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FOREIGN DIRECT INVESTMENT FROM VIETNAM TO LAOS IN THE CONTEXT OF INTEGRATION

BEZPOŚREDNIE INWESTYCJE ZAGRANICZNE Z WIETNAMU DO LAOSU W KONTEKŚCIE INTEGRACJI

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Summary: Vietnam and Laos are the neighbour countries that have close relationships in politics, economic as well as in investment. Since early 2000s, Laos has swiftly become a targeted market in going global strategy of Vietnamese enterprises. Laos has been the biggest FDI recipient of Vietnam, comprised for around 25% of total outward FDI registered from Vietnamese firms. Vietnamese firms have played an increasingly important role in Lao economy, created nearly 40,000 jobs for local workers and contributed more than 70 million USD for social security in Laos (end of 2016). The article analyses some main features of FDI from Vietnam to Laos in the period 1994–2016, points out the “bottle necks” of the FDI flows such as the low level of spillover effect (with more than 60% of projects are vertical FDI); inappropriate investment structure (highly concentrate on mining industry, hydropower). The authors also suggest some policy implications for Vietnamese government and Laos government to boost the FDI inflows in the upcoming time.

Keywords: outward FDI, Laos, Vietnam.

Streszczenie: Laos jest największym beneficjentem BIZ z Wietnamu, co potwierdza fakt, że aż 25% całkowitych bezpośrednich inwestycji zagranicznych zarejestrowanych w Laosie została dokonana przez wietnamskie firmy. Wietnamskie przedsiębiorstwa odgrywają coraz większą rolę w rozwoju gospodarki Laosu, tworząc prawie 40 000 miejsc pracy dla miejscowych pracowników i wspierając bezpieczeństwo społeczne w kraju kwotą 70 mln USD (koniec 2016 r.). W artykule przedstawiono analizę głównych problemów BIZ dokonanych przez firmy wietnamskie w Laosie, w latach 1994–2016, zwracając szczególną uwagę na „wąskie gardła” BIZ, takie jak niski poziom tzw. efektu spillover (ponad 60% projektów to pionowe BIZ), oraz podkreślając niewłaściwą strukturę inwestycji (większa koncentracja na górnictwie i energetyce wodnej). Autor sugeruje również pewne konsekwencje polityczne dla rządu wietnamskiego i rządu Laosu na skutek zwiększenia napływu BIZ w nadchodzącym czasie.

Słowa kluczowe: wychodzące BIZ, Laos, Wietnam.

1. Introduction

In the context of integration, many Vietnamese businesses are interested in making offshore direct investment. By the end of 2016, Vietnamese enterprises have invested 1188 projects abroad with a total registered capital of up to 21.3 billion USD [FIA Vietnam 2017a]. Particularly, Laos has been a key investment market of Vietnamese enterprises, with a total registered capital of 5.12 billion USD, accounting for over 24% of total OFDI capital of Vietnamese enterprises. Along with Thailand and China, Vietnam is one of the three biggest investors in Laos. To the end of 2016, total FDI capital from China, Thailand and Vietnam comprised for over 80% of total FDI into Laos [IPD 2016]. This article focuses on assessing the FDI inflows from Vietnam to Laos during the period 1994–2016, pointing out the main characteristics of the FDI flows and proposing some policy implications.

2. Overview of foreign direct investment from Vietnam to Laos

Vietnamese firms started investing in Laos in early 1990s. However, these projects were impulsive. In the period 1994–1998, there were only three FDI projects registered (only one is still having effect) with the total investment of 2.8 million USD, the average capital per project was only 0.94 million USD. These projects were small and completely implemented by state-owned enterprises.

In the period 1999–2005, Vietnamese government issued the Decree 22/1999 regulating the OFDI, leading to the remarkable improvement in the OFDI flows from Vietnam to Laos. In this period, there were 36 OFDI projects with the registered capital over 466 million USD; the average capital per project was 12.94 million USD. Notably, the private enterprises in Vietnam started searching investment opportunities in Laos. Vietnamese private enterprises invested in 14 projects with registered capital of 13.3 million USD, the average capital was 0.95 million USD per project. In this period, the majority of capital was invested in wood processing, mining, planting industrial trees.

