

**TRADE AND INVESTMENT BETWEEN
LAOS AND INDIA: PAST, PRESENT AND
PROSPECTS**

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TRADE AND INVESTMENT BETWEEN LAOS AND INDIA: PAST, PRESENT AND PROSPECTS

1. A BRIEF OVERVIEW OF LAO ECONOMY

The economic reform from a centralized, planned economy toward an open, liberalized, market-oriented economic system was launched in 1986. This reform had led to strong revival of economic growth, rapid increase in employment, reduction in poverty, a boom in exports and a decline in inflation. Reforms of the external sector, and the consequent achievements on the balance of payments front, have played a key role in the turnaround in the growth of GDP, employment and social indicators. The country's external debt situation has improved markedly in the past few years. The growth of external debt between 1991 and 1995 averaged US\$ 2.2 billion per annum, compared to the much higher average annual increase of US\$ 4.9 billion a year, between end-March 1986 and end-March 1991.

The economy is dominated by subsistence agriculture, with a low level of monetization. Agricultural output is limited by weak infrastructure and unsophisticated production methods, and is vulnerable to weather conditions.

The agriculture sector employs over 80 percent of the population, and contributes 53 percent of GDP.

Considerable progress has been made since 1986 in the shift from centrally planning toward market-oriented economic structure. The economy has continually expanded (albeit from a very small base). A market-based price system is in place for most products, the currency has been floated and a fledgling private sector is growing in confidence. A number of banking and state enterprise reforms are gradually being introduced, with assistance from the World Bank and Asian Development Bank (ADB). However current high levels of debt in the financial sector continue to hamper macroeconomic stability. A privatization program was initiated in the 1990s with the aim of improving economic efficiency and freeing state coffers from propping up inefficient state enterprises. This latter process has slowed in recent years, and numerous enterprises remain in government hands.

The industry and service sector now account for almost half of GDP growth, with key economic activity focused in electricity production, handicrafts, foodstuffs, chemical production and mining. Tourist numbers increased significantly in the late 1990s, with the Lao National Tourism Authority anticipating around 747,000 tourist arrivals in 2004, making tourism one of Lao biggest sources of foreign exchange.

The current account deficit is forecast to be 3.2 percent of GDP in 2004. Gross international reserves have been increasing steadily and, according to the International Monetary Fund (IMF), are expected to reach US\$228 million by 2004, equivalent to approximately 4 months of imports.

By mid-2000, the Lao economy had largely recovered from the triple-digit inflation levels and drastic currency devaluation that occurred in the late 1990s. This was partly as a result of the imposition of stringent fiscal measures, as well as downward pressure on food prices resulting from good rice harvests. Average inflation, which reached 128 percent in 1999, was reduced to single figures by 2002, but climbed to almost 18 percent between March and May 2003. It is expected to fall again to 12.3 percent in 2004.

The introduction of more attractive foreign investment legislation has led to increased foreign investment inflows, particularly in the hydroelectricity and mining sectors. One private sector consortium is planning to develop a large hydropower project, Nam Theun II worth about US\$1.1 billion but a number of issues are yet to be resolved. Lao foreign investment regulations are among the more opening the region and tariffs are relatively low. However, trade and investment are heavily regulated, including through import and export licensing.

The small size of the Lao economy makes it particularly vulnerable to internal policy settings and external shocks. Significant structure impediments to further economic development include inadequate physical infrastructure and underdeveloped human processes are increasing as institutional capacity is stretched to its limits in specific areas required by government

By 2001, the Lao GDP growth rate stood at 5.5%. Since the late 1980s, the government's economic policy has been to rapidly move from a centralized, planned economy toward an open, liberalized, market-oriented economic system. The foreign exchange markets have been opened and the kip floats freely based on supply and demand in relationship to the exchange rate in the "parallel market". Formal exchange controls have been lifted.

In 1995, the Lao currency (kip) started to devalue. The value of kip against US dollar fell from 726 kip per 1USD in 1994 to 936 kip per 1 USD in 1995. In August 1999, kip reached its lowest point, being traded at a market price of 9,705 per 1 USD. After critical point, the value of kip began to increase and stabilize. From January to October 2000, the exchange rate of kip against USD was bouncing in a narrow margin with the average rate of 7,894.4 kip per 1 USD.

By April 2003, the exchange rate was 10,660 kip 1 USD. The average consumer price index in Laos from 1988 to 1997 was 20,447%. After the

Asian financial crisis erupted, the value of kip fell sharply. As a result, inflation rate rapidly increased. In 1998, the inflation began to ease. According to the Bank of Lao PDR, the average inflation rate of the year 2000 was 30%. In 2001, consumer price inflation was at 7.8%.

Table 1: GDP growth and volume of Merchandise Trade, 1990 – 2004

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Real GDP growth %	7.0	5.9	8.1	7.0	6.8	6.9	4.0	7.3	5.7	5.5
Average inflation %	6.00	8.94	6.78	25.66	7.28	26.60	141.97	86.46	30.00	7.8
Yearly average exchange rate (kip/US\$)	725	722	722	936	938	1321	3422	7438	7809	n/a

Laos joined ASEAN in 1997 and is a member country of the World Bank, the Asian Development Bank (ADB), and the International Monetary Fund (IMF), and is in the process of applying to join the WTO. Tariffs in Laos are below the average rate of the ASEAN countries. Over 60% of recorded imports enter the country under some form of incentive duty reduction scheme. There are no price controls in Laos, although there is government supervision in pricing of petroleum products and electricity and telecommunications rates. Imports still exceed exports while exports have more rapidly expanded.

CONTRIBUTION OF GDP BY SECTORS

GDP structure at constant price in 2000 consisted of 51.8% shared by agriculture, 22.6% shares in industry and 25% share by service. There is a downward trend in agriculture sector share, despite of an increase in its output of 3.8% in 2001, 4% in 2002, and 2.2% in 2003. The agricultural sector shared to GDP decreased to 50.8%, 49.9% and 48.2% in 2001, 2002, and 2003 respectively. Industrial sector, in contrast, continuously increased, to 23.5% in 2001, 24.4% in 2002, and 25.7% in 2003. There were minor changes in service sector, with the share of 25% in 2001, 24.9% in 2002, and 25.3% in 2003. In industrial sector, the major contributor is processing industry, whose share constantly increased in the past three years, from 16.8% in 2000, to 17.8% in 2001, 18.8% in 2002, and 19% in 2003.

Table 2: Balance of Trade and Current Account

		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Export	US\$	123.6	247.9	305.4	346.2	321.0	317.0	341.0	310.9	393	425
million fob											
Imports	US\$	253	431.9	564.1	588.8	690.0	648.0	553.0	524.6	591	n/a
million											

Source: Bank of Laos (Various issues)

2. FOREIGN TRADE, TRADE POLICY AND EXPORT INCENTIVES

2.1. COMMERCE AND TRADE

Since 1986, when the Government of the Lao PDR (GOL) adopted its new economic policy, commercial relations with foreign countries have been widely expanded in line with government policy to open up the country.

Laos has trade relations with more than 30 nations around the world. Trade volume has increased in each year by average of 18.7%. Even so, the foreign trade deficit still increases by an average of 15.4% per year. However, trade is active as it can be seen from the trend towards the balance of export and import goods for general use consumption. The difficulty arises from imports for the construction of a basic national economic infrastructure for the development of the economy, and especially for the export.

The important trading partners of the Lao PDR are mainly Asia and Pacific nations, such as Thailand, Vietnam, Japan, China, Singapore, Hong Kong and some European nations like France, Germany, Italy, the United States of America, Russia and others. Lao exports goods are mainly timber products, electricity, gypsum, rattan products, coffee, cardamom, sesame, forest products, garments and handicraft items.

The goods imported into Laos are mainly foods, fabrics, garments, equipment and machinery for construction work and agriculture, electrical goods, machines, fuels and consumer goods.

2.2. STRUCTURE OF EXPORT AND IMPORT

Lao export structure is increasing and diversifying exports, and improving the quality of exported products are among the main objectives of the government. A number of new items in the manufacturing and processing sectors have been introduced. The volume of exports had increased substantially from US\$247,127,337 in 1994 to US\$374,320,000 in 2004.

The structure of exported goods had changed over a decade from 1994 to 2004. While wood and wood products, garments and electricity are still important components in total export, their significance had been fluctuated. While garment decreased from 28.6% in 1994 to 19.1% in 2004, Electricity increased dramatically at average increase of 22.1%. Garment had remained one of the most import exports. It had fluctuated at around 29.37% from 1994 to 2004. Gold for export increased sharply from only 2003 to 2004 at 16%.

Export of Laos P.D.R. from 1995 – 2004

Unit: US\$

	1	2	3	4	5	6	7	8	9
Major exportation items	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
Wood and Wood Products	70,582,300	41,500,000	40,771,980	62,271,712	71,270,000	80,193,611	74,725,357		71,443,411
Rattan and Bamboo							3,074,349	69,950,205	970,656
Coffee	25,000,000	24,250,000	49,250,000	31,164,000	29,030,000	15,303,833	9,773,938	10,915,964	13,021,172
Gypsum and other mineral	441,250	445,200	589,235	767,000	5,993,248	4,890,667	3,903,928	46,502,906	6,332,793
Gold									61,102,735
Benzoin	730,000	710,000	996,091	1,030,000					
Cardamom	162,937	184,544	332,180	378,684					
Non Forestry Produced	1,385,823	2,744,347	1,832,000	1,140,025	4,163,165	6,617,544	8,223,654	5,722,816	3,368,684
Maize	2,263,733	2,748,045	2,449,849	1,702,100					
Animal/Agricultural	17,700,000	10,176,000	14,868,900	9,532,000	5,092,457	5,706,247	7,661,796	11,123,119	17,218,415
Handicrafts	118,294	379,900	1,664,000	3,008,000	5,100,199	3,850,480	2,736,431	12,492,600	1,987,010
Garment	64,100,000	78,540,000	76,700,000	80,500,000	94,370,000	100,139,447	99,937,863	87,115,268	99,134,385
Electricity	29,693,000	27,080,000	32,700,000	57,102,000	107,000,000	91,312,939	92,694,000	97,360,000	86,295,857
Other products/Industrial Products	34,950,000	28,696,000	28,900,000	22,464,155	1,956,533	16,871,067	17,054,591	7,166,805	10,777,159
Others							2,832,853	4,274,604	2,667,723
Grand Total	247,127,337	217,454,036	251,054,235	271,059,676	323,974,602	324,885,835	322,618,759	352,624,287	374,320,000

Source: Ministry of Commerce

Commodity Composition of Exports (%) 1995 - 2004

Major exportation items	1995/96	1996/97	1997/98	7998/99	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
Wood and Wood Products	28.6%	19.1%	16.2%	23.0%	22.0%	24.7%	23.2%	19.8%	19.1%
Rattan and Bamboo	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	0.0%	0.3%
Coffee	10.1%	11.2%	19.6%	11.5%	9.0%	4.7%	3.0%	3.1%	3.5%
Gypsum and other mineral	0.2%	0.2%	0.2%	0.3%	1.8%	1.5%	1.2%	13.2%	1.7%
Gold	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	16.3%
Benzoin	0.3%	0.3%	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Cardamom	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Non Forestry Produced	0.6%	1.3%	0.7%	0.4%	1.3%	2.0%	2.5%	1.6%	0.9%
Maize	0.9%	1.3%	1.0%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Animal/Agricultural	7.2%	4.7%	5.9%	3.5%	1.6%	1.8%	2.4%	3.2%	4.6%
Handicrafts	0.0%	0.2%	0.7%	1.1%	1.6%	1.2%	0.8%	3.5%	0.5%
Garment	25.9%	36.1%	30.6%	29.7%	29.1%	30.8%	31.0%	24.7%	26.5%
Electricity	12.0%	12.5%	13.0%	21.1%	33.0%	28.1%	28.7%	27.6%	23.1%
Other products/Industrial Products	14.1%	13.2%	11.5%	8.3%	0.6%	5.2%	5.3%	2.0%	2.9%
Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%	1.2%	0.7%
Grand Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Import of Lao P.D.R. from 1995 to 2004

