



BUSINESS NEWS

Newsletter of the European Chamber of Commerce and Industry in Lao PDR

Infrastructure

China's OBOR Initiative

The Waning Interest in Globalisation

Development of Hydropower in the Lao PDR



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Message from the President



At long last! The 4th issue of ECCIL Business News has now been released.

Important themes featuring in this latest edition include the One Belt One Road (OBOR) Initiative, hydropower in Laos and the thorny issue of globalisation.

We also recently launched our Business Confidence Assessment for July-December 2016, which shows a very good situation for European Businesses in Laos.

In this edition, we have also included some of the news highlights in Laos in the areas of finance and economy.

*Wishing you all the best.
Guy Apovy*

Cover photo

Our cover photo shows the view from above of Namtheun 2 Power Company- ©NTPC/Stanislas Fradelizi

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Message from the Executive Director

Growing up...

A while has passed since we have published our last printed newsletter and in the meantime the chamber has grown quite a bit. We have increased the number of our staff as well as our capacities, particularly in the areas of services, advocacy, IT and communication.

In services we have increased the number of seminars, workshops and conferences. Among the most prominent conferences were the hand-over of the ASEAN-BAC presidency in 2016 and the Vientiane Economic Forum in 2017. Both were organised in cooperation with the Lao National Chamber of Commerce and Industry to which we are linked via a comprehensive cooperation arrangement.

The number of individual company advices has grown significantly and we have expanded the number of our publications. Besides an update

of our investment guide and our half yearly business confidence assessment, we started a new series on varying industries in Laos which we intend to expand in the future.

In terms of advocacy, we have produced several position papers which we will later consider consolidating into a White Book.

We have continued and expanded our business conferences about Laos abroad. While our main focus is South East Asia – we are regularly organising these conferences in places like Singapore and Bangkok – we decided to branch out to Europe and inform interested enterprises about opportunities in Laos. In the autumn of 2016 we have organised conferences in Hamburg, Vienna, London and Paris and, together with LNCCI, led a business delegation to France.



... and getting a new look

We decided to give ourselves a new appearance with a new logo and a completely new website www.eccil.org. The latter has not only a more modern look, it contains more information and it features an electronic payment system, which is a first for a chamber in Laos.

We are currently preparing a regular electronic news update and have branched out into social media, so that you can follow us on Facebook at <https://www.facebook.com/ECCILinLaos/>

Ramon Bruessler

New Staff Members



Khankeo Moonvong

Ms. Khankeo Moonvong holds a Master of Science in International Finance and a Master of Business Administration. She joined ECCIL in October 2015 as our Business Development Manager. Previously, she worked with the European Union Delegation in Laos as a Programme Manager.



Philipp Glaeser

Philipp holds a master in economics with a focus on International Marketing. He is part of the experTS programme of the German Centre of International Migration and Development (CIM) and supports ECCIL in service development and International projects. Before his assignment at ECCIL, Philipp worked for chambers in the US, Germany, South Africa and Nepal.



Bounta Chanthaboud

Ms. Bounta Chanthaboud joined ECCIL as an assistant to the Director of Services and Event Management in October 2016. Before working with ECCIL, she worked in Dayin Hotel as an accountant for two years.



Malaivieng Viengvilay

Ms. Malaivieng Viengvilay graduated with a Bachelor degree in International Studies from Australia. She joined ECCIL as a Communication and Public Relations Manager in July 2017. Previously Ms. Malaivieng worked as a Research Officer at Population Services International Laos (PSI Laos).

General Assembly 2017 of ECCIL elects new Board



Members of the outgoing board present for the General Assembly of ECCIL: (from left to right: Alistair Hepburn, Gerald Walewijk, Jack Sheehan, Guy Apovy, Frédéric Hofmann, Olivier de Peyrelongue.

More than 50 people met at ECCIL's General Assembly which was held at the Suntara Restaurant near the Mekong River in Vientiane on May 31st 2017. Among the participants were 39 ordinary members present in person or by proxy, representatives from the embassies of Germany, France and the EU

delegation as well as one observer from the Lao National Chamber of Commerce and Industry (LNCCI).

The General Assembly adopted the activity report and the financial report which were presented by the outgoing president and treasurer respectively.

After a presentation of the planned activities the ordinary members elected a new board ("Executive Committee") which consists of members from a variety of industries, among them some of the most prominent companies in the country in addition to representatives from the SME sector.

Elected to the board were

- Mr. Martin Forsen
 - Mr. Alistair Hepburn
 - Mr. David Parrott
 - Mr. Frédéric Hofmann
 - Mr. Guy Apovy
 - Mr. Olivier de Peyrelongue
 - Mr. Henrik Juel Andersen
 - Mr. Jack Sheehan
 - Mr. Gerald Walewijk
 - Mr. Daniel Sayfon Boulom
 - Mr. Paul Benson Simcock
- Burapha Agro Forestry Co., Ltd.
 - Lao Tobacco Ltd.
 - BFL
 - Nam Theun 2 Power Co., Ltd.
 - AGL
 - Sinsay
 - Lao Brewery Co., Ltd.
 - DFDL
 - Lotus Consult
 - Sayfon Logistics
 - Vientiane Geomatics

Immediately after the General Assembly the new board held a meeting and elected its leaders:

President: Mr Guy Apovy

Vice Presidents: Mr. Alistair Hepburn
Mr. Jack Sheehan

Treasurer: Mr. Olivier de Peyrelongue

ECCIL's Executive Director re-elected as board member of the global network of European Chambers



Representatives from European Chambers from all over the world in front of the Berlaymont Building, headquarters of the European Commission

The global association of European Chambers of Commerce which operate outside of the EU, the European Business Organisation Worldwide Network ASBL (EBO WWN), conducted its Annual General Meeting on June 19, 2017 in Brussels.

At this occasion, the EBO WWN elected its board for the next 12 months. Dr. Ramon Bruesseler, Executive Director of the European Chamber of Commerce and Industry in Laos (ECCIL) was re-elected as one of the five board directors. The other directors are Mr. Renato Pacheco Neto (European Chamber of Commerce in Brazil), Mr. Adam Dunnett (China), Mr. Freddie Hoeglund (Taiwan) and Ms. Almut Roessner (Vietnam).

The EBO WWN covers with about 35 European Chambers from countries as diverse as Russia, India, China, Australia, Singapore, Chile, and Ghana over all five continents and represents about 10,000 companies with a combined turnover of more than 100 billion Euros (111 billion USD).



The board directors of the European Business Organisation World Wide Network (EBO WWN), (left to right): Ms. Almut Roessner (Vietnam, Secretary), Mr. Freddie Hoeglund (Taiwan, Vice President), Mr. Renato Pacheco Neto (Brazil, President), Mr. Adam Dunnett (China, Vice President), Dr. Ramon Bruesseler (Laos, Treasurer).



Conference of the EBO WWN at the EU in Brussels

ECCIL's President elected on the board of the EU-ASEAN Business Council



Mr. Guy Apovy, president of ECCIL and Secretary of the EU-ASEAN Business Council

Representing the interests of its members is one of the most important tasks of a Chamber of Commerce and Industry. The European Chamber of Commerce and Industry in Lao PDR (ECCIL) does so by actively participating in the Lao Business Forum, by writing

position papers, giving professional expertise and organising workshops and meetings.

But in the age of progressing economic integration of the ASEAN and of globalisation it is not sufficient if a chamber only acts in its domestic environment. Effective advocacy requires a regional and global dimension.

ECCIL has followed this approach almost since its foundation in 2011. In 2014 ECCIL was among the founding members of the Singapore based EU-ASEAN Business Council.

In June 2017 the latter had its Annual General Meeting and Mr. Guy Apovy, the President of ECCIL, was elected a board member of

the EU-ASEAN Business Council. Guy has taken over as function secretary.

The EU-ABC's membership consists of large European MNCs and the nine European Chambers of Commerce from around Southeast Asia. As such, the EU-ABC represents a diverse range of European industries and has a vested interest in enhancing trade, commerce and investment between Europe and ASEAN. It has successfully organised several ASEAN-EU Business Summits and regularly interacts with the European Commission, ASEAN Member States, ASEAN Secretariat, and other related organisations such as the ASEAN Business Advisory Council.

ECCIL's Vice President visited Jakarta with the Lao Delegation led by the Prime Minister of Lao PDR

From 11th to 12th October 2017, ECCIL's Vice President, Mr. Jack Sheehan, joined the Lao Delegation led by HE Thongloun Sisoulith, the Prime Minister of Lao PDR, during the visit to Jakarta, Indonesia. Mr. Jack Sheehan was a speaker and a panel member at the events attended by the Prime Minister and a number of Ministers and Vice Ministers from the governments of Lao PDR and Indonesia.

The visit was aimed to broaden and strengthen bilateral cooperation and mark the occasion of 60th anniversary of diplomatic relation between Lao PDR and Indonesia. The event also marked the signing of a cooperation agreement between the Lao and Indonesian Chambers of Commerce.



ECCIL's Vice President, Mr. Jack Sheehan, participating in Indonesian-Lao Business Forum in conjunction with the official visit of H.E. Thongloun Sisoulith, the Prime Minister of Lao PDR

Vientiane Economic Forum – Business Transforming Trends in the AEC



Andre de Jong of Robert Bosch explaining the use of cloud technology

25th January 2017

An intense day of debate and discussion on a wide range of subjects to do with the introduction of new ideas and technology to further the development and success of industry and commerce in Lao PDR was enjoyed by all who were fortunate enough to be able to attend this forum on 25th January.

Four principle subjects covered were:

- Trends and Opportunities in the ASEAN market;
- New business strategies that transform corporations and change the way SMEs do business;
- Innovations which will transform how we manufacture things;
- Innovation and digitalisation in the service industry.

These were discussed in detail and many new ideas were introduced. Industry 4.0 (the combination of all previous significant developments in manufacture, distribution,

connectivity and data security) was presented and resulted in lively debate. Utilising the relatively new data storage systems referred to as cloud was also discussed at length with strong support for the technology being countered by security and other concerns.

New trends and technology in banking were presented with business finance being another major theme, covering venture capital and seed financing, with examples given of how new businesses were able to get financial assistance to enable them to grow.

The full day of presentations and discussion with panels of experts was enjoyed by the large number of delegates attending, with visitors from 10 other countries injecting a very international flavour to the proceedings.

This was the first of what is hoped to be a regular feature in the business calendar so those who weren't able to attend this time may be encouraged to join us for the next one. Please watch for future announcements.



Andy Schroeter responds to audience questions

European Food Festival

On May 6th, Vientiane celebrated the annual 6th European Food Festival at the parking area of the Lao National Culture Hall. The event was jointly organised by the European Chamber of Commerce and Industry in Lao PDR (ECCIL), the European Union Delegation and Annam Fine Food.

From an extensive food experiences to fun activities to suit everyone's taste, the European Food Festival has become one of the most popular food events in Lao PDR. This year the festival attracted more than 2000 visitors and exhibitors. In the festival, more than 40 stalls from a wide range of restaurants, food producers and distributors presented the diversity of European cuisine to all the food lovers.



Visit of Italian business delegation

From May 15th-16th, the European Chamber of Commerce in Lao PDR hosted a business delegation from Italy. The visitors represented leading Italian companies from the construction sector and were accompanied by representatives of the Thai-Italian Chamber of Commerce and the Italian Chamber of Commerce in Singapore as lead-organisers.

