



# **Doing Business in Laos: A Country Commercial Guide for U.S. Companies**

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## Chapter 1: Doing Business In Laos

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### Market Overview

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Statistics from the Economist Intelligence Unit and U.S. Government, for 2006 except where noted.

- Population: 6.1 million
- GDP: \$3.4 billion
- GDP per capita: \$572
- Total Imports: \$1.1 billion
- Total imports from U.S.: \$6.9 million
- Total Exports to U.S.: \$8.7 million
- Thailand, Vietnam, and China dominate the Lao economy, with heavy participation in certain sectors by Australia and France. American companies play almost no role in Laos.
- Laos is one of five remaining communist countries in the world, and although it is making a transition to a market economy, the legacy of communism continues to weigh on the population and the economy.
- Human capacity in Laos is low and finding skilled workers a major challenge.
- Useful Web links:
  - U.S. Embassy in Vientiane, Laos: <http://vientiane.usembassy.gov/>
  - CIA World Factbook: <https://www.cia.gov/cia/publications/factbook/geos/la.html>
  - Trade Stats Express:  
<http://tse.export.gov/NTDChart.aspx?UniqueURL=qwghlc2uzxr2nufhfk2htp45-2007-2-15-23-33-49>

### Market Challenges

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- The banking sector in Laos is extremely weak, although a new 2006 law should increase participation by international banks.
- Customs procedures are often opaque, and duties levied often do not comport with listed tariffs.
- Commercial law and the commercial court system within Laos are developing slowly and are not transparent.
- Business disputes are rarely adjudicated in favor of the foreign investor.
- Procedures for investment are cumbersome and approvals often do not occur within times stated within the rules.

- Laws and procedures are subject to change at short notice and without prior consultation with, or notification of, the private sector. A list of Lao laws translated into English can be found at: <http://www.na.gov.la/eng/laws>

## **Market Opportunities**

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- The power sector, especially hydropower and coal, is open to foreign investment, with many international firms represented.
- Mining prospects are excellent, although moves by the government to restrict new concessions have caused confusion among foreign investors.
- Agribusiness, especially rubber plantations and coffee for export, offer attractive opportunities.
- The Lao government has targeted ecotourism as a major area of future growth.

## **Market Entry Strategy**

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- American companies considering investments in Laos are advised to visit the country several times, as personal relationships are key to locating suitable Lao business partners and avoiding misunderstandings.
- Approximately 36 American businesses or their agents operate in Laos. There is currently no American Chamber of Commerce in Laos, but foreign businesses may apply for membership in the Lao National Chamber of Commerce <http://www.Incci.laotel.com/>

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## **Chapter 2: Political and Economic Environment**

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/2770.htm>

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### Using an Agent or Distributor

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Many import-export companies exist in Vientiane and in the cities located at or near border crossings, such as Bokeo, Khammouane, Savannakhet and Champasack. Most import-export companies are ill-equipped to handle large-scale distribution, however.

US firms looking for a distributor or an agent in a particular province should contact the provincial branch of the Lao National Chamber of Commerce (LNCC),

<http://www.lncci.laotel.com/>

and the Trade and Investment Department of each province. The LNCC can help identify business partners. Under the 1994 foreign investment law, a business cooperation contract (similar to a partnership) provides for the division of profits and liabilities between partners. In this case, the partners assume full liability, as no separate legal entity is formed.

### Establishing an Office

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To apply for a foreign investment license, a foreign investment application must be processed through the one-stop service of the Department for Promotion and Management of Domestic and Foreign Investment (DDFI) or Committee for Promotion, Management and Investment (CPMI) in the Committee for Planning and Investment. Foreign investors wishing to invest in Laos must submit an application to the DDFI or CPMI at the central or provincial level with copies of the passport and resume of the foreign investor; feasibility study or business plan; information related to the business (of the investor) if it is a legal entity; and a copy of the joint venture agreement in cases of joint venture formation. <http://invest.laopdr.org/>

Upon receipt of an application to establish an office, the DDFI or CPMI coordinates with relevant sectors and local authorities to consider the project and responds in writing to the foreign investor. Depending on investment type, the DDFI or CPMI generally responds in 15 to 45 working days.

Foreign investors that are qualified under this law receive a foreign investment license, an enterprise registration certificate, and a tax registration certificate at the same time from the DDFI or CPMI at the place where the foreign investors are licensed.

Within 90 days of the date of receipt of an investment license, the foreign investment enterprise must commence business activities in accordance with the steps in the feasibility study stipulated in the foreign investment license. If the timeframe is not followed, the foreign investment license may be terminated.

DDFI or CPMI, the concerned line ministries, and the CPI, jointly screen proposals and are required by regulation to issue or deny licenses within 15 working days.

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Laos has no specific law regulating franchises. There are no obvious franchising opportunities, although with rising incomes and a large tourist population food companies familiar with operating in a lower income environment might find a niche. Kentucky Fried Chicken and Swensens both operate across the border in Thailand from Laos' capital Vientiane.

## **Direct Marketing**

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Direct marketing in Laos is not very effective because of low telephone instrument density, (currently only 17 in 100 households has telephone service), poor roads, and low literacy rates (66%). Cellphone coverage and use is expanding rapidly.

## **Joint Ventures/Licensing**

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Lao foreign investment law recognizes joint ventures, but requires the foreign partner to contribute at least thirty percent of registered capital. Capital contributed in foreign currency must be converted into Kip based on the exchange rate of the Bank of the Lao People's Democratic Republic on the day of the capital contribution. Foreign partners' equity may be foreign currency, plant and equipment, capital goods, technology, and/or skills and management. Lao partners (including the Lao government) may contribute money, land, water rights, natural resources, and/or capital goods. The value of the

inputs and assets of each side are assessed at international market rates and converted into local currency at the prevailing exchange rate on the date of equity payment. The incorporation of joint ventures must comply with the business and enterprise laws of the Lao PDR. Lao business and enterprise laws and regulations should increasingly be available on ministerial websites as part of compliance with the U.S.-Lao Bilateral Trade Agreement.

Licensing would require a trustworthy Lao partner and opportunities should be researched with the Lao government and the Lao National Chamber of Commerce.

### **Selling to the Government**

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Lao Government procurement procedures are opaque. The national budget is heavily financed by Official Development Assistance (ODA), and donors commonly encourage government purchases from their home industries as part of the aid deal. Most business opportunities involving Lao Government entities are associated with donors and their development projects. Contracts in support of these projects are often bid out in the newspapers, though the degree to which these bidding events are open and fair is not clear.

### **Distribution and Sales Channels**

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Generally, import-export wholesale companies import goods into Laos and sell goods to retailers. Goods may enter Laos by air, road, or (less formally) by river. There is no active railroad in Laos as yet, though a short spur line from Nong Khai, in northeastern Thailand, is beginning construction. The lack of a well-developed road system and basic infrastructure in many areas makes distribution outside of the main urban areas in Vientiane, Luang Prabang, Savannakhet, and Pakse difficult, time-consuming, and costly. However, the main north-south route is in good repair, and the North-South and East-West Corridors, intended to eventually connect the Chinese, Vietnamese, and Thai economies through Laos, are well advanced.

### **Selling Factors/Techniques**

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American products generally enjoy a good reputation for technological sophistication and high quality in Laos. The consumer products of Laos' regional neighbors are far better known, however. The Lao market can be difficult for American products due to their relatively high prices. To compete successfully, some US firms have combined routine advertising with workshops, training programs, trade shows, and product launching events for wholesalers and distributors, as well as customers. The Thai and Lao languages, while similar, are not identical. Nonetheless, as Thai products with Thai language packaging are ubiquitous in Laos, Thai language packaging often suffices. American products that include Lao-language packaging and/or promotional materials are likely to be more positively received.

Although there is growing interest in the development of telecommunications infrastructure in Laos, there is currently insufficient infrastructure and electronic commerce is virtually non-existent. Broadband internet access was introduced to Vientiane in 2006.