Unit: US\$

Major exportation items	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
Agriculture & animal equipment	32,630,000	35,260,000	26,935,000	22,562,000	25,000,000	18,066,577	8,801,632	16,819,120	10,677,703
Office and sport equipment	9,546,000	10,012,500	8,612,300	6,392,200	6,827,000	2,027,131	4,423,992	3,959,489	630,362
Commodities (food. Vegetables)	61,425,386	69,900,000	50,312,207	35,948,015	19,744,000	16,919,515	16,339,630	22,692,166	18,556,761
Clothes (garment stuff)	109,503,934	92,000,000	28,321,420	48,875,000	17,430,340	10,432,795	13,254,406	13,523,229	15,931,224
Electronic and spare part Equipment	98,526,672	108,000,000	65,332,355	61,022,841	7,200,000	2,794,732	3,223,917	3,690,201	3,887,532
Construction equipment	165,000,000	153,051,000	169,202,698	86,007,257	30,831,000	29,894,211	28,090,341	21,357,510	24,598,959
Fuel and gas	70,250,000	71,500,000	90,154,955	69,534,974	77,190,000	98,831,196	79,605,822	107,000,000	101,009,639
Medicine and equipment	18,500,000	20,353,000	20,168,119	32,868,165	3,480,000	4,200,657	2,679,247	1,845,718	3,226,324
Vehicles and spare part	100,411,635	125,000,000	122,322,288	111,560,000	21,210,000	19,334,063	18,678,147	28,542,193	35,800,000
Luxury products	5,600,000	7,580,000	6,559,000	6,722,632	3,100,000	741,540	1,534,235	4,163,545	4,829,000
Import of Electricity	14,699,693	10,443,682	11,402,700	15,549,442	8,000,000	4,108,656	6,788,270	7,552,440	9,745,360
Other products					4,649,000	18,092,553	14,099,427	6,984,326	3,682,600
Import of Garment Raw material					86,900,000	80,173,333	73,685,033	55,596,961	83,272,883
Informal Trade					45,000,000	76,404,240	80,224,452	21,338,065	19,503,068
Goods for Exhibition								2,000,000	-
Industrial goods								43,036,907	33,156,885
Total Import					356,561,340	382,021,199	351,428,553	360,101,870	368,508,299
Import of Foreign Investment Project					184,000,000	146,250,000	182,154,549	191,017,517	193,291,701
Grand Total Import of Lao PDR	686,093,320	703,100,182	599,323,042	497,042,526	540,561,340	528,271,199	533,583,102	551,119,387	561,800,000

Note: From 1995/96 to 1998/99, the figure includes the imports for projects, foreign investment, government imports, non quota, electricity, and raw material. From 1999/2000 onwards, the figure is only import for consumption.

Source: Ministry of Commerce.

Commodity Composition of Imports (%) 1995 - 2004

Major exportation items	1995/96	1996/97	1997/98	7998/99	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
Agriculture & animal equipment	4.8%	5.0%	4.5%	4.5%	4.6%	3.4%	1.6%	3.1%	1.9%
Office and sport equipment	1.4%	1.4%	1.4%	1.3%	1.3%	0.4%	0.8%	0.7%	0.1%
Commodities (food. Vegetables)	9.0%	9.9%	8.4%	7.2%	3.7%	3.2%	3.1%	4.1%	3.3%
Clothes (garment stuff)	16.0%	13.1%	4.7%	9.8%	3.2%	2.0%	2.5%	2.5%	2.8%
Electronic and spare part Equipment	14.4%	15.4%	10.9%	12.3%	1.3%	0.5%	0.6%	0.7%	0.7%
Construction equipment	24.0%	21.8%	28.2%	17.3%	5.7%	5.7%	5.3%	3.9%	4.4%
Fuel and gas	10.2%	10.2%	15.0%	14.0%	14.3%	18.7%	14.9%	19.4%	18.0%
Medicine and equipment	2.7%	2.9%	3.4%	6.6%	0.6%	0.8%	0.5%	0.3%	0.6%
Vehicles and spare part	14.6%	17.8%	20.4%	22.4%	3.9%	3.7%	3.5%	5.2%	6.4%
Luxury products	0.8%	1.1%	1.1%	1.4%	0.6%	0.1%	0.3%	0.8%	0.9%
Import of Electricity	2.1%	1.5%	1.9%	3.1%	1.5%	0.8%	1.3%	1.4%	1.7%
Other products	0.0%	0.0%	0.0%	0.0%	0.9%	3.4%	2.6%	1.3%	0.7%
Import of Garment Raw material	0.0%	0.0%	0.0%	0.0%	16.1%	15.2%	13.8%	10.1%	14.8%
Informal Trade	0.0%	0.0%	0.0%	0.0%	8.3%	14.5%	15.0%	3.9%	3.5%
Goods for Exhibition	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%
Industrial goods	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.8%	5.9%
Total Import	0.0%	0.0%	0.0%	0.0%	66.0%	72.3%	65.9%	65.3%	65.6%
Import of Foreign Investment Project	0.0%	0.0%	0.0%	0.0%	34.0%	27.7%	34.1%	34.7%	34.4%
Grand Total Import of Lao PDR	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

However, Lao important imported goods are fuel and gas, garment raw material and foreign investment project machinery. There was a continuous increase in importing of fuel and gas from 1995 to 2004 whereas garment materials and foreign investment project machinery only started from 1999 to 2004. There was a slightly decrease of garment materials from 1995 to 2004 while foreign investment project machinery remained stable at the same time period.

2.3. CHANGE IN TRADE POLICY MEASURES

a. TRADE POLICY REFORM

Trade policy prior to the introduction of the New Economic Mechanism had been highly restrictive, revolving around the centralized allocation of goods for export. In 1988, however, in line with the New Economic Mechanism, the government began to progressively decentralize some of its trade-oriented responsibilities, including planning and arranging trade contracts with foreign suppliers. Trade, controlled by the ministries of trade and finance, is conducted by about twenty-four state trading companies and some provincial trading companies. Several measures promulgated in March 1988 modified trade policy. According to Decree 16, the government became the sole exporter through state import-export organizations. Under Decree 13, the State Committee for Foreign Economic Relations and Trade, provincial administrative committee, and municipality are empowered to supervise the management and control of import and export activities. The decree also

authorizes the trade agents at Lao PDR embassies worldwide to make direct trade contacts.

Decree 18 identifies a number of 'strategic' goods, including coffee, tobacco, wood products such as a timber, sawn wood, pressed wood, and rattan, other forestry product such as benzoin and sticklac, and mineral, for which the state has an export monopoly: in short, all the major export commodities. Only the central government import-export organisation, the Lao Import-Export Company and certain provincial and state enterprises are permitted to export these goods to fulfill national trade agreements with the non-convertible currency area. All importing units are required to submit plans for their trading operations to the State Committee for Foreign Economic Relations and Trade in order to formulate the national import export plan. However, importers are permitted to trade in all commodities not on the strategic or restricted lists. Under Decree 18, export businesses are permitted to export goods on the strategic list directly, after national requirements have been met. The decree thus considerably liberalises trade regulations. The main reason for the restriction on trade in strategic goods is that the government has to plan its supply of export goods to coincide with its multiyear trade arrangements with the non-convertible currency area countries. After 1990, however, this issue was moot because as trade volume with these countries dropped to a negligible amount.

The import of certain items, including automobiles and military vehicles, fertilizers, drugs, and 'decadent cultural products and pictures,' is subject to quotas and other restrictions. In addition, trade in certain goods is entirely prohibited, including poisons, weapons, and other goods related to national security.

At the end of the 1980s, the authority of the Lao Import-Export Company had begun to diminish, because import-export licenses were being granted to increasing numbers of private organisations. By 1991, the national trade company was slated for privatization.

b. MAJOR TRADING PARTNERS

Lao foreign trade is mainly with other Asian countries. Japan, Singapore, Thailand, China and Vietnam are its trading partners. Regionally, the European Unions ranks second importance. With the change in the pattern of trade, the direction of trade may be changed.

Table 8: Major Trading Partners of Lao PDR (Export) unit in USD

No.	Countries in ASEAN	1999-00	2000-01	2001-02	2002-03	Average growth rate (%)
1	Cambodia	17,623	-	53,949	118,752	0.40
2	Indonesia	1,015,830	43,858	-	123,746	2.39
3	Malaysia	90,710	112,412	44,678	170,688	0.61
4	Myanmar	258,377	-	17,990	241,740	0.54
5	Philippines	-	0	15,120	62,589	0.31
6	Singapore	932,922	1,034,033	145,745	161,472,747	4.24
7	Thailand	162,995,387	146,733,757	171,247,058	161,472,747	0.99
8	Vietnam	23,291,404	19,483,447	27,040,724	21,212,648	1.07
Total		188,602,253	167,407,507	198,565,263	183,535,174	1.01

c. INDUSTRY SITUATION IN THE COUNTRY

INDUSTRY

Estimates of the industrial sector's contribution to GDP vary, but most sources find it to be slow increasing, from about 10 percent in 1984 to about 17 percent in 1993. The World Bank estimated the sector's contribution at 14 percent in 1989. Most sources also indicated an increase in the percentage of the labour force employed in the sector from 5 percent in 1970 to 7 percent in 1980. However, World Bank figures available in mid-1993 indicated that the sector employed only just over 2 percent of the labour force in 1986. All sources agree that the growth of the industrial sector had increased throughout the 1980s. The World Bank estimated an average annual growth rate of 3.4 percent between 1980 and 1989, despite negative growth in the drought years of 1987 and 1988 during which exports of hydroelectricity were substantially lowered. By 1990, the growth rate had leveled off, from a surge of nearly 32.0 percent in 1989 to about 12.7 percent in 1992. The virtual end of the command economy fueled the 1989 industrial boom and supported steady growth for at least the medium term. Principal activities in the industrial sector include manufacturing, construction, mining, processing agricultural and forestry goods, and producing hydroelectricity.

MANUFACTURING

There is a paucity of any real industry in Laos outside of timber harvesting and electricity generation. Nonetheless, manufacturing represents about half of all industrial activity. Other manufacturing activities includes the production of agricultural tools, animal feed, bricks, cigarettes, detergents, handicrafts, insecticides, matches, oxygen, plastics, rubber, footwear, salt, soft drinks and beer, textiles and clothing, and veterinary products. Manufacturing employed only approximately 2 percent of labour force in 1991. A few factories in Vientiane Capital area have been rehabilitated since mid-1980s. As of 1994, the garment industry was booming with investment from China, France, Taiwan, and Thailand. There were more than forty garment factories in Vientiane Capital area.

The manufacturing subsector was composed of over 600 factories and plants of which one-third were state-owned in 1991. Most manufacturing is for domestic consumption and is centered in Vientiane Capital area. As of mid-1994, there was little manufacturing in or near Laotian towns. In 1989 and 1990, there was a rapid increase in cottage industries such as cotton spinning and weaving, traditional village crafts, basket-weaving, and the production of alcoholic beverages. As part of the internal business sector, however, cottage industries are not covered by national statistics.

Between 1980s and 1990s, over 80 percent of manufacturing was in the production of clothing, food and beverages, metal products, tobacco products, and wood products. Industrial roundwood production increased 71 percent between 1975 to late 1980s to an annual average of 330,000 cubic metres and then declined to 309,400 cubic meters in 1990. Sources differ over the growth trend for lumber production; the UN reported a decrease in production of 61 percent between 1980 and 1988, and the Asian Development Bank showed an increase of nearly 40 an increase of nearly 400 percent in the same time period.

MANUFACTURING AND HANDICRAFT INDUSTRIES

The number of manufacturing and handicraft factories run by small enterprises increased dramatically from 1995 to 2000 compared 10,826 to 21,558. That was an increase of 96%. This causes a rise at 56% in GDP contributed by the overall industrial sectors which came from joint venture at 69.4%, State enterprises at 20.4% and 10.2% from private sectors.

ENERGY INDUSTRY

Lao energy industry is based upon natural resource. During the last two decades, from 1980 to 2000, with the change of government policy toward foreign investment and businesses, the energy industry has been remarkably increased in hydropower electricity construction. Energy industry has served greatly to the

country export, and contributed mainly to the GDP. The hydropower electricity production rose from 33 MW in 1975 to 644 MW in 2000. Electricity of low, medium and high voltages has been expanded to countryside with the total consumption of 35% of electricity production.

MINING

Assessments of mineral reserves are imprecise, because by 1991 most of the country had not been geologically surveyed in a detailed manner. According to 1991 estimates, deposits of gemstones, gold, gypsum, iron, lead, potash, silver, tin, and zinc have relatively high commercial development potential, but mining activity is on an extremely small scale. In addition, Laos has small deposits of aluminum, antimony, chromium, coal and manganese, as well as potential for oil and natural gas. In 1989 exploration agreements for oil and gas were signed with British, French, and the United States companies.

Mining operations are carried out by state mining enterprises, and supervised by the Department of Geology and Mines and small scale miners. Production of tin, the principal mineral export, decreased 50 percent between 1975 and 1988, to about 240 tons. Gypsum production increased 167 percent between 1980 and 1988 to about 80,000 tons. Salt production increased 233 percent between 1992 and 1988 to eleven tons. Coal production increased more than 600 percent 1982 and 1988 to about 800 tons.