On top of the visitor's agenda were meetings with Lao companies in Vientiane to identify potential for future cooperation between Lao PDR and Italy. During their visit, the Italian entrepreneurs held more than 30 individual face-to-face meetings with Lao counterparts. In addition, the delegation had productive conversations



Italian Business Delegation visiting ECCIL

with executives of the Lao National Chamber of Commerce and Industry (LNCCI) and the Association of Lao Architects and Civil Engineers. To ensure productive future cooperation

between ECCIL and the Thai-Italian Chamber in Bangkok, a Memorandum of Understanding has been signed during an official ceremony at ECCIL's premises.

Vera Woerner

Business Confidence Assessment for Lao PDR July to December 2016

The Business Confidence Assessment is conducted every half year for a variety of reasons. The first reason is to provide an insight into the business environment in the country of the time period. Secondly, the assessment is used to compare between Lao and European enterprises. Thirdly, the assessment creates an opportunity to see developments in the business sector starting from when the assessment was first started for the first half of 2014.

This time the survey consists of 419 enterprises (395 Lao and 22 Laos based European businesses). The enterprises are located in 12 of the Lao provinces and represent a range of industries with the Wholesale and Retail Trade and Repair being the biggest.

From this survey, the following observations were drawn. Firstly, the situation of the businesses can be described as stable. Overall, the assessment of the situation for both Lao and European companies is continuing to get more congruent compared to earlier surveys.

For Lao companies, the perception of the overall economic situation improved a little while European firms have had a more pessimistic view. This is a change from the last survey where European firms were optimistic and Lao firms pessimistic.

European firms are finding their own business situation to be worse than before. Lao firms are also seeing a slight decrease. Overall, the assessment is becoming more uniform. Expectations for the future development of business

have remained nearly the same for Lao firms while it has increased for European firms.

Turnover developments during the past six months remain almost unchanged for Lao companies. For European firms, turnover has increased.

Profit development has again declined slightly for Lao firms. European firms are experiencing an increase in profit development.

The overall financial situation did not change significantly for Lao firms. European firms have noticed a slight improvement.

Expectations concerning the financial situation have decreased for Lao firms but European firms still continue to be more pessimistic than Lao firms.

For both Lao and European businesses, the number of those who invested in the past six months increased. For European firms this share has been higher than for Lao firms. This also means that European firms are again investing more than Lao firms compared to the previous survey.

Lao firms have not increased their employment while European firms have.

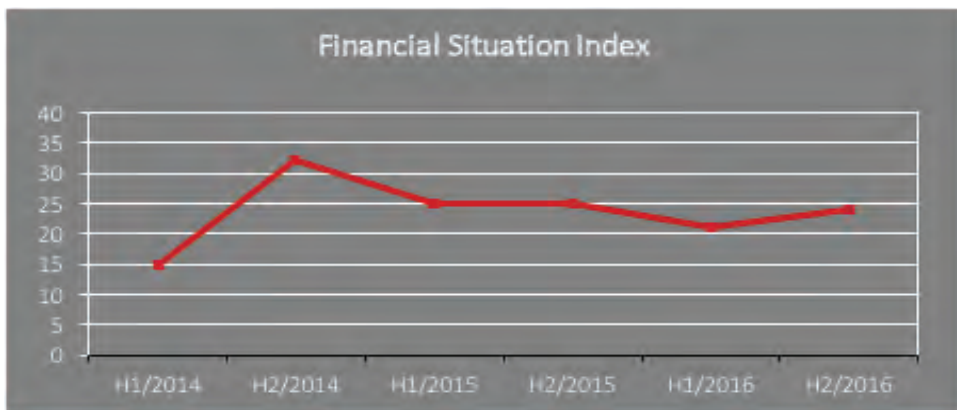
Expectations towards the impact of the ASEAN Economic Community (AEC) have continued to dampen, especially for the Lao business community.

The trend in development of Exports differs for Lao and European companies. Lao firms continue to experience negative development while European firms experience a lot of improvement.

In conclusion, it can be said that the Mining and Quarrying industry is struggling the most out of the nine industries compared. Furthermore, Lao and European firms are starting to assess their situations more similarly. Adding to this, the predicted and actual outcomes for firms are becoming more similar too.

For a full report, please visit www.eccil.org.

Vera Woerner was an intern for the European Chamber of Commerce and Industry in Lao PDR.



Financial Situation Index

ECCIL hosts visit of European Chamber of Commerce in Taiwan

From 6-8 March 2017 a delegation from the European Chamber of Commerce in Taiwan (ECCT) visited the European Chamber of Commerce & Industry in Lao PDR (ECCIL). The visit was part of ECCIL's ongoing interactions with other European chambers in the region which are part of the European Business Organisations Worldwide Network (EBO). The delegation used the opportunity to visit European companies operating successfully in Lao PDR as well as meeting expert briefings regarding the economic and legal environment in the country.



Delegation of the European Chamber of Commerce Taiwan visiting the Special Economic Zone Vita Park

New members

As the chamber grows in both services and membership, we are pleased to introduce the new members who have joined since our last newsletter.

Company name	Industry	Location	Joined
Aden Remote Site(Laos) Co.,Ltd	Facilities Management, Procurement	Vientiane	2016 June
Anakha (The Blue House)	Hotel and Handicraft	Luang Prabang	2016 November
Balamy Trading Import-Export	Consumer	Vientiane	2017 May
Creative Seven Arts-Seven Orients	Film Production, Image, Communication Lao Culture, Lao Music	Vientiane	2017/March
Data Consult Ltd	Consultant	Thailand	2016 May
Eastern Star Schools	Education	Vientiane	2017 December
German Embassy in Vietnam	Individual	Hanoi, Vietnam	2017 January
J&C Service Sole Co., Ltd	Service	Vientiane	2016 June
Kiwi Co.,Ltd	Internet	Vientiane	2016 September
LUNA II, Lao PDR-US International and Asean Integration Project, Implemented by Nathan Association INC	Project	Vientiane	2016 September
Stora Enso Lao Co., Ltd	Plantation wood and wood products	Vientiane	2016 March
Vitafort Lao Sole Co.,Ltd	Manufacturing	Vientiane	2016 March
Zico Law Laos Company	Legal services	Vientiane	2016 January

Sabaidee and welcome to you all!

Paul B. Simcock

Is the Lao PDR really going to become the battery of South East Asia?

Development of hydropower in the Lao PDR

With or without controversy hydropower dams are powering ahead in the Lao PDR. From the smallest to the largest dams outputting 5 megawatts to over 1400 megawatts, the Electricity system is preparing itself to become; "The battery of South East Asia" as quoted by EDL (Electricite du Laos) who controls all electricity bought and sold throughout Lao PDR. Currently, 42 power plants are operational in Laos. With a current installed capacity of about 6,000 MW, Laos plans to achieve 14,000 MW by 2020.

Over the past 25 years, investors from all over the globe have been involved with investing into hydropower in Lao PDR, predominately over the past 5 years or so, most international investors have been the Chinese, although surprisingly enough, there has been a huge turn to local investors also. Local Lao construction companies and alike, with large amounts of capital and long term assets have turned to the Banks of Lao PDR eager to take on large loans in the hope of turning their cash into liquid gold. Of course, most local companies lack the experience and knowledge to build such super structures, so they sub contract international consultants, engineers, hydrologists and back to the Chinese for the actual physical construction works. The Chinese have been building such super structures for many years, and have not only become 'experts' in this field, but are extremely competitive on construction charges.

Neighbouring countries such as

Thailand, China, Vietnam and to a lesser extent, Cambodia, have the greatest Power Purchase Agreements, however, "The Battery of SE Asia" has been spreading its wings as far and wide as Singapore.



Xayaburi Dam

Various negotiations have taken place to supply electricity to Singapore, however, this involves special agreements with Thailand and Malaysia to off-load the power from one country to another, rather than run a special power line just for Singapore.

So what do we refer to as a 'large' hydro power project (HPP) as opposed to a small HPP? Well, as mentioned at the beginning of this article, projects as small as 5 megawatts up to and beyond 1400 megawatt projects are being constructed around the country... so what is a "Megawatt" you may well ask?

Firstly, for the 'math' buffs among us; 1MW = 1,000 Kilowatts and of

course a 'Kilowatt' is a unit of power that most electric companies charge us for electricity usage. Therefore, 'secondly'; how many homes can 1 MW power? The real answer is quite complex, however,

in short, in the Western World, approximately 700 to 1000 homes can be powered by 1MW. It also must be understood that western homes generally utilise far more modern electrical appliances than the average (Lao) home in Lao PDR, so we can, therefore, suggest that in the Lao PDR, 1MW could power up to 2000 homes that carry the basic: TV, small refrigerator, a couple of free standing fans, and the use of an occasional electric wok.

But how about industry? There the answer is even more complex, obviously a large garment factory with masses of fluorescent light globes, is going to use much less power than a Japanese car manufacturing factory in Thailand that operates welding

machines and electrically operated production lines, never the less, in modern day Thailand with its thousands of factories established by foreign investors, it is a very lucrative business for EGAT (Electric Generating Authority of Thailand) to purchase cheap hydropower from Lao PDR and resell it to its investors at a premium rate.

So how many hydropower projects are being constructed?

Firstly, it may be of interest to readers to note that one of the first HPP to ever be built in Lao PDR was the Nam Dong HPP way back in 1961 with a capacity of only "1MW", the more famous Nam Ngum 1 project was commissioned in 1971 with capacity of 155MW and was one of the main forms of foreign income to the government of Laos (GOL) at that time. Approximately 48MW's of the Nam Ngum 1 projects output was used within the Vientiane province, the rest was sold to Thailand, but it took until the late 90's before homes and villages that were as close as a just few kilometres from the hydro dam, received power for the first time.

The famous Nam Theun II or NTPC still remains the largest hydropower producer at 1070MW's, the project cost around 1.3 billion USD to construction, with finance obtained from 26 financial institutions. The developers were EDF (40%), EGCO of Thailand (35%) and the GOL (25%), Lao government revenues is expected to be approximately 2 billion dollars over the next 25 years. Not all the electricity produced is sold to Thailand, approximately 70-80 MW's is reserved for the Lao grid system.

The Lao PDR has over 400+

potential sites for hydropower projects, although not all sites are viable throughout both the wet and dry season. Some earlier built projects are struggling to produce electric power during the dry season due to lack of early consultation with

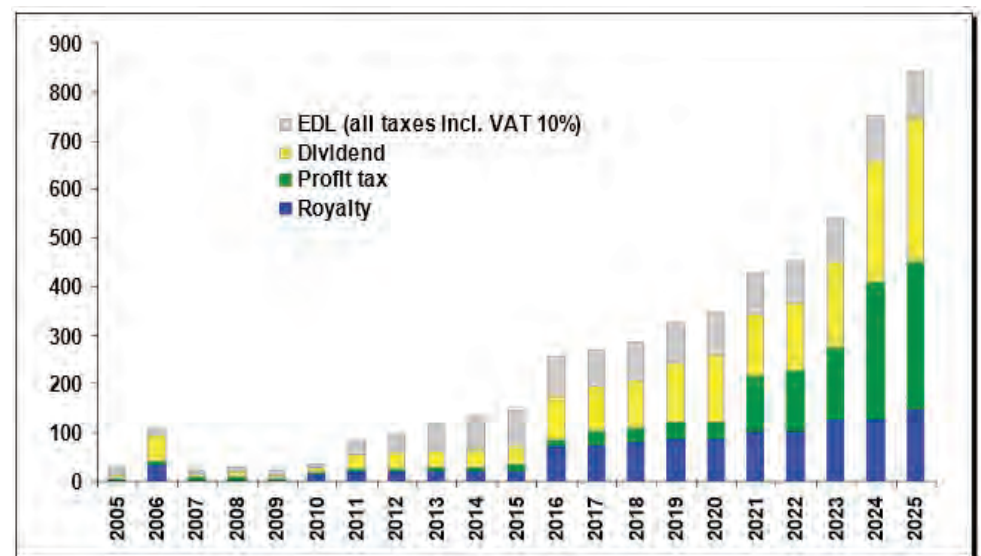
At the time of writing this article, there are approximately 68+ HPP under feasibility study, awaiting concession agreement, under construction, or about to be completed.