Advertising and trade promotion are important marketing tools for American products. Since nearly all Lao who own televisions watch Thai advertisements, a good reputation and strong advertising campaign in Thailand will likely have a positive effect on Lao consumers as well. Many companies advertise in two Lao local newspapers, Vientiane Mai, a Lao Language newspaper, and the Vientiane Times, an English Language newspaper. A brief listing of major newspapers, business journals, radio, television stations and business advertising companies follows:

Vientiane Times (English Language)  
Pangkham Rd. Vientiane, Lao PDR  
P.O.Box: 5723  
Tel: (856) 21 216-364 or 217-593  
Fax: (856) 21 216-365  
<http://www.vientianetimes.com>  
Email: [info@vientianetimes.gov.la](mailto:info@vientianetimes.gov.la)

Pasaxon (Lao Language)  
66 Setthathirath Street,  
P.O. Box: 1110, Vientiane, Lao PDR  
Tel: (856) 21 212-466 or 212-470  
Fax: (856) 21 212-470  
<http://www.pasaxon.org.la>  
Email: [infonews@pasaxon.org.la](mailto:infonews@pasaxon.org.la)

Vientiane Mai (Lao Language)  
36 Rue Setthathirath,  
P.O. Box: 989, Vientiane, Lao PDR  
Tel: (856) 21 212-623 or 212-624  
Fax: (856) 21 215-989 or 212-989  
[www.vientianemai.net](http://www.vientianemai.net)

Vientiane Thurakit Sangkhom (business-social, Lao Language)  
C/O Vientiane Mai  
36 Rue Setthathirath,  
P.O. Box: 989, Vientiane  
Tel: (856) 21 212-623 or 212-624  
Fax: (856) 21 215-989 or 212-989  
[www.vientianemai.net](http://www.vientianemai.net)  
Email: [webmaster@vientianemai.net](mailto:webmaster@vientianemai.net)

Lao News Agency



80 Setthathirath Ave.  
P.O. Box: 3770, Vientiane  
E-mail: [kplnews@yahoo.com](mailto:kplnews@yahoo.com)  
[www.kpl@laonet.net](http://www.kpl@laonet.net)  
Tel: (856) 21 251090, 215-402, 212-447 or 212-449  
Fax: (856) 21 212446, 251090. MB: (856-20) 5400219

Lao National Radio  
c/o Ministry of Information and Culture  
Rue Sethathirath  
Tel: (856) 21 212-428, 212-429, 212-431, 212-432 or  
212-433 fax: (856) 21 212430  
Email: [nationalradio@hotmail.com](mailto:nationalradio@hotmail.com)

Lao National TV 1 and 3  
Chommany Neua village; Xaythany District, Vientiane Capital. P.O.Box 3156  
Tel: (856) 21 412183, 413769, 413766 and 710971  
Fax: (856) 21 710182  
Email: [Kinomaru24@yahoo.com](mailto:Kinomaru24@yahoo.com);  
<http://www.lntv.gov.la/>

Lao International Trade, Exhibition, and Conference Center  
<http://www.laosstar.com/Laolt/default.asp>

## **Pricing**

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The Lao government has no laws governing the pricing of products or services. A VAT is scheduled to be introduced in 2008.

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Customer support and service tend to be the province of large multinationals such as Toyota and Ford, which offer excellent in country support. In general, attitudes towards customer service, especially at the retail level, are still developing towards Western levels.

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Laos became a member of the World Intellectual Property Organization (WIPO) in 1995, and WIPO began assisting Laos in drafting an intellectual property law in 1996. The National Assembly is still considering how best to address intellectual property rights in Laos. The Lao Government also issued a trademark decree in January 1995. The Science, Technology, and Environment Agency (STEA), which is part of the Prime Minister's Office, controls the issuance of trademarks on a first-come, first-registered

basis. There are currently over 14,000 trademarks registered in Laos. The Science, Technology, and Environment Agency (STEA) website is <http://www.stea.gov.la/>

Laos became a member of the ASEAN Common Filing System on Patents in 2000 but lacks qualified patent examiners. Laos is a member of the Paris Convention on the Protection of Industrial Property in 1998, but has not yet joined the Bern Convention on Copyrights. No system yet exists to actually issue copyrights. A copyright law exists in draft form but has not yet been passed or implemented.

Please see the Investment Climate Statement for more detailed information on IPR protection.

## **Due Diligence**

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Due diligence is key in the Lao market. Companies are advised to make numerous trips to Laos prior to investing in order to meet both with potential partners and with relevant government officials. Working with a local lawyer (see below) is recommended.

## **Local Professional Services**

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There are few local professional services and few local attorneys, audit, print shops, etc. that meet international standards. There are four private translation companies that specialize in Lao-English and English-Lao translation that are licensed by the Ministry of Information and Culture. However, most of these companies have little experience with business contracts and generally focus on translation of common civil documents such as marriage licenses and birth certificates.

A list of local lawyers can be found at:

<http://laos.usembassy.gov/attorneys.html>

A list of Lao laws translated into English can be found at:

<http://www.na.gov.la/eng/laws>.

## **Web Resources**

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Lao National Chamber of Commerce (LNCC): <http://www.lncci.laotel.com/>

The Science, Technology, and Environment Agency (STEA): <http://www.stea.gov.la/>

Lao Convention Center: <http://www.laosstar.com/Laolt/default.asp>

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

Lao laws (English): <http://www.na.gov.la/eng/laws>

News: <http://www.vientianetimes.com>

<http://www.pasaxon.org.la>

[www.vientianemai.net](http://www.vientianemai.net)

<http://www.lntv.gov.la/>

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## **Chapter 4: Leading Sectors for U.S. Export and Investment**

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### **Commercial Sectors**

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## Apparel

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Industrial output represents about 31% of Lao GDP, primarily light industry. Growth in the industrial sector increased by 16 percent from 2005 to 2006, and the overall rate of industrial growth remained healthy.

Following the abolition of the Multi-Fiber Agreement in 2005, Lao export of garments grew in the first half of 2006, especially for knitted products. Garment exports to the EU market have increased 10 percent due to a 0% tariff rate. The key exporters include Foreign Direct Investment and Joint Venture (FDI) and JV companies (more than 900 workers: TrioLao Export, Lao Garment, Lane Xang Aporn, Great Lao MFG, Export Garment, Alpilao International, VM Inter Garment) and local producers (more than 500 workers: Aporn Lao, Kianvilay Garment, PV Garment and other smaller firms.

Despite Normal Trade Relations with the US, apparel exports to the American market have not yet grown significantly, although they did begin to rise in the third quarter of 2006. Local industry participants have remarked that Laos cannot compete on a price basis with China and producers have difficulty filling large orders for bulk buyers such as Walmart. Nonetheless, we have seen some indications that major American firms are looking to Laos as a possible investment site, possibly planning to take advantage of the new road leading to the Vietnamese port of Danang.

## Financial and Telecom Services

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Services represented about 26% of Lao GDP in 2006. The growth rate for services in 2006 was a healthy 7 percent. Prospects in the service industries vary. Telecommunications will certainly continue to be a strong growth area, and demand for trade-related services will expand as new roads linking the Chinese, Thai, and Vietnamese economies are completed through Laos. Growth in financial services is stagnant due to the slow pace of reforms. The passage of a new banking law at the end of 2006 could herald the beginning of a new era in foreign bank participation in Laos, with foreign banks now allowed to open branches outside the capital. There is also discussion of a Lao stock market and long bond market, although these are likely to need time to develop from idea to actuality.

## Mineral Production

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Mining is growing quickly due to several foreign enterprises. Growth in the mining sector decreased 5% in 2004, then increased sharply by 120 percent in 2005. 2006 was a banner year for mining output, and 2007 is likely to be even better, with new mines and mine exploration continuing to expand. The chief products are currently gold and copper, with bauxite in the south appearing to be the next big strike. Due to the rapid increase in applications to concessions, in mid-February 2007 the Lao government announced a slowdown in its approval of new applications. At heart the matter is one of human resources—the Lao government does not have the people to carry out due diligence on all the many applications flooding in and provide oversight of current mining projects. Nonetheless, the GOL has assured foreign investors they continue to welcome new investments in mining, and the sector remains one of the better long-term investment opportunities in Laos.

## Hydropower and Energy Production

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Energy production is also booming in Laos, especially in the hydropower sector. The majority of energy produced in Laos is then exported to Thailand, Vietnam, and soon to Cambodia. While many investors have already been granted exclusive rights to the larger projects with Memorandum's of Understanding from the Lao Government, some of the MOUs might be withdrawn for non-performance, presenting possible investment opportunities. There are also numerous smaller projects available, as well as four remaining mega-projects on the Mekong River itself, and a number of coal-fired plants seeking investors. For an overview of the sector from the Lao Government's point of view, and a list of planned projects, please see:

<http://www.poweringprogress.org/index.htm>



## Travel and Tourism

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Revenue from tourism increased \$146.77 million in 2005 and was expected to increase to \$168 million in 2006 and \$193 million in 2007. Tourism remains one of the mainstays of the economy and a chief earner of foreign exchange. The number of tourist arrivals is expected to reach 1.4 million in 2007. Tourism is also one of the few areas of economic activity in which the average Lao person can benefit directly. Barring disruptions, tourism and the many associated service industries will continue to expand for the foreseeable future. The year-on-year increase in tourism levels from 2004 to 2005 was 23 percent and from 2006 to 2007 is expected to be about 15 percent. Recent tourism promotion agreements between Laos and neighboring countries promise increased growth in this sector.

### Opportunities

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Within the tourism sector, there appears to be significant potential for ecotourism related projects. Several non-governmental organizations as well as the Lao government are trying to capitalize on this growing sector. Laos' unique geography and ethnic diversity make the country an excellent destination for tourists interested in hikes through ethnic villages, river rafting, cave exploration, conservation tourism, etc.

Agriculture and livestock account for 44% of Lao GDP. It remained the highest contributor to the Lao GDP in 2006, although growth in this sector decreased about 3 percent in 2006. One of the primary agricultural goals of the Lao Government is rice self-sufficiency. However, dry season rice harvests have been particularly poor for the past two years. Coffee and some fruits and vegetables are exported, mostly to Thailand, Vietnam and China. Vietnamese competition has limited the success of Lao coffee regionally.

