

CHAPTER 5

Lao PDR and its North East Asian Development Partners: China, Japan and Korea

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Lao PDR and its North East Asian Development Partners (China, Japan and Korea)

Syviengxay Oraboune

INTRODUCTION

In 1986, Lao PDR launched an open door policy that aimed to develop its market economy toward the eradication of poverty and the graduation of the country from the list of Least Developed Countries (LDCs) by the year 2020. The open door policy envisions to encourage the flow of foreign direct investment (FDI) to contribute to its economic development: official development assistance (ODA) to finance its necessary infrastructure development; and foreign trade with global members to earn foreign currencies. Toward this end, the recent revision of the FDI law, ODA decree and trade policy has significantly improved the environment for more sustained inflows of FDI, ODA and foreign trade.

In terms of the value of FDI and foreign trade, Lao PDR counts the North East Asian region as second to the Association of South East Asian Nations (ASEAN). In terms of ODA, however, the North East Asian region ranks as the top donor for the country. Obviously, the region has played a significant role in the development of Lao PDR, in particular, in terms of its FDI, ODA and trade relations.

This paper aims to review the relations between the North East Asian region and Lao PDR with regard to these three variables. It also compares Lao PDR's relations with the countries within the North East Asian region, particularly with China, Japan and Korea. Case studies on FDI from China, Japan and Korea are also discussed in this paper. Also, this paper is presented as part of a study of relations of GMS and China, Japan and Korea.

The paper is divided into the following sections. Section 1 provides an overview of economic relations between Lao PDR and North East Asian countries. It also compares Lao PDR's relations with the different North East Asian countries (China, Japan and Korea) in section 2. Section 3 discusses case studies on FDI. And the final section provides the conclusion and some policy recommendations.

1. OVERVIEW OF ECONOMIC RELATIONS BETWEEN LAO PDR AND NORTH EAST ASIAN COUNTRIES

On the whole, the North East Asian region ranks second in terms of economic relations with Lao PDR. It is just slightly below the ASEAN region when it comes to the value of FDI and trade relations with Lao PDR, but it is the top source of ODA to Lao PDR.

1.1. Foreign Direct Investment (FDI)

From 1986 to March 2009, FDI inflows to Lao PDR reached almost USD17 billion, with almost a total of 1,800 projects (Table 1). In conjunction with the country's potential and the policy to develop it as the source of energy for the ASEAN region, almost half of the total investments went into the electricity sector, with projects already exceeding 50. The mining sector ranks second and has been considered as an emerging sector since 2000, with already more than 200 projects. Most of the FDI in Lao PDR went into the natural-based and primary sectors which, on the whole, accounted for over 70 percent of total investment value.

ASEAN ranks as the top source of FDI to Lao PDR due perhaps to its geographical proximity, followed by the North East Asian region whose total FDI value to Lao PDR from 2001 to March 2009 reached more than USD 2 billion (Table 2). This was equivalent to more than 500 projects which accounted for about 1/4 of total FDI in Lao PDR (Table 3). The projects came mostly since the implementation of Lao PDR's 6th Five-Year Plan in 2006 and were concentrated largely in the electricity and mining sectors.

Table 1: Total FDI to Lao PDR by sector and five year (1989-2009(Mar))

No	Year	1989-1990		1991-1995		1996-2000		2001-2005		2006-2009(Mar)		1989-2009(Mar)	
		Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)	Projects	Value of Investment (US\$)
1	Electricity Generation	-	-	3	1,930,000,000	3	2,131,000,000	23	1,157,550,000	24	2,995,501,585	53	8,214,051,585
2	Agriculture	-	-	20	32,382,762	40	83,726,681	75	142,982,307	131	929,161,416	266	1,188,253,166
3	Mining	-	-	9	37,500,000	4	12,580,300	91	435,777,038	97	2,545,281,918	201	3,031,139,256
4	Industry & Handicraft	4	3,702,434	41	97,376,198	57	171,807,842	130	193,805,635	117	608,845,763	349	1,075,537,872
5	Services	-	-	38	24,064,566	52	240,950,150	110	125,604,816	106	1,265,432,189	306	1,656,051,721
6	Trading	5	700,000	22	10,420,280	39	18,952,197	66	171,664,004	58	123,605,121	190	325,341,602
7	Construction	-	-	17	26,251,912	8	85,151,710	20	29,086,874	21	219,394,077	66	359,884,573
8	Hotel & Restaurant	-	-	21	14,615,314	10	2,985,000	36	70,284,514	45	160,026,731	112	247,911,559
9	Wood Industry	-	-	9	38,580,000	3	5,533,000	29	26,232,290	19	79,966,544	60	150,311,834
10	Banking	-	-	6	30,000,000	1	10,000,000	8	20,096,000	14	128,000,000	29	188,096,000
11	Telecom	-	-	5	63,540,000	1	91,840,000	3	39,940,000	2	112,450,980	11	307,770,980
12	Garment	3	2,434,000	24	24,552,990	14	11,516,379	20	14,760,000	20	15,714,920	81	68,978,289
13	Consultancy	1	30,000	6	553,500	12	1,316,790	15	3,794,364	39	14,308,888	73	20,003,542
TOTAL		13	6,866,434	221	2,329,837,522	244	2,867,360,049	626	2,431,577,842	693	9,197,690,132	1,797	16,833,331,979

Source: S. Vongsaysavanh, 2009 and Department of FDI Promotion, MPI, 2009

Lao PDR

Table 2: Total value of FDI to Lao PDR by Region 2001-2009(Mar)

Year	Asean		North East Asia		EU		Others Countries		Total	
	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment
2001	19	10,603,070	26	24,589,750	11	14,058,000	8	4,846,892	64	54,097,712
2002	25	18,770,594	33	76,359,467	17	28,336,700	5	9,570,332	80	133,037,093
2003	53	211,943,577	54	136,943,812	19	31,039,500	13	46,323,000	139	426,249,889
2004	58	126,917,855	67	50,923,453	8	2,720,000	18	328,820,000	151	509,381,308
2005	58	498,846,498	49	73,743,215	11	371,050,000	10	24,516,864	128	968,156,577
2006	65	963,701,261	73	994,972,606	18	20,913,611	15	358,671,310	171	2,338,258,788
2007	76	319,153,204	80	585,120,574	18	33,469,711	17	33,728,416	191	971,471,905
2008	76	526,259,952	62	171,525,694	5	204,720,000	9	53,755,000	152	956,260,646
2009*	88	2,965,476,856	60	268,381,597	13	34,296,567	18	29,048,612	179	3,297,203,632
2001-09*	518	5,641,672,867	504	2,382,560,168	120	740,604,089	113	889,280,426	1,255	9,654,117,550

* up to March, 2009

Source: Vongxaysavanh S, 2009

Table 3: Percentage of FDI to Lao PDR by Region 2001-2009(Mar) (Million USD)

Year	% of Asean		% of North East Asia		% of EU		% of Others Countries		Total	
	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment
2001	29.69	19.6	40.6	45.5	17.2	26.0	12.5	9.0	100	100
2002	31.25	14.1	41.3	57.4	21.3	21.3	6.3	7.2	100	100
2003	38.13	49.7	38.8	32.1	13.7	7.3	9.4	10.9	100	100
2004	38.41	24.9	44.4	10.0	5.3	0.5	11.9	64.6	100	100
2005	45.31	51.5	38.3	7.6	8.6	38.3	7.8	2.5	100	100
2006	38.01	41.2	42.7	42.6	10.5	0.9	8.8	15.3	100	100
2007	39.79	32.9	41.9	60.2	9.4	3.4	8.9	3.5	100	100
2008	50.00	55.0	40.8	17.9	3.3	21.4	5.9	5.6	100	100
2009*	49.16	89.9	33.5	8.1	7.3	1.0	10.1	0.9	100	100
2001-09*	41.27	58.4	40.2	24.7	9.6	7.7	9.0	9.2	100	100

* up to March, 2009

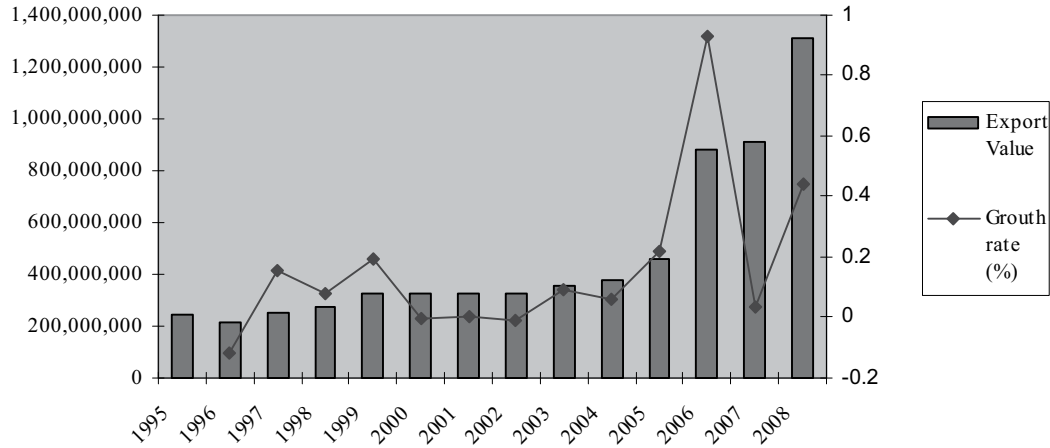
Source: Vongxaysavanh S, 2009

1.2. Foreign Trade

Since 1986, the Lao economy has gradually been integrated into regional and global economies. The economic integration resulted from the growth of FDI, foreign trade including border trade, and regional cooperation, among others, which have had valuable contributions to the development of the country, especially in the form of job creation and income generation for the Lao people (Oraboune, 2008).

