550719
15	Education	85	30,975,780	0.126632931
	Total	4518	24,461,077,966	100

Appendix 3

QUESTIONNAIRE ON
THE FACTOR DETERMINANTS OF FOREIGN DIRECT INVESTMENTS (FDIs) INFLOW TO LAOS

Questionnaire ID:……..

This questionnaire is created for collecting data from the foreign investors in Laos. The data and information are going to use for my master thesis at Ritsumeikan Asia Pacific University in Japan on the topic of the Determinants of Foreign Direct Investment Inflows (FDIs) to Lao PDR. Therefore, I would like to appeal the directors/managers/correspondents answer and fill in your value, useful information regarding to your company/investments into this questionnaire properly. All data gathered here would be treated with the outmost confidence and shall be used for the purpose for which it is sought.

The questionnaire is composed of two parts. The first part is related to general information of respondent and company profile and the second part concerns factors that are related to FDI in Lao PDR.

PART I: GENERAL DATA AND INFORMATION

1. Correspondent Profile.

Please mark with tick (✓) in the box or fill in the blank of each question below:

1.1. Name (option):……………………………………Mobile phone:……......,
Email Address:…………………………………………………………...

1.2. How long have you been working in Lao PDR?

☐ Less than 5 years ☐ 11-15 years
☐ 6-10 years ☐ More than 15 years

1.3. How long have you been working in your company in Lao PDR?

☐ Less than 5 years ☐ 11-15 years
☐ 6-10 years ☐ More than 15 years

1.4. What is your position in your company?

☐ Chief executive Officer (CEO) ☐ Marketing Manager.
☐ Director/General Manager. ☐ Production manager.
☐ Others (Please specify)…………………………………..…………………

1.5. When (a) and how (b) did you know about investment information in Lao PDR?

a) ☐ Less than 5 years ☐ 6-10 years ago ☐ More than 11 year

b) ☐ Business colleagues ☐ Business organizations ☐ the media
☐ Public organizations ☐ Other (please specify)………………..…………

2. <u>Company's Profile</u>

2.1. Name of the company (asregistered): ………………..……………………
2.2. Company's home country: …………………..………………………………
2.3. Company's or your e-mail address: ...………..……………………………
Company's website: ………..…………………………………..……………
2.4. When did your company registered/entered in Lao PDR?.........................year
2.5. What type of ownership/form is your company/does your company have?

☐ 100% foreign owned enterprise ☐ Business cooperation by contract
☐ Joint ventures between foreign and Lao ☐ Other (Please specify)……….……

2.6. What types of entry mode does your company enter in the host country

☐ Licensing ☐ Franchising

☐ Joint ventures ☐ Wholly owned subsidiaries

☐ Wholly owned subsidiaries ☐ Other, please specify……………

2.7. Capital/registered funds (in Kip or USD):……………………….……………

2.8. Working capital (in Kip or USD):……………………………………………

2.9. What type of business does your company engage in Lao PDR?

☐ Agribusiness ☐ Services

☐ Mining & Oil ☐ Construction

☐ Trading ☐ Consultancy

☐ Electricity Generation ☐ Hotel &Tourism

☐ Industry & Handicrafts ☐ Banking & Insurance

☐ Textile & Garments ☐ Telecom & Transport

☐ Others: ………………..…………………………………………………..…..

2.10. Number of employees at ***<u>the time of establishment</u>***, include managers.

		Total	Female	Permanent Employees		Temporary Employees	
				Total	Female	Total	Female
1	Total						
2	Manager(s)						
	Lao manager						
	Foreign manager						
3	Employees						
	Lao employees						
	Foreign employees						

2.11. Number of employees **<u>at current time</u>**, include managers (please fill in)

		Total	Female	Permanent Employees		Temporary Employees	
				Total	Female	Total	Female
1	Total						
2	Manager(s)						
	Lao manager						
	Foreign manager						
3	Employees						
	Lao employees						
	Foreign employees						

2.12. Based on your opinion, please rank these main factors in terms of its attractiveness of FDI in Lao PDR.

(Please mark numbers in the box (□), the most attractive 1 ⟶ 8 least attractive)

☐	Low labor cost
☐	Location
☐	Government regulations
☐	Tax incentives
☐	Political stability
☐	Availability of raw material
☐	Easy access to the global market
☐	Infrastructure facility
☐	Others (If you have, please specify): ……………………………………

3. Are you satisfied with the current incentives of Lao government to attract FDI for all sectors?

☐ Yes

☐ No

If "No", please indicate your reason:

…………………………………………..

………………………………………………………………………………

4. Do you have any future plans to extend the investment in Lao PDR?

☐ No

☐ Yes

➢ If "No", what is/are reason(s)? (Please specify):

………………………………

……………………………………………………………………………..