Nevertheless, the quality of Lao coffee is high, if still variable, and if world market prices firm up, this is a potentially profitable export product for the future. The 2006 outbreaks of avian influenza inflicted heavy losses on Lao poultry farmers. Sericulture, soy beans, sugarcane and other cash crops are promising areas for rural agricultural production. Rubber also appears promising, with Chinese and other foreign rubber interests making inroads in the north and south of Laos, assisted by new infrastructure development.

Opportunities for U.S. agriculture exports to Laos are not extensive and likely limited to niche products.

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### Import Tariffs

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The Lao import tax system aims to promote importation of inputs for investment and production while protecting domestic production and limiting luxury imports. Foreign investors do not pay import duty on imports of capital machinery and equipment for production, or on spare parts. Raw materials and intermediate goods needed for export production are also exempt. Raw materials and intermediate goods imported for import-substituting industries can be accorded special treatment based on an incentive agreement.

There are two standard import tariff rates of 5% and 10%. These published rates are levied by the Customs Department. Importers may face turnover as well as excise taxes. Excise and turnover taxes range from 5% to 10% percent on many goods.

The Lao government plans to introduce a value-added tax to replace the turnover tax in 2008. Additional tariff, excise tax, and turnover tax information can be found at: Tax Department, Ministry of Finance, Tel: (856-21) 217205 Fax: (856-21) 218569

### Trade Barriers

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The Lao Government has simplified its tariff structure and is gradually amending non-tariff barriers. The new BTA with the United States lowers tariffs on a range of American products. There is no longer any quota on imports of automobiles or restrictions on imports of goods (except chemicals, weapons and certain drugs). However, trade in Laos still requires authorization from several national and provincial authorities, which can be a time-consuming and a less-than-transparent process.

### Import Requirements and Documentation

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Application for an import license must be made to the provincial trade authority where the importing enterprise is located. An import/export license is valid for the life of the business, but the investors must notify the authorities that they intend to continue operating their businesses. The Lao Government offers quotas for importing duty-free vehicles to qualifying individuals and companies.

For general goods, importers are required to have the following documentation for each shipment: 1) import planning approval for each year; 2) invoice; 3) packing list; 4) transport documents; 6) bill of lading; 7) and a customs clearance report. Importers of raw materials for re-export are required to have the same documents as other importers, except for the contract and import license. Instead, they are required to provide an annual import plan to the provincial or municipal industry and handicraft department where their manufacturing facility is located. Investors often complain about this requirement.

Importation of automobiles is not officially restricted by Lao Government, but the Lao military controls and profits from an unpublicized quota system in which quotas are sold to private sector entrepreneurs who pass those costs on to consumers. Automobile importers, individuals or companies, unless they have obtained duty free status, must pay an import tax, turnover tax, excise tax, and additional tax for luxurious goods to the government based on the tariff rates.

Exporters should have the following documents when applying for an export declaration: 1) an application for export declaration; 2) an import/export license (only for goods under control of the ministry or government e.g. rough or polished diamonds); 3) an invoice of goods; 4) a packing list; 5) a certificate of country of origin and generalized system of preferences certificate of origin if applicable; 6) phyto-sanitary certificate for food exports; and 7) industrial products certification for industrial products. Normally documentation requirements depend on the laws of the destination country.

To import or export pharmaceuticals, food, or chemical products, in addition to the aforementioned documents, the importer must obtain a license from the Food and Drug Control Import Division of the Food and Drug Department of the Ministry of Public Health. For more information please contact Food and Drug Control Division, Food and Drug Control Department of the Ministry of Health, at the following fax and phone numbers: Tel: (856) 21 214013-5; fax: (856) 21 214015. Pre-shipment inspection is required for exported goods in accordance with the requirements of the destination country. Laos has no special labeling or marking requirements.

## **U.S. Export Controls**

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Several United States export controls apply to Laos. For the most part, these export controls fall under the categories of National Security licensing requirements and the Chemical Weapons Convention. For detailed information regarding U.S. export controls please contact the Bureau of Industry and Security within the U.S. Department of Commerce at [www.bis.doc.gov](http://www.bis.doc.gov).

## **Temporary Entry**

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Products imported for the purposes of processing, assembly into finished products, or for exhibition and subsequent re-export, are exempt from duty. Trans-shipment of goods through Laos requires the same documents normally needed for import and export. In addition, the export-import company shipping goods through Laos must submit an annual trans-shipment plan to the relevant Ministry (e.g., Agriculture and Forestry for wood products) and then obtain individual permissions for each trans-shipment. Goods traveling through Laos are not subject to import or export taxes.

## **Labeling and Marking Requirements**

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Laos has no laws governing product labeling and marking.

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Notification No 1367/MIC.EID, dated October 10, 2006, outlines prohibited imports. The list of prohibited goods for import are: firearms, bullets, explosives, war weapons and vehicles, opium seeds, opium flowers, marijuana, dangerous pesticides, obscene and salacious products, and materials that have a negative impact on Lao culture and national stability.

List of goods that cannot be exported:

Rifles, bullets, explosives, war weapons and vehicles, opium seeds, opium flowers, marijuana, animals and animal products otherwise prohibited from export in other regulations, lumber, plain wood or sawed wood, agar wood or eagle wood which is cut from natural forest, primitive orchids, raw rattans, sulfur (bat manure), antiques, national heritage or historical products, and antique Buddha statues.

Items for which exporters must obtain a permit include:

Live animals including fish and aquatic animals; paddy rice; lac, benzoin and other forestry products; mine products; wood and wooden products; unpolished diamonds; sanded silver and pieced gold.

For a detailed list of import & export restrictions, please visit  
<http://www.moc.gov.la/default.asp>

## **Customs Regulations and Contact Information**

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Customs contact information:

Mr. Nouhack Nalukhoth,  
Director Customs Department  
Ministry of Finance  
Tel: (856) 21 213810 or 223524

Fax: (856) 21 223-520 or 223521

Mr. Bounthom Lomany,  
Deputy Director General in charge of International Cooperation.  
Ministry of Finance  
Tel: (856-21) 223524 Fax: (856-21) 223521  
Email: customs@mof.gov.la

Mr. Vongchanh Lawkhamphromtakoun  
Deputy Director of International Relations Division  
Customs Department, Ministry of Finance  
Tel: (856-21) 223524, Fax: (856-21) 223521

Mr. Khampoun Inpengrasbout  
Head of Foreign Cooperation Division  
Customs Department  
Ministry of Finance, Vientiane  
Tel: (856) 21 213810  
Fax: (856) 21 223521

Mr. Khoun Southammakhoth  
Director General,  
Ministry of Industry and Handicraft  
Tel: (856-21) 412008  
Fax: (856-21) 412434

Mr. Souliyol  
Deputy Director of Import/Export Division  
Department of Foreign Trade  
Ministry of Finance, Vientiane  
Tel: (856-21) 412008  
Fax: (856-21) 412434

Lao Customs Department: <http://laocustoms.laopdr.net>

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Laos has no specific law on standards for imported or exported goods. Imported goods are allowed to enter based on the certification of the country of export.

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### **NIST Notify U.S. Service**

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: <http://www.nist.gov/notifyus/>

### **Labeling and Marking**

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Laos has no laws governing the labeling and marking of products.

### **Trade Agreements**

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Laos became a member of ASEAN in 1997 and has committed to bringing its tariff rates into line with its AFTA commitments. The following countries have granted Generalized System of Preference (GSP) status to Laos: Japan (for all products); Australia (no import tax); European Union; South Korea; Norway and Switzerland. Laos has also signed trade agreements with 16 countries, including: Vietnam; China; Cambodia; Burma; Thailand; North Korea; Philippines; Mongolia; Indonesia; Malaysia; Bulgaria; Russia; India; Belarus; Argentina, and the United States.

### **Web Resources**

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Lao Customs Department: <http://laocustoms.laopdr.net>

Lao Trade Promotion Center: <http://www.laotrade.gov.la>

<http://www.nist.gov/notifyus/>

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## Chapter 6: Investment Climate

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### Openness to Foreign Investment

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The economic reforms adopted in 1988 and Decree No. 73/PO, dated October 22, 2004, purport to promote foreign direct investment as a means of boosting development and economic growth. Under the 2004 Law on the Promotion of Foreign Investment, foreign investors may invest in all business sectors and zones of investment in the Lao People's Democratic Republic, except in business activities which are detrimental to national security, have a negative impact on the environment, or are regarded as detrimental to health or national traditions. In practice, however, some sectors are effectively closed to outside investors. The overall investment climate is poor, and rates very low in international indices of transparency and ease of doing business.

The investment term of a foreign investment enterprise depends on the nature, size, and conditions of the business project but normally cannot exceed fifty years. Under special circumstances, foreign investment enterprises may be extended with the approval of the government. However, foreign enterprises that receive extension approval from the government may not exceed a total investment term of seventy-five years.