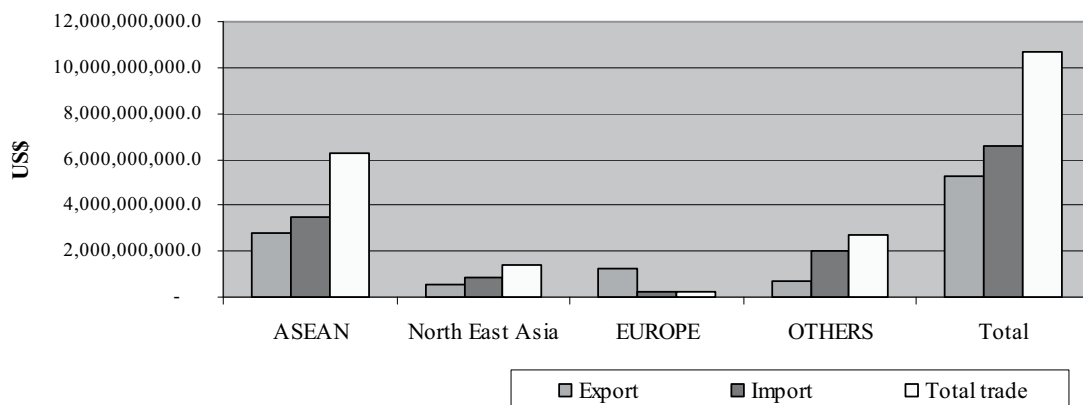
The Government of Lao PDR is seeking ways to diversify the country's economy and reduce its economic vulnerability. Policies and platforms include an Integrated Framework for co-operative trade practices. Currently, nearly 70 percent of official Lao exports of goods remain concentrated in natural-based products which include wood products, fiber products, mining and electricity. Lao PDR has access to several preferential treatments in many countries. Its exports receive preferences from industrial countries and from the original members of ASEAN. It also has GSP access to the European Union (EU) under the Everything but Arms (EBA) arrangement as well as a special textile agreement exempting its exports from EU quotas. Since July 2003, all exports to Australia and New Zealand have been admitted free of duties and quotas. Lao PDR also signed a bilateral trade agreement with the United States (US) in 2003 and was granted Normal Trade Relations (NTR) in November 2004, thereby opening the door for extensive import/export relations with the US market. Lao PDR applied for WTO accession in 1997 and is now in the negotiation process (Oraboune, 2008).

Figure 1 shows the progress of export development of the country from 1995 to 2008, indicating how its foreign trade, especially the export sector, has been steadily growing between 1995 and 2005. The average growth rate of exports was about 35 percent from 1995 to 2008, with a sharp increase experienced in 2006, then doubling in 2007 and then going over 40 percent in 2008. The development of the mining sector during the implementation of the 6th Five-Year Plan (2006-2010) has largely contributed to the improved trade balance of the country.

Figure 1: Value and growth rate of Lao PDR's Export (1995-2008)

Source: Ministry of Industry and Commerce, 2008

In terms of regional trade, Figure 2 shows that Lao PDR has the highest with the ASEAN, accounting for about 60 percent of its total foreign trade. While, trade with the North East Asian region, on the other hand, accounted for only about 10 percent of its total foreign trade.

Figure 2: Foreign Trade by Region (1999-2008)

Source: Ministry of Industry and Commerce, 2009

Although trade with the North East Asian region has not been very developed when compared with other regions like the ASEAN and EU, statistics show nonetheless that trading with the North East Asian region has steadily grown with an average rate of about 46 percent per year from 1999/00 to 2007/08 (Table 4). The growth of exports to the region is also faster than imports, with an average growth rate of about 60 percent per year vis-à-vis the import growth rate of about 58 percent per year. From 2005 onward, trade with the North East Asian region, especially in terms of exports, has sharply increased, even leading to trade surplus for Lao PDR in 2006/07 and also in 2007/08. One reason for the improvement, as noted earlier, has been the development of the country's mining sector.

Table 4: Foreign Trade of Lao PDR by Regions 1999-2007

Trading	Country/Region	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/2008
Export	AESEAN	188,602,253	167,407,507	182,089,911	183,535,173	175,587,613	230,203,621	590,039,848	483,517,698	592,409,137
	North East Asia	14,424,327	22,929,481	16,699,123	16,695,065	9,918,729	16,027,980	63,469,063	183,327,821	188,147,297
	EUROPE	44,874,574	100,266,612	119,198,976	93,740,356	121,776,572	119,810,396	125,503,012	154,808,527	353,701,687
	OTHERS	76,073,448	34,282,235	4,630,749	58,653,693	67,037,086	89,582,616	98,996,625	103,913,520	173,201,431
	Total	323,974,602	324,885,835	322,618,759	352,624,287	374,320,000	455,624,613	878,008,548	925,567,566	1,307,459,552
Import	AESEAN	115,533,501	123,190,512	182,089,911	183,535,173	175,587,613	230,203,621	590,039,848	755,846,853	1,116,506,314
	North East Asia	18,784,812	37,962,254	22,005,385	106,895,144	97,664,117	92,470,954	144,692,482	127,597,353	188,860,085
	EUROPE	582,483	1,495,832	2,625,183	26,481,606	94,109,384	35,434,469	38,997,991	23,721,262	42,890,062
	OTHERS	405,660,544	365,622,601	326,862,622	234,207,464	194,438,886	327,911,024	157,679,679	9,197,255	16,568,402
	Total	540,561,340	528,271,199	533,583,102	551,119,387	561,800,000	686,020,068	931,410,000	916,362,723	1,364,824,863

Source: Ministry of Industry and Commerce, 2009 and Vongsaysavanh S, 2009

1.3. Official Development Assistance (ODA)

ODA has also played an important role in the socio-economic development of Lao PDR (Oraboune, 2008). It has served as a very important financial source for many public investment projects in Lao PDR. Since the government's open door policy began, Lao PDR has received ODA from various parts of the world to support its socio-economic development. Compared with other regions, the North East Asian region has been the top source of ODA to Lao PDR, accounting for an average of over 1/4 of the total ODA value in Lao PDR (see Tables 5 and 6).

As recognition of the importance of ODA in the country's development, the government of Lao PDR, together with development partners, has recently developed a policy guideline document called "Vientiane Declaration on Aid Effectiveness", aiming to ensure the effectiveness and efficiency of foreign aid in assisting Lao PDR reduce poverty, increase growth, build its human and institutional capacity, and accelerate the attainment by the country of the UN Millennium Development Goals (MDGs) by 2015 and of its own national vision by 2020.

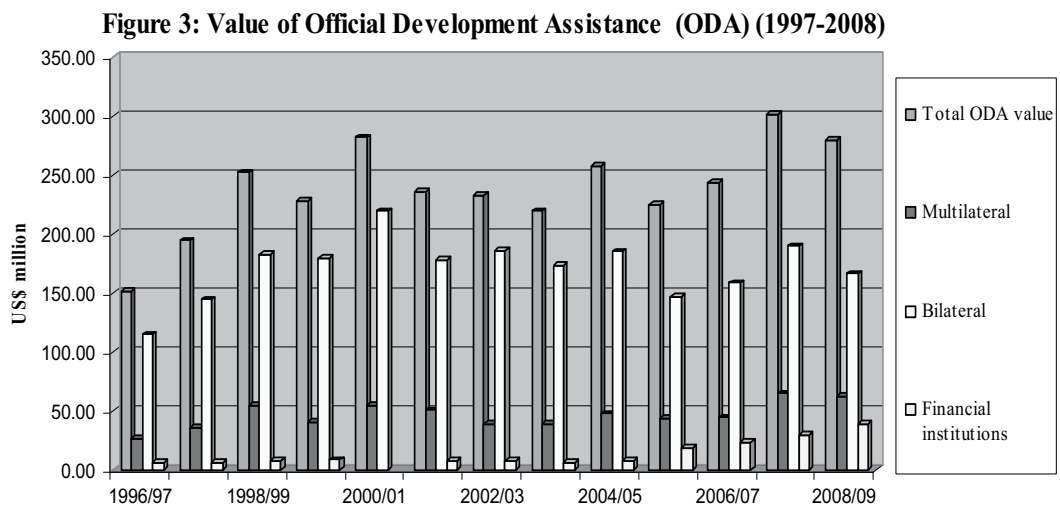
Table 5: Total ODA in Lao PDR by Regions 1998-2008 (Million USD)