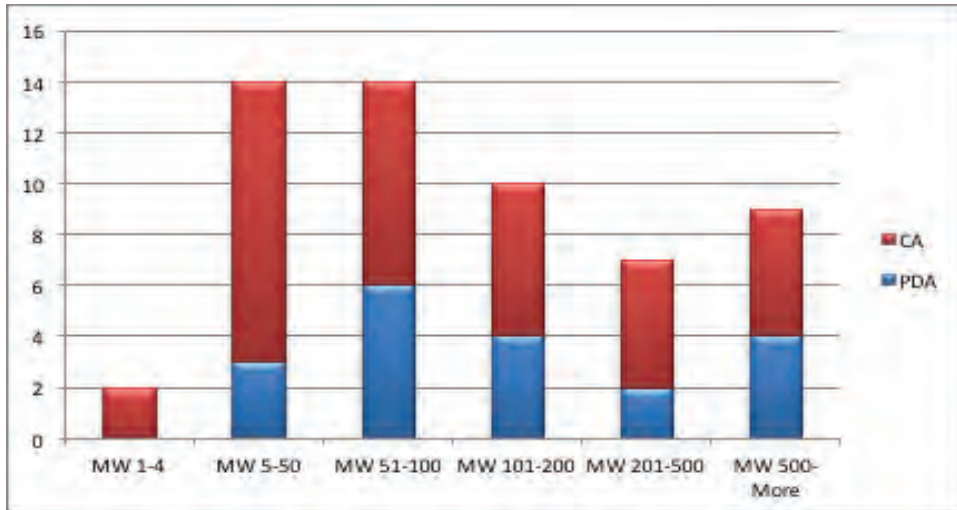
NTPC discharge channel downstream

foreign hydrology experts and are now in the process of trying to modify their projects to produce more power during the wet season to make up for their dry season losses.

There are approximately 20 HPP's operating in Lao PDR. In terms of size, please note the chart on the next page.



WB income estimates



Hydropower projects

Controversy

No other HPP's have attracted as much controversy as the Xayaburi HPP (Mekong River) and the Don Sahong HPP near the Lao-Cambodian border. Experts and non-experts from all of the world have written and voiced their opinions about the latter mentioned run-of-the-river projects.

Don Sahong (260MW's) has been criticised for placing the project on the best river for fish migration in the huge inland delta that spans some 10.2 klms wide, and creates an area known as Si Phan Don (4 thousand Islands). The project spent a lot of time and money contracting various experts to

assist in building the first major fish channel to enable fish to travel upstream in a neighbouring river all year around.

Xayaburi Dam (1285MW's) drew criticism for its potential to hold back the flow of the nutritious waters of the Mekong River possibly causing local fish species to 'die' ... ? Mekong River does in fact hold a high level of nutrients within the suspended river sediment that constantly flows downstream all year round. Generally speaking, Mekong fish can survive on the intake of these nutrients and not actually 'eat' anything, much the same way as many fish in isolated fish ponds live. Dams can actually hold this enriched water back as soon as the river flow is halted



Fish traps Don Sahong

due to the construction of a dam, causing the suspended sediment to gently sink to the bottom of the river bed, whilst the rest of relatively 'clean' waters await their turn to take a ride through the electric turbines. Companies like Compagnie Nationale du Rhône (CNR), who are experts in designing dam outlets allowing nutritious water to pass through these dams, have been helping the GOL and its Xayaburi Engineers and Designers to ensure that local fish stocks will remain healthy as the nutritious waters go through the dam.

Whilst the negative impacts of HPP continues throughout the world, the author of this article with the personal experience of working on over 25 HP dam projects in Lao PDR over the past 24 years, has seen the rehabilitation of many villages, mostly new houses, supplied with electricity that they didn't have before, new and better equipped larger schools have materialised, along with hospitals and clinics which in many cases, local people could not access in the past due to lack of local infrastructure and local rivers being too low to drive a boat during the dry season, now super highways in the form of large and small reservoirs have been formed allowing villages to cross over and trade with its neighbours all year round. Fish stocks have multiplied along with permanent fish farms with water in general, now being more accessible.

Paul Benson Simcock is the executive director of Vientiane Geomatic Services and Vientiane Hydrographic Services, two leading surveying companies in Vientiane, and has been involved in the preparation of a number of hydropower plants in the Lao PDR.



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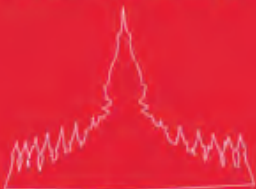
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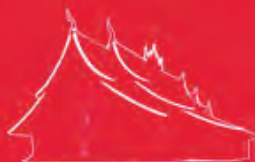
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by **AR**

Michael Schultze

A success story

Lao People's Democratic Republic 1975-2015

After more than 30 years of war of just slightly changing intensity for Laos in 1973 – as well as for Vietnam and Cambodia – peace became a real opportunity. After the Paris Peace Accord ending the US military involvement in Vietnam the conflicting parties in Laos, the US-supported Royal Government and the left-wing Pathet Lao, met and agreed to form a coalition government. It was the third of this sort after two short-lived attempts in 1956 and 1960. It took two more years of intense but mostly political struggle and a major regional shift of power with the collapse of the pro-American regimes in Phnom Penh and Saigon until the Pathet Lao proclaimed The Lao People's Democratic Republic on 2nd of December 1975. In those times of early international détente, Laos disappeared for a couple of years behind the bamboo curtain. Following the steps of traditional socialist transition the very few industrial enterprises became state property and an attempt at switching the very traditional agriculture to cooperatives began. The country



Indigenous technology - rice mill in Houapanh 2002

was in fact shaken by crisis. American support, which had kept the areas of Laos controlled by the Royal Government alive for more than a decade, was cut off. An increasing number of people, especially those associated with the 'old' system, felt insecure in a situation where many prominent representatives of the royal government were sent for re-education and left the country. Different sources claim that about 10 percent of Laos' population, predominantly the better educated, left the country during the first years of the Pathet Lao reign.

Nature also did not side with the revolution. Drought in 1977 and floods in 1978 added to the poor preparation of the collectivisation campaign which was

first substantially slowed down and eventually completely abandoned for fear of not having enough rice for the population at a time when Thailand had closed its borders to a neighbour now seen as hostile. The Eastern bloc stepped in to help the new brother in Southeast Asia, especially by receiving young Lao people for training. But it took a couple of years until the first batch of graduates returned home and tried to apply their newly acquired knowledge to the situation in a small and sparsely populated mountainous tropical country. But the Eastern bloc was busy trying to solve its problems in Europe and did not have the means to invest heavily in faster development of its new members in Asia. In the Lao case it was Vietnam which – following the traditions of joint struggle against a common enemy – was guiding the smaller ally to the West by sending hundreds of consultants to almost every government office. A Treaty of Friendship and Cooperation



Sam Neua Airport 2009

signed in 1977 cemented the special relations between the two countries and legalised the presence of Vietnamese troops on Lao soil. The Indochinese war was still in a cold war phase and the Mekong was the border separating the newly established people's republics from the pro-western ASEAN countries. The biggest concern of the new Lao leaders was the consolidation of political power with the objective of ensuring the survival of the 'new regime'.

Laos, traditionally more linked to its neighbour across the Mekong, started to reorient itself across the ridge of the Vietnamese cordilleras – with almost no roads connecting the Mekong basin to the South China Sea. Relations between Laos and Thailand were on both sides influenced by mistrust and suspicion as Laos looked at Thailand siding with China as a major supporter of anti-government forces in Laos and Cambodia whereas Thailand saw Laos as a puppet of Hanoi (backed by Moscow) now working on making the Thai domino fall.

The political situation became even more complicated in spring 1979 as the Lao leadership decided to side with Vietnam (and the Soviet Union) in the conflict with China. Laos, who had allowed some Vietnamese troops to cross its territory into Cambodia ending the rule of Pol Pot by a military invasion, was now in danger of getting entangled in the Sino-Vietnamese fights of early 1979. This did not happen, but the relations with China - a long standing supporter of the Pathet Lao during the war against the US - were frozen for almost a decade. On the other hand, Thai Prime Minister Kriangsak Chomanan undertook the first steps to ease the tension by signing two joint communiqués with his Lao counterpart Kaysone Phomvihane.

It was an important move towards normalisation but – as the following events show – some years ahead of its time.

The economy of Laos was struggling. Agriculture was badly affected by the impact of warfare (heavy bombings as well as the relocation of large parts of the population) and hasty collectivisation which neglected two basic principles of cooperative development: voluntary accession and economic benefit. The industrial sector of the country was not that big; besides the newly finished Nam Ngum hydropower scheme with 120 MW installed capacity, a brewery, a cigarette factory, a soap producer, a plywood factory, an agricultural tools factory and a couple of sawmills represented the backbone of the economy. For some time buying a car of American origin was cheaper than refuelling it as the Thai embargo had also stopped the fuel supply.

The Lao PDR prepared itself to enter the 5-year cycle of the Council of Mutual Economic Assistance (CMEA or COMECON) with its routine of party congresses, formal parliamentary elections and five-year-plans of socio-economic development by a 3-year interim plan (1978-80) aimed

at economic consolidation. Since 1981, with its first Five-Year-Plan nowadays known as the National Socio-Economic Development Plan or NSEDP, Laos has followed this pattern until today. Primary objectives of the first plan were the modernisation of agriculture and increased state investment in the industry, accompanied by an extension of infrastructure. The targets were far too ambitious, however, or the resources of the country and COMECON as the main source of investment were too small. In contrast to Vietnam, Laos did not formally enter the Eastern economic alliance but benefited from preferential treatment agreed upon for the less developed members.

At that time it became clear that following the pattern of orthodox socialist transformation would not lead to fast progress. Laos' leadership, especially Kaysone Phomvihane the Secretary General of the Lao People's Revolutionary Party (LPRP), started searching for alternatives and found them in Lenin's New Economic Policy of the 1920s. A document known as the resolution of the 7th Plenary Session of the Central Committee of the LPRP in 1979 outlined the foundations for a change to 'state



Fa Ngum Quay being upgraded, 1998

capitalism'. The economy now consisted of five sectors: individual, collective, state owned, joint state-private and private. Trade returned step by step to the use of market prices eventually completely abolishing the system of subsidised pricing for basic needs items for state employees (one market, one price policy 1988). In 1980 the Lao PDR for the second time in four years changed its currency, this time from the 'Liberation Kip' to the 'National Bank Kip', which had the effect of devaluing the currency by 60%.