Any foreign investor seeking to establish operations in Laos must submit project proposals to the Department for Promotion and Management of Domestic and Foreign Investment (DDFI), Committee for Planning and Investment (CPI). The proposal is then screened by the relevant line ministries and adjudicated by the Prime Minister's Office. Further to Prime Minister Decree No 301, dated on October 12, 2005, proposals for projects worth US \$20 million or more require the approval of the Prime Minister. The President of the Department of Domestic and Foreign Investment can sign approvals involving investments between \$10 and \$20 million USD, while the Vice President can sign approvals that involve investments of less than \$10 million USD. FDI equal to or



less than \$3 million USD can be approved at the provincial level by all provinces, and in large provinces the ceiling for provincial level approval is \$5 million.

The screening process at the Department for Promotion and Management of Domestic and Foreign Investment (DDFI) in the Committee for Planning and Investment (CPI) takes into account the financial and technical feasibility of the project, input from relevant line ministries, and whether the proposed project conflicts with government policy. Upon receipt of an application, the CPI must coordinate with relevant sectors and local authorities to consider and respond in writing to the foreign investor. Responses to projects, depending on project type, are supposed to be forthcoming within 15 – 45 working days.

Foreign investors shall obtain a foreign investment license, an enterprise registration certificate, and a tax registration certificate from the CPI office nearest the place where the foreign investors are licensed. Thereafter they shall be considered as enterprises established in conformity with the laws of the Lao People's Democratic Republic. Within 90 days from the date of receipt of an investment license the foreign investment enterprise must commence business activities. If the investors fail to do so, the foreign investment license shall be terminated.

Besides the investment license, foreign investors are required to obtain other permits. These include a business registration which must be annually renewed from the Ministry of Commerce, a tax registration from the tax department in the Ministry of Finance, a business logo registration from the Ministry of Public Security, permits from each line ministry related to the investment (i.e., Ministry of Industries for manufacturing; Ministry of Communications for transportation, etc.), appropriate permits from local authorities, and an import-export license, if needed.

In mid-1999 the Lao government began imposing import restrictions on trading companies, whether foreign or domestic, in an effort to reduce the trade deficit. The Lao government requires them to file a joint annual import plan for approval by the Ministry of Commerce. Government documents articulating the restrictions and explaining the policy are difficult to obtain. Goods that are always prohibited for import and export range from explosives and weapons to certain forestry products and wildlife. For a detailed list of import & export restrictions please visit <http://www.moc.gov.la/default.asp>.

As of June 1, 2000 the Lao government began requiring pre-shipment inspection of all goods with an order value of US \$2,500 and above. Because the garment manufacturing industry relies on imported inputs, some garment manufacturers expressed concerns about the additional delays and costs imposed on them by this requirement. Lao Bivac International, a joint venture between the Lao government and Bivac International of France, was the sole company given authority by the Lao government to perform the required inspections, but closed due to a lack of business. Many companies therefore rely on their own quality controllers to perform inspections.

Agriculture production, as well as the majority of manufacturing production, is private. State-owned enterprises (SOEs) currently account for only one percent of total employment. Roughly 97 percent of manufacturing units are small (fewer than 10 employees). Among the medium and large units, 35 percent are privately owned by Lao citizens and 55 percent are joint ventures with foreigners. The rest are owned by the

government (including provincial governments). Foreign companies interested in acquiring SOE's should apply through the Department for Promotion and Management of Domestic and Foreign Investment (DDFI) in CPI. Medium and large-sized SOE's can be obtained through a joint venture with the Lao government.

### **Conversion and Transfer Policies**

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In order to facilitate business transactions foreign investors generally open commercial bank accounts in both local and foreign convertible currency at domestic and foreign banks in Laos. Vietnamese, Thai, and Malaysian banks currently have a presence in Laos. Bank accounts must be maintained in accordance with the Enterprise Accounting Law. The law places no limitations on foreign investors transferring after-tax profits, income from technology transfer, initial capital, interest, wages and salaries, or other remittances to the company's home country or third countries so long as they request approval from the Lao government. These transactions are conducted at the official exchange rate on the day of execution, upon presentation of appropriate documentation. Supply of FOREX is sometimes limited in Laos, which imposes a de facto limit on repatriation of capital. Also, foreign enterprises must report on their performance annually and submit annual financial statements to the CPI.

### **Expropriation and Compensation**

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Foreign assets and investments in Laos are protected by laws and regulations against seizure, confiscation, or nationalization except when this is deemed necessary for a public purpose, in which case foreign investors are to be compensated. Foreign investors in a joint venture must contribute at least thirty percent (30%) of the venture's registered capital. Capital contributed in foreign currency must be converted into Kip based on the exchange rate of the Bank of the Lao People's Democratic Republic on the day of the capital contribution. Wholly foreign-owned companies may either be a new company or a branch office of an existing foreign company. During the business operation of a foreign investment enterprise, the assets of the enterprise must not be less than its registered capital.

### **Dispute Settlement**

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According to the Foreign Investment Law, investors involved in investment disputes must seek arbitration before taking legal action. If arbitration does not result in an amicable settlement, litigants may submit their claims to the economic arbitration authority of Laos, or that of the investor's country, or an international organization agreed on by both parties. The law does not reflect reality, as there are no adequate independent arbitration venues in Laos. Foreign investors are therefore generally advised to seek arbitration outside the country, since Laos' nascent domestic arbitration authority lacks enforcement powers. Laos is not a member of the International Center for the Settlement of Investment Disputes. It became a party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards on September 15, 1998, but Laos has never been asked to enforce a foreign arbitral award. Laos is a member of the United Nations Convention on International Trade Law.

Laos' legal system is evolving, but remains incomplete in many regards. Laws sometimes contradict each other and often lack implementing regulations. For example, tax exemptions and low import duties guaranteed to foreign investors under the foreign investment law are not reflected in customs or tax law. Supported by the Japan International Cooperation Agency (JICA), the government of Singapore, and the United Nations Development Program (UNDP), some laws have been officially translated into English. These include the business, tax, bankruptcy, customs, and secured transaction laws. Implementing regulations for the Foreign Investment Law, which are crucial to enforcement, were approved on October 10, 2005. The reliability of unofficial translations varies considerably, creating an environment of uncertainty and ambiguity among foreign investors.

Projects funded by the Australian government, the EU, the U.S., and the UN Development Program to assist Lao accession to the World Trade Organization (WTO) include components aimed at bringing Lao commercial law into conformity with WTO standards. A commercial court was established during 2003, and began to hear cases in 2005.

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

## **Performance Requirements and Incentives**

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Laos does not impose performance requirements per se. Foreign investors are encouraged to give priority to Lao citizens in recruiting and hiring. Foreign personnel can be hired, though may not exceed ten percent (10%) of the enterprise's total labor force. Before bringing in foreign labor, the enterprise must apply for work permits from the Ministry of Labor and Social Welfare. A foreign personnel list must also be submitted to the Planning, Monitoring and Evaluation Division of the Department for Promotion and Management of Domestic and Foreign Investment (DDFI).

Incentives for Foreign Investment: Laos grants incentives for foreign investment depending on the sectors and zones of investment promotion. The government defines promoted activities under Article 16 as follows: 1) production for export; 2) activities relating to agriculture or forestry, and agricultural, forestry and handicraft processing activities; 3) activities relating to industrial processing, industrial activities using modern techniques and technology, research and development, and activities relating to the protection of the environment and biodiversity; 4) human resource development, skills development and public health; 5) construction of infrastructure; 6) production of raw materials and equipment to be supplied to key industrial activities; and, 7) development of the tourism industry and transit services.

Under Article 17, the government has determined three promoted zones for foreign investment based on geographical location and socio-economic conditions. The zones are as follows:

Zone 1: Mountainous, plain and plateau zones with no economic infrastructure to facilitate investments.

Zone 2: Mountainous, plain and plateau zones with a moderate level of economic infrastructure suitable to accommodate investments.

Zone 3: Mountainous, plain and plateau zones with good infrastructure to support investments.

Under Article 18 of the Foreign Investment Law, foreign enterprises investing in activities within the promoted sectors and zones determined in Article 16 and 17 of the law on the Promotion of Investment shall be entitled to the following duty and tax incentives:

--Investments in Zone 1 shall be entitled to a profit tax exemption for 7 years, and thereafter shall be subject to profit tax at the rate of 10 percent.

--Investments in Zone 2 shall be entitled to a profit tax exemption for 5 years, and thereafter shall be subject to a reduced profit tax rate of half of fifteen percent for 3 years, and thereafter a profit tax rate of 15 percent.

--Investments in Zone 3 shall be entitled to a profit tax exemption for 2 years and thereafter shall be subject to a reduced profit tax rate of half of twenty percent for 2 years, and thereafter a profit tax rate of 20 percent.