From the later 1980s to 1990s, the survey of mining reserved has been made. By the year 2000, the government has identified 20 different kinds in 50 mining reserves. Over 10 of the mining operations have been tested and utilized such as: Charcoal, iron, ore, emerald, limes, ceramics for cement production, barite stone, zinc, phosphorus, wet coal, salt, construction stone and sapphires. The mining operation has been conducted by local and international investors. 110 activities of survey, exploration and testing were approved in 2000.

The survey has estimated 655 million tons of coals, 1.5 million tons of wet coal, 57.7 million of zinc, 1 million tone of bronze, 0.7 million tons of pyrite, 92,546 million of salt (nitrate, galimyra), 20.6 million tons of ceramic, 1,180 million tons of lime for ceramic production, 55 million tons of sand for bricks production, 8 million tons of sand glass, 100 tons of gold, 0.55 million tons of phosphorus, 0.15 million tons of balid, 0.3 million tons of micon, 32.3 million tons of karats of sapphire and other unexplored minerals.

d. TECHNOLOGY AND EQUIPMENT

The technological use in industrial production in Lao PDR has not been developed. This is due to the storage in personnel in many areas concerned. However, by 2000, Laos introduced technology in its productivity in order to efficiently and effectively produce its products. This includes timber processing

industry, hydropower electricity. Thus, the research in technological and machinery used in productivity has been very little success.

e. LABOUR IN INDUSTRY

There was an increase in laborer working for industrial jobs from 56,635 people in 1995 to 83,240 people in 2000, which was growth at 3.8%. 58% of this kind of workers is females working in textile factories. Nearly all these workers are young and low-educated.

f. INVESTMENT

By implementing the national policy on the expansion of electricity to all over the country, the government has mainly invested on electricity industry at around 80% to 90% while invested in mineral and manufacturing sector at around 10% to 20%.

The number of private sector investment has considerably increased from 268.4 billion kip to 1,019.9 billion kip from 1999 to 2000. However, there was still a little growth investment in industrial sector. Hence, the contribution to economic development has improved gradually.

FOREIGN INVESTMENT

Foreign investment in the hotel and tourism sector has increased significantly in recent years. Over the period from 1988 there were 34 tourism projects and foreign investment amounted to US\$605 million, representing 8.8 percent of total

foreign investment in the Lao PDR. To date, foreign investment accounts for 83 percent of total investment in the Lao PDR.

INVESTMENT OPPORTUNITIES

The Lao law on the promotion of foreign investment has been clearly defined its stages on investment. The reduction of duties on machinery equipments and materials to 0%, profit tax definition at 20%, 15% and 10% for certain period, one-stopped service for license approval provide a good opportunity for investors to invest in mining, hydropower, tourism and agro-forest processing.

g. TOURISM

International tourism received a boost when the country was opened to international tourists in October 1989. Since then, other measures such as the relaxation of visa requirements for visitors have aided the expansion of the tourism sector. The importance of tourism's potential contribution to social and economic development in Lao PDR was underscored when, 1995, the Lao National Assembly identified the tourism industry as one of the nation's eight priority development areas.

EARNINGS FROM TOURISM

Since 1991, revenue from the tourism industry has increased dramatically from tourism industry has become a major export industry of the Lao PDR. Tourism

activities earned US\$73.3 million in 1997, was the nation's third largest source of export revenue. The growing importance of tourism is clearly reflected, for instance, in the growth of the hotel and restaurant sub-sector which expanded by 62.8% in 1995, the largest increase by far of any major sector in the Lao economy. The number of accommodation establishments, hotels and guesthouses, has more than tripled between 1992 and 1997, and the number of room has doubled during the same time period.

TOURIST ARRIVALS

The number of tourist arrivals, especially among regional tourists, has been increasing dramatically. The average length of stay for international tourists is five days and for regional tourists it is one day. Fifty-five percent of tourism industry revenue during the 1997 was derived from international tourists who accounted for 19.2 percent of total tourist arrivals. The majority of arrivals are tourists in 1997 of 70 percent of international tourists and 78 percent of regional tourists visited Lao PDR for tourism or leisure purposes. The number of tourist arrivals doubled up from 463,200 in 1997 to 894,806 in 2004. That was an increase from US\$73,276,904 to US\$118,947,707. These tourists were mainly from Asia and Pacific and Europe.

Table 9: Tourist Arrivals to Laos

Year	No. Tourist Arrivals	Income from Tourism in USD
1997	463,200	73,276,904
1998	500,200	79,960,145
1999	614,278	97,265,324
2000	737,208	113,898,285
2001	673,823	103,786,323
2002	735,662	113,409,883
2003	636,361	87,302,412
2004	894,806	118,947,707

h. AGRICULTURE

At least 5 million hectares of Laos's total area of 23,680,000 hectares are suitable for cultivation; however, just 17 percent of the land area between 850,000 and 900,000 hectares is cultivated less than 4 percent of the total area. Rice accounted for about 80 percent of cultivated land during the 1989 to 1990 growing season, including 422,000 hectares of lowland wet rice and 223,000 hectares of upland rice, clearly demonstrating that although there is interplanting of upland crops and fish are found in fields, irrigated rice agriculture remains basically a monoculture system despite government efforts to encourage crop diversification. Cultivated land area had increased by about 6 percent from 1975 to 1977 but in 1987 only provided citizens with less than one-

fourth of a hectare, each given a population of approximately 3.72 million in 1986. In addition to land under cultivation, about 800,000 hectares are used for pastureland or contain ponds for raising fish. Pastureland is rotated, and its use is not fixed over a long time period.

In the early 1990s, agriculture remains the foundation of the economy. Although a slight downward trend in the sector's contribution to gross domestic product, GDP was evident throughout the 1980s and early 1990s from about 65 percent of GDP in 1980s to about 61 percent in 1989 and further decreasing to between 53 and 57 percent in 1991.

AGRICULTURAL POLICY

In June 1988, in line with policies by the New Economic Mechanism, the government passed a resolution to reform the agricultural sector. As announced at the Fourth Party Congress in 1986, the principal goal was to reorient the sector toward a market economy. The abolition of the much hated agricultural tax as well as the socialist restrictions on marketing helped to create necessary incentives for farmers.

The major change was in the pricing policy. The practice of setting low producer prices for a wide range of crops was ended, boosting incomes in rural areas.

Other changes were implemented. Restrictions on internal trade of agricultural products were removed allowing free market to operate, at least for important crops such as rice. Laws also were enacted to guarantee farmers' rights to private ownership of land, including the right to use, transfer commercially, and bequeath. Tax exemptions for specified periods also were decreed.

The reforms emphasize the government's belief that further increasing and diversifying agricultural production requires the participation encouragement of the private sector. Food security, as always, remains a key objective, but the focus of the new agricultural policy is on the production of cash crops that can be processed to increase their value and then exported. This means for reaching that goal include the popular 1989 measure of abandoning the poorly developed attempts at establishing the socialist infrastructure of agriculture to a cooperative farming system.

FISHING

For many Laotians, freshwater fish are the principal source of protein; per capita consumption average 5.1 kilograms annually. Fishpond culture had begun in the mid-1960s, and production mainly carp raised in small home lots-grew an average 30 percent annually thereafter, the highest rate in Asia between 1975 and 1985. The Mekong River districts in the south have especially high potential for greater increases in fish production. In the 1982 – 1984 period, the average annual catch was 20,000 tons, all of which was consumed domestically.

i. MARKET SYSTEMS

Due to the transportation expansion between city and countryside, the market system has developed remarkably, especially along the Mekong River basin.

The Banking System

In March 1988, Decree 11 on the reform of the banking system was passed, separating commercial bank functions from central bank functions. The Vientiane branch of the old State Bank, the Banque d'Etat de la Republique Democratique Populaire du Laos (RDPL), became the central monetary agency. In June 1990, the Central Banking Law was passed, establishing the Bank of the Lao People's Democratic Republic, or Central Bank to replace the State Bank. Under this law, the Central Bank assumes responsibility for regulation and supervision of commercial and regional banks; maintenance of foreign exchange reserves; issuance and supervision of money for circulation; licensing, supervision, and regulation of financial services; and management of the monetary and credit system. The Central Bank has about ninety regional branches; as of 1991, the government was considering separating these branches into three regional banks, serving the southern, northern, and central regions.

Other branches of the former State Bank were transformed into autonomous commercial banks to promote private investment. These banks are responsible for accepting savings deposits from enterprises, government departments, and

individuals, and for granting credit to state entities, joint ventures, and individuals for capital investment and business start-ups or expansion. Commercial banks are restricted from granting credit to economic units experiencing deficits and losses. These banks do not receive subsidies, although they do render 60 percent of their profits to the government.

By 1991 Laos had seven commercial banks, including the Joint Development Bank, a Lao-Thai joint venture, and six wholly state owned banks. Government policy encourages privatization of these six banks. However, in part because of the absence of laws governing banking activities and in part because of the relatively small size of the economy, foreign bankers do not express much interest in these ventures.

The Foreign Trade Bank, Banque pour le Commerce Extérieur Lao (BCEL), a subsidiary of the Central Bank, is the country's foreign exchange and foreign trade bank. By Decree 48 of July 1989, the Central Bank is assigned sole responsibility for setting and managing the exchange rate. BCEL was granted autonomy in November 1989 and was charged with handling foreign exchange transactions relating to trade; as of 1991, BCEL had arrangements with sixty-four banks internationally. However, a Foreign Exchange Decree was scheduled to go into effect soon after 1991, allowing all commercial banks already authorized to deal in foreign exchange to carry out foreign exchange transactions themselves,

thus removing BCEL's monopoly on such activities. Information on the status of this decree was unavailable as of mid-1994.

j. DOMESTIC FUNDS

Around 90% of GDP has been utilized for development of infrastructure throughout the country. The national budget is deficit. Funding generation mechanism of the financial system has not yet been developed. The National development requires sufficient funds in terms of loans, grants and private investment.

3. FDI POLICY ENVIRONMENT IN LAOS

3.1. FDI INFLOWS

Foreign Investment Law of Lao PDR was promulgated in 1988. This law seeks to encourage foreign investment as a means of facilitating economic development as called for by the New Economic Mechanism. Foreign investment law allows investors to enter into three type of investment arrangement. In early 1989, Decree 27 established the Foreign Investment Management Committee to centralize foreign approval procedures, thus enabling the Foreign Investment Law to be implemented. The clear provision of the law and the reduction of steps of investment assist in attracting new business ventures and build their confidence to invest in Lao PDR.

In 1995, the approval of foreign investment license was the amount of US\$1.218 million and up till then the total amount of foreign investment accounted for US\$7.126 billion, which consists of 618 projects. Of the amount, US\$1 billion is resulted from local investment. Foreign investment came from more than 30 countries such as: United States, Hong Kong, Russia, United Kingdom, Singapore, Japan, Germany, Canada, Italy, New Zealand and others.

Projects approved in 1995 included those engaged in agricultural, industrial and service sectors, of which the biggest contribution of foreign investment comprises of energy sector activity.

Table 10: Foreign Investment by sectors (1996)

No.	Sectors	Amount in US\$	Percent
1	Agriculture	55,700,000	0.78
2	Textile and Garments	69,268,000	0.97
3	Processing Industry & Handicrafts	176,056,000	2.47
4	Wood processing	71,393,000	1.00
5	Mining	312,336,000	4.38
6	Trade	54,474,000	0.76
7	Hotel, Tourism	604,944,000	8.49
8	Bank and Insurance	73,800,000	1.04
9	Consultant Service	7,232,000	0.10
10	Other Services	24,811,000	0.35

The Government of the Lao PDR (GOL) has approved nearly US\$18 billion worth of foreign investment projects since 1988. Hydropower schemes account for more than 65 percent of that amount, including the \$1.2 billion Nam Theun-2 hydro-electronic dam. The value of approvals for new investment licenses declined by more than 90 percent from 1996 to 1998,

while foreign direct investment fell by nearly 75 percent over the same period. Foreign direct investment figures provided by the Bank of Lao PDR are given below.

Table 11: Foreign Investment in Laos in millions of US dollars

1998	1999	2000	2001	2002-2003
122	86.6	21.7	1154.3	277.7

Table 12: Foreign Investment Licenses Granted in Laos in Million of US Dollars

1998	1999	2000	2001	2002
68	53	36	68	43

Foreign Investment licensed in Lao PDR by sector from December 1988 through February 1999 in US dollars (Source: Foreign Investment Management Cabinet)

Table 13: Number of Projects

Sector	No of Projects	Amount (\$)
Elec. Power	7	4,500,820,000
Telecom, Transport	16	637,655,997
Hotel/Tourism	34	605,288,232
Handicrafts	126	463,875,048
Wood Industry	37	168,022,632

Mining, Oil	30	130,992,764
Garments	78	75,753,130
Banking, Insurance	11	73,800,000
Agribusiness	76	68,679,221
Trading	106	64,766,611
Construction	37	61,733,566
Services	129	58,263,054
Consultancy	31	5,998,540
Total	718	6,915,648,795

Below follow official Government of Laos figures on foreign investment. However, these figures reflect the value of investment licenses granted rather than actual foreign direct investment flows. Accurate data on how many of these licenses have been implemented is difficult to obtain.