Year	Regions	ASEAN		North East Asia		European		Others	
	Total	Percentage	Value	Percentage	Value	Percentage	Value	Percentage	Value
1998	252.21	0.36	0.9	20.82	52.5	12.55	31.64	66.28	167.17
1999	227.85	2.58	5.882	57.06	130.009	21.48	48.94	18.88	43.02
2000	282.03	1.91	5.4	33.97	95.8	7.51	21.19	56.60	159.64
2001	236.27	1.65	3.9	36.27	85.7	39.15	92.5	22.93	54.17
2002	232.09	2.18	5.06	44.07	102.28	34.69	80.51	19.06	44.24
2003	383.79	2.72	10.43	24.62	94.47	15.83	60.75	56.84	218.14
2004	371.32	3.77	13.99	27.24	101.14	17.53	65.09	51.47	191.10
2005	468.39	9.32	43.65	19.05	89.22	12.15	56.93	59.48	278.59
2006	432.76	6.72	29.08	29.00	125.48	12.71	55.01	51.57	223.19
2007	413.44	8.98	37.14	22.73	93.97	15.46	63.90	52.83	218.43
2008*	559.17	10.44	58.35	24.88	139.13	11.65	65.16	53.03	296.53

* Estimate

Source: Vongxaysavanh S, 2009

As noted, Table 6 shows that the North East Asian region is the top ODA source for Lao PDR, accounting for about 25 percent on the average, followed by European countries and the ASEAN. Table 6 also shows the ODA contribution to Lao PDR by countries in each region. Meanwhile, in terms of a comparison between bilateral and multilateral schemes, the bilateral scheme contributes more ODA than the multilateral. The bilateral ODA accounted for about 70 percent while the multilateral, for about 30 percent (Figure 3).



Source: DIC, MPI, 2008

Lao PDR

Table 6: Total ODA in Lao PDR by Regions (1998-2008) Million USD

Region	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09 est
ASEAN	0.9	5.882	5.4	3.9	5.06	10.43	13.99	43.65	29.08	37.14	58.35
Thailand	0.9	5.882	0.7	0	0.06	1.5	4.3	18.79	18.61	18.21	35.01
Vietnam	0	0	4.7	3.9	5	8.93	9.69	24.86	10.47	18.93	23.34
North East Asia	52.5	130.009	95.8	85.7	102.28	94.47	101.14	89.22	125.48	93.97	139.13
China	0	38.889	9.2	22.5	13.75	7.93	10.03	21.16	34.39	4.51	46.56
Japan	52	90.82	86.2	63.2	87.52	84.99	85.36	62.18	71.53	78.01	63.17
Korea	0.5	0.3	0.4	0	1.01	1.55	5.75	5.88	19.56	11.45	29.4
European	31.64	48.94	21.19	92.5	80.51	60.75	65.09	56.93	55.01	63.9	65.16
France	7	6.66	2.7	20.6	14.84	16.73	17.3	17.68	17.44	16.22	12.9
Sweden	10.6	13.63	0.6	39.4	33.27	16.73	17.71	19.79	16.92	16.89	15.12
Germany	5.9	23.42	13.7	21.3	22.58	13.6	16.31	6.26	8.18	9.35	25.24
Luxembourg	2.2	1.68	0.09	6.9	5.09	8.02	5.34	6.26	5.68	14.84	8.71
Belgium	0.04	1.51	0	0.2	0.19	2.67	6.06	5.26	5.26	5.07	0.79
Denmark	5.9	0.86	4.1	2.9	3.24	1.78	1.15				
Filland	0	1.18		1.2	1.3	1.22	1.22	1.68	1.53	1.53	2.4
Others	167.17	43.02	159.64	54.17	44.24	218.14	191.10	278.59	223.19	218.43	296.53
Total	252.21	227.85	282.03	236.27	232.09	383.79	371.32	468.39	432.76	413.44	559.17

Source: Vongsaysavanh S, 2009

Because infrastructure development is a priority, majority of the ODA goes to this sector, especially to the communication and transport sector. Based on the available statistics, the communication and transport sector, on average, accounted for approximately 20 percent of total ODA, followed by the agriculture & forestry, education, and health sectors (Table 7). From the North East Asian region specifically, majority of the ODA goes to infrastructure development, especially from Japan which has been considered as the main contributor for infrastructure development in Lao PDR. Table 8 shows that about 1/3 of total ODA in communication and transport development is from the North East Asian region. Other sectors like rural development, economic management, and humanitarian aid and relief are also major areas of focus of North East Asian ODA.

Table 7: Total ODA Inflow into Lao PDR by Sector 1998-2008 (Million USD)

No	Sectors										
		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*
1	Agriculture & Forestry	27.2	30.3	27.9	24.4	29.1	29.3	29.9	64.5	78.6	54.5
2	Communication & Transport	93.5	94.4	76.8	110.4	88.3	71.6	96.9	117.4	89.2	112.7
3	Energy & Mining	49.7	22.0	63.4	67.4	24.9	22.0	75.3	23.1	26.3	44.6
4	Social Economic Development**	40.5	54.6	137.0	106.8	43.7	37.3	53.2	33.9	83.3	38.9
5	Natural resource	9.7	12.8	7.0	6.6	6.3	4.4	8.2	9.0	11.0	10.0
6	Education	29.9	33.2	38.1	35.8	48.7	52.8	51.3	56.3	49.6	72.9
7	Health	16.8	25.4	23.1	21.3	30.7	33.7	36.6	15.9	20.1	51.7
8	Others***	91.9	9.3	6.2	29.2	112.0	120.2	117.0	112.6	55.4	174.0
Total		359.2	282.0	379.3	401.8	383.8	371.3	468.4	432.8	413.4	559.2

* estimate

** including area and rural development, disaster preparedness, economic management, humanitarian aids and relief, industrial and social development

*** including information and culture, trading and environment

Source: Vongsaysavanh S, 2009

Table 8: ODA Inflow into Lao PDR by sectors and region (2001 -2007) (Million USD)

Region	No	Sectors	Year						
			2001	2002	2003	2004	2005	2006	2007
Asean	1	Agriculture & Forestry	1.094	2.705	1.92	2.1	1.28	0	1.32
	2	Communication & Transport	0.829	1.68	1.2	4.41	30.47	18.56	18.16
	3	Social Economic Development*	0.43	1.83	1.01	7.04	1.57	1.31	6.38
	4	Energy & Mining	0	0	0	0	0	0.79	0.2
	5	Natural resource	0	0.62	0.57	0.44	0.79	0	0
	6	Education	3.87	4.13	5.32	0	8.24	8.38	11.04
	7	Health	0.016	0.43	0.41	0	0.2	0.05	0.05
	8	Others**	0.07	0	0	0	1.1	0.01	0
Total of ASEAN			6.31	11.40	10.43	13.99	43.65	29.10	37.15
North East Asia	1	Agriculture & Forestry	6.6	6.76	0.24	0.25	0	4.24	2.98
	2	Communication & Transport	37.12	31.57	21.74	21.18	30.79	48.18	38.02
	3	Social Economic Development*	47.29	47.23	43.92	41.33	41.41	47.95	41.72
	4	Energy & Mining	18.53	35.66	6.8	10.65	0	4.85	1.31
	5	Natural resource	0	0	0	0	1.05	0	0
	6	Education	6.28	6.93	14.58	20.77	11.06	17.81	7.49
	7	Health	4.41	5.51	7.19	6.96	4.91	2.54	2.45
	8	Others**	5.78	0	0.23	0	0	0	0
Total of North East Asia			126.01	133.66	94.7	101.14	89.22	125.57	93.97
Total of European	1	Agriculture & Forestry	4.46	3.87	5.32	5.44	6.82	19.64	20.01
	2	Communication & Transport	8.14	7.25	12.4	15	7.9	10.21	10.27
	3	Social Economic Development*	17.36	17.51	26.61	28.16	17.62	7.56	10.55
	4	Energy & Mining	3.8	1.8	0	0.18	19.45	8.13	8.13
	5	Natural resource	1.71	2.24	2.34	2.32	1.39	3.72	0
	6	Education	4.28	7.62	9.83	10.63	9.43	7.67	9.81
	7	Health	3.25	2.83	4.25	3.74	8.87	1.26	8.31
	8	Others**	54.96	41.2	0	0	0.15	0	0
Total of European			97.96	84.32	60.75	65.47	71.63	58.19	67.08
Others of Grand Total			149.00	172.44	217.91	190.72	263.89	219.90	215.24
Grand Total			379.28	401.81	383.79	371.32	468.39	432.76	413.44

* including area and rural development, disaster preparedness, economic management, humanitarian aids and relief, industrial and social development

** including information and culture, trading and environment

Source: Vongsaysavanh S, 2009

2. COMPARISON OF ECONOMIC RELATIONS BETWEEN LAO PDR AND AMONG CHINA, JAPAN AND KOREA

Comparison of Lao PDR's Economic Relations with the different North East Asian Countries This sub-section will discuss the economic relations of Lao PDR with the different countries in the North East Asian region.. However, the focus will only be on three countries, namely, China, Japan and Republic of Korea. The overall picture shows that for each of these three countries, Lao PDR relates differently in terms of economic relations. For instance, in view of its geographical proximity with China, Lao PDR enjoys more trade relations with and receives more direct investment from China compared with the two others. Japan, on the other hand, has always been its top ODA donor, with some legacy of direct investment in some areas. Korea, meanwhile, has recently entered the picture in the form of foreign direct investment, with some ODA element, in Lao PDR.