The profit tax exemption starts from the date the foreign investment enterprise begins operations. For tree planting activities, profit tax exemption commences when the enterprise begins earning a profit. Once the profit tax exemption period is concluded, the foreign investment enterprise must pay profit tax. In addition to the aforementioned incentives, foreign investment enterprises shall be entitled to the following incentives:

--During the tax exemption period and during the tax reduction period the enterprise is entitled to an exemption of minimum tax;

--The profit used for the expansion of licensed business activities shall be exempted from profit tax during the accounting year; exemption from import duties and taxes on equipment, spare parts and vehicles directly used for production, on raw materials which do not exist domestically or which exist but are insufficient, and on semi-finished products imported for processing or assembly for the purpose of export;

--Exemption from export duty on export products; and,

--Raw materials and semi-finished products imported for processing or assembly for import substitution shall be exempted from import duties and taxes, or shall be subject to reduced rates of import duties and taxes.

Foreigners employed in Laos, including foreign investors, must pay an income tax of 10 percent of their total income to the Lao Government, unless they are citizens of a country with which the Lao Government has signed a double taxation agreement. The United States has no such agreement with Laos. The tax system includes taxes on profits, natural resources, agriculture, land, income, imports and exports, as well as excise and turnover taxes. The turnover tax is scheduled to be replaced in 2008 with a

## Value Added Tax (VAT).

Foreign investors are not required to pay import duty on equipment, spare parts and other materials used in the operation of their enterprises. Raw materials and intermediate goods imported for the purpose of processing and re-export are exempt from import duties. Raw materials and intermediate goods imported for the purpose of import substitution are also eligible for import duty reductions on a case-by-case basis. On an individual basis, foreign investors are also eligible for profit tax and import duty reductions or exemptions, if the investment is significantly large or determined to have a significant benefit to Laos' socio-economic development.

Annual business license renewal is contingent upon certification that all taxes have been paid. Given the lack of clarity in the tax law, foreign investors complain that taxes are often assessed in an inconsistent and capricious manner. Lao officials acknowledge ambiguities in the law. The tax code was streamlined and simplified in April 2005, but investors still report significant difficulties in obtaining tax certifications in a timely manner.

The Foreign Investment Law stipulates that foreign investors and their families, including foreign professionals and foreign employees of an enterprise, shall be facilitated by issue of multiple entry visas and, if approved by the government, long-term residence in the Lao PDR. They shall also, in theory, have the right to apply for Lao nationality in accordance with the Law on Nationality.

## **Right to Private Ownership and Establishment**

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The government recognizes the right of private enterprise ownership, and foreigners may transfer shares of a foreign-invested company without prior government approval. However, the business law requires that all shareholders be listed in the articles of association, and changes in the articles of association of a foreign-invested company must be approved by DDFI-CPI, per the Enterprise Law <http://www.moc.gov.la/default.asp>. Thus, transferring shares in a foreign-invested company registered in Laos does require the indirect approval of the government (DDFI-CPI).

## **Protection of Property Rights**

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Foreign investors are not permitted to own land. The government grants long-term leases, and allows the ownership of leases and the right to transfer and improve leasehold interests. Government approval is not required to transfer property interests, but the transfer must be registered and a registration fee paid. This includes mortgage leases.

Secured interests in property are inadequately covered by the Secured Transactions Law of 1994. Because the law offers no instructions for the creditor to enforce security rights (the creditor, for example, can only request repayment from the debtor), the law favors the debtor. Moreover, since the Ministry of Finance's registry system is not computerized, and cannot cross-reference records, it is difficult to determine if a piece of

property is encumbered. Enforcement of a mortgage is further complicated by the legal protection given mortgagees against forfeiture of their sole place of residence.

Laos issued a trademark decree in January 1995. The Science, Technology, and Environment Agency (STEA), part of the Prime Minister's Office, controls the issuance of trademarks on a first-come, first-register basis. Applicants do not have to demonstrate prior use. There are currently over 14,000 trademarks registered in Laos.

Laos became a member of the ASEAN Common Filing System on patents in 2000 but lacks adequate personnel qualified to serve as patent examiners. A draft decree on patents was sent to the Prime Minister in February 2000 for approval and in 2002 the Prime Minister's Office issued patent regulations. However, the National Assembly is still in the process of researching the Intellectual Property Law and has not yet acted. Since Thailand and Laos have a bilateral Intellectual Property Rights (IPR) agreement, in principle a patent issued in Thailand would also be recognized in Laos.

Currently, no system exists to issue copyrights in Laos. Laos became a member of the World Intellectual Property Organization (WIPO) Convention on January, 1995 and the Paris Convention on the Protection of Industrial Property on October, 1998; it has not yet joined the Bern Convention on Copyrights. Although WIPO assisted Laos in drafting an intellectual property law in 1996, legislative action on the draft remains pending.

#### **Transparency of Regulatory System**

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

While Laos' body of enterprise law is slowly being developed, the interpretation and application of existing laws is one of the greatest impediments to investment. A lack of transparency in a centralized decision-making process, as well as the difficulty encountered in obtaining information, augment the perception of the regulatory framework as arbitrary and inscrutable. While the government ostensibly streamlined the process by giving DDFI sole responsibility for foreign investment applications, the red-tape requirements associated with establishing a foreign investment have increased.

#### **Efficient Capital Markets and Portfolio Investment**

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Laos does not have a developed capital market. Three-month treasury bills are occasionally offered for sale when there is a need to absorb excess liquidity in the economy. The country is just beginning to use checks and other financial instruments as methods of payment. The largest denomination of currency is 50,000 Kip (about US \$5). Credit is not available on the local market for large capital investments, although letters of credit for export can sometimes be obtained locally. International reserves fluctuate, with the latest available 2006 data showing coverage of less than 4 months of imports and numbering \$258 million as of June.

The banking system is under the supervision of the Bank of the Lao PDR and includes

three state-owned commercial banks - Banque Pour le Commerce Exterieur Lao (BCEL), Lao Development Bank (LDB) and Agriculture Promotion Bank (APB); two joint-venture banks - Joint Development Bank and Lao-Viet Bank; five Thai banks - Bangkok Bank, Sam Commercial Bank, Krungthai Bank, Thai Military Bank, and Ayudhya Bank; one Malaysian bank - Public Bank; two Private Banks - Vientiane Commercial Bank and Phongsavanh Bank; and one representative office - Standard Chartered Bank. Previously, foreign banks were permitted to establish branches only in Vientiane. A new banking law passed in 2006 allows private foreign banks to establish branches in all provinces of Laos. However, implementing regulations have not yet been published. BCEL has correspondence arrangements with the following banks (US dollars):

- JP Morgan Chase Bank, New York
- Citibank, New York - Wachovia Bank, New York
- American express bank, Ltd., New York
- HSBC Bank, New York
- Standard Chartered Bank, New York
- Barclays Bank Plc., London
- Credit Suisse First Boston, Zurich
- Bank of Tokyo-Mitsubishi, Ltd, Tokyo
- Natexis Banque Populaires, Singapore
- Standard chartered bank, Singapore
- Bank for foreign trade of Vietnam, Hanoi
- Thai Military Bank Public Co. Ltd., Bangkok
- Bank Thai Public Co. Ltd. Bangkok
- Calyon, Bangkok

The poor condition of the financial sector is a significant barrier to business. Central bank supervision of the sector is lax, state-owned commercial banks (SCBs) border on being bankrupt, there is little enforcement of prudential guidelines and poor credit standards, and considerable directed crony lending. Although the SCBs were recapitalized as recently as 2003, results of a 2006 audit indicate that the institutions are insolvent, with non-performing loans accounting for 28 percent of their debt portfolio. The Asian Development Bank has provided both program loans and technical assistance to Laos' financial sector, as have the World Bank and the IMF. These programs have not succeeded in eliciting significant reforms. The last IMF disbursement was in late 2003, and in 2006 the IMF indicated that "progress on safeguards recommendations has been slow. The authorities have indicated that they are not in a position to implement an earlier agreement to undertake a joint-audit of the BoL's 2003 and 2004 accounts by the state auditor and an international audit firm." The lack of detailed information hinders attempts at bank reform. In 2006 several agreements between Lao banks and their Chinese and Vietnamese counterparts were aimed at increasing the technical and human resource capacity of the Lao banking system. The results of these agreements are not yet evident.

## **Political Violence**

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Since 2000, there have been periodic attacks on markets, bus stations, all forms of ground transportation, border checkpoints and other public places. Between February



2003 and November 2004, there were bombings in Vientiane, Savannakhet, and other cities and provinces, including Xieng Khouang, Sayabury, Houaphan, and Saysomboun. Between February and April 2003, armed attacks on buses and other vehicles on Route 13 (Vang Vieng to Luang Prabang) and Route 7 (junction Route 13 to Phonsavan) killed at least 22 persons. Small bombings and attacks on remote roads, as well as other incidents, continue to occur periodically. Travelers in Laos should check the Consular Information Sheet as well as any current Public Announcements at <http://travel.state.gov>, and may contact the U.S. Embassy's consular section for information on current conditions or view the Embassy's website at <http://laos.usembassy.gov>.