Foreign investment licensed in Lao PDR by country of origin, from December 1988 through February 1999, in US Dollars. (Source: Foreign Investment Management Cabinet)

Table 14: Foreign Direct Investment in Lao PDR by countries

Rank Country # of Projects Capital

SI No	Country	No of Licences	Value in US\$
1	Thailand	248	2,926,062,468
2	USA	41	1,489,599,019
3	South Korea	29	630,440,507
4	Malaysia	19	293,329,547

5	Taiwan	34	68,195,836
6	China	67	62,700,031
7	Australia	44	41,841,034
8	France	82	36,992,998
9	U.K.	17	27,535,200
10	Hong Kong	20	26,033,100
11	Singapore	15	20,044,384
12	Russia	15	18,928,705
13	Japan	26	17,466,585
14	Indonesia	1	5,000,000
15	Vietnam	14	4,641,916
16	North Korea	1	3,300,000
17	Italy	5	2,709,880
18	Germany	8	2,672,900
19	Belgium	5	2,628,952
20	Macau	1	2,534,856
21	Canada	11	2,452,366
22	Switzerland	3	1,080,000
23	Sweden	7	904,675
24	Norway	3	900,000
25	Holland	3	670,000
26	Finland	1	504,000
27	Denmark	6	477,000

28	India	2	469,600
29	Austria	3	212,000
30	Luxembourg	1	200,000
31	Ukraine	1	200,000
32	Bangladesh	2	150,000
33	New Zealand	2	118,500
34	International	1	100,000
35	Cambodia	1	100,000
36	Burma	1	50,000

Since 1988, with the advent of the policy of New Thinking, the nation's economic development has steadily been liberalized and is moving towards a market economy. Due to the natural expansion of the economy, Laos achieved a growth rate of 7.2% in 1997, compared with 6.9%, and 7% in 1995.

Table 15: Foreign Direct Investment in Lao PDR by countries

SI. No.	Country	No. of Licenses	Value in US\$ mill
1	Thailand	38	560.5
2	USA	12	12.3
3	South Korea	32	22.5
4	Malaysia	9	9.5
5	Taiwan	8	2.6

6	China	35	65.2
7	Australia	10	4.1
8	France	34	396.9
9	UK	6	1.4
10	Singapore	11	3.8
11	Germany	7	1.4
12	Canada	1	0.7
13	India	2	0.4

3.2. FDI POLICY ENVIRONMENT

Since 1986, the Lao Government has introduced an open-door policy and has taken a number of measures to achieve a market economy by reforming its administrative structure and policy accordingly. The government policy has emphasized both revenue raising and expenditure containing measures. Meanwhile, structural reforms have accentuated, notably in creating an atmosphere for investment, privatization, decentralization, and the initiation of an appropriate regulatory framework to meet the immediate needs of the emerging private sector. Following the open-door policy, in 1988, the Government of Lao PDR adopted a code for foreign direct investment (FDI) in order to generate revenue and job opportunities created in the country.

In early 1989, Decree 27 established the foreign investment Management Committee to centralize foreign investment approval procedures, thus enabling the Foreign Investment Law to be implemented. The Lao Chamber of Commerce was established in 1990 to assist in attracting new business ventures. Private domestic and foreign investments have been encouraged by the gradual improvement of the legal environment, including the passage of laws regarding property rights (1990), contractual obligation (1990), crime (1990), civil procedure (1990), and labour (1991). The 1991 approval of the constitution, which protects the right to private ownership, is also an important factor in encouraging foreign investment. Also, as of late 1993, an arbitration law was being drafted that provided a legal mechanism for the settlement of disputes.

TAX INCENTIVES

Tax incentives are used to encourage foreign investment. In order to qualify for the reduction, a foreign investment project has to meet three of the following criteria: the project will export more than 70 percent of the goods it produce; will obtain domestically more than 70 percent of the raw materials it uses; will use advanced technology; will aim to overcome unfavorable natural or socioeconomic conditions; will contribute to national economic allows foreign investors to remit profits to the countries of their choice; in addition, it prohibits the nationalization of their capital and property.

3.3. LAO-INDIA TRADE RELATIONS

Lao and India signed a contract on economics and trade cooperation on November 9, 2000, and the contract was in effect since December 21, 2001. The relationship on trade between Lao and India in the past has shown that some businessmen of India propose sales of some products, namely agricultural machinery, electronic equipment, medicine, computer, office appliances, and others. India also shows interest on purchasing some products from Laos, such as phosphate, precious stones, wood products, (namman yang), and etc. Besides, there are some interests on establishing weaving factory, cement factory, and vegetable oil factory in the Lao P.D.R. The products that Lao currently export to India is very limited, namely some mineral. The total export from Laos in 2002 was 60,219 US dollars while the import from India was 40,219 US dollars, and export value was US \$18,000

Trade relationship between Laos and India has not been expanded as it should have been due to several difficulties, such as transportations. Also, Product of India has not yet been widely known in the Lao market. The communication between the businessmen of the two countries is not yet lively, broad in scope, and continuous

Table 15

Value of Trade between Laos and India

(Unit: USD).

Fiscal year	Export	Import	Total
1999-2000	11,317	-	11,317
2000-2001	297,593	34,719	332,312
2001-2002	19,410	42,219	61,629
2002-2003	112,626	563,542	676,168
2003-2004	32,799	117,416	150,215

Source: Department of statistics and planning, Ministry of Commerce

a. LAO-INDIA TRADE COOPERATION PROJECT

The government is promoting Lao-India trade on the basis of counter trade, which is the same as trade in accordance with the plan. Lao products that may be proposed for sales to India consists of finished wood products, beans, cooking ingredients, mineral, gem, and coffee.

COOPERATION PROJECT PLAN

- Cooperation on production for both domestic consumption and export
- Propose for India to establish integrated garment factory (beginning from cotton plantation to spinning, weaving, coloring, and sowing) in order to

utilize the potential of GSP which Laos has received from European Union and other countries.

- Exchanges delegations at ministerial level, and businessmen in order to explore the rules and regulations and potential of trade as well as information on trade.
- Promote the National Chamber of Commerce and Industry of Lao and India to exchange bilateral businessmen, organize workshops for exploring the ways and means to cooperate in the area of trade, by promoting more trade shows in Laos and India.

APPENDICES



LAO PEOPLE'S DEMOCRATIC REPUBLIC

Peace Independence Democracy Unity Prosperity

MINING LAW

Law No.04/97/NA

CHAPTER I

GENERAL PROVISIONS

Article 1 Purposes of the Mining Law

The Mining Law aims at defining the system of management, preservation, exploration, exploitation and processing of minerals for local consumption and export with the use of natural resource potentials in the industrial process and upgrading the population's quality of life.

Article 2 Minerals

Minerals are natural resources with specific locations which may not be renewed, in the form of solid, liquid or gas composed of chemical and physical substances, such as gold, silver, iron, precious stones, sand, construction soil, construction stones, coal, gas and natural petroleum, including mineral waters, and natural warm and hot spring water.

Article 3 Ownership of Mineral Resources

All mineral resources above, under land and water within the territory of the Lao PDR are the property of the national community and under centralized and unified management by the State.

Article 4 The Promotion, Preservation and Development of Mineral Resources

The State applies a policy of promotion towards persons and organizations both domestic and foreign in efficiently preserving and developing mineral resources.

Article 5 Environmental Protection

Persons licensed to conduct commercial mineral operations shall abide by the procedures and measures for the mitigation of natural resource loss and negative environmental impacts.

Article 6 Protection of the Rights and Interest of the Mineral Business Operators and the Local Population

The State protects the interest of the mineral business operators and of the local population in compliance with the laws of the Lao PDR.

Article 7 Scope of the Law's Effectiveness

This Law is effective upon mineral management and exploitation starting from its reconnaissance, basic geological survey of natural resources to mineral exploitation and processing of minerals in the Lao PDR, except for oil and gas which will be governed by separate regulations.

CHAPTER II BASIC GEOLOGICAL SURVEY AND PRESERVATION OF MINERAL RESOURCES

Article 8 Basic Geological Survey

Basic geological reconnaissance refers to the initial gathering of information on mineral outcrops and geological structures for the production of basic geological maps.

The Government entrusts the Ministry of Industry-Handicraft to conduct nationwide basic geological reconnaissance surveys in coordination with the concerned agencies and local administrative authorities.

Article 9 Categories of Minerals

To promote the development of the minerals industry, the Government has classified minerals in the following 4 categories:

1. Metallic Minerals;
2. Non-metallic Minerals;
3. Combustible Minerals;
4. Liquid Minerals.

Metallic Minerals include:

- Gold, silver, copper, zinc, iron, lead, tin and others.

Non-metallic Minerals include:

- Diamond, ruby, emerald, limestone, gravel, sand, gypsum, construction soil, construction stone and others.

Combustible Minerals include:

- Coal, natural gas and petroleum.

Liquid Minerals include:

- Mineral water, natural warm and hot spring water.

The Government shall provide details on each category of minerals.

Article 10 Protected or Restricted Minerals

For efficient and sustainable use, the Government shall issue a periodical list of protected or restricted minerals from export, import or for which export under the form of raw material is limited.

Article 11 Safeguarding and Use of Information on Mineral Resources

The safeguarding and use of information and samples of mineral resources shall properly abide by specific regulations governing minerals.

Persons or organizations shall report data and information on and samples of mineral resources of scientific significance or high value and rare.

Persons or organizations are forbidden to illegally conceal, reduce the value or conduct transactions such samples, and only the State is entitled to purchase samples of scientific value, or f high value or rare.

The Government shall establish a list and details of the above natural resources samples.

Article 12 Preservation of Sources of Mineral Resources

The Government entrusts the Ministry of Industry-Handicraft with the preservation of sources of mineral resources nationwide in coordination with the concerned agencies by outlining specific regulations.

CHAPTER III DISTRIBUTION OF MINERAL RESOURCE AREAS

Article 13 Mineral Resource Areas

Mineral resource areas refer to areas where basic geological reconnaissance surveys have been conducted and where commercial mineral deposits have been observed for further detailed investigation.

There are four mineral resource areas:

1. Mineral business licensed areas;
2. Reserved areas;
3. Restricted areas;
4. Poisonous areas.

Article 14 Mineral Concessions

Mineral concessions are areas determined by the Government as areas where mineral operations may take place.

Article 15 Reserved Areas

Reserved areas are mineral resource areas reserved for the extraction of a specific mineral.

Article 16 Restricted Areas

Restricted areas are mineral resource areas where mineral operations are forbidden, such as areas with cultural significance, protected forest areas, areas with importance for national defense, order and others.

Article 17 Poisonous Areas

Poisonous areas refer to mineral resource areas containing poisonous substances or poisonous minerals which shall be notified by the Ministry of Industry-Handicraft to the local administrative authorities for the application of

safety and health measures for the population in coordination with the concerned agencies.

CHAPTER IV COMMERCIAL MINERAL OPERATIONS

Article 18 Mining Activities

Mining activities refer to activities composed of prospection, exploration, exploitation, processing and transaction of minerals.

Mining activities take place under the following two forms:

1. Mechanized commercial mineral operations;
2. Professional and non-professional manual mining activities.

Article 19 Mines

Mines are natural mineral reserves holding economic importance and located above and under the ground or water.

Article 20 Forms of Mechanized Commercial Mining Activities

Forms of mechanized commercial mining activities are divided into three scales as follows:

1. Large scale commercial mining operations;
2. Medium scale commercial mining operations;
3. Small scale commercial mining operations.

Each scale of mining activities shall be determined in detail by the Government based on the capital, type of minerals, area and mineral reserves.

Article 21 Investment in Mining Activities

Investment in mining activities in the Lao PDR shall take place under the following forms:

1. Sole investment by the State;
2. Joint investment between the State and domestic or foreign parties;
3. Collective or private investment from domestic parties.

Article 22 Mining Operation Procedures

Mining procedures include the stage of prospection, exploration, exploitation, processing and transaction of minerals.

The prospection, exploration and exploitation shall be authorized specifically in areas where no mining activities for the same minerals are being conducted.