2.1. Foreign Direct Investment (FDI)

The main source of FDI in Lao PDR has been the Asian region, especially the East and South East Asian regions. The top five FDI countries in Lao PDR have covered for over 50 percent of total FDI value. Four of them are from Asia which accounted for more than 45 percent (Oraboune, 2008). From 2001 to March 2009, FDI from neighboring countries, especially from Thailand and Vietnam, accounted for over 50 percent of the total inflow into Lao PDR (Table 9).

For the same period (2001 to March 2009), countries from the North East Asian region, including China, Japan and Korea, are also seen to be important sources of FDI in Lao PDR, with the cumulative value of FDI from the three abovementioned North East Asian countries accounting for about 25 percent of total FDI value in Lao PDR.

FDI from China accounted for over 2/3 of total FDI value coming from the North East Asian region. In the meantime, the level of Korean FDI has dramatically increased from 2000, especially during the implementation of Lao PDR's 6th Five-Year Plan (2006-2010), as several investment projects have been initiated within the period. It is also expected that FDI from Korea would increase in the coming year.

When calculating for the cumulative total FDI from Korea for the period 1989 to the present, figures show that Korean FDI has reached the rank of number four source of FDI, with a total cumulative value of about US\$ 1.3 billion. Said level has contributed to the increased share (20 to 25 %) of the total cumulative FDI value in Lao PDR coming from the North East Asian region (Table 10). Interestingly, while FDI from the North East Asian region as a whole can be seen in all sectors in Lao PDR (13 sectors), individually for China, Japan and Korea, it can be noted that they have only invested in selected areas. China, for one, has invested largely in the electricity sector. Korea has also concentrated a lot in the electricity sector, with some investments recently in banking. Japan, on the other hand, has invested mostly in the electricity sector, with some shares put into industry and agriculture. In terms of investment value, over 43 percent of total Chinese FDI value goes to the electricity sector with 9 projects, followed by investments in industry & handicraft (22%), and mining (12%). It shows that over 75 percent of total FDI from China has been concentrated in only 3 sectors. For Japan, over 90 percent of its total FDI value has been concentrated in the electricity sector, followed by industry & handicraft (2.5%), and agriculture (1%). Similarly, FDI from Korea is also concentrated in the electricity sector which accounted for over 57 percent, followed by the construction, and hotel & restaurant sectors at about 11 percent and 8 percent, respectively. Out of 53 projects in the electricity sector, the North East Asian region accounted for only 11 projects but it covers for over 20 percent of total FDI value in this sector. Out of the 11 North East Asian electricity projects, China has 9 which accounted for about 7.6 percent of total FDI value. Korea and Japan, however, had only 1 electricity project investment each but these accounted for over 42 percent and 23 percent, respectively, of total FDI from the North East Asian region.

Table 9: Top Ten FDI Countries in Lao PDR (2001-2009) US\$

No	Year	2005		2006		2007		2008		2009(Mar)		2001-2009(Mar)	
		Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment	Projects	Value of Investment
1	Thailand	25	450,905,419	30	655,229,967	31	92,720,384	31	375,197,133	33	1,572,403,889	233	3,309,650,617
2	Vietnam	23	43,266,879	23	261,176,139	35	155,913,820	39	149,425,319	42	1,363,343,585	201	2,055,348,476
3	China	33	58,123,360	54	423,231,606	47	496,055,204	41	107,246,034	37	234,576,597	314	1,543,272,250
4	France	6	370,250,000	11	12,143,611	10	13,143,068	2	500,000	5	2,501,567	65	444,642,746
5	Japan	5	4,400,000	2	401,500,000	7	6,110,970	3	846,850	5	2,830,000	41	424,434,403
6	Korea	10	10,219,855	15	163,741,000	24	82,154,400	16	59,932,810	16	29,775,000	137	396,933,515
7	India	-		1	350,000,000	-	-	-	-	2	848,000	5	351,178,000
8	Australia	8	21,286,864	5	1,390,000	5	13,620,000	2	1,900,000	2	666,000	31	333,953,528
9	Malaysia	6	3,374,200	5	3,150,155	3	53,210,000	2	130,000	6	9,924,582	41	150,167,974
10	Singapore	3	1,200,000	5	43,465,000	4	15,909,000	3	1,407,500	3	5,621,500	28	107,873,000
Total FDI in Lao PDR		128	968,156,577	171	2,338,258,788	191	971,471,905	152	956,260,646	179	3,297,203,632	1,255	9,654,117,550

Source: S. Vongsaysavanh, 2009 and Department of FDI Promotion, MPI, 2009

The statistics show that the investment projects from Korea and Japan in the electricity sector are huge projects and considered as important ventures for the national economy. The FDI from China in the electricity sector, meanwhile, are, on the average, small projects costing an average of about US\$ 69 million per project. They are, of course, just as important because they are mostly in the rural remote areas where they are very much needed for rural development and poverty reduction. For the industry & handicraft sector, the FDI from the three countries accounted for about 40 percent of total FDI in this sector in Lao PDR. Interestingly, as mentioned earlier, Korea has two projects in the banking sector which have just come in very recently. There is no FDI in this sector from other North East Asian countries though. In the area of telecommunication, FDI came only from China and none from the other North East Asian countries.

On the whole, FDI from China, Japan and Korea has dramatically increased, especially from 2006 onward or from the period of the 6th Five-Year Plan (2006-2010) implementation. They used to be in the top ten of FDI cumulative value in Lao PDR, but for the period of 2006 onward, they went up to being in the top five where China ranks number three, followed by Korea and Japan. Although China still ranks first among the three countries, FDI from Korea has very recently increased sharply and has already ranked second. Given the trend of 2009, Korea would already rank first in terms of FDI value in 2010 among the countries in the North East Asian region. FDI from the North East Asian region has, in short, been considered as a very significant source of growth for Lao PDR, especially in the implementation of the 6th Five-Year Plan where investment is the key to achieve the development agenda of reducing poverty, attaining the MDGs and achieving the vision 2020 of the country.

Table 10: Total FDI from China, Japan and Korea to Lao PDR 1989-2009(Mar)

No	Sectors	Projects				Value of Investment (US\$)			
		Total	China	Japan	Korea	Total	China	Japan	Korea
1	Electricity Generation	53	9	1	1	8,214,051,585	623,204,400	400,000,000	750,000,000
2	Agriculture	266	51	10	30	1,188,253,166	108,296,394	4,638,543	73,513,750
3	Mining	201	55	0	4	3,031,139,256	166,578,335	0	30,100,000
4	Industry & Handicraft	349	78	12	19	1,075,537,872	320,799,160	10,706,400	97,659,855
5	Services	306	36	8	51	1,656,051,721	126,690,376	4,825,000	68,247,990
6	Trading	190	22	9	21	325,341,602	17,416,303	2,897,434	12,278,000
7	Construction	66	12	2	3	359,884,573	16,970,300	4,656,000	140,965,000
8	Hotel & Restaurant	112	18	3	17	247,911,559	7,263,714	410,000	106,236,400
9	Wood Industry	60	11	3	1	150,311,834	36,819,600	4,335,200	200,000
10	Banking	29	0	0	2	188,096,000	0	0	23,000,000
11	Telecom	11	2	0	0	307,770,980	800,000	0	0
12	Garment	81	10	2	3	68,978,289	11,957,000	1,817,000	1,150,000
13	Consultancy	73	7	0	9	20,003,542	1,450,000	0	3,425,700
TOTAL		1,797	311	50	161	16,833,331,979	1,438,245,582	434,285,577	1,306,776,695

Source: S. Vongsaysavanh, 2009 and Department of FDI Promotion, MPI, 2009

2.2. Foreign Trade

Among the countries in the North East Asian region, China has the most trade relation with Lao PDR, followed by Korea, Taiwan, Japan and Hong Kong. Due to geographical proximity in comparison with the other countries in the North East Asian region, trade between Lao PDR and China has accounted for over 56 percent of total trade with the region between 1999 and 2008. If Hong Kong is included, then China's overall trade with Lao PDR would have accounted for almost 60 percent of total trade with the region (Tables 11 and Table 12).

Korea ranks second as its trade relations with Lao PDR accounted for over 18 percent. Trade relation between Lao PDR and Japan, on the other hand, accounted for about 10 percent of total trade relations between Lao PDR and the North East Asian region. Hence, among these three countries, China ranks first in terms of trade value with Lao PDR, followed by Korea and then Japan.