To avoid trouble with the authorities, U.S. citizens traveling outside of normal tourist areas or contemplating any unusual activity (including, but not limited to, engaging in business, extensive photography, or scientific research of any kind) should consider seeking advance permission from the Village Chief, District Head, Provincial Governor, or National Tourism Authority, as appropriate.

More than 500,000 tons of unexploded ordnance (UXO) left over from the Vietnam War causes over 100 casualties per year in Laos. Savannakhet, Xieng Khouang, Saravane, Khammouane, Sekong, Champassak, Houaphan, Attapeu, and Luang Prabang Provinces and Saysomboun Special Zone are severely contaminated by UXO. In addition, there are numerous mine fields left over from the war, including mine fields along Route 7 (from Route 13 to the Vietnam border), Route 9 (Savannakhet to the Vietnam border), and Route 20 (Pakse to Saravane). While traveling in Laos, U.S. citizens should never pick up unknown metal objects and should avoid traveling off of well-used roads, tracks and paths.

## **Corruption**

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Corruption in Laos is rising. The Prime Minister's Office issued an anti-corruption decree in November 1999, but this did not slow growth in corruption. Although the 1999 decree specifically notes the responsibility of the state-owned mass media in publicizing corruption cases, there has been little reporting on corruption. Most of what reporting does occur takes the form of generalized discussion of low-level officials soliciting bribes. In 2005 an anti-corruption law was passed by the National Assembly. To date there have been no implementing regulations and no prosecutions. Laos is not a signatory to the OECD Convention on Combating Bribery. The Counter-Corruption Committee in the Prime Minister's Office is the Lao government agency responsible for combating corruption. Both giving and accepting bribes are criminal acts punishable by fine and/or imprisonment. Besides bribes to low-level officials for the purpose of expediting time-sensitive applications, such as business licenses, importation of perishable items, customs, etc., anecdotal evidence of more pervasive corruption is growing.

## **Bilateral Investment Agreements**

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Laos has bilateral investment agreements with the following countries:



Country	Date Signed	Date Entered Into Force	Duration
France	12/12/89	3/8/91	10
Thailand	8/22/90	12/7/90	10
Malaysia	12/8/92	3/25/93	10
China	1/31/93	6/01/93	10
Mongolia	3/3/94	12/29/94	10
Indonesia	10/18/94	10/14/95	10
Australia	4/6/94	4/8/95	15
United Kingdom	6/1/95	6/1/95	10
Vietnam	1/14/96	6/23/96	10
USA(initialled)	3/8/96	3/26/96	20
Rep of Korea	5/15/96	6/14/96	15
Germany	8/9/96	3/24/99	10
Sweden	8/29/96	1/1/97	20
Switzerland	12/4/96	12/4/96	10
Russia	12/6/96	4/21/98	15
Singapore	3/24/97	3/25/98	10
Cuba	4/28/97	6/10/98	10
DPRK	8/20/97	8/22/99	10
Denmark	9/28/98	5/9/99	10
India	11/09/00	6/6/93	15
Myanmar	5/5/03	-	-
Pakistan	4/23/04	-	-
Netherland	5/23/03	-	-

On February 1, 2005 a Bilateral Trade Agreement (BTA) came into force between the U.S. and the Government of Laos. Laos and the United States do not have a bilateral taxation treaty.

#### **OPIC and Other Investment Insurance Programs**

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The United States and Laos signed an Overseas Private Investment Cooperation (OPIC) agreement in March 1996. In 1998 Laos signed an agreement with the Multilateral Investment Guarantee Agency (MIGA). EXIMBANK does not operate in Laos.

#### **Labor**

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Over 70 percent of Laos' work force of 2.6 million is engaged in subsistence agriculture. The Lao government estimated the total non-agricultural work force in 2005 to number 483,560 people, roughly 27,000 of whom were employed in garment manufacturing. The total labor force is expected to increase by more than 30 percent over the next ten years.

The Labor Law passed in 1994 provides for the formation of trade unions; specifies working hours and compensation standards; allows for maternity leave and benefits;

workers' compensation and retirement benefits; and establishes procedures for labor dispute resolution. The Lao government raised the official minimum wage to 200,000 Kip per month (about \$20 dollars) in 2006. Wages for unskilled labor at garment factories, including bonuses and lunch, now run about 290,000 Kip or about US \$30 monthly. Labor unions can be formed in private enterprises, but they must operate within the framework of the Lao Federation of Trade Unions (LFTU), which is controlled by the Lao People's Revolutionary Party. In 2006, there were 2,317 trade unions nationwide, and membership in the LFTU numbered 105,541. Strikes are not prohibited by law, but a government ban on subversive activities or destabilizing demonstrations makes them unlikely.

Laos has significant human resource deficiencies in virtually all sectors. English is not widely spoken. In 2005, about 34 percent of the population remained illiterate. The shortage of skilled labor is particularly acute in high-tech sectors. The country has a few technical colleges, one scientific research facility--the National Institute of Hygiene and Epidemiology--and almost no effective post-graduate degree programs. The Lao Government has dedicated very few resources to improve the country's education system and tends to rely heavily on international donors for support; there are a few state training programs and some foreign-funded programs. Potential investors should note the need to dedicate substantial resources, both human and capital, to train employees.

#### **Foreign-Trade Zones/Free Ports**

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The Foreign Investment Law allows for the establishment of free trade zones as an investment incentive. A zone in southern Savannakhet province, which borders both Vietnam and Thailand, is such a Special Economic Zone. Lao laws pertaining to trade are supposedly applied uniformly across the entire customs territory of Laos, including all sub-central authorities, special economic zones and border trade regions. In reality, however, customs practices vary widely at ports of entry in the provinces.

#### **Foreign Direct Investment Statistics**

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During 2006 the GOL approved US\$ 2,699M worth of foreign investment projects. Hydropower schemes account for about 66 percent of that amount. The value of approvals for new investment licenses granted has doubled in 2006 compared to 2005. Foreign direct investment figures from the Bank of Lao PDR for recent years follows below:

Real FDI inflow through Bank of Lao PDR (in Million of US \$)

<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
33.9	23.9	4.5	19.5	16.9	27.7

FDI approved (in Million of US \$)

2000	2001	2002	2003	2004	2005	2006
20.4	42	493.8	550	533	1,245	2,699.7

This data is unavailable by sector or source.

Between 2000 and 2005, DDFI approved approximately US \$2.7 billion in investment projects. These approvals do not reflect actual investment. For example, U.S. investment is listed at \$15.6 million (see below). Actual U.S. investment is much lower, currently averaging less than \$1 million per annum. Only one new U.S. investment license was approved in 2005. Foreign investment now comes primarily from other Asian countries, particularly Thailand (traditionally Laos' largest trade and investment partner), China, and Vietnam. Australia is also a major source of investment, mostly in the mining sector. During 2005 the value of Thai investment licenses approved grew by 36 percent, French investments accounted for 30 percent of the total approved (due to investment in the Nam Theun II hydropower project).

Foreign Investment Licensed in the Lao PDR by countries of origin, from 2000 through September 2006, in U.S. Dollars. (Source: Department for Promotion and Management of Domestic and Foreign Investment (DDFI), Committee for Planning and Investment.

Rank	Country	Number of Projects	Capital
1	Thailand	130	1,269,329,211
2	Vietnam	78	745,665,752
3	China	181	705,394,415
4	France	42	428,498,111
5	Japan	25	414,646,583
6	India	3	350,330,000
7	Australia	20	317,767,528
8	Korea	66	225,071,305
9	Malaysia	29	86,903,392
10	Singapore	17	84,935,000
11	Canada	6	44,110,000
12	Switzerland	4	31,050,000
13	USA	14	15,610,560
14	Sweden	3	13,090,000
15	Norway	1	12,800,000
16	Taiwan	5	12,420,000
17	Russia	8	6,625,310
18	England	13	6,529,700
19	Italy	3	3,600,000
20	Peru	1	3,000,000
21	Cambodia	2	2,069,500
22	Germany	7	2,200,000
23	Panama	1	1,750,000
24	Island	2	1,100,000
25	Israel	1	1,020,000
26	Holland	1	1,000,000
27	Myanmar	2	880,000
28	Belgium	1	200,000

29	Sri Lanka	1	200,000
30	Cuba	-	185,000
31	Portugal	1	100,000
32	Turkey	1	100,000
33	Spain	1	28,125

Total: 5,490,268,785  
 Lao Investment Share (In Joint Ventures) 702,059,293  
 Total (Combined Foreign and Lao Shares): 6,192,328,078

Foreign Investment Licensed in Lao PDR by Sector, from 2000 through September 2006, in US Dollars. (Source: Department for Promotion and Management of Domestic and Foreign Investment (DDFI, Committee for Planning and Investment.