Article 23 Methods of Mining Operations

Persons or organizations intending to conduct mining operations shall apply for the mineral reconnaissance and data gathering. When information is sufficient, exploration shall be authorized.

At the exploration's completion and if intending to conduct exploitation, feasibility studies shall be required, economic cost-effectiveness computed, environmental, ecological and social impacts assessed to apply for the grant of concessions from the Government.

Simultaneously with the grant of exploitation concession, the Government shall jointly invest in the mining operations.

Mining operations licensees shall establish and register their enterprise in compliance with the laws of the Lao PDR.

Article 24 Mineral Prospection

Mineral prospection refers to field observations to determine the area's geological conditions, mineral outcrops above ground to evaluate the quality of minerals distributed in the nature.

Mineral prospection shall require approval from the Government.

The period of mineral prospection shall not exceed two years, but may be extended two times, each time for no more than one year as approved by the Government.

Article 25 Mineral Exploration

Mineral exploration refers to geological and geophysical studies within a determined area for the acquisition of further detailed data on the geology and geological structures through testing, trenching, exploration drilling and analysis of minerals' physical and chemical features and assess economic potentials.

Mineral exploration shall require approval from the Government.

The period of mineral exploration shall not exceed three years, but may be extended two times, each time for no more than two years as approved by the Government.

Article 26 Assessment of Mineral Reserves

The **assessment of mineral reserves** refers to the evaluation of each type of explored mineral reserves' scope and volume.

Article 27 Testing and Analysis of Samples

Mining operation licensees are entitled to send mineral samples and other mineral related items for testing and analysis, whether within or outside the country, in accordance with the regulations outlined by the Government.

Article 28 Area Relinquishment and Addition

After prospection and exploration, licensees shall relinquish the undesired prospection or exploration area in part or in full, together with all data acquired from such prospection or exploration.

If it is discovered that a mineral vein extend beyond the licensed area, licensees are entitled to apply for the addition of such area based on acquired data.

Article 29 Evaluation of Exploitation Feasibility

The evaluation of exploitation feasibility refers to the evaluation of the socio-economic potentials of the mineral reserves and negative impacts on the environment.

Article 30 Feasibility Studies

Feasibility studies for the application of mining operations shall include the following major contents:

1. Plans and procedures of mineral exploitation: technical exploitation system, exploitation volume;
2. Socio-economic effectiveness of the mineral exploitation.

The time frame for the elaboration of the feasibility study shall not exceed one year but may be extended for no more than one year as approved by the Government.

Article 31 Environmental Impact Assessment

Simultaneously with the feasibility study, investors shall elaborate an environmental impact assessment which shall contain the following major content:

1. Projection of environmental assessments in each case by proposing solutions and mitigation methods and measures against such environmental, ecological and social impacts;
2. Assessment of loss to be incurred and the population's resettlement, including assistance in upgrading the living conditions of the population affected by the mineral exploitation's impacts: provision of adequate settlements and livelihood.

Article 32 Criteria for Mining Concessions

Eligibility to obtain mining concessions shall meet the following conditions:

1. Financial technical capacities;
2. Good and reliable mining profile;
3. Mining concessions are efficient, appropriate with the national socio-economic development plan and void of serious environmental assessment.

Where applicants for concessions meet all conditions, the Government shall consider approving mining concessions.

Article 33 Exploitation

Exploitation refers to clearing, exploitation, removal, processing, grinding, selection and storage of minerals.

The period of exploitation concession shall not exceed thirty years from the concession's grant, but may be extended two times, each time for no more than ten years as approved by the Government on a case by case basis and based on the mining scale.

Article 34 Handover of Mining Enterprises

At the expiration of the mineral exploitation concession, mining business operators shall hand over mining enterprises in full inclusive of vehicles and equipment constituting the mining business' assets to the Government of the Lao PDR without any compensation, except if the Government refuses to accept such business assets.

Article 35 Professional or Non-Professional Manual Mineral Exploitation

Manual mineral exploitation refers to mineral exploitation with archaic tools as occupation.

Minerals exploiting persons with handicraft tools as occupation shall be Lao citizens and be conducted with their own funds.

Exploitation with the use of handicraft tools as occupation shall require approval from the provincial, municipal or special zone Industry-Handicraft Services which shall report to the Ministry of Industry-Handicraft.

In case of manual exploitation as occupation includes the use of plants or employment of labor, such exploitation shall be considered as mechanized mining business operations.

Non-occupational manual exploitation of minerals refers to the occasional exploitation.

Non-occupational manual exploitation of minerals shall require approval from the District Industry-Handicraft Offices which shall report to the provincial, municipal or special zone Industry-Handicraft Services.

Article 36 Processing of Minerals

The **processing of minerals** refers to the upgrading of minerals' quality through industrial processes or additional processing of minerals, such as by washing, forging, transforming, polishing and processing to reach economic value.

Processing to upgrade minerals' quality shall require specific approvals from concerned agencies.

Article 37 Transactions of Minerals

Mining business operators shall be entitled to sell extracted minerals provided mineral transaction approvals are granted. Persons operating solely on the transaction of minerals shall require specific minerals transaction licenses.

Minerals in this Law refers to minerals which have been washed, ground, selected and processed.

CHAPTER **V**
RIGHTS AND OBLIGATIONS OF MINING BUSINESSES

Article 38 Rights and Obligations of Mining Businesses

Mining businesses shall the right to:

1. Be protected by law;
2. Conduct the sole mining activities along approved procedures within the licensed area;
3. Receive priority in conducting further mining activities based on assessment performed by the mining activities managing and controlling agency and approval from the Government.
4. Own assets and returns from mining activities as provided by contract;
5. Receive technical and technological recommendations from the Government on the conduct of mining activities.
6. Apply for the extension of mining licenses;
7. Build constructions and erect equipment for the conduct of mining activities in compliance with the regulations outlined by concerned sectors.

Manual mineral exploiters as occupation shall be entitled to devolve their operations to members of their families, but may not transfer such operations to other persons.

Article 39 Scope of Rights of Persons Conducting Mining Activities

Persons conducting mining activities shall be entitled to transfer or inherit mining activities as approved by the Government, except if such mining activities are in the stage of prospection.

Article 40 Right to Mining Activities

In mining activities, licensees shall be entitled to lease land from the Government based on contracts, enter contracts for the supply of electricity and water for the processing of minerals provided such water is recycled and the quality of waste water is guaranteed for the population and the environment. Certain types of minerals containing poisonous substances shall declared as specific mining areas.

The use of wood in mining areas shall require approval and compensation of such wood.

In case mining activities cover land, constructions, crops and others belonging to persons or organizations, licensees shall make appropriate compensation for their removal and damage.

Article 41 Priority of Mining Areas

In case mining concession operators discover other minerals in the mining area outside of the authorized minerals, such operators shall have priority in applying for mining activities in relation with the discovered minerals in addition from the Government, except if such mineral belong the category of reserved or restricted minerals.

Article 42 Obligations of Mining Businesses

Operators of mining businesses shall have the following obligations:

1. Conduct of mining activities in compliance with any or all procedures and within the authorized timeframe;
2. Perform a deposit in accordance with the regulations outlined by the State Bank of the Lao PDR;
3. Conduct mining activities as licensed, based on feasibility studies and exploitation programs;
4. Preserve and improve the environment in exploitation and after exploitation, guarantee that the national safety or health shall not be severely affected and shall make appropriate compensations in case of casualty in terms of life and assets of the population and of the public;
5. Record and report results of mining activities at each stage and expenses at each stage in detail and in due time;
6. Ensure training and the development of skills for Lao workers, including guarantee their welfare, health and security;
7. Keep accounts as provided by the Enterprise Accounting Law;
8. Properly perform their custom, tax and other obligations related to mining activities in full and in due time;
9. In case of road construction for mining activities, such roads shall be open for use by others;
10. Strictly abide by the Laws of the Lao PDR.

Operators of manual mining activities as occupation or not shall have the obligation to pay taxes in compliance with the law and the obligation to preserve the environment and strictly abide by the laws of the Lao PDR.

Article 43 Relationship with the Local Administrative Authorities

In the performance of mining activities in each stage, the mining entrepreneurs shall contact the local administrative authorities of their area for facilities in conducting mining activities.

Article 44 Termination of Mining Activities

Mining activities shall terminate in the following conditions:

1. Expiration of the term of mining activities in any or all stages;
2. Voluntary termination of mining activities before term,
3. Withdrawal of mining license due to severe breach to contracts or laws of the Lao PDR.

Article 45 Technical and Technological Standards

In the performance of mining activities, the mining concession licensee shall apply technique and technology meeting international standards recognized by the Ministry of Industry-Handicraft and other concerned agencies with the view of ensuring efficiency, safety and environmental protection.

Article 46 Relinquishment and Improvement of Exploitation Area

Mining licensees shall relinquish mining areas to the Government, including leased land in the following cases:

1. The use of such land is no longer required;
2. Withdrawal of mining license due to the non-performance of contracts or severe violations of the laws of the Lao PDR;
3. Expiration of mining license.

Relinquishment of mining area shall be notified to the concerned agencies within the determined timeframe.

In case of changes to the ground, prior to relinquishing such area, it shall be improved and rehabilitated: filled, graded, cleared from chemicals and planted with trees in compensation.

Article 47 Compensation

Mining operators shall perform the following compulsory expenses:

1. Resettlement of the population from the mining and ensure their livelihood;
2. Compensation of damage to land, constructions and crops;

3. Rental of land;
4. Environmental protection;
5. Improvement and rehabilitation of the mining area.

Such funds shall be included in the capital of the mining projects.

CHAPTER VI MINING ACTIVITIES MANAGING AND CONTROLLING AGENCIES

Article 48 Mining Management and Control Agencies

Mining management and control agencies include:

1. Ministry of Industry-Handicraft;
2. Province, Municipality or special zone Industry-Handicraft Services;
3. District Industry-Handicraft Offices;
4. Village administrative authorities.

Article 49 Rights and Tasks of the Ministry of Industry-Handicraft

In the management and control of mining activities, the Ministry of Industry-Handicraft shall have the following rights and tasks:

1. Assist the Government in elaborating strategic plans pertaining to minerals into detailed plans, project and mining management and control regulations;
2. Conduct scientific and technical research on geology and mining; Establish a network of national statistics and information center related to geology and mining;
3. Coordinate with other parties and local administrative authorities concerned;
4. Study and present technical opinions on mining activities;
5. Issue prospecting, exploration, exploitation or mineral processing licenses to investments licensed by the Government;
6. Train, foster and upgrade geological-mining skills among Lao personnel and workers;
7. Grant technical approval on the export or import of minerals in compliance with the regulations of the concerned ministries;
8. Control geological-mining activities;
9. External cooperation in geology-mining.

Article 50 Rights and Tasks of the Industry-Handicraft Services

In the management and control of mining activities, the provincial, municipal and special zone Industry-Handicraft Services shall have the following rights and tasks:

1. Act as direct staff to the Ministry of Industry-Handicraft and the provincial, municipal or special zone administration in guiding and managing mining activities under their responsibilities;
2. Coordinate with other sectors and concerned administrative authorities;
3. Study and present opinions on mining activities within their area of management;
4. Issue licenses and register manual mining activities as occupation;
5. Control mining activities within their area of management;
6. Perform the rights and tasks pertaining to mining activities as assigned by the Ministry of Industry-Handicraft.

Article 51 Rights and Tasks of the District Industry-Handicraft Offices

In the management and control of mining activities, District Industry-Handicraft Offices shall have the following rights and tasks:

1. Act as staff to the provincial, municipal or special zone Industry-Handicraft Services and the District administrative authorities in the implementation of plans, projects, regulations and instructions of the provincial, municipal or special zone Industry-Handicraft Services in relation with mining activities;
2. Coordinate with other sectors and concerned administrative authorities;
3. Authorize and control non-occupational manual mining activities within their districts;
4. Provide facilities to lawful mining activities;
5. Perform other rights and tasks on mining activities as assigned by the Industry-Handicraft Services.

Article 52 Rights and Tasks of the Village Administrative Authorities

In monitoring mining activities, the village administrative authorities shall have the following rights and tasks:

1. Monitor and control occupation or non-occupational manual mineral exploitation within the village area;
2. Submit ad report mining activities affecting the rights and interest of the population, fine traditions and laws;
3. Preserve and report mineral outcrops within the village area;
4. Provide facilities to mining activities within the village area;

5. Coordinate with mining parties in the preservation of order within the village area;
6. Control the performance of their obligations by occupation or non-occupational manual mineral exploitation.

Article 53 Control of Mining Activities

The **control of mining activities** refers to the monitoring of mining activities throughout the stages of prospection, exploration, exploitation, processing, transaction, including after the mining activities' termination to ensure the proper implementation of mining operators of contracts, the Mining Law and other laws of the Lao PDR.