In the period 2006–2010, the Decree 78/2006 regulating the OFDI was fully in force, leading to a booming growth in OFDI flows. In only five years, Vietnam had up to 124 projects investing in Laos, the registered capital was 2.519 billion USD, and the average capital per project was 20.31 million USD. A series of large projects were licensed in this period such as the hydroelectric project Sekaman 1 with the registered capital of 441.6 million USD, the hydroelectric project Sekaman 3 with the registered capital of 273 million USD and, especially, the Long Thanh – Vientiane special economic zone with the registered capital up to 1 billion USD.

In the period 2011–2016, OFDI from Vietnamese firms to Laos slightly decreased. In this period, there were 108 new registered projects with the registered capital from Vietnam of 2135 million USD. The average scale of capital was 19.77 million USD per project. Notably, during this period, FDIs gradually shifted away from traditional

sectors (electricity, mining) to agriculture with hi-tech. This movement was an encouraging sign, because agriculture sector is an important engine for economic development in both Laos and Vietnam.

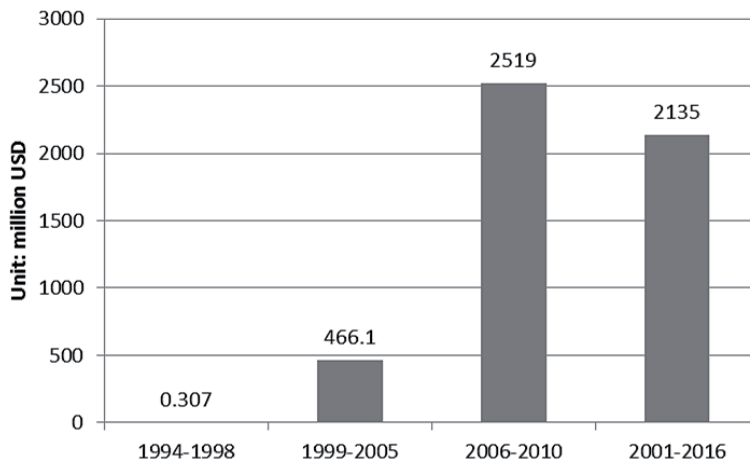


Fig. 1. OFDI from Vietnamese enterprises into Laos by time

Source: author's own work based on FIA statistical database (FIA Vietnam, 2017b).

Regarding OFDI by sectors, industry was the most important sector which comprised up to 39% of the total FDI registered. In which the most notable projects are hydroelectric. To be more specific, Vietnam enterprises are conducting five hydroelectric projects in Laos with the total capital of 1267 million USD, constituting 72.4% of registered capital in the industrial field and 32.3% of total FDI flows from Vietnam to Laos. Besides, Vietnam also has 22 hydroelectric projects which signed Memorandum of Understanding (MOU) with the total capacity of 3,742 MW. These figures prove that hydroelectric power plays an important role in the investment

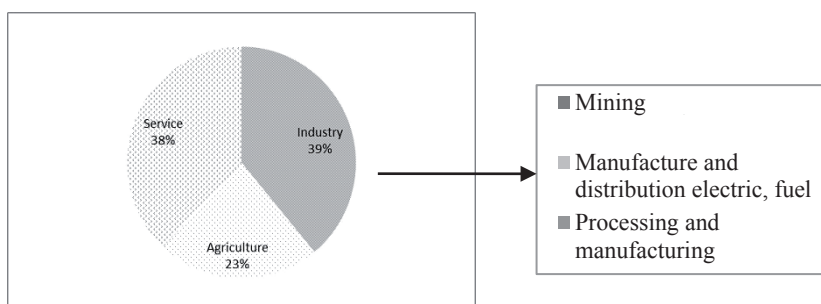


Fig. 2. OFDI from Vietnamese enterprises to Laos by sectors

Source: as in Fig. 1.

strategy of Vietnamese firms to Laos. In the context of high consideration to energy security worldwide, the potential in hydroelectric investment in Laos is satisfactory.