The economic situation improved but was still pretty far from a real take off as resources for investment remained limited. So Kaysone went on with his reform agenda having in mind to mobilise additional input into the country beyond the

Western bilateral donor as well as international organisations like the World Bank, the IMF, the UN-system and the Mekong Commission provided some support to the LDC. For example, in 1986 the Keng Kabao port on the Mekong River close to Savannakhet was built with Dutch support.

When eventually Gorbachev started his perestroika in the Soviet Union tiny Laos was among the for-runners towards more market orientation under the slogan of 'Chintanakan May'. The policy of 'New Thinking', also known as the New Economic Mechanism (NEM), was officially launched in May 1985 and led also to an open door policy. The Supreme People's Assembly, the parliament of the country elected by the founding congress of the People 's Republic

doors to foreign tourists. European commercial interest in Laos was limited to a couple of restaurants owned by French people stranded here mostly after the French Indochina war like the famous Arawan of Mr. Joseph Pantalacci. It was Claude Vincent, another Frenchman who had for some time been running Transpack Lao, an international shipping company, who tried to boost tourism to Laos when he founded the Société du Développement Touristique or SODETOUR. Swedish development cooperation in forestry and road construction came along with a Volvo maintenance centre close to Vientiane.

Soon the Foreign Investment Law started to draw some attention among garment producers but



Pico hydropower in Nam Neun 2003

limited resources the COMECON could provide and fulfil some of the conditions posed by the World Bank and IMF. Even after 1975 Laos was not completely cut off from Western aid as Sweden, the main

ten years back in December 1975, started to work seriously on drafting a constitution. The first batch of laws was adopted, among them the Law on Foreign Investment (1988). At that time Laos also opened its

not because of the special benefits Laos would have to offer. It was the quota system under the Multi Fibre Agreement which made Laos attractive as a base for production when no quotas were available for

neighbouring countries like Thailand or Vietnam. The policy of the Lao government to 'transfer state-owned enterprises to other forms of property' – as the privatisation policy was officially described – led to the sell-off of the few profitable companies in the country. The brewery, for many years the biggest taxpayer in the country, was transformed into a joint-venture with Loxley and Italian-Thai from Thailand before Carlsberg took over the foreign shares in two steps (2002 and 2005). Lao Tobacco Co. after having been rented out to Thai investors became part of Imperial Tobacco. [1636]

Thai investors especially took advantage of their improving connections with Laos when the 1988 elected Thai Prime Minister Chatichai Choonhavan was trying to improve Thailand's relations with its communist neighbours through his policy to turn Indochina 'from a battlefield to a marketplace'. To reach that new high point in their bilateral relations both countries went through fierce fighting along the border between Xayaboury province and Thailand's Uttaradit province. it was a dispute over three villages in Uttaradit province, which Laos considered as a part of Boten district in Xayaboury province. A series of shootings occurred between Lao and Thai forces in 1984. After Chatichai was ousted from power by one of the many coups in Thailand, the relations with Laos entered a new low as another local war between Xayaboury and Uttaradit provinces broke out in 1988 resulting in a total of about 1,000 casualties. As a result of quite extended negotiations to end the hostilities, not only did That Luang Square get an asphalt surface but both countries even agreed to exchange military attachés. The list of 273 strategic goods barred from trade with Laos introduced in 1981 was shortened a couple

of times before it was eventually completely cancelled in 1989. The biggest problem hindering regional rapprochement, the Cambodia problem, had, after Vietnam's withdrawal in 1988, eventually reached the negotiating table. And China started an economic boom which would make it soon the

collapse of the Eastern bloc in Europe and the breakup of the Soviet Union. Laos was now looking for a replacement. In 1989 historical visits of Kaysone Phomvihane to former former adversaries, like France and Japan, as well as to its recently unfriendly neighbour China, were milestones on that agenda. This left



Driving adventure - bridge in Houapanh 1996

world's manufacturing powerhouse. Disarmament was agreed between the USA and the USSR and Europe was dealing with the results of the Helsinki Final Act.

If the Lao leadership had in mind to initially mobilise further support in addition to that from their political allies in COMECON, the situation changed dramatically after the

only the relations with the US at an unsatisfying level.

1989 also saw the first general election in the history of the Lao PDR electing 79 members of the Supreme People's Assembly under the conditions of a one party system. Political stability in the country and improving relations with its neighbours were essential



Victim of progress - Reminder of the famous Mixay restaurant in front of Lane Xang hotel

to increasing ODA and helped the Lao economy to develop. In 1990 for the first time GDP was calculated and included in economic reports and statistics. It showed a robust annual growth of 6.4% for the five-year-period 1991-1995 starting from a relatively low baseline of USD211 (147,000 kip) per capita in 1990. But the big boost in economic development was closely related to the promotion of so-called mega projects, especially in the power sector, with one particular project pushed forward by the Lao Government since the late 1980s to serve as a reference: the Nam Theun 2 hydropower scheme. In the early 1990s Electricité de France and Italian-Thai Development Co started the practical development of the project which received support and guarantees from the World Bank and Asian Development Bank. With USD1.3 billion NT2 was the biggest single project in Laos to date. At approximately the same time exploration work for mineral resources reached the exploitation stage. In the mining sector the then Australian heavyweights CRA and Rio Tinto were undertaking

the exploration work which was followed by Oxiana as the investor for Lane Xang Minerals Co. Ltd. in Sepon (Savannakhet). But before Laos could derive any benefit from these projects their mere existence was under threat as the Asian Financial Crisis in 1997 not only hit the Lao economy badly but had also a severe impact on potential investors. The first Lao satellite project with Thailand's M-Group as investor, was one of the prominent victims of that financial turmoil. On the political side the crisis encouraged those rather sceptical about reforms towards a market economy as ignoring classical Marxist theory were seemingly proven right: capitalism leading to economic crisis.

In other fields the year 1997 had much more to offer the Lao PDR. The Cambodia problem was solved with elections organised by the UN in 1993 which made integration among all South-East Asian countries possible. A major step in this direction was the admission of the three Indochinese countries and Myanmar to ASEAN. In 1997 Laos became a full member of the organisation. To further illustrate the situation, at around this time, in 1996 Vang Vieng got electricity and in

1997 Luang Prabang was connected to the Nam Ngum power station. It was in 1996 when Frenchman Claude Vincent was shot dead in an ambush close to Kasi on the way to Luang Prabang, a reminder that even 20 years after the establishment of the Lao PDR, security could be a fragile matter. And in 1997 Laos filed its application to the WTO.

The new millennium brought accelerated economic development to Laos. With the Asian Financial Crisis over Laos got high political commitment from France not to abandon the Nam Theun 2 project. Lane Xang Minerals mined its first gold ores in December 2002. According to Laos' National Growth and Poverty Eradication Strategy (2003) these two projects were expected to contribute one quarter of the Government's revenues starting from 2009. New large projects in the billion-dollar range emerged and received the Government's green light, such as the Hongsa Lignite power project and the much disputed Xayaboury hydropower project on the Mekong mainstream. Chinese interest in Laos grew and changed large areas within the country, whether through plantations for rubber or bananas, cascades of hydropower stations or

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Gold processing plant Vilabouly 2010

huge real estate projects. Built on these positive prospects leading to consistent high growth of 7 or more percent over the last 15 years, the Government decided to let civil servants, for many years known as receiving meagre salaries, get their part of the increasing wealth. Salaries doubled, even tripled. The economy continued to grow but unfortunately government income did not. Shortfalls in revenue were accompanied by significant overspending especially on infrastructure projects. On top of this economists started to warn Laos of the possible negative effects from resource-based growth.

In the international arena the Lao PDR also added some weight. After fully restoring diplomatic relations with the US in 1992 (diplomatic relations were downgraded between 1975-1992 with Embassy staff limited and the head of mission afforded Chargé d’Affaires status) Laos eventually also achieved Normal Trade Relations with the US in 2004. Secretary of State Hillary Clinton visited the People’s Republic in 2012 - the first visit of a foreign minister of the US

since 1955. Laos was proud to host the 10th ASEAN Summit in 2004 and the regional sports event the South-East Asian Games in 2009. The Asian-Europe Meeting Summit in 2012 was the biggest high-level gathering held in the country to date. Its success was overshadowed by the disappearance of Sombath Somphone, one of the organisers of the Asian-European Peoples Forum attached to the ASEM summit, just weeks after the event.

On 2nd of December 2015 the Lao PDR celebrated its 40th anniversary as a lower middle income country on its way to overcoming its Least Developed Country status. The economy continues to develop quickly and poverty has been reduced significantly. On the eve of the big celebration the first satellite was launched into its geostationary position. The official start was made to the construction of the railway link from Vientiane to the Chinese border – or more correctly from the Chinese border to Vientiane, as the biggest ever single project in Laos financed in large part by China, as has been the satellite. Following the

acquisition of its parent company, the once Australian gold and copper operation in Sepon now belongs to the Chinese giant MMG, while Vientiane’s That Luang Marsh is being turned into a new city with Chinese money, in the same way as the Mekong River Front or the Nong Chanh wetland have witnessed. The country’s development has never been as fast as it is now.

Michael Schultze studied international politics with special focus on South East Asia including Lao language and history. Having been in touch with the country since 1977 he moved here in 1993. He is the founder and supporter of the Vientiane Autism Center. Michael has written several books about Laos in German.

Michael currently works for Lao-German Development Consulting Co. (www.lgdc-lao.com), a 2010 established network of Lao and international consultants specialising in vocational training and SME development.

Ramon Bruesseler

The Trillion \$ Plan

China's Belt and Road Initiative

The envisaged railway link between the Lao-Chinese border and Vientiane is probably the most ambitious infrastructure project to ever appear on the agenda of the Lao PDR. It is a standard gauge line of over 410 km which will have more than 30 stations. It is supposed to be suitable for 160 km/h passenger and 120 km/h freight service; about 260 km of the track will run over bridges or through tunnels. The cost of the railway link is estimated to be about 7 billion US\$, perhaps more. In September 2016 it was reported that the China Railway Group had been awarded with 4 of the 6 contracts for the civil works.¹

The project is part of a planned link between Beijing and Singapore which has faced delays, among others because of disagreements regarding the financing conditions but also because of the refusal of the Lao and Thai governments to the Chinese request to develop land along the envisaged tracks.

The Beijing - Singapore link itself is part of a bigger programme, which was announced by the Chinese president, Mr. Xi Jinping, in 2013: the One Belt, One Road (OBOR, *yi dai yi lu*) Initiative, also known as Belt and Road (B&R) Initiative. OBOR itself is a network of multiple economic corridors rather than precisely mapped infrastructure lineaments, which consists of two main components: The Silk Road Economic Belt (SREB) which is supposed to link China through Central Asia with Europe and the Persian Gulf as well as China with South and South East Asia, and the 21st Century Maritime Silk Road



(MSR) which is planned to connect China through the South China Sea with Europe, the Indian Ocean and the Southern Pacific.² One objective is to boost trade by 2.5 trillion USD in the next decade.