The main content of control includes:

1. Implementation of mining procedures;
2. Performance within the timeframe;
3. Elaboration of feasibility studies;
4. Implementation of outlined plans;
5. Implementation of occupational safety;
6. Implementation of environmental impact mitigation measures;
7. Necessary documents for the management of mining activities;
8. Assets of the mining projects;
9. Implementation of obligations and other regulations pertaining to mining activities.

The control of mining activities shall be coordinated with concerned agencies and the local administrative authorities.

Article 54 Mining Activities Control Procedures

The control of mining activities may take several forms as follows: regular control, control with or without advance notification depending on the case.

Regular control refers to control regularly performed and at fixed times which shall be once a year at least.

Control with advance notification refers to control deemed necessary whereby the mining project is given advance notification.

Sudden control refers to control performed the mining project being given any advance notification.

Control may include both documentary control and field control.

CHAPTER VII ARBITRATION, AWARDS AND SANCTIONS

Article 55 Arbitration

Where disputes occur between mining contract parties, a settlement shall be sought. Otherwise, the contract parties may submit the matter in dispute to the Arbitration Committee or the court of the Lao PDR for further proceedings.

In case of disputes between employers and employees, the Labor Law of the Lao PDR shall apply.

In case of disputes between foreign investors or between a foreign investor and a Lao investor, Article 21 of the [Law on the Promotion and Management of Foreign Investment](#) in the Lao PDR shall apply.

Article 56 Awards

Persons or organizations with prominent achievements in the management, preservation of mineral resources with efficiency and in compliance with the laws of the Lao PDR will be awarded and granted benefits outlined by the Government: credit policy, extension of mining license and others.

Article 57 Sanctions

Persons or organizations breaching this Law shall be subject to measures such as education, fines or criminal penalties depending on the nature of the offense. In addition, sentences may be imposed.

Article 58 Educational Measures

Persons or organizations committing minor or severe first offense under this Law, such as failure to report in due time, failure to meet technical requirements in works, failure to obtain mining licenses for occupational or non-occupational manual mineral exploitation, shall be warned and educated.

Article 59 Fines

Persons or organizations breaching this Mining Law through any of the following act:

1. Conducting mining activities without license or with an expired license;
2. Improperly transacting minerals in accordance with the regulations;
3. Unduly leasing or transferring mining licenses;
4. Untruthful reports;
5. Breach of the mining principles;
6. Failure to apply environmental impact mitigation measures, disposal of unrecycled waste water, water containing poisonous substances affecting the population's health;
7. Failure to apply technical and labor safety measures;
8. Damage caused to mineral sources due to their own fault;
9. Failure to extend cooperation to management and control officers

Shall be fined from Kip five hundred thousand to Kip three million in case of first offense;

From Kip three million one hundred thousand to Kip five million in case of second offense;

From Kip five million and one hundred thousand to Kip ten million in case of third offense.

Offenses mentioned under [Article 58](#) committed over three times shall be fined from Kip fifty thousand to Kip two hundred thousand.

In case of occupational or non-occupation manual mineral exploitation, fines from Kip ten thousand to Kip twenty thousand shall be imposed.

Article 60 Criminal Sanctions

In case violations of the Mining Law represents a criminal offenses: falsification of mining licenses, failure to apply technical safety measures causing death or injuries shall be sanctioned as provided by the Criminal Law.

Civil servants committing criminal offices: receiving bribes, abuse of power, forging documents, abusing their position for personal interest from mining activities shall be punished as provided by the Criminal Law.

**CHAPTER VIII
FINAL PROVISIONS**

Article 62 Implementation

The Government of the Lao People's Democratic Republic shall implement this Law.

Article 63 Effectiveness

This Law shall become effective within ninety days after its promulgation by the President of the Lao People's Democratic Republic.

Persons and organizations receiving mining licenses prior to this Law's date of effectiveness shall be entitled to continue their mining activities.

Where contracts have been signed but inappropriately with this Law, the concerned agencies shall be notified within one hundred and twenty days to consider their amendments from this Law's date of effectiveness.

Any regulations and decrees inconsistent with this Law are superseded.

Vientiane, 12/04/1997

President of the National Assembly
Saman Vignaket

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOREIGN INVESTMENT MANAGEMENT COMMITTEE

Policy Guidelines For Foreign Investment In the Lao People's Democratic Republic

The Government of the Lao People's Democratic Republic has officially authorized and encouraged private direct investment since July, 1988, when enactment of the Law on Foreign Investment marked the opening of the nation's economic doors. That policy has now been unequivocally reaffirmed by the National Assembly's adoption of the new Constitution on August 15, 1991.

As declared in Article 14 of the Constitution: The State protects and develops all forms of State, collective and individual ownership, including the private ownership of domestic and foreign entrepreneurs who have invested in the Lao People's Democratic Republic.

The State encourages all economic sectors (public and private) to compete and cooperate with one another in expanding their production and business. All such sectors are equal before the law.

Lao PDR seeks foreign investment for the overall goal of constantly improving the well-being of the nation's multi-ethnic people. Within this framework, specific foreign investment policy objectives include:

- (1) Attracting private finance from diversified sources, especially in convertible currencies, in order to contribute to the establishment of productive enterprises;
- (2) Transferring appropriate technology;
- (3) Creating employment;
- (4) Promoting exports and access to foreign markets; and
- (5) Generating Government revenues, in the form of taxes, duties, royalties, land rents, equity participation, and privatization proceeds, as applicable.

Foreign investment in Lao PDR is welcome in a full range of legal form, including wholly foreign-owned enterprises, joint ventures and business by contract. Each investor is free to choose its optimal form.

The Government and the law of the Lao PDR assure foreign investors of:

- (1) The right to repatriate capital and dividends;
- (2) Protection against uncompensated nationalization or expropriation of their investments; and
- (3) The right to own personal property and to use and transfer real property in Lao PDR.

Foreign investors and investments also enjoy the protection of the new Lao PDR Constitution and of the rapidly emerging framework of commercial laws. Specific promotional facilities and incentives include : a "1-stop service center" for foreign investors; assistance with business visas and other travel arrangements; and the right to import machinery, materials, other inputs and spare parts for investment projects.

Foreign investments are welcome in all sectors of the Lao economy, and in all geographic areas, subject only to considerations of national security. Especially welcome are investments which promote Lao exports, generate hard currency earnings, maximize use of domestic resources (human and material), and train Lao nationals in relevant skills. When making sectoral choices, prospective investors are encouraged to pay particular attention to the perceived comparative advantage of Lao investments in hydro generation, minerals extraction and processing agribusiness, wood product productions, export-oriented light manufacturing, small-scale tourism, and financial and transport services. Attention is also invited the substantial portfolio of state-owned Enterprises currently being privatized by the Lao Government.

Foreign investments in Lao PDR will be required to demonstrate respect for, and protection of, the natural environment, Lao cultural and social values, and workers health and safety.

***Foreign Investment Management Committee
Luang Prabang Rd., Vientiane, Lao PDR.
Phone: (856-21) 216 662-4, 217 005, 216 691-2
Fax: (856-21) 215 491***

Decree of the Council of Ministers pertaining to the Management and Operations of Commercial Banks and Financial Institutions

- based on the law concerning the creation of the Bank of the Lao PDR number 04/90/SPA dated July 10 1990 and promulgated by Presidential decree number 39/PL dated July 27 1990;

- based on the proposal of the Governor of the Bank of the Lao PDR;

the President of the Council of Ministers decides:

Part I

Definitions of Banking Business

Article 1: Commercial Banks are enterprises that conduct the banking business as their normal professional activity:

- accept different types of deposits from the general public;
- make different types of loans;
- offer a variety of payment services to their customers;
- offer other services to their customers: foreign exchange; placement of currencies to gain interest or the clearing of customers payments at the bank or other financial institutions domestically or abroad; buying and selling and the safe custody of securities, bonds, documents and other valuables.

Article 2: There are three types of commercial banks: development banks, commercial banks and specialised commercial banks which can be state owned, joint ventures, foreign owned and joint ventures with foreigners etc....

Specialised commercial banks can be agricultural banks, industrial banks and banks which operate in specific sectors.

No person or legal entity Other than a bank may conduct banking business and name itself or advertise itself as a bank in Lao or any foreign language in such a way as to make people believe that it is a bank.

The Bank of the Lao PDR has the right to investigate any person or legal entity that it suspects is conducting the banking business illegally and it has the right to prosecute such person or entity in the courts.

Article 3: Financial institutions are enterprises which conduct similar business to banks:

- mobilise funds from the public by way of issue of shares or
- make loans in different forms,
- carry out foreign exchange Operations;
- provide leasing or purchase finance;
- act as a middle man to seek funds for large investment;
- Placement of funds with banks and other financial institutions;

Financial institutions are not authorised to mobilise deposits from the general public in the way of banks nor may they clear funds for their customers in the manner of banks.

Financial institutions in the Lao PDR comprise:

- The State Treasury and Pension Funds;
- Insurance Companies;
- Finance Companies;
- Credit Cooperatives and others.

The State Treasury, Pension Funds and Insurance Companies operate under the laws of the Lao PDR and the specific regulations concerning their operations.

The other financial institutions must operate under the provisions of this decree and must abide by the Bank of the Lao PDR Act.

Article 4: Licensed representative offices of foreign commercial banks or financial institutions in the Lao PDR may provide only certain services for the commercial banks and financial institutions that are their customers, They are not authorised to conduct banking business or carry out activities similar to banking business in the Lao PDR.

Article 5: Commercial banks and different types of financial institutions that are established in the Lao PDR are legal entities having equal rights before the law and enjoy the protection of the law and operate according to their respective roles to compete for the business of their customers and must respect the laws, orders and regulations of the Lao PDR and other policies set out by the Government.

Part II

Establishment of Banks and Financial Institutions

Article 6: Individuals or legal entities who wish to establish commercial banks or financial institutions in the Lao PDR must make written application and must file complete and accurate documents as laid down by the Bank of the Lao PDR.

An applicant who wishes to establish a commercial bank shall satisfy the following basic conditions:

- shall have adequate capital as determined periodically by the Bank of the Lao PDR;
- shall have the technical competence and financially qualified staff as determined by the Bank of the Lao PDR;
- shall have credibility in the eyes of the public;
- and shall have a qualified management team with ability and experience in the banking business.

Only the Bank of the Lao PDR is authorised to grant or refuse a license to an applicant for establishing a bank or financial institution.

Article 7: The establishment of a joint venture bank with a foreign partner, the branches of foreign commercial banks or financial institutions in the Lao PDR shall be in accordance with the Foreign Investment Code of the Lao PDR and shall have the approval of the Governor of the Bank of the Lao PDR and have the permission of the Government of the Lao PDR.

The Bank of the Lao PDR has the right to ask the foreign bank that wishes to establish a branch or have a joint venture bank in the Lao PDR shall be bank with a sound financial position and lawful operations in the banking business in its own country.

Domestic commercial banks that wish to establish their branches in the Lao PDR shall obtain the permission of the Bank of the Lao PDR and if they wish to open branches overseas they shall have the approval of the Governor of the Bank of the Lao PDR and the permission of the Government of the Lao PDR. Branches of foreign commercial banks or financial institutions in the Lao PDR are not authorised to open any other branches in the Lao PDR.

Article 8: After being granted a license officially, the applicant shall bring the capital for registration of the establishment of a commercial bank, financial institution or branch of a foreign bank or financial institution within the Lao PDR. The capital shall be transferred to a deposit account in its name at the Bank of the Lao PDR within a period of 90 days.

Beyond the above mentioned period, the Bank of the Lao PDR is authorised to cancel the license or to allow a further defined time in which to bring in the capital for registration.

Part III

Capital of Commercial Banks and Financial Institutions

Article 9: The capital of commercial banks and financial institutions comprises:

9.1 Paid up capital: It is the capital provided at the establishment of the commercial bank or financial institution. The Bank of the Lao PDR shall determine the initial ratio that must be kept in the reserve fund or determine the ratio of the aforesaid capital so that the concerned commercial bank and financial institution can use it to operate their business.

The co-investors in the establishment of a commercial bank or financial institution are called "partners". Partners have the right to sell or transfer their shares to others. Partners have the right to withdraw their own shares in the case of liquidation of the commercial bank or financial institution and after clearing all financial obligations. A bank or financial institution, being a joint venture with a foreigner, shall carry out the terms of the agreement made at the time of its establishment.

9.2 A capital increase: The commercial bank or financial institution can increase its capital by extending its shares to the public. The co-investors in the extension of the shares are called "shareholders". Shareholders may withdraw their holdings in accordance with the terms and conditions established at the time of the extended issue, in conformity with the decision of the Board of Directors of the concerned commercial bank or financial institution.