Of Lao PDR's exports to the North East Asian region, exports to China accounted for over 33 percent between 1999 and 2008. This dramatically increased during the period of the 6th Five-Year Plan (2006-2010), with the growth rate of exports from Lao PDR to China in 2005/06 reaching over 300 percent at an average of about 116 percent per year from 2005 to 2008. Exports from Lao PDR to Korea, however, increased even more sharply at a phenomenal rate of over 2,000 percent in 2006/07, with an increasing trend still being demonstrated in 2008. Meanwhile, although the value of exports from Lao PDR to Japan is not that high vis-à-vis those to China and Korea, the overall trend is also increasing, with an average of over 40 percent per year between 1999 and 2008.

Table 11: Lao Exports to North East Asian Countries (US\$) 1999/00 – 2007/08

No	Country	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/2008	1999-2008
1	China	7,134,776	13,800,000	11,911,155	10,891,602	5,326,659	9,236,793	40,682,780	34,667,300	42,892,926	176,543,991
2	Japan	2,358,944	3,414,459	1,827,822	3,883,526	2,102,923	3,181,103	6,889,275	3,378,465	10,825,406	37,861,923
3	Korea*	2,358,944	2,502,010	1,999,280	108,738	140,278	222,585	2,815,637	71,209,158	81,521,449	162,878,078
4	Hong Kong	1,990,792	1,996,570	617,831	271,596	896,481	195,575			177,397	6,146,242
5	Taiwan	580,871	1,216,442	343,035	1,539,603	1,452,389	3,191,924	13,081,371	74,072,898	52,730,119	148,208,652
Total		14,424,327	22,929,481	16,699,123	16,695,065	9,918,729	16,027,980	63,469,063	183,327,821	188,147,297	531,638,886

* Republic of Korea

Source: Ministry of Industry and Commerce, 2009 and Vongsaysavanh S, 2009

Table 12: Lao Imports from North East Asian Countries (US\$) 1999/00 – 2007/08

No	Country	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	1999-2008
1	China	18,705,687	35,471,694	17,687,444	89,516,844	82,089,713	79,913,507	85,063,456	85,834,896	95,969,465	590,252,706
2	Japan	79,125	423,110	1,669,727	10,783,107	6,930,366	3,939,500	38,798,948	15,142,168	29,621,617	107,387,668
3	Korea*	1,902,479	2,554,795	2,554,795	6,132,479	8,267,915	6,607,614	6,754,206	16,023,455	37,567,021	85,809,964
4	Hong Kong			9,250	78,781	263,375	1,212,892	7,025,976	5,526,441	15,391,466	29,508,180
5	Taiwan		164,971	84,170	383,933	112,748	797,441	7,049,896	5,070,393	10,310,516	23,974,069
Total		18,784,812	37,962,254	22,005,385	106,895,144	97,664,117	92,470,954	144,692,482	127,597,353	188,860,085	836,932,586

* Republic of Korea

Source: Ministry of Industry and Commerce, 2009 and Vongsaysavanh S, 2009

Trade imbalance has been a historical trend of Lao trade, including in the trade with the North East Asian region. Lao PDR has had trade imbalances, for instance, with China and Japan but due to the increase of its mining exports from 2005/06 and especially in view of the increase of its exports to Korea, Lao PDR's trade balance with the North East Asian region as well as its total trade on the whole, has improved a lot (Table 13). In fact, it now even enjoys a trade surplus with Korea. China, which is the country from the North East Asian region that has a longer trade relation with Lao PDR, has experienced getting an increase of exports from Lao PDR very recently. But it is really with Korea that Lao PDR has made a tremendous dent in its export trade especially during the boom in its mining sector when its total mining exports to Korea accounted for almost 70 percent of total mining exports to the North East Asian region. Looking at total Lao exports to Korea, over 97 percent of its total export value came from the mining sector (Table 14).

Table 13: Trading between Lao PDR and China, Japan and South Korea 1999-2007

Year	Total			China			Japan			Korea		
	Export	Import	Trade Balance	Export	Import	Trade Balance	Export	Import	Trade Balance	Export	Import	Trade Balance
1999/00	323,974,602	540,561,340	(216,586,738)	7,134,776	18,705,687	(11,570,911)	7,134,776	79,125	7,055,651	2,358,944		
2000/01	324,885,835	528,271,199	(203,385,364)	13,800,000	35,471,694	(21,671,694)	13,800,000	423,110	13,376,890	2,502,010	1,902,479	599,531
2001/02	322,618,759	533,583,102	(210,964,343)	11,911,155	17,687,444	(5,776,289)	11,911,155	1,669,727	10,241,428	1,999,280	2,554,795	(555,515)
2002/03	352,624,287	551,119,387	(198,495,100)	10,891,602	89,516,844	(78,625,242)	3,883,526	10,783,107	(6,899,581)	108,738	6,132,479	(6,023,742)
2003/04	374,320,000	561,800,000	(187,480,000)	5,326,659	82,089,713	(76,763,054)	2,102,923	6,930,366	(4,827,443)	140,278	8,267,915	(8,127,637)
2004/05	455,624,613	686,020,068	(230,395,455)	9,236,793	79,913,507	(70,676,714)	3,181,103	3,939,500	(758,397)	222,585	6,607,614	(6,385,029)
2005/06	878,008,548	931,410,000	(53,401,452)	40,682,780	85,063,456	(44,380,676)	6,889,275	38,798,948	(31,909,673)	2,815,637	6,754,206	(3,938,569)
2006/07	925,567,566	916,362,723	9,204,843	34,667,300	85,834,896	(51,167,596)	3,378,465	15,142,168	(11,763,703)	71,209,158	16,023,455	55,185,703
2007/08	1,307,459,552	1,364,824,863	(57,365,311)	42,892,926	95,969,465	(53,076,539)	10,825,406	29,621,617	(18,796,211)	81,521,449	37,567,021	43,954,428

Source: Ministry of Industry and Commerce, 2009 and Vongsaysavanh S, 2009

Table 14: Lao Exports to Korea 2002-2008 (US\$)

No	Goods	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1	Wood & wood processing	37,489.0	18,998.9	152,489.0	22,939.0	215,925.0	313,112.6
2	Rattan/Bamboo	17,993.8		4,430.0			
3	Mining				1,560,952.0	70,824,330.0	79,318,407.4
4	Forestry Produced	24,000.1	4,080.0				281.0
5	Agro-animals						
6	Agriculture products	24,000.0	12,932.8		500.0		
7	Coffee		1,445.0				20,861.0
8	Handicraft		72,563.9				
9	Garment	5,255.0	28,057.0	37,745.0	11,466.0	43,083.0	77,325.0
10	Other Industries			5,500.0	1,219,780.0	63,577.0	1,791,462.0
11	Others*		2,200.0	22,420.0		62,243.0	
Total		108,737.9	140,277.6	222,584.0	2,815,637.0	71,209,158.0	81,521,448.9

* Including border trade

Source: Ministry of Industry and Commerce, 2009; Vongsaysavanh S, 2009

Mining, wood & wood processing and agriculture products are three main export products from Lao PDR to China which constituted almost 90 percent of its (Lao PDR) total exports to China from 2002-2008. Export of mining products accounted for about 45 percent, wood & wood processing products, 23 percent, and agriculture products, 20 percent (Table 15). As a result of the boom of the mining sector in Lao PDR, mining product exports from Lao PDR to China had increased and accounted for about 75 percent of total export value from 2006 onward.

Table 15: Lao Exports to China 2002-2007 (US\$)

No	Goods	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1	Wood & wood processing	3,329,985.0	889,992.0	1,541,940.0	20,307,750.0	2,564,855.0	4,324,811.1
2	Rattan/Bamboo	360.0	981.2	750.0	10,000.0		
3	Mining	182,463.0	34,500.0	2,456,520.0	5,055,622.0	24,002,524.0	31,819,802.0
4	Forestry Produced	3,674,920.0	497,402.0	475,240.0	3,970,533.0	1,082,251.0	583,857.0
5	Agro-animals	360.0	69,792.0	291,264.0		43,088.0	32,180.0
6	Agriculture products	980,952.4	3,380,060.0	4,199,987.0	11,288,221.0	5,601,599.0	3,604,000.0
7	Coffee		35,468.0			90,804.0	
8	Handicraft	10,894.0	2,681.0	59,042.0		700.0	2,970.0
9	Garment	33,317.0	4,327.3	23,270.0		54,090.0	1,183,238.0
10	Other Industries		225,607.0	179,790.0	50,654.0	1,010,172.0	875,484.0
11	Others*	2,678,351.0	185,848.3	8,990.0		217,217.0	466,584.0
Total		10,891,602.4	5,326,658.8	9,236,793.0	40,682,780.0	34,667,300.0	42,892,926.1

* Including border trade

Source: Ministry of Industry and Commerce, 2009; Vongsaysavanh S, 2009

Meanwhile, Lao exports to Japan consisted mostly of manufacturing products, including garment, wood processing and other industrial products, which accounted for over 80 percent of total export value from 2002-2008. Mining accounted for about 15 percent of total Lao exports to Japan (Table 16). In 2007 and 2008, the exports of garment and other manufacturing industries had sharply increased and accounted for over 90 percent of total exports to Japan. Garment product exports alone already accounted for over 55 percent. This was followed by manufacturing and wood processing products at about 29 percent and 13 percent, respectively. The increase of these exports might have resulted from an increase of Japanese foreign direct investments to Lao PDR in the abovementioned sectors during this period as illustrated, for example, in the cases of the Lao Miyazaki garment and the Midori Shoes Factory.