Regarding the agricultural sector, this is the advantageous field of Vietnamese firms. So, there are an increasing number of Vietnamese enterprises investing in Lao agriculture. Accumulated to the end of 2016, total investment in the agriculture reached 1.18 billion USD, with 51 projects. The average size of each project reached 23.1 million USD. These projects are concentrated in agroforestry; there has been no investment in the field of fisheries or aquaculture. Besides traditional projects on planting rubber, coffee, etc., Vietnamese enterprises have navigated to other crops such as sugarcane, corn and cattle production. It can be concluded that the potential cooperation in the field of agriculture between Vietnam and Laos is satisfactory with a wide range of investment opportunities could be promoted in the near future.

In services sector, accumulated by the end of 2016, Vietnam had a total investment of 1945 million USD. The average capital scale reached 24.5 million USD per project. The average size of capital was quite high, mainly caused by “super project” with 1 billion USD registered capital of Long Thanh Corporation licensed since 2009. This “super project” is a combination of many sections, including a 5-star hotel, an international standard golf course, resorts and villas, shopping mall, hospital and school in an area of 554.7 hectares. It is expected that the completion of this project will contribute to the development of Vientiane in particular and Laos in general. In addition to this “blockbuster” project of Long Thanh Corporation, there were also notable projects in banking and finance, with 10 licensed projects and the average capital of 19.3 million USD per project. In the context of sharp integration of Vietnam and Laos into the Asian region, the participation in ASEAN Economic Community (AEC) and other free trade area such as AFTA, ACFTA, AKFTA etc., the probability to promote OFDI from Vietnam to Laos in services sector is satisfactory.

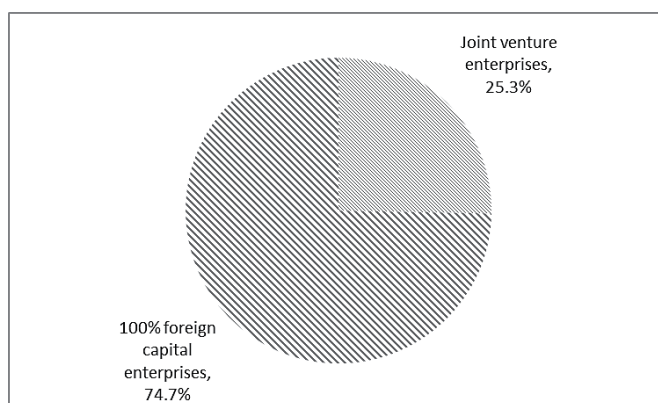


Fig. 3. OFDI from Vietnamese enterprises to Laos by investment form

Source: as in Fig. 1.

Regarding the investment by form, by the end of 2016, Vietnamese firms had 269 direct investment projects in Laos. In which, the largest proportion was 100% FDI capital projects, accounting for 74.7%. The number of joint venture projects was 68, or 25.3% of total FDI projects. Thus, Vietnamese enterprises mainly choose the form of 100% foreign capital. This is understandable because Laos remains underdeveloped, and lacking capital for economic development. Therefore, the number of joint venture projects are limited. There has been no other forms of investment such as BOT, BTO, BT, BCC, etc., because Laos has no comparative advantage in both labour force and technology, which means that it is not suitable for Vietnamese enterprises, “outsourcing” a part of the work to Laos in the form of contracts or business cooperation. Moreover, Laos’ investment law regulates that foreign enterprises investing in Laos have to invest under two forms as enterprises with 100% foreign capital and joint venture enterprises. Therefore, other forms of investment have not been conducted.