9.3 If owners of the shares (partners and shareholders) should die, become insane, or terminate their legal rights, the beneficiary shall take over the concerned shares with their respective rights and obligations.

Part IV

: Organisation of Banks and Financial Institutions

Article 10: The Board of Directors:

10.1 A commercial bank and a financial institution established in the Lao PDR, except a branch of a foreign bank and a representative office of a foreign bank or foreign financial institution, shall have a Board of Directors.

The Board of Directors is the organ which has the full power to decide all matters of a commercial bank or a financial institution except for some rights reserved for the general meeting of the shareholders.

10.2 The Board of Directors determines regulations and monitors the business activities of the management team of a commercial bank or a financial institution.

10.3 The members of the Board of Directors consist of at least five persons or at most fifteen persons whom the general meeting of the shareholders shall elect or remove from office. The Governor of the Bank of the Lao PDR shall appoint or remove from office the Chairman, the Vice Chairman and the members of the Board of Directors and the management team of a state owned commercial bank. The members of the concerned Board of Directors shall be selected from different concerned sectors, from individuals who are businessmen or qualified people and professionals with experience in financial matters and banking and who have never been indicted for offenses affecting their credibility in the business and political arena in general.

In the case of the death of a member of the Board of Directors or his resignation in between two general meetings of the shareholders, the Board of Directors can appoint someone to the Board to replace him temporarily.

10.4 At least one third of the members of the Board of Directors shall be Lao citizens who are normally resident in the Lao PDR.

10.5 Members at a meeting of the Board of Directors of a non state-owned commercial bank shall elect its Chairman and its Vice Chairman from amongst the Board members or remove them from office. The Chairman and the Vice Chairman of the Board of Directors have the same term in office as their membership of the Board and can be reelected.

10.6 Normal meetings of the Board of Directors shall be held every quarter (every three months of the year) and extraordinary meetings can be held at any time when necessary at the request of the Chairman of the Board or when requested by at least two thirds of the Board members. A quorum for valid resolutions at meetings of the Board shall be at least half the members thereof.

10.7 Decisions of the Board shall be taken by a majority of the members present and voting. In the case of a tie, the Chairman shall have a casting vote. Minutes shall be kept of all decisions of the Board of Directors and circulated to the members after the meeting for signing.

10.8 The proceedings of the Board of Directors shall be in accordance with the regulations of the commercial bank or financial institution which do not conflict with this decree. The general meeting of the shareholders shall approve such regulations. Regulations approved by resolutions of the general meeting of the

shareholders shall be sent to the Governor of the Bank of the Lao PDR for promulgation and appropriate registration to be valid.

10.9 The Chairman, Vice Chairman and all members of the Board of Directors who are given the power by the general meeting of the shareholders to manage a commercial bank or a financial institution have the full right to decide upon matters of that commercial bank or financial institution and shall be responsible for the interests of the shareholders thereof and the Chairman, Vice Chairman and other empowered members shall not take any opportunity to further their own interests.

The Chairman, Vice Chairman and other members of the Board of Directors shall answer the questions of the shareholders at the shareholders meeting. In the case of loss the Bank of the Lao PDR has the right to call the Chairman, Vice Chairman and members of the board of Directors with the management team of a commercial bank and financial institution for investigation.

10.10 The appointment or election of members of the Board of Directors of a commercial bank or financial institution with a foreign partner shall be in conformity with the laws and regulations of the Lao PDR and shall be in accordance with the agreement of the establishment signed with the foreign partner.

Article 11: Management Team.

11.1 The Chairman and Vice Chairman of the Board of Directors are the Managing Director and Deputy Managing Director of a state owned commercial bank and state-owned financial institution. The appointment and removal from office of the Managing Director and his team shall be conducted in accordance with the provisions of Article 10 section 10.3 of this decree.

11.2 The Managing Director of a joint venture bank, a bank with a foreign partner etc.. shall be appointed and removed from office by the Board of Directors. The Board of Directors shall determine the salaries, rights and functions of the concerned Managing Director.

11.3 The Managing Director has the authority and task to manage the given business delegated by the Board of Directors to whom he shall be responsible. The Deputy Managing Director shall assist the Managing Director and carry out the work given to him by the Managing Director. There may be a small or large number of Deputy Managing Directors depending upon the tasks and on the decision of the Board of Directors.

11.4 The Managing Director is the representative of a commercial bank or financial institution to make contracts with third parties and has the right to

present disputes to the Court, and pursue the dispute in the Court to protect the interest of the commercial bank or financial institution within the authority delegated to him by the Board of Directors.

11.5 The Managing Director shall employ or dismiss the officers, promote, reward and admonish those officers within his delegated authority and in conformity with the Labor Law of the Lao PDR.

11.6 The Managing Director shall determine the appropriate units within the organisational structure of a commercial bank or financial institution and the respective placing of employees therein, subject to the approval of the Board of Directors.

Article 12: General Meetings of Shareholders.

There are two types of shareholders general meetings such as the ordinary general meeting and the extraordinary general meeting.

12.1 An extraordinary general meeting shall be held to vote on:

- the approval of amendment of the statutes of a commercial bank or financial institution.
- the election of members of the Board of Directors and their removal from office.
- the liquidation or transfer of activities to another party.
- consideration of important and urgent problems which would affect the efficiency of a commercial bank or financial institution.

Resolutions of an extraordinary general meeting are valid in the presence of at least two thirds of the owners of the shares or their valid representatives.

12.2 An ordinary general meeting shall be held once a year to hear the annual report of the Board of Directors in the presence of at least one fourth of the owners of the shares or their valid representatives. In the absence of one fourth of the share owners another meeting shall be called. If less than one fourth of the share owners is present at the second meeting then the proceedings and decisions of the meeting shall nevertheless be valid.

12.3 Advance notice shall be given for each ordinary or extraordinary general meeting to the owners of the shares. The Chairman of the Board of Directors or a half of the shareholders have the right to call for a general meeting of

shareholders. The chairman of a meeting shall be appointed by the participants at the shareholders' general meeting.

12.4 Resolutions of a shareholders' general meeting shall be adopted by a simple majority of the votes at the meeting. Votes shall be cast in line with the number of shares held.

Article 13: Restrictions imposed on and obligations required of 8 member of the Board of Director's, the Management Team and officers of a commercial bank or financial institution.

13.1 The Chairman, Vice Chairman and a member of a Board of Directors and the Management Team of a commercial bank or financial institution shall not borrow from his own commercial bank or financial institution or obtain a guarantee from his own commercial bank or financial institution so that he may borrow from another party or to misuse his position to issue his personal guarantee to enable other persons to borrow from his own commercial bank or financial institution.

13.2 Every contract between a commercial bank or financial institution and any member of the Board of Directors shall have the advance approval of the Board of Directors.

13.3 Any officer of a commercial bank or financial institution who wishes to accept any other second employment shall obtain the advance approval of the Chairman of the Board of Directors.

13.4 The appointment of a member of the Board of Directors, Management Team or any officer who is convicted of murder, fraud, embezzlement, corruption or who has been made bankrupt, or who has broken a regulation pertaining to monetary management, shall be terminated immediately.

Part V

Activities of a Commercial Bank or Financial Institution.

Article 14: Activities of a commercial bank.

14.1 Accepting deposits:

Lao or foreign citizens or legal entities may open accounts with a commercial bank established in the Lao PDR. Those who apply to open a deposit account shall complete documents as determined by the commercial bank.

An account holder may authorise another person to make deposits to the holder's account and to make withdrawals therefrom. However, that authority shall be in writing bearing the valid signature of the account holder and that of his delegate.

A commercial bank is authorised to mobilise deposits of different types such as a demand deposit, a savings deposit, a time deposit and other types of deposit.

A commercial bank shall guarantee the withdrawals of its customers in accordance with the agreement for that type of deposit and shall keep information on a customer's account confidential.

Disclosing information about a customer's account is considered a criminal offense and a customer has the right to present a case to the Court for compensation, except for the case mentioned in Article 16 paragraph 1 of the Bank of the Lao PDR Act.

A commercial bank may determine the rate of interest it pays on deposits within the guidelines set by the Bank of the Lao PDR periodically.

A commercial bank shall pay interest to its depositors in accordance with the agreement applying thereto.

14.2 Credit Operations:

A commercial bank may grant credit from its paid up capital, from its deposits, borrowed funds and others. In the case of an insufficiency of funds a commercial banks may request an additional loan from the Bank of the Lao PDR in the form of an advance, or sell commercial bills in accordance with the conditions and regulations of the Bank of the Lao PDR.

The types of credit given by a commercial bank are :

- temporary advance,
- overdraft,
- day today loans
- short term loan (one year or less)
- medium term loan (one to three years)
- long term loans (more than three years)
- the opening of a letter of credit (L/c) for export and import with foreign countries and etc..

Loans shall be evidenced by contracts between a commercial bank and its customer and the parties shall perform the obligations in full contained therein. The provisions of the contract shall include certain basic elements, such as:

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- (1) the amount of the loan,
 (2) the purpose and the draw down period
 of the loan, (3) the maturity,
 (4) the repayment conditions,
 (5) the interest rate,
 (6) penalties,
 (7) the security,
 (8) events causing repayment to be accelerated.

A commercial bank may determine the interest rate on a loan within the guidelines set by the Bank of the Lao PDR.

A commercial bank may request a borrower to provide security for his loan in an amount which it deems suitable. That security shall be registered with the authorised organisation.

A commercial bank may issue a loan guarantee for its customer, discount his commercial bills and etc...

14.3 Other Services:

A commercial bank may charge commissions and fees for transferring money, clearing items, foreign exchange, issue of letters of guarantee etc...as it may periodically determine.

A commercial bank may buy and sell foreign exchange or establish foreign exchange bureau upon the conditions expressed in the Council of Ministers' decree governing the Management of Foreign Exchange and Precious Metals and under the control of the Bank of the Lao PDR.

Article 15: -With regard to the activities of a financial institution, a finance company, a credit cooperative and etc., the Bank of the Lao PDR shall establish separate regulations for the management of each type of those financial institutions.

Article 16: The activities of a credit cooperative.

16.1 A credit cooperative is an enterprise formed by a group of people who operate to mobilise funds by selling shares (credit shares) to the public.

16.2 A credit cooperative shall use its mobilised funds to make loans to customers in different forms or to deposit them with a commercial bank to earn interest. A credit cooperative may request a borrower for security to guarantee the amount of his loan in the same manner as a commercial bank.

16.3 A credit cooperative may establish a foreign exchange bureau provided it gets a license from the Bank of the Lao PDR.

16.4 A credit cooperative may not mobilise funds from the public in excess of twenty times its paid up capital and may not make loans in excess of its net worth plus the mobilised funds. A credit cooperative shall comply with Article 17 of this decree.

16.5 A credit cooperative shall pay interest for mobilised funds and charge interest on loans in accordance with the guidelines set out by the Bank of the Lao PDR.

Part VI

Supervision of A Commercial Bank and A Financial Institution

Article 17: All activities of a commercial bank and a financial institution (except the State Treasury, Pension Fund, Insurance Companies) shall be under the supervision and control of the Bank on the Lao PDR.

A commercial banks and a financial institutions shall maintain the different ratios set out by the Bank of the Lao PDR.

- total reserves ratio;
- liquidity ratio;
- required reserve ratio;
- loan/deposit ratio;
- agricultural lending ratio;
- as set out in the foreign exchange management decree; and etc....

A commercial bank and a financial institution shall send a statement of its financial position to the Bank of the Lao PDR each month or at the request of the Bank of the Lao PDR and that statement shall be in the form and manner required by the Bank of the Lao PDR.

The Bank of the Lao PDR may carry out on-site examination whenever it deems fit.

In the event of a change, in the amount of the registered capital, of the Chairman of the Board of Directors or the Managing Director, a commercial bank or financial institution shall report such change immediately to the Bank of the Lao PDR.

A commercial bank and a financial institution, or a person who is in breach of any law, decrees, regulations of the Lao PDR, and any of the provisions

mentioned above shall be warned and/or fined and/or have the business license withdrawn or in extreme cases taken to Court and prosecuted according to the law.

Article 18: Auditors of a commercial bank and a financial institution.

- A commercial bank established in the Lao PDR shall have an auditor. The auditor shall be appointed by the general meeting of the shareholders upon the recommendation of the Board of Directors and shall be approved by the Bank of the Lao PDR.

The function of the auditor is to check, review and verify the accuracy of the financial accounts and make recommendations thereon for each financial year. The auditor has the right to examine every document that he needs to fulfill his duties. At the end of each financial year the auditor shall make a report of his assessment of the accounts for that year to the general meeting of the shareholders for approval.