Table 16: Lao Exports to Japan 2002-2007 (US\$)

No	Goods	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1	Wood & wood processing	2,778,276.0	1,484,498.0	1,278,090.0	1,109,053.0	909,164.0	1,378,950.3
2	Rattan/Bamboo	12,748.0		56,642.0			
3	Mining	106,412.0			4,388,638.0		87,948.0
4	Forestry Produced	4,800.0	24,000.0	1,405.0			
5	Agro-animals						
6	Agriculture products		4,809.0	76,883.0			196,618.0
7	Coffee		104,453.0	32,909.0	98,242.0	11,992.0	
8	Handicraft	698,128.0	376,879.9	637,328.0	54,356.0	23,397.0	17,963.0
9	Garment	217,251.0	100,870.0	529,872.0	638,038.0	1,475,580.0	6,037,905.9
10	Other Industries	65,911.0		562,338.0	597,032.0	840,323.0	3,106,021.0
11	Others*		7,412.7	5,636.0	3,916.0	118,009.0	
Total		3,883,526.0	2,102,922.6	3,181,103.0	6,889,275.0	3,378,465.0	10,825,406.1

* Including border trade

Source: Ministry of Industry and Commerce, 2009; Vongsaysavanh S, 2009

In terms of Lao imports from the North East Asian region, on the other hand, especially from China, Japan and Korea, most of the products from China are those for the investment projects, including machinery and raw materials. These accounted for over 40 percent followed by industrial goods with a share of about 17 percent (Table 17). Industrial goods from China are those for daily household uses, and most of them are imported in the form of border trade in the Northern region. Some of them have been accounted as transit goods passed through Lao PDR to neighboring countries, especially to Thailand and Vietnam, for the tourism sector.

Table 17: Imports from China by product/sector 2001-2007 (US\$)

No	Goods	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1	Agriculture machinery	2,446,708	942,689	4,343,598	3,680,193	4,385,776	6,316,410	6,363,622
2	Office equipt. Sport	2,476,301	906,500	101,803	201,440	222,858	264,217	867,330
3	Clothing.	4,291,828	5,584,519	4,028,764	9,141,821	11,267,997	9,617,806	4,879,205
4	Food	338,353	570,534	1,568,927	2,798,814	1,196,264	2,545,555	961,724
5	Electricity. App.	398,044	1,589,749	1,288,806	1,765,911	306,634	1,593,992	4,758,146
6	Medicine and Equip	60,914	727,320	120,973	271,197	55,559	602,016	498,986
7	Petroleum & Gas	983,653					12,953	8,538
8	Luxury goods	192,399	602,887	219,297	452,373	569,694	155,159	694,026
9	Construction	3,231,648	2,174,222	2,996,806	2,262,640	11,084,704	3,328,439	7,985,259
10	Vehicles	2,297,850	3,669,821	8,967,076	3,336,014	4,272,231	2,945,455	5,125,383
11	Raw Material		7,015,012	8,032,329	1,083,433	18,573,354	5,249,601	12,322,899
12	Transit goods		1,750,887	1,599,252	1,407,000			2,249,793
13	Import Electric Power							
14	Import for Project		47,754,379	46,281,550	22,690,383	19,056,093	37,300,197	26,824,589
15	Industry goods	969,745	14,081,580	2,198,160	29,857,152	13,978,423	11,723,799	16,853,777
16	Others*		2,146,745	342,373	965,136	93,869	4,179,297	5,576,188
Total		17,687,444	89,516,844	82,089,713	79,913,507	85,063,456	85,834,896	95,969,465

* Including border trade, goods for office operation, trade fares, ODA related, etc.

Source: Ministry of Industry and Commerce, 2009; Vongsaysavanh S, 2009

For imports from Japan, the products are mostly vehicles and products for investment project uses, including machinery and other construction materials. Table 18 shows that over 70 percent of imported value from Japan come from these two sectors, with imports of vehicle accounting for about 35 percent and goods for investment projects accounting for about 36 percent. These are followed by imported raw materials and transit goods which accounted for about 7 percent each.

Table 18: Imports from Japan by product/sector 2001-2007 (US\$)

No	Goods	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1	Agriculture machinery		79,300		97,091	67,550	1,720	36,000
2	Office equipt. Sport				7,980	3,185	196,050	
3	Clothing.	25,547	26,523					498
4	Food							
5	Electricity. App.					83,190	3,046	3,968
6	Medicine and Equip		3,738		69,369	112,512	116,533	
7	Petroleum & Gas							
8	Luxury goods					16,500	9,115	
9	Construction				420,852	150	84,930	
10	Vehicles	1,583,714	4,746,292	1,701,691	90,968	12,069,119	10,520,353	10,472,033
11	Raw Material		28,900		361,144	345,357	845,721	2,083,467
12	Transit goods							2,174,261
13	Import Electric Power							
14	Import for Project		5,673,221	5,116,850	2,298,838	23,410,999	1,318,120	10,748,153
15	Industry goods	47,400		85,705	553,791	2,631,817	137,584	467,387
16	Others*		225,132	26,120	39,467	58,569	1,908,996	3,635,850
Total		1,656,661	10,783,107	6,930,366	3,939,500	38,798,948	15,142,168	29,621,617

* Including border trade, goods for office operation, trade fares, ODA related, etc.

Source: Ministry of Industry and Commerce, 2009; Vongsaysavanh S, 2009

As in the case with Japan, most of Lao's imported goods from Korea are vehicles which accounted for almost 75 percent of total imported value from Korea (Table 19). Korea is the only country from the North East Asian region that invested in automobile assembly in Lao PDR (KOLAO Company). The number of Korean cars in Lao PDR is increasing in view of their lower prices as compared with automobiles from other countries. The second biggest product imports from Korea are also those for use in investment projects, constituting almost 20 percent of total imported value from Korea.

Table 19: Imports from Korea by product/sector 2001-2007 (US\$)

No	Goods	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1	Agriculture machinery	1,200						
2	Office equipt. Sport	5,176	38,151			5,950	361,560	11,898
3	Clothing.		6,563		3,692	2,214	130,350	
4	Food	24,000					313	2,587
5	Electricity. App.		42,467				14,735	113,862
6	Medicine and Equip	8,899			14,067	159,698	99,492	69,104
7	Petroleum & Gas							26,216
8	Luxury goods							
9	Construction	18,840			2,940		6,400	
10	Vehicles	2,488,749	5,966,069	8,204,443	6,000,940	5,385,137	11,488,607	27,824,521
11	Raw Material		79,230		541,718	650,331	483,779	403,187
12	Transit goods						5,000	379,283
13	Import Electric Power							
14	Import for Project			5,075	40,510	406,716	2,330	890,442
15	Industry goods	7,930		58,397		52,738	12,200	384,891
16	Others*				3,746	91,422	3,418,689	7,461,030
Total		2,554,795	6,132,479	8,267,915	6,607,613	6,754,206	16,023,455	37,567,021

* Including border trade, goods for office operation, trade fares, ODA related, etc.

Source: Ministry of Industry and Commerce, 2009; Vongsaysavanh S, 2009

Overall, the trade relation between Lao PDR and the North East Asian region has dramatically increased, especially from 2005 onward during the implementation of the 6th Five-Year Plan of the country. While, China maintains the largest level of trade relations with Lao PDR, Korea has sharply developed and increased its trade relations with Lao PDR, especially from 2005 onward. This led to a huge increase of the total Lao export value to Korea from 2005 to 2008, bringing its cumulative export value to the top position as compared with other North East Asian countries and giving Lao PDR

a trade surplus with Korea. With Japan, meanwhile, trade relations had mostly been in the manufacturing sector, with garment, wood processing and other industrial goods as exports from Lao PDR, and imports from Japan as mostly in terms of vehicle and other industrial products for investment projects.

2.3. Official Development Assistance (ODA)

The North East Asian countries constituted the top sources of ODA for Lao PDR and play a significant role in the infrastructure development of the country. Among the countries from the North East Asian region, Japan is the top bilateral donor and Japanese ODA covers about half of the total bilateral ODA in Lao PDR at about USD 80- 90 million (Oraboune, 2008). Japanese ODA accounts for about 20 to 25 percent, on the average. From 2005 onward, however, the share of Japanese ODA in Lao PDR's total ODA has slightly declined, with an average of about USD 65 million and accounting for about 15 percent of the total ODA (Table 20).

Table 20 also compares the ODA from Japan with those from China and Korea. Official statistics indicate that Chinese aid to Lao PDR started in the early 2000s and steadily flowed in from then on. In terms of value of the Chinese aid to Lao PDR, although the amounts fluctuated year by year, the average for 2000-2008 was about USD18 million per year (Oraboune, 2008). On average, Chinese aid accounted for about 5 to 6 percent of total ODA value inflows into Lao PDR annually from 2000-2008 but it is estimated to go up to about 8 percent in fiscal year 2009.