Rank	Sector	No. of Projects	Capital
Total		779	5,490,268,785
1	Electricity Generation	36	3,293,252,200
2	Agriculture	114	582,884,768
3	Mining	117	500,683,198
4	Industry & Handicraft	161	313,712,020
5	Trading	83	257,713,089
6	Construction	23	159,336,874
7	Service	131	127,251,907
8	Hotel and Restaurant	45	102,263,695
9	Telecom	3	39,940,000
10	Wood industry	32	24,564,290
11	Banking	8	15,000,000
12	Garment	25	14,495,000
13	Consultancies	19	5,074,032

In 2006, the Lao PDR continued to experience rapid growth of FDI. Actual FDI is expected to increase by about 30 percent, from roughly \$500 million in 2005 to about \$650 million in 2006. The rapid growth has been driven by large investments in industry, especially hydropower and mining (\$500 million in hydropower investment projected in 2006 compared to about \$400 million in 2005).

## Web Resources

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Lao Department of Domestic and Foreign Investment: <http://invest.laopdr.org>

Lao Ministry of Commerce <http://www.moc.gov.la/default.asp>

Lao National Energy Committee <http://www.poweringprogress.org/>

Lao Ministry of Foreign Affairs <http://www.mofa.gov.la/>

Google <http://www.google.com/>

U.S. Embassy Laos: <http://laos.usembassy.gov>.

State Department Travel Information: <http://travel.state.gov>

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## Chapter 7: Trade and Project Financing

- [How Does the Banking System Operate](#)
- [Foreign-Exchange Controls](#)
- [U.S. Banks and Local Correspondent Banks](#)
- [Project Financing](#)
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### How Does the Banking System Operate

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There are three state-owned commercial banks in Laos, as well as two Joint Venture Banks. State-owned banks include Banque pour le Commerce Extérieur (BCEL), Lao Development Bank, and the Agriculture Promotion Bank. The two joint venture banks include the Joint Development Bank and the Lao-Viet Bank. Foreign currency transactions are dominated almost completely by BCEL; the other two banks, Lao Development Bank and Agriculture Promotion Bank, serve primarily provincial domestic markets.

Laos does not have a national deposit insurance system and supervisory standards are low. Technical expertise and the ranges of services offered at domestic banks are limited. Adequate loan-loss provisioning has not been instituted; although the SCBs were recapitalized as recently as 2003, results of a 2006 audit indicate that the institutions are insolvent, with non-performing loans accounting for 28 percent of their debt portfolio. Subsequent reports in 2003-04 indicate that reserve levels are marginal, but adequate. Liquidity has improved somewhat, but lending practices have not.

Foreign banks first opened in Laos at the end of 1992 and were permitted to maintain branch offices only in Vientiane until recently. At the end of 2006 the National Assembly passed a new banking law allowing foreign banks to open branches throughout the country. As of February 2007 implementing regulations for the new law have yet to be published. There are currently branches of foreign banks (five Thai and one Malaysian), and two private joint venture banks with foreign participation. Standard Chartered Bank operates a one-person representative office in Vientiane.

Foreign bank branches are not incorporated in Laos. They generally serve foreign or expatriate customers (primarily Thai businesses) and perform few if any Kip-denominated operations. Significant flows of foreign direct investment rarely, if ever, enter the domestic banking system, and there is little or no inter-bank lending between the state-owned commercial banks and foreign branch banks. Foreign exchange for imports is informally rationed, with preference accorded imports of gasoline and food.

### Foreign-Exchange Controls

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Lao law maintains that a person should not pay for goods and services with foreign currency. Debts should not be paid in foreign currency within the Lao PDR except for cases in which the Bank of the Lao PDR has proposed such a transaction and the Lao Government has approved. In practice, the Lao economy is highly dollarized, and Thai baht or American dollars (as well as Chinese yuan in northern areas) are the preferred currencies for private transactions.

A holder of foreign exchange who needs to make payment within the Lao PDR can exchange for Kip at a commercial bank or at a foreign exchange bureau licensed by the Bank of the Lao PDR. Those who need to use foreign exchange for any of the objectives stipulated in Lao law, such as payment for imported goods, may purchase foreign exchange at a commercial bank or a foreign exchange bureau in accordance with the regulations of the Bank of the Lao PDR.

### **U.S. Banks and Local Correspondent Banks**

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There are no U.S. banks in Laos.

### **Project Financing**

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Financing is very difficult to obtain from the local banking system, and there is no EXIM program in Laos. An Overseas Private Investment Cooperation (OPIC) agreement was signed in 1996, and an agreement with the Multilateral Investment Guarantee Agency (MIGA) in 1998. In 1998, the government signed an agreement with the Mekong Project Development Facility (MPDF), a multi-donor funded operation managed by the International Finance Corporation (IFC). The MPDF is designed to promote the establishment and expansion of privately owned, small and medium-sized enterprises, as well as joint venture projects with significant local private participation in Laos, Cambodia, and Vietnam.

Banks with correspondent banking arrangements:

BCEL has correspondence arrangements with the following banks (US dollars):

- JP Morgan Chase Bank, New York
- Citibank, New York
- Wachovia Bank, New York
- American Express Bank, Ltd., New York
- HSBC Bank USA, New York
- Standard Chartered Bank, New York
- Barclays Bank Plc., London
- Credit Suisse First Boston, Zurich
- Bank of Tokyo-Mitsubishi UFJ, Ltd, Tokyo
- Natexis Banque Populaires, Singapore
- Standard Chartered Bank, Singapore
- Bank for Foreign Trade of Vietnam, Hanoi
- TMB, Bank Public Co. Ltd., Bangkok

- Bank Thai Public Co. Ltd. Bangkok
- Calyon, Bangkok

Australian Dollars:

- Commonwealth Bank of Australia, Sydney

Canadian Dollars:

- Royal Bank of Canada, Toronto
- The Bank of Nova Scotia, Toronto

Pound Sterling:

- Barclays Bank PLC, London

Euros:

- Banque de France, Paris
- Credit Agricole S.A., Paris
- Deutschebank, AG., Frankfurt
- American Express Bank GMBH, Frankfurt

Japanese Yen:

- The Bank of Tokyo Misubishi UFJ, Ltd, Tokyo

Swiss Francs:

- Credit Suisse First Boston, Zurich

Thai Baht:

- TMB, Bank Public Co., Ltd, Bangkok
- Bank Thai Public Co. Ltd, Bangkok
- Calyon, Bangkok

## Web Resources

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Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: [http://www.exim.gov/tools/country/country\\_limits.html](http://www.exim.gov/tools/country/country_limits.html)

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

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## Chapter 8: Business Travel

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- [Travel Advisory](#)
- [Visa Requirements](#)
- [Telecommunications](#)
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- [Local Time, Business Hours and Holidays](#)
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### Business Customs

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Business relationships in Laos are not as formal as those in other East Asian countries and are often based on personal relations developed within social circles. Since the emphasis placed on personal relationships is high, having a reliable and well-connected local agent or representative is crucial to the success of a foreign venture. Events progress slowly in Laos, where the step-by-step approach reveals the cultural premium placed on caution and restraint. Representatives of US businesses seeking to enter the Lao market should plan to visit the country several times and have patience with their partners and the Lao market.

### Travel Advisory

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Information on travel to and within Laos may be obtained from the consular information sheet on Laos available from the U.S. Department of State. For recorded travel information, call (202) 647-5225. For information by fax, call (202) 647-3000. The Consular Information Sheet is also available via the Consular Affairs Home Page at <http://travel.state.gov>.

### Visa Requirements

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To enter Laos either as tourist or on business, visitors are required to have a valid passport and a Lao visa. Information about entry requirements may be obtained from the Embassy of the Lao People's Democratic Republic, 2222 S St. NW, Washington, DC 20008; Tel: (202) 332-6416; fax: (202) 332-4923; Internet home page: <http://www.laoembassy.com/>.

Visas are also issued upon arrival, subject to certain conditions, at these check-points:

**By air:** Wattay International Airport in Vientiane, Luang Prabang International Airport and Pakse airport. **By land: From Thailand;** Mittaphab (the Friendship Bridge) across the Mekong from Thailand's Nongkai Province, Friendship Bridge Lao –Thai

Savannkhet-Moukdahan; Houyay, Bokeo province; Thakhek, Khammouane province; Dan Savanh, Savannakhet province; Vang Tao, Champassack province; Dan Kenthao, Sayabuly province. **From China:** Boten, Luang Namtha province. **From Vietnam:**

Dene Savanh, Savannakhet province, the major point of entry for Vietnamese travelers; Nam Phao, Borikhamxay province; Namkan, Xiengkhouang province; Namphao, Khammouane province. Visas on arrival cost US \$35 and are valid for 15 days.

Business visas can be obtained with an approval from the Division of Planning and Monitoring, in the Department for Promotion and Management of Domestic and Foreign Investment, at the Committee for Planning and Investment (CPI) in Vientiane. The Division of Planning and Monitoring charges a service fee of US \$5, which does not include either visa or fax fees, and requires one week for processing. Business visas have one-month validity and are renewable. The Planning and Monitoring Division may be contacted at Tel: (856) (21) 217-016, or (856) (21) 217-014; fax: (856) (21) 215-636.