The ambitious initiative is supposed to be financed by new and existing banks and funds like the China dominated AIIB (Asian Investment and Infrastructure Bank), China Construction Bank, the 2014 established 40b USD Silk Road Fund etc. in the scope of around 1 trillion USD. This would be a welcome contribution to narrow the annual 350 to 500 billion USD spending gap for infrastructure investment in the Asia Pacific region predicted by the ADB.³

In some regard the initiative is the logical but costly continuation of China's "Going Out" (*zou chuqu*) policy which aimed at improving China's access to foreign markets – it puts excess manufacturing capacity to use, it creates cooperation and interdependencies via enhanced connectivity and subsequent activities like investments and possibly Chinese outbound migration. There is also a proposal to make more Yuan denominated bonds available for the countries covered by the initiative

which would strengthen the Renminbi in the international currency system.

A major motivation for the Belt and Road Initiative is therefore economic in nature and many Chinese officials will answer the question about the rationale of the programme with a Chinese proverb "if you want to get rich, build a road". There is an element of truth in the latter: the ADB reckons that every USD spent on infrastructure generates an economic return of 5 – 25%.⁴ But the connection between infrastructure development, i.e. market access, GDP growth and poverty alleviation is most likely not that simplistic. Empirical studies confirm that better transport infrastructure contributes to growth and may be a necessary precondition for poverty reduction, but it is probably not a sufficient one. There are empirical cases where productivity and output has grown after infrastructure investments without bringing any benefits for the poor. In certain instances, inequalities have risen with the non-poor benefiting more than the poor who struggle to intensify their production.⁵

The B&R Initiative is not only about commerce and physical connectivity between the 64 covered countries.

¹ Anon.: Laos railway construction contracts awarded. In: Railway Gazette, 15.09.2016.

² It might be of interest to note that the term "Silk Road" has not been invented by the Chinese. In fact it has been coined by the German geographer Ferdinand von Richthofen who undertook several expeditions to the Middle Kingdom between 1868 and 1872.

³ Inderst, G.: Infrastructure Investment, Private Finance, and Institutional Investors: Asia from a Global Perspective. ADBI Working Paper Series No 555, January 2016, p. 6

⁴ World Economic Forum in collaboration with PriceWaterhouseCooper (Ed.): Strategic Infrastructure. Geneva 2012, p. 5.

⁵ Sununtar Setboonsamg: Transport Infrastructure and Poverty Reduction. ADBI Research Policy Brief No. 21.

There is also a further reaching geostrategic element: the exchange of ideas, scholarships, international fora, the creation of some kind of a regional identity and gaining influence in Eurasia – in short: a comprehensive counterbalance to the TPP initiative and the Pivot Asia policy of the former Obama administration. It is an effort to rebalance the global economic order, not least by giving China a greater voice in it. Beijing might have the impression that the USA is trying to contain China, so to have a back-up and a more favourable environment for the maritime trade routes through the South China Sea, through which currently each year over 5 trillion USD of goods are shipped, almost 30% of world trade in 2015, among others most of China's imports, would be more than handy. For the Beijing-Singapore corridor this means that China on one hand could gain more

political and economic influence in the countries through which the corridor runs, on the other hand it means that the project only makes sense if the railway stretches at least as far as the Thai coast.

B&R, which sometimes resembles more a vision than a detailed plan, will not be created in a decade but it takes already some shape, like the freight train which runs several times a week between Chongqing, one of China's biggest industrial centres, and the German city of Duisburg, Europe's biggest inland port. The journey of about 11.000 km takes between 2 and 3 weeks and each of the big trains can handle 50 to 75 containers. A big container ship would need about twice as long between China and Europe (though not between Chongqing and Duisburg, neither coastal cities) but could transport about 19,000 containers. The cost for the railway transport is reported

to be 0.7 USD per TEU per km⁶; the rates to ship a container are very volatile but stood at the end of December 2016 for Shanghai to Base port Europe at 1168 USD/TEU which is a fraction of the rail transport cost.⁷

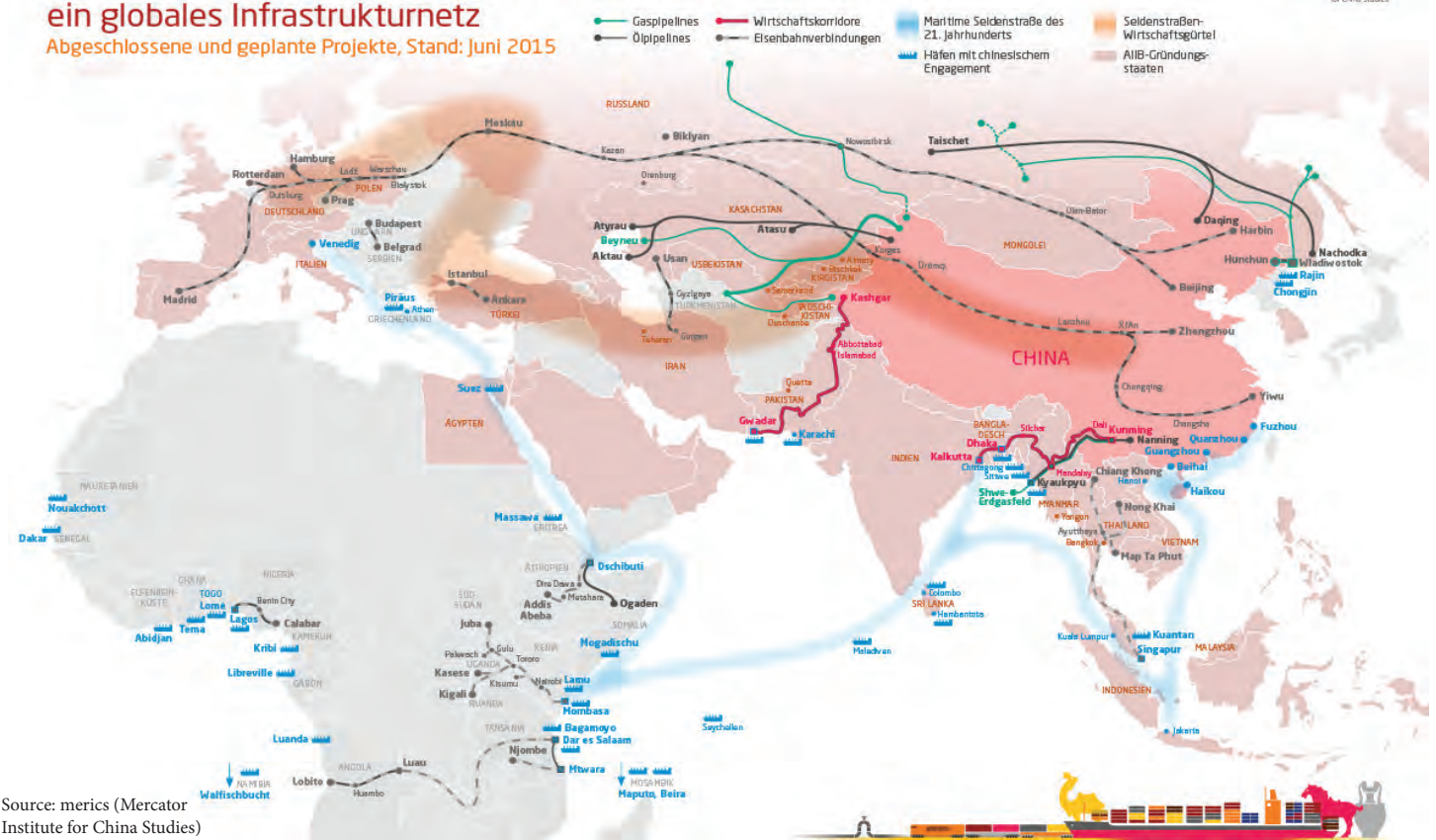
Another railway line under the initiative which is planned to connect Belgrade in Serbia with Budapest in Hungary has in early 2017 attracted the attention of the EU commission (Hungary is member of the EU whereas Serbia is not). The EU has started an investigation to assess the financial viability of the project but also whether there was a breach of EU regulations which require public tenders for large infrastructure projects – the Hungarian part is worth some 1.8 bn USD.

Ramon Bruesseler is the Executive Director of the European Chamber of Commerce and Industry in Lao PDR.

MERICs China Mapping

One Belt, One Road: Mit der Seidenstraßeninitiative baut China ein globales Infrastrukturnetz

Abgeschlossene und geplante Projekte, Stand: Juni 2015



Source: merics (Mercator Institute for China Studies)

⁶ Infinitycargo: <http://www.infinitycargo.com/index.php/en/careers/104-news-and-events/news/725-chongqing-duisburg-railway-starts-16-day-return-with-42-teu-of-auto-parts> as of January 3rd 2017.

⁷ Shanghai Shipping Exchange, <http://en.sse.net.cn/indices/scfinew.jsp> as of January 3rd 2017.



Ramon Bruesseler

The waning appetite for globalisation

Free trade and income

The establishment of the ASEAN Economic Community (AEC) at the end of 2015 has been widely perceived as a milestone on ASEAN's path towards further regional integration which focuses mainly on economic, rather than further reaching, integration. Although the tangible results have been less impressive than those of economic communities among OECD countries – intra-NAFTA trade as a percentage of exports of the 3 NAFTA member countries reaches about 50% while the EU, which accounts for about 15% of world trade in goods, has a trade integration of almost 2/3, whereas ASEAN trade integration has plateaued at around 25%. Still, compared with other economic communities among mainly emerging markets, ASEAN, which celebrated its 50th anniversary in

2017, outshines most of the rest. Policy documents which have been published recently, show that there is a political will to integrate further, albeit not necessarily at breakneck speed or to the extent of a Far Eastern version of the EU.

Lao PDR, one of the poorer countries within ASEAN, is experiencing strong economic growth, particularly in its urban centres, fuelled not only by development aid (ODA) but also by rising foreign direct investment (FDI) and by the opening of its economy to the rest of the world. The embracing of Special Economic Zones and the passing of a new Law on Investment Promotion in late 2016 shows the unabated desire to participate in globalisation.

This would seem to be out of fashion in other parts of the world where global trade has lost a lot of its dynamics.

Winds of change in the global economy

World trade has been sluggish in the last few years, mainly because of a lack of global demand. The world economy has still not gained full momentum – in October 2016 the IMF revised its forecast for global GDP growth down by 0.1% to 3.1% in 2016 with a rebound to 3.4% in 2017.¹

On a global scale economic prospects differ widely between the regions – emerging Asia shows robust growth, sub-Saharan Africa a strong slowdown whereas the future for the OECD countries is mixed, if not subdued, due to political uncertainties, sometimes bred out of public discontent.

For several years protectionism has been rising, mainly in the form of non-tariff barriers (NTB),² so

¹ International Monetary Fund (Ed.): *World Economic Outlook October 2016*. Washington 2016, p. XV

² European Commission (Ed.): *Report from the Commission to the Council and the European Parliament on Trade and Investment Barriers and Protectionist Trends 1 July 2014 – 31 December 2015*. Brussels 2016, p. 4 pp.

³ WTO Press Release of Sept 2016: *Trade to grow at slowest pace since the financial crisis*. https://www.wto.org/english/news_e/pr779_e.htm

that the world trade in goods and services has recovered from its sharp drop in 2009 but is still below its peak in 2008, where it reached 31% of world GDP; in fact it has slightly but constantly declined since 2011. Between 1985 and 2007 world trade grew at roughly twice the rate of GDP, whereas it has struggled to keep pace since 2012. If the WTO is right with its forecast from September 2016³ regarding the growth of trade in goods for 2016, which it revised down from 2.8 (in April 2016) to 1.7%, world GDP will grow faster than trade for the first time in 15 years.