Official statistics also show that Korean aid first started in Lao PDR in 1997-1998 at about the same time as Japanese ODA. However, Korean aid accounted for only about less than 1 percent of total ODA in Lao PDR from 1997-2004. Starting 2005, though, Korean aid in Lao PDR has significantly increased with an average amount of about USD 15-20 million and accounted for about 3 - 4 percent of total ODA on the average. The estimation of total ODA in Lao PDR would increase by about 35 percent with an expected increase of almost triple the amount of last year's aid from Korea in the coming year as can be gleaned from Table 20.

Table 20: ODA from China, Japan and Republic of Korea in Lao PDR 1996-2008

Year	Total	Value of ODA (USD)			Percentage		
		China	Japan	Korea	China	Japan	Korea
1996/97	151.89				0	0.0	0
1997/98	194.686		73.5	0.5	0	37.8	0.3
1998/99	252.21		52	0.5	0	20.6	0.2
1999/00	359.2	38.88	90.82	0.3	10.82	25.3	0.1
2000/01	282.03	9.20	86.2	0.4	3.3	30.6	0.1
2001/02	379.28	25.50	100.21	0.3	6.7	26.4	0.1
2002/03	401.81	29.23	103.42	1.01	7.3	25.7	0.3
2003/04	383.79	7.93	84.99	1.74	2.1	22.1	0.5
2004/05	371.32	10.03	85.36	5.75	2.7	23.0	1.5
2005/06	468.39	21.16	62.18	5.88	4.5	13.3	1.3
2006/07	432.76	34.48	71.53	19.56	8.0	16.5	4.5
2007/08	413.44	4.51	78.01	11.45	1.1	18.9	2.8
2008/09 est	559.17	46.56	63.17	29.4	8.33	11.3	5.3

Source: Dept. of International Cooperation, MPI, 2009

Japan is the top ODA donor for Lao PDR especially in infrastructure development. Over 50 percent of Japanese ODA are in the communication and transport sector which is considered as an important factor for socio-economic development in Lao PDR (Table 21). Several Japanese ODA-supported infrastructure projects have significantly improved the regional economic integration of the country with the Greater Mekong Sub-region (GMS) as well as with the ASEAN. These would include, among others, the second friendship bridge and road number 9 in Savannakhet which connect Vietnam with Thailand through Lao PDR. The development of this route has significantly contributed to the improvement of trade transactions in the region. The Mekong bridge in Pakse has drastically contributed to the development of Pakse. The Wattay International Air Port in Vientiane is also considered as an important factor in the improvement of Lao aviation, including passenger and goods transport domestically and internationally. Nevertheless, one significant sector for Japanese ODA in Lao PDR is social and economic development which included information and culture, trading, and environment issues. Almost 49 percent of total Japanese ODA in Lao PDR went into this sector.

Table 21: Japanese ODA in Lao PDR (by sector) USD million

No	Sectors							
		2001	2002	2003	2004	2005	2006	2007
1	Agriculture & Forestry	6.6	6.6				2.16	
2	Communication & Transport	37.12	28.23	18.68	17.83	12.87	22.59	36.99
3	Social Economic Development*	46.61	46.61	41.69	36.05	40.61	41.96	35.68
4	Energy & Mining	2.29	13.35	6.8	10.65			
5	Environment					1.05		
6	Education	5.56	5.56	12.84	14.21	5.26	3.5	3.5
7	Health	2.03	3.07	4.75	6.62	2.39	1.32	1.84
8	Others**			0.23				
Total		100.21	103.42	84.99	85.36	62.18	71.53	78.01

* including area and rural development, disaster preparedness, economic management, humanitarian aids and relief, industrial and social development

** including information and culture, trading and environment

Source: Vongsaysavanh S, 2009

Aid from China has also significantly contributed to infrastructure development in Lao PDR. Over 60 to 70 percent of total aid from China went to the communication & transport sector between the period 2002 and 2006 (Table 22). Some of the important Chinese-assisted projects included the construction of a national cultural hall and the Patuxay monument renovation, among others. In recent years, however, the social and economic development sector has become the focus of Chinese aid to Lao PDR. Among the important projects include the assistance for the master plan development of the northern region of Lao PDR and the construction of a new national stadium for Lao PDR which was used for the 25th South East Asian Game (SEA Game) in late 2009.

Table 22: Chinese aids in Lao PDR (by sector) USD million

No	Sectors	Year						
		2001	2002	2003	2004	2005	2006	2007
1	Agriculture & Forestry						0.92	0.92
2	Communication & Transport		3.34	3.06	3.35	17.2	24.79	
3	Social Economic Development*	0.48	0.52	1.83	5.08		2.45	2.43
4	Energy & Mining	16.2	22.31				4.85	0.31
5	Natural resource							
6	Education	0.62	0.62	0.64	1.26	1.46	0.25	0.25
7	Health	2.38	2.44	2.44	0.34	2.5	1.22	0.61
8	Others**	5.78						
Total		25.5	29.23	7.97	10.03	21.16	34.48	4.52

* including area and rural development, disaster preparedness, economic management, humanitarian aids and relief, industrial and social development

** including information and culture, trading and environment

Source: Vongsaysavanh S, 2009

Korean aid, meanwhile, has drastically increased from 2004 onward, especially in the education sector which accounted for about 70 to 80 percent, on average, of the total aid from Korea between 2004 and 2007 (Table 23). The Lao-Korean Vocational Training Center is an example of such assistance. It can also be seen in Table 23 that from 2006 onward, the amount of Korean aid has sharply increased and diversified to other sectors such as agriculture & forestry, and social & economic development, among others.

Table 23: Korean aids in Lao PDR (by sector) USD million

No	Sectors	Year						
		2001	2002	2003	2004	2005	2006	2007
1	Agriculture & Forestry		0.16	0.24	0.25		1.16	2.06
2	Communication & Transport					0.72	0.8	1.03
3	Social Economic Development*	0.2	0.1	0.4	0.2	0.8	3.54	3.61
4	Energy & Mining							1
5	Environment							
6	Education	0.1	0.75	1.1	5.3	4.34	14.06	3.74
7	Health					0.02		
8	Others**							
Total		0.3	1.01	1.74	5.75	5.88	19.56	11.44

* including area and rural development, disaster preparedness, economic management, humanitarian aids and relief, industrial and social development

** including information and culture, trading and environment

Source: Vongsaysavanh S, 2009

3. CASE STUDY OF FDI RELATIONS BETWEEN LAO PDR AND CHINA, JAPAN AND KOREA

This section discusses some aspects of the economic relations between Lao PDR and the three countries from the North East Asian region by reviewing a few case studies of economic relations of Lao PDR with these three countries. Since FDI has been recognized as a significant element in the industrialization and economic development of Lao PDR, case studies of FDI in Lao PDR from these three countries will be discussed in-depth in order to further understand the characteristics and trends of FDI in Lao PDR from these three countries. The comparison discusses the trend of capital inflow, the sectors where investment has been focused, the regional aspect, and the socio-economic contributions to the host country.

3.1. Trend of Capital Inflow to Lao PDR from China, Japan and Korea

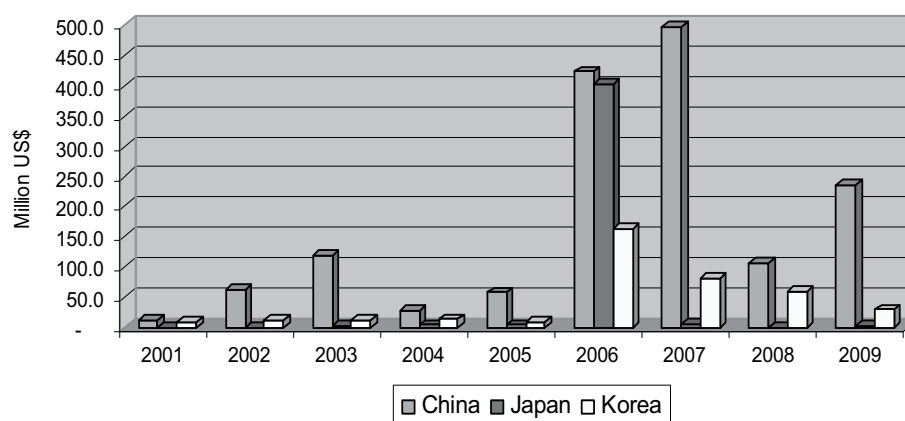
In terms of value, the figures show that capital inflow from Chinese investment is the largest compared with Korea and Japan. As noted earlier, this is probably because of the geographical proximity between China and Lao PDR. The value of Chinese investment has drastically increased from 2006 and almost reached half a billion US

Dollars in 2007, which marked the peak in the trend. In 2008, the investment value from China sharply decreased in view of the decline in global demand caused by the global financial crisis. This led many investment projects from China to reduce and/or cancel production. However, the decrease was only until the first quarter of 2009; after that, Chinese investment in Lao PDR has resumed to almost half the value it had in 2007 (Figure 4). At the same time, some new investment projects continued to come in.