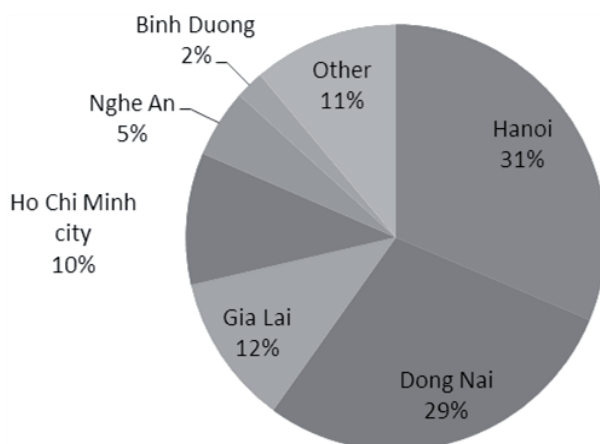


Fig. 4. FDI from Vietnam to Laos by regions

Source: as in Fig. 1.

Regarding FDI by regions, by the end of 2016, there were 32 provinces and cities in Vietnam investing to 16 out of 17 provinces in Laos (except Bo Keo province). Hanoi was the leading city with the highest investment capital into Laos with a total registered capital of up to 1.61 billion USD, followed by Dong Nai, Gia Lai, Ho Chi Minh City, Nghe An. The remained projects were mainly implemented by provinces having borders with Laos, with small or medium capital size. Obviously, in order to boost capital inflows into Laos, Vietnam and Laos need to cooperate more closely, making appropriate incentives to promote the economic and investment activities in border regions.

3. Assessment of FDI from Vietnam to Laos

After more than 20 years of investment in Laos, Vietnamese enterprises have invested 5.12 billion USD, mostly in energy, mining, telecommunications, services, infrastructure, and agricultural industries. Investment activities of Vietnamese enterprises in Laos have achieved remarkable results.

Positively, many projects have successfully implemented, enhancing the position and influence of Vietnamese enterprises on the international market as well as contributing to economic development of Laos. In the period 2010–2016, total FDI capital from Vietnamese enterprises accounted for 12% of the total investment capital of Laos. Vietnamese enterprises have contributed to the transfer of new and advanced technologies into Laos, creating jobs for nearly 40,000 local workers. Vietnamese enterprises also contributed more than 250 million USD to the Lao government revenues, and more than 70 million USD for social security [FIA Vietnam 2016]. Many Vietnamese enterprises have achieved high growth and profit in Laos market. In which, Unitel telecom is a typical one. By the end of 2015, Unitel's profit achieved over 300 million USD; Unitel currently has 2.5 million customers, accounting for 47% mobile market share and 35% broadband market share [Vietnamnet 2016]. Unitel's presence has contributed to significant changes in the telecommunications market as the mobile density increased from 18% in 2009 to 68% in 2016. Unitel has created jobs for more than 4000 people [GSO Vietnam 2017]. In addition, FDI into Laos has effectively promoted the comparative advantages of Vietnam, contributing to the supply of important inputs for Vietnam's domestic economic development. In fact, a large proportion of electricity and rubber manufactured in Laos will be sold back to Vietnam at a reasonable price to support the industrialization and modernization of the country.

However, FDI activities of Vietnamese enterprises in Laos have also revealed some limitations. In particular, FDI of Vietnamese enterprises in Lao market are mainly implemented in the form of vertical FDI (about 60% projects); with the main objective is to produce and export raw materials to Vietnam or to the third countries. Meanwhile, the Lao government is trying to attract horizontal FDI projects, aiming to increase the added value of manufactured products in Laos. There has been one of the "bottle necks" which has slowed down Vietnamese FDI flows into Laos over the past six years. In addition, the ratio of implemented capital is low and the efficiency of many projects is limitative. While the proportion of implemented capital over registered capital of FDI projects into Vietnam is 59.37% (2000–2016), the disbursement rate of OFDI projects of Vietnamese enterprises into Laos is only about 43%. By the end of 2016, the disbursement capital in Laos market reached only about 2.2 billion USD over 5.12 billion USD of registered capital. Especially, many FDI projects from Vietnam to Laos have been withdrawn or suspended in the last five years (2011–2015). Most of these projects were in mining (65%), and invested by state owned enterprises (55%) [FIA Vietnam 2016].