The strong growth in trade in the 1990s – in 1995 world trade in goods and commercial services amounted to just above 20% of global GDP – which continued until 2008 when it peaked at 31%, was probably exceptional, though. Besides demand and supply in different countries it was driven by the falling cost of doing business across borders and by the entry of China into the world market. The former led to the internationalisation of supply chains with products which were formerly produced domestically now being assembled elsewhere in countries like China or Mexico. Rising wages, NTB and other recent factors mean that these costs are falling less rapidly than before. China is now reinventing itself economically by promoting a more demand driven growth; its growth rate is projected by the IMF at about 6% in the medium term, so that its huge appetite for commodities and FDI and its role as the work bench of the world might well be beyond its peak.

Political risks and popular discontent

In 2015 the world has seen signs of a

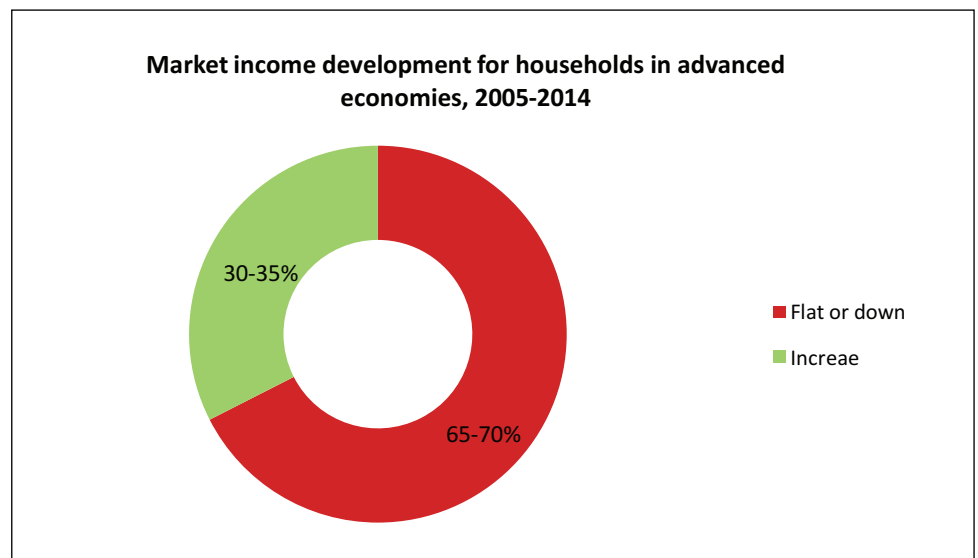
political backlash against freer trade and further global integration. The most significant events towards that end were the result of a referendum in the United Kingdom – leaving the EU after being a member for 43 years – and the outcome of the presidential elections in the USA where both candidates seemed not in favour of the Trans-Pacific Partnership (TPP) and where President Trump has announced an intention to renegotiate or “terminate” NAFTA. France is witnessing a rise of the far-right and even in Germany, which accounts for over 40% of EU’s exports and has a current account balance of over 250 billion Euro, senior politicians are bowing to popular opposition against the Transatlantic Trade and Investment Partnership (TTIP) between the USA and the EU.

charm?

Some major electoral decisions were fuelled by popular discontent. Some of the arguments brought forward, not only in the US election campaigns but also in political discussions in Europe, were more justified than others – alas, the conclusions drawn by some occasionally overlooked economic realities. On the positive side the discussion brought some mistakes and misconceptions by economists and politicians into the open.

The underlying facts

Many people in Western societies have the feeling that they have not really benefited from globalisation and that only a small elite has gained disproportionately.



Source: McKinsey Global Institute (Ed.): Poorer than their Parents? Flat or Falling Incomes in Advanced Economies. July 2016, p. IX.

Anti-establishment parties in Austria, Italy and the Netherlands have also gained in popularity and are calling for basic limits on all aspects of globalisation: migration, free flow of capital, and free trade.

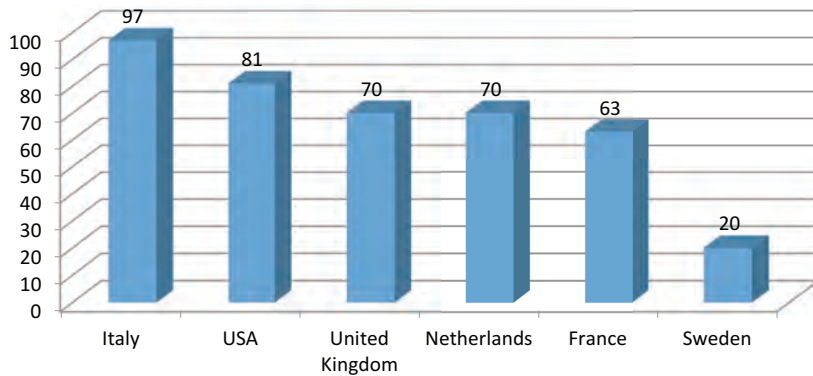
This article focuses on trade and the recent attitude towards it. Trade allows for specialisation, economies of scale, promotes innovation and lower prices,. So why has it lost its political

They may in fact have a point. In many developing countries income inequality has risen but in almost all these economies people from all income groups have enjoyed rising incomes. In developing countries that is probably not the case, though.

McKinsey Global Institute, a leading think tank, published a report in July 2016⁴ which stated that in 65

³McKinsey Global Institute (Ed.): Poorer than their Parents? Flat or Falling Incomes in Advanced Economies. July 2016

Percentage of population with flat or falling market income 2005 - 2014



Source: McKinsey Global Institute (Ed.): *Poorer than their Parents? Flat or Falling Incomes in Advanced Economies*. July 2016, p. IX.

to 70% of households in advanced economies, i.e. 540 to 580 million people, the real market income was only just as high, or possibly even lower, in 2014 as it was in 2005 and that less than 2% of the households (i.e. less than 10 million people) had experienced the same between 1993 and 2005. Taking government transfers and lower taxes into account the fallout on disposable income was reduced, but still between 20 and 25% had less or the same in 2014 than in 2005. The young and the less well educated workers as well as single mothers were hit particularly hard. Worse still: the outlook for the next decade is also bleak – in a worst case scenario up to 80% of all households in advanced economies might not be able to improve their income situation.

Government policy and labour market regulations helped to influence the extent of falling or flat incomes, while, as has been the case in Sweden, job preservation measures have helped to keep market incomes up for all but a small minority and, like in the US, transfer payments and tax measures have helped to keep

disposable incomes increasing for almost all households. However, flat or falling incomes have a negative impact on demand and/or a rise in demand for social transfer spending. And there is also a further effect – the study found out that nearly a third of the disadvantaged had a negative view on migration and free trade.

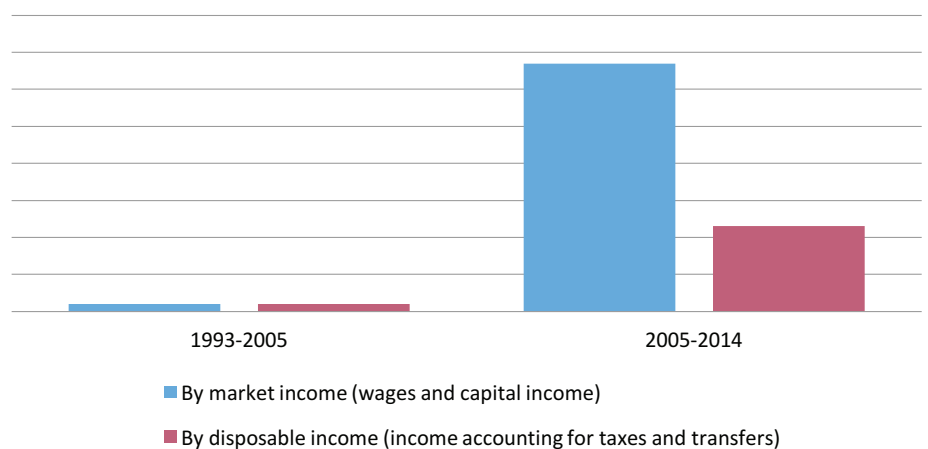
Responsible for the flat or falling wages in the advanced economies

are demographic factors like aging societies, labour market factors and, first of all, the slow recovery after the global crisis of 2008. But there is also another alarming factor – since 2008 GDP growth, which formerly contributed 18% to median household income growth in the US and in Europe, had almost no impact on income growth for the average person anymore. There are several reasons for this. One is that a lower share of GDP is flowing into wages and, consequently, a higher share goes to profits and other forms of capital income. But capital income contributes far less to the overall income of the poorer and often less educated share of the population than for the rich households (7% for the lowest quintile in 6 surveyed countries versus 33% for the highest quintile).⁵

Another reason is an increased differentiation in wage levels. While the relative demand for highly skilled labour has increased, there is a shrinking demand for low and medium skilled labour

Share of households with flat or falling income

(population weighted average of 25 countries)



Source: McKinsey Global Institute (Ed.): *Poorer than their Parents? Flat or Falling Incomes in Advanced Economies*. July 2016, p. 3.

⁵ Ibid, p. 13.

⁶ Source: McKinsey Global Institute (Ed.): *Poorer than their Parents? Flat or Falling Incomes in Advanced Economies*. July 2016, p. 11.

⁷ OECD (Ed.): *In it together. Why less inequality benefits all*. Paris 2015, p. 15.

in rich countries. The latter is caused by technological changes with automatisisation in developed countries, and, a factor that helped trigger the increased substitution of labour with capital, the fact that competition for low and medium skilled jobs has become global while labour mobility has not – between 1980 and 2010 about 85 million workers in developing countries joined the labour pool in export-related activities.⁶ A manual job that had previously earned a living for blue collar workers in Ohio can now be done cheaper by one or two workers in Bangkok or Fuzhou.

on demand and thus on economic growth is disproportionately high. The OECD, a group of mainly rich countries, estimates that rising income inequality has knocked off almost 5 percentage points of GDP growth between 1990 and 2010 in member countries for which long time data series are available.⁷

So the feeling that an open economy benefits mainly a privileged few while leaving the majority behind is not completely unfounded. Economists were always aware that free trade also creates losers but it was assumed

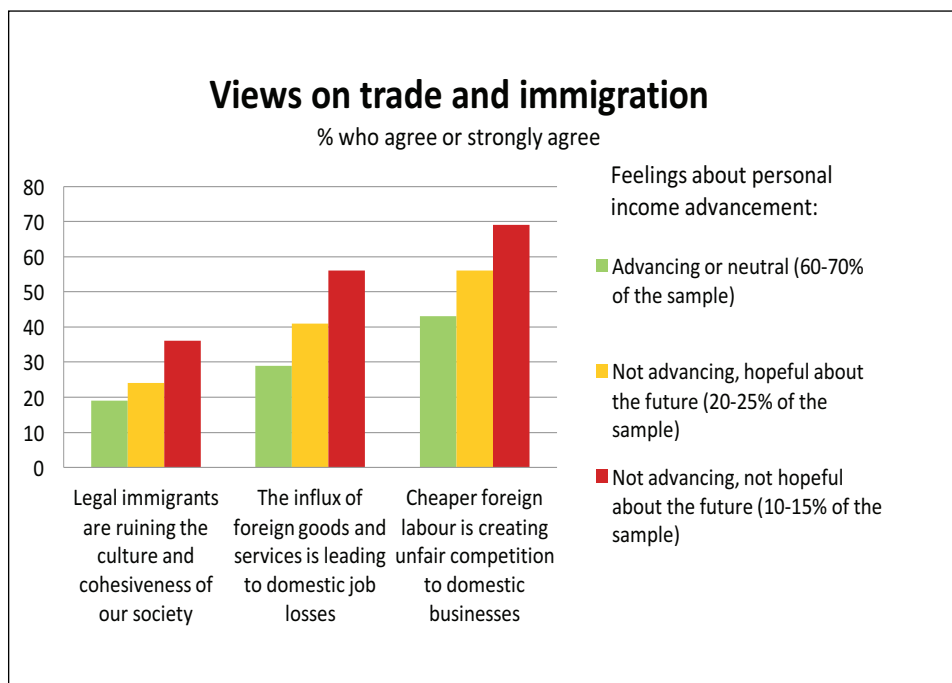
To trade or not to trade?