U.S. companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas.gov: <http://www.unitedstatesvisas.gov/>

Embassy Vientiane Consular Section:

[http://vientiane.usembassy.gov/general\\_information2.html](http://vientiane.usembassy.gov/general_information2.html)

Consular information sheet for Laos:

[http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_946.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_946.html)

## Telecommunications

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The Lao telecommunications infrastructure is underdeveloped, but developing quickly. Only an estimated 17 in 100 homes have telephone service, though in towns the coverage, particularly cell phone coverage, is much more complete. There is increasing investor interest in the establishment of a national telecommunications network and connectivity is improving in metropolitan areas. Currently, five telecommunications companies operate in Laos but one is under construction and has not started operating yet. Two are completely state-owned enterprises and three are joint ventures with the Lao government. Laos has seven Internet Services Providers (ISP), 5 licensed cell-phone operators, and 3 licensed Land-Line Operators.

## Transportation

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Throughout the country, including Vientiane and the provincial capitals, business people generally rely on their own personal vehicles or rent vehicles with drivers. Taxis are not readily available, even in the capital. Lao Airlines offers weekly flights from Vientiane to most of the provincial capitals.

Road conditions vary greatly throughout the country and mudslides are a concern during rainy season. However, major transportation arteries such as Route 13 running north to south and Route 9 running east to west are generally of good quality. The government has made road and bridge infrastructure a priority and travel conditions are gradually improving. There are occasional security problems along rural roads, including Route 13. For an update on current conditions, please check:

[http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_946.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_946.html)

## Language

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Lao is the national language and, due to the similarity of the Lao and Thai languages, many Lao are capable of speaking and understanding Thai as well. Some Lao residing in Vientiane and the larger provincial capitals speak basic English, although the overall percentage of the population that speaks English is very low.

## Health

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The quality of healthcare in Laos is extremely poor. For serious health issues the Embassy generally advises travelers to seek medical attention in Thailand. For additional information regarding health issues, review the Consular Information Sheet at: <http://vientiane.usembassy.gov/>

## Local Time, Business Hours, and Holidays

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<b>Holidays</b>	<b>2007</b>	
<b>DATES</b>	<b>DAY</b>	<b>HOLIDAY</b>
January 1	Monday	New Year's Day
March 8	Thursday	International Women's Day
April 12	Thursday	Lao New Year
April 13	Friday	Lao New Year
April 16	Monday	Lao New Year
May 1	Tuesday	Lao Labor Day
October 26	Friday	Boat Racing Festival
November 23	Friday	That Luang Festival
December 3	Monday	Lao National Day

## Business Hours

Official working hours are from 8:00 a.m. to 12:00 p.m. and from 1:00 p.m. to 4:00 p.m. from Monday to Friday. However, in factories and many private companies work hours are extended until 5:00 p.m. Lao labor law stipulates that the factory work week can be extended to six days.

## **Temporary Entry of Materials and Personal Belongings**

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Equipment imported for personal use and any goods used in exhibitions or as samples for subsequent re-export are exempt from taxes and duties. In order to obtain this exemption, visitors must declare at the port of entry that the relevant goods or equipment are being temporarily imported, and must guarantee that it will be re-exported upon the visitors' departure. Goods brought into Laos for exhibition or as samples require a license from the Ministry of Commerce or the local trade office at the port of entry.

## **Web Resources**

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U.S. Embassy Laos: <http://vientiane.usembassy.gov/>

Lao Embassy in Washington, DC: <http://www.laoembassy.com>

Lao Visa Information:  
<http://travel.state.gov/visa/index.html>

U.S. Visa Information: <http://unitedstatesvisas.gov>

U.S. State Department Travel Advisory:  
<http://travel.state.gov>

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## Chapter 9: Contacts, Market Research, and Trade Events

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### Contacts

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Laos has not had many large scale trade events, though occasionally the products of foreign countries are showcased at small shows. Permission to conduct or participate in a trade exhibition, and information on planned events, can be obtained from:

Mr. Bounmy Manivong, Executive Director, Lao Trade Promotion Center. Tel: (856-21) 216207, Fax: (856-21) 213623. MB: (856-20) 5815603. 104/4-5 Khounbulom Rd. P.O.Box 4107, Vientiane, Lao PDR. Email: [laotpc@hotmail.com](mailto:laotpc@hotmail.com) ; [Laotpc@yahoo.com](mailto:Laotpc@yahoo.com)

Or Ms. Anomone Kittilath, Deputy Director, Lao Trade Promotion Center. Tel: (856-21) 216207, Fax: (856-21) 213623. MB: (856-20) 5698573. 104/4-5 Khounbulom Rd. P.O.Box 4107, Vientiane, Lao PDR. Email: [laotpc@hotmail.com](mailto:laotpc@hotmail.com) ; [Laotpc@yahoo.com](mailto:Laotpc@yahoo.com)

### Additional Contacts

Joshua C Archibald, Econ/Commercial Officer  
U.S. Embassy, Vientiane.  
Unit 8165, BOX V  
APO AP 96546  
Tel: (856-21) 267000 ext 7156; Fax: (856-21) 267120 or 267190  
E-mail: [ArchibaldJC@state.gov](mailto:ArchibaldJC@state.gov)

Sivanphone Thoummabout, Econ/Commercial Assistant  
U.S. Embassy, Vientiane.  
Unit 8165, BOX V  
APO AP 96546  
Tel: (856-21) 267000 ext 7198; Fax: (856-21) 267190 OR 267120  
Email: [sivanphonetx@state.gov](mailto:sivanphonetx@state.gov)

Mr. James Golsen  
Commercial Attache  
U.S. Commercial Service  
Room 302, Diethelm Tower A  
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Bangkok 10330  
Tel: [662]-205-5263; Fax: [662]-255-2915

E-mail: [james.golsen@mail.doc.gov](mailto:james.golsen@mail.doc.gov)

American Chamber of Commerce Thailand  
7th Floor, GPF Witthayu A, 93/1 Wireless Road,  
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Tel: +66 (0) 2254-1041 Fax: 66 (0) 2251-1605  
Email: [service@amchamthailand.com](mailto:service@amchamthailand.com)

Mr. Kissana Vongsay, President  
Lao National Chamber of Commerce  
General Director of Lao Brewery Co. Ltd  
Phonsay Road  
P.O. BOX 4596  
Tel: (856-21) 452579, 453311-2 Fax: (856-21) 452580  
<http://www.lncci.laotel.com/>  
Email: [laocci@laotel.com](mailto:laocci@laotel.com)

Mr. Sananh Chounlamany, Vice President  
Lao National Chamber of Commerce  
P.O. BOX 4596  
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<http://www.lncci.laotel.com/>  
Email: [laocci@laotel.com](mailto:laocci@laotel.com)

One-Sy Boutsyvongsakd, President of the Lao Textile & Garment Industry Group  
Vientiane.  
TEL: (856) 21 214450 and 222769; FAX: (856) 21 216993

Ms. Khemmani Pholsena,  
Director General  
Foreign Trade Department  
Ministry of Commerce  
Tel: (856) 21 415927 OR 412008; FAX: (856) 21 412434, 415927  
Email: [khemmani@laotel.com](mailto:khemmani@laotel.com)

Ms. Khanlasy Keobounphanh, Deputy Director General  
Foreign Trade Department  
Ministry of Commerce  
Tel: (856) 21 412008; FAX: (856) 21 412010, 415927

Mr. Houmpheng Soulalay  
Director General  
Department for Promotion and Management of Domestic & Foreign Investment  
Committee for Planning and Investment  
Tel: (856) 21 216662; Fax: (856) 21 215491  
[HTTP://INVEST.LAOPDR.ORG](http://INVEST.LAOPDR.ORG); E-mail: [fimc@laotel.com](mailto:fimc@laotel.com)  
Mr. Philippe Beaugrand, IMF Resident Representative  
C/O Bank of Lao PDR  
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VIENTIANE, LAOS

3/19/2007

TEL: (856) 21 213106, FAX: (856) 21 214986  
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The World Bank  
Patuxay, Neru Rd, LAO PDR  
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Fax: (856) 21 414210

Mr. James Nugent  
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Asia Development Bank, Lao Resident Mission  
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Fax:(856-21) 250-333  
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Mr. Adam Sack  
Manager Mekong Project Development Facility (MPDF)  
International Finance Corporation (IFC)  
P.O.BOX 9690  
Tel: (856) 21 450-017 to 9  
Fax: (856) 21 450-020

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Deputy Director General  
Incharge of International Cooperation  
Customs Department  
Ministry of Finance, Vientiane  
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Fax: (856) 21 223521

Mr. Sonexay Sitphaxay  
Vice President, Managing Director

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Lachay Khanpravong  
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Fax: (856) 21 223012, 213202

Mr. Somchith Inthamit  
Director of Economic Affairs Department  
Ministry of Foreign Affairs  
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Fax: (856) 415932

## **Market Research**

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To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents.html>

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## Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

[http://www.buyusa.gov/asianow/southeastasia\\_home.html](http://www.buyusa.gov/asianow/southeastasia_home.html)

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.