4. Implications for Vietnam and Laos to boost the FDI flows

FDI from Vietnam to Laos has contributed significantly to the economic development of the two countries. However, the FDI flows, especially in the period 2011–2016, have revealed some limitations. In order to boost FDI flows into Laos in the upcoming time, there should be more synchronized solutions from both the Vietnamese and Lao governments.

4.1. Implications for Vietnamese government

The government needs to increase annual ODA capital for Laos. ODA should focus on improving the infrastructure and training for local workforce in provinces where Vietnamese enterprises intend to invest. The infrastructure such as electricity, roads and stations of Laos so far are underdeveloped, the quality and profession of the local workforce are also under requirement. Therefore, Vietnam needs to allocate priority budget for infrastructure building, vocational training and professional training for Lao workers.

The government needs to improve the effectiveness of investment promotion in Laos. In the coming time, investment promotion should be redirected: besides the traditional goal of connecting and seeking investment opportunities in Lao market, it is necessary to strengthen the target of supporting, promoting the effective implementation of the existing projects and to orient new investment projects into the fields, sectors and geographical areas which are favourable and beneficial in connection with the domestic economy.

The government needs to quickly finalize and issue the “Investment strategy into Laos to 2020”. The investment strategy into Laos needs to be put in the context of linking in the Me Kong sub-region, the Vietnam-Laos-Cambodia development triangle and the ASEAN Economic Community (AEC). To be more specific, it is necessary to add encouragement industry such as developing hi-tech agriculture (including high-value crops such as palm oil, macadamia), developing tourism linkages, applying high technology in processing associated with agricultural and mining output, encouraging horizontal FDI projects to take the advantages of spillover effects for Lao economy.

4.2. Implications for the Lao government

The Lao government needs to focus more on education and training to meet the requirement of human resources for FDI projects. At present, Laos’ foreign investment law stipulates that the percentage of foreign workers working in Laos should not exceed 10% of the unskilled and 20% of the skilled workforce. This is unreasonable regulation, especially in the context of integration of AEC and low quality of Lao labour force in both unskilled and technical labour force [WEF 2016].

In the near future, besides active cooperation with Vietnam in the field of training and education, the Lao government should loosen the regulations on foreign labour to suit the integration trend in the AEC.

The Lao government needs to expand the licensed investment forms. Under the new Investment Promotion Law of Laos, licensed investment forms in Laos include the Business Co-operation Contract, joint ventures and 100% foreign investment. This means that the forms of merger and acquisition (M&A), BOT, BTO, BT, etc., have not yet been legalized. This will cause difficulties for foreign investors who would like to enter the Lao market through merger and acquisition with local businesses in Laos. Moreover, the expansion of investment forms is also suitable with the current trend of integration.

The Laos government needs to clarify and simplify the regulations on land management. Currently, under the regulations of the new Investment Promotion Law of Laos, FDI projects using more than 100 hectares are licensed by the central government, and projects using 100 hectares or less are licensed by the local government. However, there have been overlapping in reality, which have been not clear like the Law, leading to many difficulties for FDI enterprises when investing in Laos.

5. Conclusions

Despite some fluctuations, the FDI flows from Vietnamese firms to Laos have increased remarkably since early 2000s. In the context of integration to ASEAN Economic Community (AEC), the FDI flows from Vietnam to Laos are expected to increase at a higher pace, around 15 to 20% in the next five years. To boost the flows of FDI, Vietnamese government should support more for Laos through ODA, improve the efficiency of investment promotion and have an overall strategy for investing in Laos. For Lao government, it is important to have policy to improve the quality of domestic workforce, gradually loosen the regulations of the investment law to meet the international practices.

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