Being a die-hard trade liberal would probably have not won you the top seat in the White House. According to the CIA World Factbook China had a current account surplus of over US\$293 billion, Germany is a close second in absolute terms with more than US\$285b (a bit less than the whole GDP of the Philippines) but leads in relative terms – the surplus almost equals a staggering 8% of its GDP. The US, on the other hand, in 2015 held the world record when it came to the biggest current account deficit – over US\$484 billion. This made Mr. Trump suggest that America is “losing” when it comes to international trade and that imposing import duties might be the solution of choice to create more jobs and income at home.

Losing and winning is a wrong perception in this context. Although some Chinese and some Germans may feel differently – running a constant trade surplus is not a virtue. It might be the result of weak domestic demand or of a strong preference for saving. The rationale for exports is to pay for imports, now or in the future.

In most rich economies, and particularly so in America, the demand for imports rises when overall demand and GDP rise and jobs are created. In the US the trade deficit shrinks when the country is in recession; in other words: the country would have to invest less to balance trade but this is not exactly a recipe to create jobs and income.

However, there is also another catch - most products these days are created along a transnational value chain. An iPhone 6 contains



Source: McKinsey Global Institute survey on income inequality (2015) results for United States, France, and United Kingdom, about 2,000 respondents per country; McKinsey Global Institute analysis. Here cited from: McKinsey Global Institute (Ed.): *Poorer than their Parents? Flat or Falling Incomes in Advanced Economies*. July 2016, p.37.

Rising income inequality is not only harmful for social cohesion and political stability, it also contributes to an unfavourable economic trajectory: the lower and middle income groups tend to spend relatively more of their income than the better-offs, which means that when their incomes stall or fall, the aggregate effect

that the benefits were enough to compensate the losers and that the friction was temporary.

Recent studies suggest that it is not that easy. And even if the gains of free trade are partially for transfer payments to the underprivileged there is a risk that large-scale migration puts additional stress on the welfare system.

⁶ Anon.: Free trade. Coming and going. In: Special Report: The World Economy. In: The Economist, Vol. 421, no. 9009, 01.10.2016, p. 5.
⁷ Fajgelbaum, P.D., A.K. Khandelwal: Measuring the unequal gains from trade. Quarterly Journal of Economics, 3rd draft, November 2015.

components from the US, Germany, Taiwan, Korea, Japan, France, Italy and the Netherlands and Apple has more than 200 suppliers all over the world. These days about 80% of all trade is organised or happens within multinational enterprises.⁸ Imposing tariffs on intermediate products raises the price of the final product and makes it less competitive. A representative of Foxconn recently stated that it could produce its components for Apple in the USA instead of making them in China – but the price would probably quadruple.

So imposing tariffs is probably not the right way to balance a trade deficit or to create jobs.

There is also a social dimension to trade which makes the equation more complex. As pointed out, in recent times it is often argued that trade favours a well-educated elite, in particular people with a high non-wage income and that it disadvantages the less educated poor. Taking a closer look at

consumption and purchasing power that may not be true. As Pablo D. Fajgelbaum and Amit K. Kandelwal point out in a paper in 2015⁹ trade typically favours the poor who concentrate their spending in more traded sectors. In an econometric

study that covers 40 countries, 27 European and 13 other major economies, they found that closing off trade would lead to a real income loss of 28% for the richest 10% of the population but would knock off 63% of their spending power for the poorest 10%. The reason is that people with low incomes consume more traded goods whereas the rich consume more services which are among the least traded sectors. Hence, reductions in the trade cost of food favours the poor whereas reductions in the import prices of services benefits mainly the high income individuals. This pro-poor bias appeared in all countries surveyed by the study.

Imports do not only allow for cheaper products - free trade boosts efficiency, thus productivity and competitiveness. Exporting firms generally grow faster and pay higher wages than companies that only cater to the domestic market. In order to stay competitive companies in an open economy spend more on innovation and R&D. New technologies often require less labour with higher skills; low tech firms close and low skilled workers lose. But the solution is not to stop free trade and curtail economic evolution – the corrosive economic and social consequences would be too severe. It is wiser

to boost economic growth by improving productivity, to invest in skill development, to raise labour participation and labour mobility and to secure incomes, if necessary by transfers. But taking rising government debts in a number of countries into consideration, which have reached about 100% of GDP in countries like Italy, the United Kingdom and the USA, a number of governments will have to increase their revenues to offset the cost of these transfers.

Ramon Bruesseler is the executive director of the European Chamber of Commerce and Industry in Lao PDR.

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Angus Gillies, Malaivieng Viengvilay

Full steam ahead

The railway between Boten and Vientiane

After considerable discussion, debate and negotiation, not to mention fairly extensive controversy, construction of the much vaunted high speed rail connection between Boten in the North of Laos and Vientiane, which was first approved by the National Assembly way back in October 2012, finally got underway. The project had to overcome difficulties with financing and other issues which delayed the project until it was finally agreed upon between Laos and China with the agreement signed in mid-November 2015 with a groundbreaking ceremony following soon after on 2nd December to coincide with the 40th anniversary of the founding of the Lao PDR.

An integral part of China's plan to establish a rail connection from Kunming to Singapore and reduce surface travel time between these 2 cities to only 10 hours, the stretch in Laos will cover a distance of 420 kilometres (261 miles) and carry passenger trains reaching a maximum speed of 160kph and 120kph for freight trains.

This railway line is also part of China's 'One Belt One Road' initiative which is intended to create fast and economic surface connection with the high value markets in the Middle East and Europe.

The project calls for a total investment of 40 billion Chinese yuan (approximately US\$6 billion), 70 per cent of which comes from China and 30 per cent from Laos. For years Lao officials wondered how they would be able to afford their

share when the country's output is only US\$12 billion annually.

The high cost of establishing this single track railway line results from the topographical features the constructors will have to deal with as the line will pass through very mountainous countryside and require the construction of 76 bridges and 154 tunnels. It will also be necessary to relocate some villages and clear the land of unexploded ordnance, risks of which remains prevalent much of the country.

In addition to the difficulties they will face with the mountainous terrain the contractors will be building 31 stations along the route which is expected to have a significant impact on travel throughout the Northern part of the country and open up many areas for new development. Transport of produce and merchandise will also be made simpler and cheaper allowing entrepreneurs to consider territory they would otherwise have overlooked.

There is considerable concern over the amount of debt the project will cause the country to bear with many well informed observers suggesting it will be unsustainable and lead to additional problems. With other railway construction projects in the offing, however, the linkage of a rail network throughout the country will considerably promote the government's ambition to turn the country from being 'landlocked' to 'land-linked'. Laos strongly supports the railway project claiming that it will support Laos' mission of

eradicating poverty and being removed from the UN list of Least Developed Countries by 2020. The government officials believe that the railway will increase income for the country and promote growth as well as provide more employment opportunities to local residents.

As the construction of the railway has started, it can already be seen that the project is generating income for Lao residents and providing them with employment opportunities. More than 7,000 Lao workers are needed to be recruited for the project. It is expected that a number of Lao workers who have found employment in Thailand with or without work permits, will return to Laos in the expectation that the railway project will be able to provide them with job opportunities.

For a country which has little waterborne transport for goods and people, the establishment of rail connections has to be a positive step forward.

This article was written in-house and was compiled from various media reports and statements. Our thanks go to the Vientiane Times, The Diplomat, GoKunming, RFA Laos service, China Economic Herald, Bangkok Post and Wikipedia, China Daily, XinhuaNet.

Malaivieng Viengvilay

2017 EU-ASEAN Business Sentiment Survey

The EU-ASEAN Business Council has finally published its third Business Sentiment Survey of European Business in Southeast Asia. The survey presents an outlook of European businesses in the ASEAN region in 2017.

This year's survey covered 333 European companies operating in the ASEAN region with every ASEAN country represented. The companies are involved in a range of different industries having a variety of ownership models with variations in company size and longevity in the region.

Overall, European businesses have a very positive outlook towards the ASEAN region. 75 per cent of respondents expect to see profits increase here over the next five years while 86 per cent expect the level of trade and investment in the ASEAN region will also increase substantially. 71 per cent stated that over the next few years ASEAN would become more important in terms of global revenue.

It is reported that 94 per cent of European enterprises plan to maintain or expand their current operations in the region. However, the number of respondents who plan to increase operations and headcount have slightly fallen compared to 2016. Nevertheless, the number of enterprises that plan to shorten operations or decrease the number of employees has reduced (from 4 per cent in 2016 to 3 per cent in 2017).

European businesses also want to

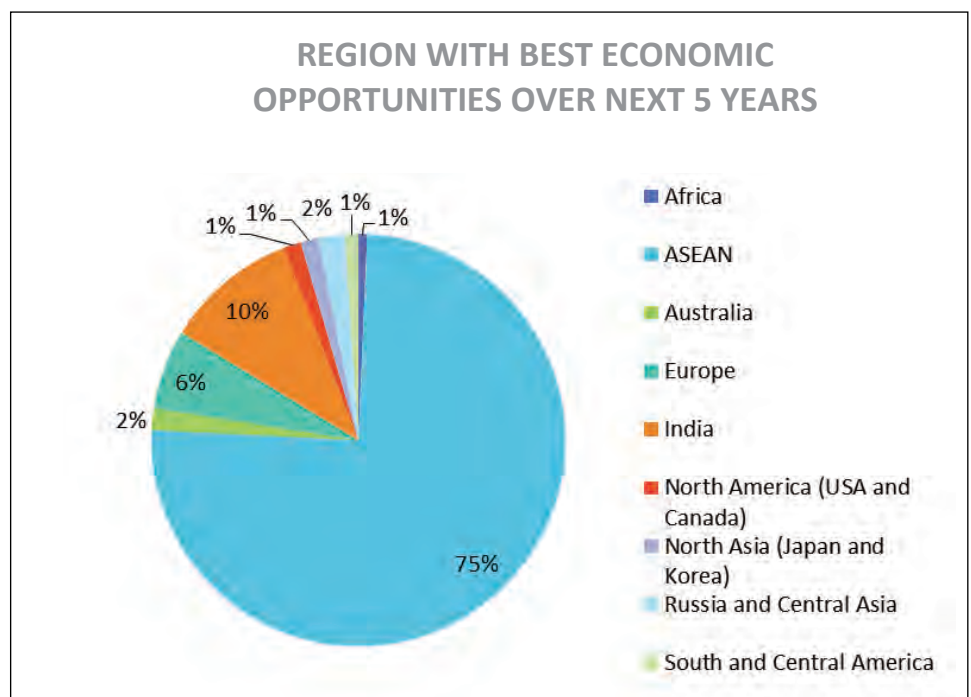
see a strengthened cooperation between Europe and ASEAN. This year 88 per cent of respondents (compared to 66 per cent last year) believe that the EU should work towards a region-to-region Free Trade Agreement (FTA) with ASEAN nations. Currently, 55 per cent feel disadvantaged without having a region-to-region FTA. Approximately nine out of ten respondents believe that a region-to-region FTA would create more advantages than just having bilateral deals.