- The Board of Directors of a commercial bank or financial institution shall establish an audit committee to verify the accounts, the verification shall be performed quarterly, yearly or if it deems necessary it may do so on any occasion.

The audit committee shall be selected from a list of accounting experts whose qualifications have been approved by the Bank of the Lao PDR.

The audit committee has the right to request, verify all documents it deems necessary but shall maintain the confidentiality of any documents and data that the committee receives and shall report to the Board of Directors and to the Bank of the Lao PDR. This report shall be signed by two members of the Board of Directors acknowledging the findings thereof.

- Bank of the Lao PDR may ask a commercial bank and a financial institution to make additional auditing by the external auditors at the expense of the commercial bank and financial institution.

Part VII

Responsibilities towards Customers and Employees

Article 19: A commercial bank and a financial institution shall be responsible for the business operations and shall be responsible for the repayment of deposits to depositors and for the full repayment of credit shares to their customers. The customers who suffer any losses may seek compensation by legal process.

Article 20: A commercial bank and a financial institution shall pay salaries according to its revenues and according to the regulations approved by the Board of Directors. The regulations regarding the salaries paid by a commercial bank and a financial institution shall be in accordance with wage laws of the Lao PDR.

Part VIII

The Distribution of Profits and Losses

Article 21: The net profit for the year is the profit after the payment of taxes, deduction of provisions for bad debts. Net profit will be allocated to the establishment of different kinds of reserves in accordance with the regulations of the Bank of the Lao PDR, reserves for future expansion, staff bonus funds, welfare funds; the remaining amount may be distributed among the shareholders in accordance with the decision of the Board of Directors.

Article 22: In the event of losses, a commercial bank and a financial institution shall use its reserve funds to cover its losses.

The Bank of the Lao PDR may intervene in the activities of a commercial bank or a financial institution in the cases where it deems necessary.

Part IX

Liquidation of a Commercial Bank and a Financial Institution

Article 23: Liquidation of a institution shall take place in the following circumstances:

- on the decision of the shareholders general meeting;
- in the case of losses that prevent the future operations;
- by order of the Bank of the Lao PDR or the Court to cease operations because of malfeasance;
- upon the sale or transfer to another party.

Whatever the circumstances for the liquidation of a commercial bank and a financial institution, the Bank of the Lao PDR shall make it known to the public and set up a special examination committee to investigate and evaluate the assets and liabilities of the commercial bank and financial institution to repay the creditors. The remaining assets shall be distributed to- the partners and shareholders in accordance with the decision of the Board of Directors. Where a commercial bank and a financial institution has been registered as a partnership having unlimited liability, the partners are responsible to the extent of their individual assets for the payment of the creditors.

Part X

Final Part

Article 24: For the implementation of this decree the Bank of the Lao PDR has the right to give a license to establish a commercial bank or a financial institution including the issuance of regulations for the stable and efficient conduct by a commercial bank and a financial institution of its business, the Bank of the Lao PDR has the right to supervise and regulate the activities of a licensed commercial bank and a financial institution.

Article 25: This decree is valid from the date of signature and will replace any previously issued decrees, regulations, that may conflict with this decree. The Governor of the Bank of the Lao PDR, Ministers, Heads of Provinces and Municipalities have the responsibility for the implementation of this decree according to their respective roles.

The Bank of the Lao PDR shall make a detailed guideline for the implementation of this decree. If any problems are encountered in the implementation of this decree, the Governor of the Bank of the Lao PDR has the responsibility to study and propose amendments to the Council of Ministers.

Vientiane
date.....

Prime Minister



LAO PEOPLE'S DEMOCRATIC REPUBLIC

Peace Independence Democracy Unity Prosperity

Law on the Promotion and Management of Foreign Investment in the Lao People's Democratic Republic

Section One: General Provisions

Article 1: The Government of the Lao People's Democratic Republic encourages foreign persons, either individuals or legal entities, to invest capital in the Lao People's Democratic Republic (hereinafter "the Lao PDR" on the basis of mutual benefit and observance of the laws and regulations of the Lao PDR. Such persons hereinafter shall be referred to as "foreign investors".

Article 2: Foreign investors may invest in and operate enterprises in all fields of lawful economic activity such as agriculture and forestry, manufacturing, energy, mineral extraction, handicrafts, communications and transport, construction, tourism, trade, services and others.

Foreign investors may not invest in or operate enterprises which are detrimental to national security, the natural environment, public health or the national culture or which violate the laws and regulations of the Lao PDR.

Article 3: The property and investments in the Lao PDR of foreign investors shall be fully protected by the laws and regulations of the Lao PDR. Such property and investments may not be requisitioned, confiscated or nationalized except for a public purpose and upon payment of prompt, adequate and effective compensation.

Section two: Forms of foreign investment

Article 4: Foreign investors may invest in the Lao PDR in either of two forms:

- (1) A Joint Venture with one or more domestic Lao investors; or
- (2) A Wholly Foreign-Owned Enterprise.

Article 5: A Joint Venture is a foreign investment established and registered under the laws and regulations of the Lao PDR which is jointly owned and operated by one or more foreign investors and by one or more domestic Lao investors.

The organization, management and activities of the Joint Venture and the relationship between its parties shall be governed by the contract between its parties and the Joint Venture's Articles of Association, in accordance with the laws and regulations of the Lao PDR.

Article 6: Foreign investors who invest in a Joint Venture must contribute a minimum portion of thirty percent (30%) of the total equity investment in that Venture. The contribution of the Venture's foreign party or parties shall be converted in accordance with the laws and regulations of the Lao PDR into Lao currency at the exchange rate then prevailing on the date of the equity payment(s), as quoted by the Bank of the Lao PDR.

Article 7: A wholly Foreign-Owned Enterprise is a foreign investment registered under the laws and regulations of the Lao PDR by one or more foreign investors without the participation of domestic Lao investors. The Enterprise established in the Lao PDR may be either a new company or a branch or representative office of a foreign company.

Article 8: A foreign investment which is a Lao branch or representative office of a foreign company shall have Articles of Association which shall be consistent with the laws and regulations of the Lao PDR and subject to the approval of the Foreign Investment Management Committee of the Lao PDR.

Article 9: The incorporation and registration of a foreign investment shall be in conformity with the Enterprise Decree of the Lao PDR.

Section Three: Benefits, Rights and Obligations of Foreign Investors

Article 10: The Government of the Lao PDR shall protect foreign investments and the property of foreign investors in accordance with the laws and regulations of the Lao DPR. Foreign investors may lease land within the Lao PDR and transfer their leasehold interests; and they may own improvements on land and other moveable property and transfer those ownership interests.

Foreign investors shall be free to operate their enterprises within the limits of the laws and regulations of the Lao PDR. The Government shall not interfere in the business management of those enterprises.

Article 11: Foreign investors shall give priority to Lao citizens in recruiting and hiring their employees. However, such enterprises have the right to employ skilled and expert foreign personnel when necessary and with the approval of the competent authority of the Government of the Lao PDR.

Foreign investors have an obligation to upgrade the skills of their Lao employees, through such techniques as training within the Lao PDR or abroad.

Article 12: The Government of the Lao PDR shall facilitate the entry into, travel within, stay within, and exit from Lao territory of foreign investors, their foreign personnel, and the immediate family members of those investors and those personnel. All such persons are subject to and must obey the laws and regulations of the Lao PDR while they are on Lao territory.

Foreign investors and their foreign personnel working within the Lao PDR shall pay to the Lao government personal income tax at a flat rate of ten percent (10%) of their income earned in the Lao PDR.

Article 13: Foreign investors shall open accounts both in Lao currency and in foreign convertible currency with a Lao bank for foreign bank established in the Lao PDR.

Article 14: In the management of their enterprises, foreign investors shall utilize the national system of financial accounting of the Lao PDR. Their accounts shall be subject to periodic audit by the Government's financial authorities in conformity with the applicable Lao accounting regulations.

Article 15: In conformity with the law and regulations governing the management of foreign exchange and precious metals, foreign investors may repatriate earnings and capital from their foreign investments to their own home countries or to third countries through a Lao bank or foreign bank established in the Lao PDR at the exchange rate prevailing on the date of repatriation, as quoted by the Bank of the Lao PDR.

Foreign personnel of foreign investments may also repatriate their earnings, after payment of Lao personal income taxes and all other taxes due.

Article 16: Foreign investments subject to this law shall pay a Lao PDR annual profit tax at a uniform flat rate of twenty percent (20%), calculated in accordance with the provisions of the applicable laws and regulations of the Lao PDR.

Other Lao taxes, duties and fees shall be payable in accordance with the applicable laws and regulations of the Lao PDR.

For foreign investments involving natural resources exploitation and energy generation, sector-specific taxes and royalties shall be prescribed in project agreements entered into between the investors and the Lao Government.

Article 17: Foreign investments shall pay a Lao PDR import duty on equipment, means of production, spare parts and other materials used in the operation of their investment projects or in their productive enterprises at a uniform flat rate of one percent (1%) of their imported value. Raw materials and intermediate components imported for the purpose of processing and then re-exported shall be exempt from such import duties. All exported finished products shall also be exempted from export duties.

Raw materials and intermediate components imported for the purpose of achieving import substitution shall be eligible for special duty reductions in accordance with the Government's applicable incentive policies.

Article 18: In highly exceptional cases and by specific decision of the Government of the Lao PDR, foreign investors may be granted special privileges and benefits which may possibly include a reduction in or exemption from the profit-tax rate prescribed by Article 16 and/or a reduction in or exemption from the import-duty rate prescribed by Article 17, because of the large sized of their investments and the significant positive impact which those investments are expected to have upon the socio-economic development of the Lao PDR.

In the event of the establishment of one or more Free Zones or Investment Promotion Zones, the Government shall issue area-specific or general regulations or resolutions.

Article 23: All foreign investments established within the Lao PDR shall be assisted, licensed and monitored through the "1-stop-service" of the FIMC, acting as the central focal point for all Government interactions with the investors, with the collaboration of the concerned ministries and the relevant provincial authorities.

Article 24: A foreign investment shall be considered to be legally established within the Lao PDR only upon the investment's receipt of a written foreign investment license granted by the FIMC.

Article 25: A foreign investor which seeks a license for a foreign investment shall submit to the FIMC an application and such supporting documentation as the FIMC may prescribe by regulation.

The FIMC may grant preliminary approval-in-principle for investment projects being specially promoted by the Government.

Article 26: Upon receipt of a completed application and supporting documentation, the FIMC shall screen them, take a foreign-investment licensing decision and notify the applicant of the decision within 60 days of the application's submission date.

Within this same overall 60-day period, concerned ministries and provincial authorities consulted by the FIMC for their views shall have a maximum of 20 days in which to reply.

Article 27: Within 90 days of receiving its foreign investment license from the FIMC, a foreign investor shall register that license and commence operation of its investment in conformity with the implementation schedule contained in the investment's feasibility study and with the terms and conditions of the license granted by the FIMC, and in accordance with the laws and regulations of the Lao PDR.

Article 28: The FIMC has responsibility to coordinate with other concerned ministries and provincial authorities in monitoring and enforcing the implementation of a foreign investment in conformity with the investment's feasibility study and with the terms and conditions of the investment license, and in accordance with the laws and regulations of the Lao PDR.

The concerned ministries and provincial authorities have the responsibility to perform their respective monitoring and enforcement obligations.

Article 29: If a foreign investor violates the agreement and the terms and conditions of its foreign investment license or the laws and regulations of the Lao PDR, the investor shall be notified of the detected violation and shall be instructed to promptly desist. In the event the investor fails to desist or in case of a serious violation, the investor's foreign investment license may be suspended or revoked and the investor may additionally be subject to other sanctions under the applicable laws and regulations of the Lao PDR.

SECTION FIVE: FINAL PROVISIONS

Article 30: This law shall come into force 60 days after its ratification.

Upon the entry into force of the present law, the foreign investment law of the Lao People's Democratic Republic No. 07/PSA dated 19 April 1988 shall cease to have effect, without prejudice to the rights and privileges granted to, and the obligations imposed upon, foreign investments under the law No. 07/PSA.

Notwithstanding this provision, a foreign investor which received its license under the prior law may elect to petition the FIMC in writing, within 120 days of the coming into force of this law, to become subject to the terms of this law. The FIMC may grant such petitions at its discretion. For a foreign investor whose petition is granted, the rights and benefits previously granted, and the obligations previously imposed under the law No. 07/PSA shall thereafter prospectively cease to have effect.

Article 31: The Government of the Lao PDR shall, by decree, issue detailed regulations for the implementation of this law.

Vientiane, 14 March 1994

President of the National Assembly

Signed: Saman VIYAKET

REFERENCE

REFERENCE

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