➢ If "yes", what is/are your plan(s)? (*MULTIPLE ANSWER POSSIBLE*)

☐ Renew operating company's activity

☐ Increase capacity of production

☐ Increase registered capital

☐ Increase production by producing different product

☐ Establish the branch of company in the other area in Lao PDR

☐ Share capital to other company (joint venture)

☐ Other (please specify):

………..…………………………………………………………………

…………………………………………………………………………

…………………………………………………………………………

5. In your opinion, which type of FDI is your investment destined in Lao PDR? (4 types of FDI categorized by John, H. Dunning (2008).

☐ **Market-seeking investment** is to design to benefit from applying the local market or markets of near territories.

☐ **Resource-seeking investment** aims to get access to natural resources, e.g. minerals; raw materials; agricultural products; unskilled labor cost.

☐ **Efficiency-seeking investment** is often to encourage increasing the cost efficiency which is to transfer product with low costs of labor in regions. It is also utilization of near territories, e.g. Membership of a regional integration agreement conducive to promoting a more cost-effective inter-country division of labor.

☐ **Asset-seeking/asset-augment investment** is to design to protect or expand the subsisting particular benefits of companies and decrease the competitors.

6. If you have any ideas to say of what is not asked here, please feel free to mention bellow**:**

………………………..…………………………………………………………

………………………………..………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

…...

7. What do you feel about Lao PDR as investment destination?

☐ Very Good ☐ Good ☐ No

☐ Poor ☐ Very poor

☐ If you have any reasons please describe: ………………………………………

PART II: RELATED TO FDIs INFLOW IN LAO PDR

This part pertains to the factors related to FDIs. Please indicate the rate of following factors (variables) that you consider important for foreign investment in Lao PDR with (1) as Least Important and (5) as most important. Please mark a tick (□) for each variable in the cell below. ***1 = Least Important; 2 = Less Important; 3 = Important; 4 = More Important; and 5 = Most Important.***

On the other hand, please indicate the rate of those factors (variables) that you think that they are problem in doing business in Lao PDR with (I) as Least problem and (V) as Most problem. Please mark a tick (□) for each variable in the cell below. ***I=Least problematic; II= Less problematic; III=Problematic; IV= More problematic; and V= Most problematic.***

No.	**F1.** ***Infrastructure and technology Factors***	Least important → Most important					Least problematic → Most problematic				
		1	**2**	**3**	**4**	**5**	**I**	**II**	**III**	**IV**	**V**
I	***Access to physical infrastructure***										
1	Terrain/topography	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	Roads	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Electricity	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Water supply	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
5	telecommunication	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
6	Internet	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
II	***Technology***										
1	Level of technology development	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	High industrial concentration (Clustering)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Availability of well qualified work force	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Access to reliable and cooperative suppliers	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

No.	**<u>F2.</u>** ***Political/Government regulation Factors***	Least important ⟶ Most important					Least problematic ⟶ Most problematic				
		1	**2**	**3**	**4**	**5**	**I**	**II**	**III**	**IV**	**V**
I	***Political risk***										
1	Government Stability	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	Civil War	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Terrorism	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Racial or ethnic tension	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
II	***Government regulation***										
1	Lengthy approval procedure (Bureaucracy)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	International trade agreements	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Immigration Policies	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Protection policy on FDI	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
5	Decree of expropriation	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
6	Trade policy (tariffs and non-tariff barriers)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
7	Tax incentive	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
III	***Related Laws on FDI***										
1	Investment Law	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	Enterprise Law	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Environment Law	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

4	Customs Law	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
5	Tax Law	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
6	Land Law	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
7	Labor Law	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
8	Competition & Intellectual Property Law	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
9	Banking regulation and Law	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
IV	***Processes of FDI Dispute Settlement***										
1	Domestic Litigation processes	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	International Dispute Settlement processes	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Judicial organizations	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Lawyer or attorney	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

No.	**F3**. ***Economic and Market Factors***	Least important → Most important					Least problematic → Most problematic				
		1	**2**	**3**	**4**	**5**	**I**	**II**	**III**	**IV**	**V**
I	***Economy***										
1	Economic stability	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	Low labor costs	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Low transportation/ Logistic cost	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Low cost of raw materials	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

5	Energy cost	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
II	***Market***										
1	Small size market and per capita income	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	Market growth potential	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Access to market (regional and global)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Technology and innovative capacity	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
5	Level of competition in market	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

No.	**F4.*Finacial Factors***	Least important → Most important					Least problematic → Most problematic				
		1	**2**	**3**	**4**	**5**	**I**	**II**	**III**	**IV**	**V**
1	High inflation	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	High interest rate	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Exchange rate fluctuation	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Difficult to access to capital	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
5	Limited repatriation of dividends	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

No.	**F5**. ***Social and Cultural Factors***	Least important ⟶ Most important					Least problematic ⟶ Most problematic				
		1	**2**	**3**	**4**	**5**	**I**	**II**	**III**	**IV**	**V**
I	***Society***										
1	Social stability	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	Education Level	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
II	***Culture***										
1	Attitudes (manner)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	Values	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Belief/Tradition	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Religion	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
5	Language and Communication	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
6	Cultural distance	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