Challenges which slow down ASEAN from reaching its maximum economic potential still remain. Although the use of regional supply chains by European business has increased over the previous year (from 41 per cent to 56 per cent in 2017), 61 per cent of European businesses report that non-tariff

barriers prevent them from the efficient use of regional supply chains.

In conclusion, it can be seen that European businesses continue to have a very positive outlook in the ASEAN region and are looking to further invest in the region. European businesses also show strong support for strengthening trade ties between Europe and ASEAN and believe that the EU should make more effort in pursuing a region-to-region FTA.

The information in this article was compiled from the 2017 EU-ASEAN Business Sentiment Survey. Our thanks go to the EU-ASEAN Business Council.



Source: EU-ASEAN Business Council: 2017 EU-ASEAN Business Sentiment Survey, September 2017, p. 7.

New Laws

Title	Reference	Date	Posted in Official Gazette/ MOJ
Education Law	62/NA	28.08.2015	18.09.2015
Law on Cyber Crime	61/NA	15.07.2015	17.11.2015
Business Competition Law	60/NA	28.08.2015	24.11.2015
Law on Anti-Human Trafficking	73/NA	17.12.2015	31.03.2016
Law on Defense	67/NA	11.12.2015	19.04.2016
Tax Law (Amended)	70/NA	15.12.2015	09.05.2016
State Budget Law (Amended)	71/NA	16.12.2015	11.05.2016
State Investment Law (Amended)	72/NA	15.12.2015	23.05.2016
State Audit Law (Amended)	09/NA	11.11.2016	07.02.2017
Law on Information and Communication Technology	02/NA	07.11.2016	21.02.2017
Law on Chemicals Management	07/NA	10.11.2016	06.03.2017
Attorney Law	06/NA	09.11.2016	07.03.2017
Law on Livestock and Veterinary	08/NA	11.11.2016	27.03.2017
Road Law	03/NA	08.11.2016	28.03.2017
Media Law	01/NA	04.11.2016	29.03.2017
The Investment Promotion Law	14/NA	17.11.2016	04.04.2017
Statistics Law	24/NA	24.05.2017	21.07.2017

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Laos promoting e-commerce to facilitate businesses

The Lao Services Portal website (www.laoserviceportal.gov.la) has been officially launched in order to attract more domestic and foreign business operators to Laos. The portal contains all the necessary information on trade and investment services in Laos. Users can also find the official documents, forms, procedures, news, publications, measures and services in the website. The website was created with the funding of more than US\$500,000 from the Second Trade Development Facility (TDF-2) and in cooperation with the World Bank.

At the same time, Laos has launched another online platform (www.plaosme.com) through a loan of US\$562,000 from the Asian Development Bank (ADB) as a part of government efforts to promote small-and-medium-sized enterprises (SMEs) alongside the theme of 'Enhance SME Access to Asian Market through E-commerce Platform'. The e-commerce platform provides information about Lao products and producers along with information on trade agreements and workshops on business and other important activities.

Real estate expansion in Vientiane Capital

The growing involvement of foreign investors in Laos has resulted in an increase of real estate business (apartments, and hotels) especially in Vientiane Capital. Over the past ten years, more money has been pumped into the real estate business resulting in an increased number of new buildings to satisfy rising demand. Despite the increase, some real estate businesses struggle to find customers. According to economists, one of the main problems is that banks in Laos do not offer long term loans. Most funding to support real estate businesses comes from abroad. Another problem is an absence of law regulating the real estate sector, which leads to foreign investors lacking confidence and becoming hesitant to invest in the sector. Mr. Houmphane said that the business sector has suggested that the Lao National Chamber of Commerce and Industry should make a proposal for a real estate law.

Laos strives to step up from LDC status

Laos is striving to step up from least developed country (LDC) status to a middle income country by 2030 through strengthening international economic partnerships. The list of LDC countries is reviewed every three months by the United Nations Economic and Social Council based on three criteria: gross national income (GNI) per capita, human assets, and economic vulnerability. The 2015 triennial review data shows that the GNI per capita of Laos is US\$1,232, which is already close to the graduation threshold of US\$1,242. It was also stressed that tourism promotion is a significant part of economic development in order to graduate from LDC status.

Industrial growth generates more jobs and income for central Laos

Industrial growth in Savannakhet province has generated more than 1,000 additional jobs for local residents and has contributed to an improvement in their livelihoods. In the Savan Seno Special Economic Zone (SEZ) alone, some 4,163 people have been employed, of whom 4,069 are local residents with the remainder being foreign nationals. Currently one of the major challenges in Laos regarding the workforce is that foreign companies usually pay low wages to Lao workers claiming they are unskilled. This leads Lao residents to cross the border into Thailand to work there where they can get higher wages. Mr. Phoukhong Nammachak, the head of Savannakhet province's Administrative Office, stated that he believes that creating more jobs in the province offering reasonable wages can provide incentives to reduce labour migration from Laos to Thailand.

Value-added tax to replace the current tax system

The Ministry of Finance is in the process of introducing a value-added tax (VAT) on small and medium sized enterprises (SMEs). Currently, the majority of SMEs pay taxes through negotiation reached between business owners and relevant authorities. VAT has been decided upon to replace the old business tax system, under which the government charged businesses 5-10 per cent of their profit. This type of tax will be abandoned once the VAT system is put forward. The new VAT requires consumers to pay an additional 10 per cent of the core price of specific products purchased in country or from abroad. It is believed that the VAT will enable the government to collect taxes more accurately based on consumer purchases.

UK Export Finance introduces financing for British businesses in Laos

UK Export Finance (UKEF) is the UK's official credit export agency and a ministerial department of the UK government, whose mission is to ensure that no viable export opportunity fails for lack of finance or insurance. According to the British Embassy, UKEF has added Laos to its list of supported countries, with a total country limit of £200 million (US\$260 million). Now, UKEF will be able to help British businesses in Laos by providing attractive financing terms. The United Kingdom is now the tenth biggest investor in Laos and UKEF's decision will further boost the commercial ties between the UK and Laos.

590 government units have been targeted by Lao auditors

Over 590 government units have been targeted by the State Audit Organisation (SAO) for investigation and examination for inappropriate use of the State budget and for violating financial regulations and laws. The audit will be conducted with 100 organisations at central level, 200 units at local level, while the remainder include state enterprises and development projects. It is reported that the auditors will pay particular attention to sectors related to revenue collection (those related to the collection of taxes, state service fees, state funds, revenue from lands, state assets and state enterprises) and those related to expenditure (investment projects, expenditure on administration works and debt payment).

New malls to boost Vientiane Capital's retail growth

New malls are expected to open in Vientiane during the rest of this year and next year, which is expected to boost retail growth. Naga Shopping Mall, the first stage of the World Trade Centre (WTC) project, is nearly 70 per cent complete, while That Luang Plaza is nearly 100 per cent complete. Both malls are expected to open to the public by the end of this year. According to the Domestic Commerce Department of the Ministry of Industry and Commerce, Vientiane now has 26 shopping centres of which 9 are already open for business with 17 under construction. Shopping centre developers believe that the malls will drive economic growth and attract more investors from abroad.

All articles were obtained from the Vientiane Times Newspaper.



OUR FACEBOOK PAGE:

ECCILinLaos

Social Networking



January 18 saw the first of our social networking evenings sponsored by Eschol Data Protection and Services.

A very enjoyable and convivial evening was had by all who attended the function in the grounds outside the ECCIL offices.



The new and very elegant, spacious Jaguar and Land Rover showroom was the venue for our March 15 social networking evening where members and friends were able to get a close look at the splendid new vehicles on display as well as catch up with old friends and make new ones. A wonderful evening was enjoyed by all. Our grateful thanks to sponsors RMA.



ECCIL also celebrated the first Oktoberfest in Laos with the members and with the support from Lao Brewery Co., Ltd.

Social Networking



ECCIL had a business networking night at Crowne Plaza on 27th September, where presentations were given by LNCCI and European Union followed by a Q&A session, where participants had a chance to get their questions answered regarding business in Laos.

On 1st November, a joint chambers networking event was organised, where members from four chambers (Austcham, ECCIL, American-Lao Business Association and BBGL) as well as representatives from Australian, US, British and Canadian Embassies attended the event.



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ECCIL Events

Recent Events

Workshop 'Customs Clearance in Lao PDR'

Date: November 16th, 2017
Location: ECCIL Office, Vientiane
Type: By registration only

ECCIL Tax Forum

Date: December 8th, 2017
Location: Crowne Plaza, Vientiane
Type: By registration only

Seminar 'Support Instruments for Companies Operating in Lao PDR'

Date: January 23rd, 2018
Location: Crowne Plaza, Vientiane
Type: By registration only

Public-Private Consultations Meeting

Date: February 20th, 2018
Location: Crowne Plaza, Vientiane
Type: By invitation only

Training 'Customer Services'

Date: February 20th, 2018
Location: Crowne Plaza, Vientiane
Type: By registration only

Upcoming Events

Networking event with Austrian Delegation

Date: March 1st, 2018
Location: Ansara Hotel, Vientiane
Type: By registration only

Dinner Reception with Deputy Prime Minister of the Lao PDR

Date: March 2nd, 2018
Location: Berlin, Germany
Type: By invitation only

Conference on Business Opportunities in Cambodia, Myanmar, Laos and Vietnam

Date: March 11th, 2018
Location: Jakarta, Indonesia
Type: By invitation only

European Food Festival

Date: March 24th, 2018
Location: Lao National Cultural Hall Parking Space
Type: Public

Influencing/Negotiating Training

Date: March 26th, 2018
Location: tbc
Type: By registration only

ACKNOWLEDGEMENT



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4				3				
	8	3		9			7	
7			5					1
	6						4	
1					3			2
	5			2		9	1	
				6				5
		4	1	8		2		

Take a few moments out to give your mind a little simple exercise with the ever popular SUDOKU. All you have to remember is that each line, column and group of 9 squares must include all the numbers 1-9.

As an example, on the 9th line below the sixth square has to be a 5 as there is no 5 yet and it cannot be put in squares 1, 2, 8 or 9.

Good luck!

5	4	5	37					
			6	5		16		
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	14			9	14			
18						27		
11	14	6	18			20		
			12		2			
18				4	11		21	
	5	12		13		3	11	

A more challenging version of SUDOKU!

The rules are much the same except there are no numbers filled in already, each one has to be deduced.

All the numbers 1-9 must appear in each line, column and block of 9 squares, but they must also add up to the total shown in each cage. For example, the first two numbers in the top line must add up to 5 (2+3 or 4+1).

The main clue to remember is that the numbers 1-9 add up to 45, so each line, column and square of 9 numbers must add up to 45 also.

Good luck!

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