Figure 4 likewise shows that capital inflow from Korea has sharply increased in 2006 but slightly declined in 2008 due perhaps to the global financial crisis. Similarly as China, the value of investment from Korea also showed signs of recovery in the first quarter of 2009 and reached almost half of the total value of the previous year. Korean investment in Lao PDR also diversified in recent years, especially in the mining and banking sectors.

Japanese investment in Lao PDR, on the other hand, gradually developed and stabilized in 2006. However, the Japanese-supported investment project in hydro electricity sharply raised Japan's total FDI value in Lao PDR although it failed to compare with the early 2009 levels of investment flows from China and Korea. The registration of huge projects like those in the mining sector, though, indicates a continuing increase in value for the year.

Figure 4: Value of FDI from China, Japan and Korea



Source: Dept. of Investment Promotion, MPI, 2009

Nevertheless, China remains in the lead in terms of the number of investment projects in Lao PDR. The average Chinese investment value per project is also bigger than the average value of Korean and Japanese projects. However, in the hydro power sector, the Korean and Japanese investment projects are much bigger than the Chinese projects.

3.2. Sector of Concentration/Focus and Source of Investment

In terms of the sectors where investments were focused in, all three countries concentrated in the natural resource sectors, including hydro power and mining. China has the most number of investment projects in the hydro power sector but the average cost was less than USD 100 million per project. Korea has only one hydro power project in Lao PDR but its total value is higher than all of China's investment projects in this sector. Likewise with the Japanese investment project in this sector, which means that Chinese investment projects are mainly small ones and many of them are in the rural areas, especially in the border provinces of Northern Laos. The major Chinese investors in Lao PDR usually hail from the border provinces of China, especially the southern region such as Yunnan, Quang Xi and Guang Cho.

The infrastructure in Northern Laos is not as developed as in the other areas of the country, but due to China's geographical proximity, investors from China make use of this advantage to supply the needs and growing demands of development emerging from the Chinese provinces located in the borders of Northern Laos. Taken from this point of view, the Chinese investment has therefore contributed more or less to the socio-economic development of Lao PDR, especially in its northern region where the incidence of poverty is high. At the same time, Chinese investment in this area has also contributed to the infrastructure development for border and regional trade.

On the other hand, Japanese investment is more concentrated in the city areas where the infrastructure facilities are much better. Japanese investors make careful economic analyses before taking on any decision to invest. Due to the distance between Japan and Lao PDR which is aggravated by the lack of a direct transportation route between the two countries, Japanese investors consider it quite inconvenient to put in direct investments in Lao PDR. Hence, FDI from Japan to Lao PDR is not so developed. However, there are some Japanese investments in Lao PDR but most of them are from

Thailand. These are the Japanese FDIs in Thailand whose partial project production have been shifted to Lao PDR due to production adjustments made by Japanese investors in response to changes in socio-economic conditions. Japanese investment usually brings more advanced and high-level technology into a country, accompanied by a very systematic management approach. For Lao workers, this is one advantage that they can gain and learn from in terms of developing their skills. Unfortunately, the underdevelopment of many of Lao PDR's social and economic infrastructure has served as a bottleneck for Japanese investors to decide to invest in Lao PDR. It is in this light, therefore, that Japanese ODA can play a significant role in gradually addressing the investment bottleneck and in developing the necessary infrastructures that will attract more Japanese investments, especially from Thailand into Lao PDR.

Korean investment in Lao PDR has been increasing significantly, especially since 2006. Korean investors are mostly from Korea. Although the majority of the FDI from Korea are concentrated in city areas and in locations with better infrastructure, there are also some projects in the rural areas. Korea has also invested in the banking sector in Lao PDR, the only North East Asian country so far to do so. There are two Korean bank investors in Vientiane at present, the Indochina Bank and the Booyoung Bank. This may be the sign that FDI from Korea might be more developed in the future as the banking system could help ease the capital flow between the two countries.

3.3. Case of Investment in Automobile and Motorcycle Industries

The automobile and motorcycle industries in Lao PDR are mainly FDIs from Japan, China and Korea. Japanese motorcycle assembly was the first FDI in Lao PDR in this industry, with the Honda motorcycle assembly (New Chipseng Company) being the first to enter in the 1989-90, followed afterwards in mid 1990s by the Suzuki motorcycle assembly factory (Santipab Suzuki Company).

For the automobile industry, though, there is at present no Japanese automobile assembly factory in Lao PDR. However, since the 1992, the Lao Toyota Company has been operating as a Toyota automobile brand agent in Lao PDR in order to distribute Toyota automobile products from Thailand. The Toyota Lao Thany Company is the second Toyota brand distribution agent in Lao PDR.

The Japanese automobile distribution agencies and the motorcycle assembly

industry in Lao PDR were mainly from Japanese investors in Thailand. This was the outcome of industry fragmentation for the motorcycle industry wherein the assembly factory was moved from Thailand into Lao PDR. The automobile distribution agencies, meanwhile, were to distribute automobile products produced in Thailand in Lao PDR and neighboring countries.

In the meantime, Korean FDI in an automobile assembly factory represents the first FDI in the automobile industry in Lao PDR. KOLAO is the brand name of the Korean automobile assembly factory and distribution company of Korean automobiles in Lao PDR. KOLAO is 100 percent FDI from Korea and it distributes Korean brands such as Hyundai and KIA. Because of their lower prices that are affordable to many consumers, the KOLAO vehicular products have been the most popular in Lao PDR, especially in the rural areas. Thus, this Korean automobile investment represents an important investment venture and has contributed to the socio-economic development of Lao PDR, in particular, to its business activities. After the automobile industry, the Korean motorcycle assembly industry entered Lao PDR in 2000. The Korean investments in the automobile and motorcycle assembly factories came directly from Korean investors based in Korea.

At present, there is no automobile assembly factory from China in Lao PDR but there are many Chinese car distribution agencies. Because of the low prices of the Chinese automobiles, many Lao buyers have begun to purchase and use them but still not as much as they do of the Korean automobile. These automobile distribution agencies distribute automobile products from nearby and border provinces of China. For the motorcycle industry, there is one Chinese motorcycle assembly company in Lao PDR which has been in business since the early 2000s. Due to their lower prices, Chinese motorcycles have been used in many regions in Lao PDR.

In sum, there is no Japanese investment in an automobile assembly factory in Lao PDR. The Lao people consider the Japanese automobile is one of luxury brands and is more expensive than other Chinese and Korean brands. Meanwhile, Korea is the first to invest in the automobile assembly industry in Lao PDR. Due to its reasonable price, the Korean automobile is very popular all over the country. The Chinese automobile is a latecomer and at present, there is no Chinese assembly factory as yet in Lao PDR. However, since most of the Chinese automobile products being distributed in Lao PDR

are cheaper when compared to Japanese and Korea automobiles, many Lao citizens have begun to use them. The same goes for the Chinese motorcycle products which are also cheaper than the Japanese and Korean products.

4. CONCLUSION AND POLICY RECOMMENDATIONS

By comparison, the North East Asian region comes next to the ASEAN region in terms of economic relations with Lao PDR. With regard to FDI and trade, this region ranks just slightly second to the ASEAN, with increases in levels and value felt most especially in 2009 when FDI from Korea and China increased very sharply. On the other hand, the North East Asian region, especially Japan, is the major ODA provider for Lao PDR and is considered as an important player in the socio-economic development of Lao PDR.

Since FDI is considered as an important element for economic development in Lao PDR, the FDI coming from the North East Asian countries, particularly from China, Korea and Japan, has been looked at as very critical. Hence, appropriate policies to induce FDI from this region should be put in place in Lao PDR to further attract investors from the region. Taking the characteristics of the investors and other related factors from each country into account, the following strategy for each country should be considered by the government of Lao PDR to encourage as many investors from the region as possible.

1. FDI from Japan: Targeting Japanese investors from neighboring countries, especially from Thailand, should be a better strategy. Taking the situation of increasing labor and raw material costs in Thailand, Lao PDR has the geographical proximity that can offer more competitive advantage for business fragmentation. Thus, moving labor-intensive production blocks to Lao PDR where lower cost is an option for Japanese investors should be considered. However, because Japanese investors always look for the necessary infrastructure support when making investment decisions, Japanese ODA should be a top priority for infrastructure development in Lao PDR in order to improve the investment climate that would induce potential Japanese investors to come in.

2. FDI from China: Since most of the Chinese investors come from the nearby provinces due to geographical proximity, the emerging development of business relations as well as the good relationships among the border provinces between Lao PDR and China should be tapped to the fullest to attract investors from these regions. This might be a better option in order to support the development of rural areas in nearby provinces and in the northern region of Lao PDR.
3. FDI from Korea: Support for the development and expansion of some manufacturing industries from Korea such as the automobile industry is important in order to support the industrialization process of the country. At the same time, the utilization of financial and banking services from Korea is also important in order to gradually reduce the informal sector and contribute to a better investment climate that will support FDI as a whole.

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