

# Laos Recollections and Lessons Learned

*A recent history of the development of Laos' commercial sector and advice for those entering the Lao market*

■ Written by: Matthew Younger and Melia Ungson

Over the past few decades, the business landscape in Laos has changed dramatically. In the following article, Americans with firsthand experience comment on the changes in Laos and provide some practical advice for those interested in entering the Laos market.

## AMBASSADOR STEWART

Nobody is in a better position to comment on the growth of the Lao economy and the U.S.-Lao commercial relationship than current U.S. Ambassador to Laos Karen Stewart, who has served in Vientiane three times over the past three decades: as Economic and Consular Officer from 1984-86; as Chargé d'Affaires from 1999-2001; and as Ambassador from 2010-2013.

In the mid-1980s, as the country began its path to a market economy under the "New Economic Mechanism," the U.S. and Laos had minimal trade relations. Inflation was a major concern, and there were up to a half dozen different official currency exchange rates, depending on the purpose or person. "The Lao government was not encouraging foreign investment – or their own businesses for that matter," recalls Ambassador Stewart.

Tourism was virtually nonexistent, and the domestic private sector moved to the rhythms of an agricultural society – centered on the morning and evening markets.

### U.S.-Laos re-engage

When the U.S. and Laos restored full diplomatic relations in 1992, Laos was a minor trading partner, with the value of U.S. exports to Laos ringing in at just below U.S.\$1 million. In 1997, the U.S. and Laos negotiated a Bilateral Trade Agreement



*U.S. Secretary of State Hillary Clinton meets with Lao PDR Prime Minister Thongsing Thammavong on July 11, 2012*

(BTA) to provide, among other things, market access for U.S. goods in Laos and the protection of intellectual property rights.

In December 2004, Congress granted Normalized Trade Relations (NTR) (formerly known as "Most Favored Nation" status) to Laos and soon after the U.S.-Lao BTA was ratified. NTR dramatically reduced tariffs, which had been as high as 46%, on goods entering the United States from Lao PDR, effectively opening the world's largest market to Lao products.

### Internal Improvement, Encouraging Future, But Challenges Remain

The commercial relationship between the U.S. and Laos has continued to develop over the past decade. In 2009, the U.S. removed the ban on U.S. Export-Import Bank financing for American companies doing business in Laos, as commercial interest and foreign investment increased.

When Ambassador Stewart returned to Laos in 2010 the first thing she noticed was the amount of real estate development. More foreign companies and products, including American brands, were making headway in Laos.

Perhaps the one thing that stood out the most for Ambassador Stewart was the progress Laos had made in connecting itself internationally. Back in the 1980s, "there were just three flights per week from Laos to Thailand, leaving from one terminal at Wattay Airport." Today, over 15 flights per week run from Bangkok to Vientiane, and there are direct flights to Singapore, China, Cambodia, Vietnam, and Korea.

Recently, there have been other major steps in furthering U.S.-Laos commercial relations, often in the context of Laos' drive to develop economically by integrating into the global marketplace. Laos joined the World Trade Organization

(WTO) in February 2013. The U.S. Agency for International Development (USAID) provided critical technical support to the Lao government as they strove to meet WTO membership eligibility requirements.

Next on the bilateral economic horizon for Laos and the United States is the government of Laos' application for the U.S.'s Generalized System of Preferences (GSP), which will potentially grant tariff-free access to the U.S. market for over five thousand types of products.

### THE AMERICAN BUSINESS COMMUNITY IN LAOS

The continuity of the American business community in Laos is perhaps best represented in the story of the Manley family of Vientiane.

Frank Manley, Laos resident since 1960, was an American business pioneer in Laos. He recalls selling the first air conditioning system in the country, manufactured by Westinghouse, to Laos' only functioning hospital in the early 1960s.

Today, Frank's son, Chris, is Group Country Manager of RMA Lao, part of the RMA Group, and representing iconic American brands such as Ford and John Deere. Chris is also the Chairman of the AMCHAM Lao Chapter, making him a pillar of the U.S. business community in Vientiane.

Chris Manley explains that RMA Lao entered the market in 1994 with just three employees with a purpose "to support engineering and infrastructure development projects." Today, the company employs around 300 people and represents several brands in five main sectors: automotive, infrastructure, vehicle rental, food franchises, and mechanical and electrical engineering services.

According to Manley the key to success for RMA Lao has been "coming into the market early, establishing itself early, and expanding alongside the country's economy." The strategy "requires patience, commitment to the country with local investment, and a long-term outlook."

Manley says that there are many opportunities for those considering entering the Lao market, but notes, "it is important

to follow the correct legal processes, involve the right government entities, and avoid taking shortcuts." Manley cautions that the tight labor market and limited human capital resources pose challenges. "RMA Lao dedicates a lot of resources to training and skill-building; however, skilled employees are in high demand from competitors as well, and there is frequent turnover."

### NGOs and SMEs

Rick Reece, Executive Director of the Non-Governmental Organization (NGO) and AMCHAM member Village Focus International, seconds Manley's labor market assessment: "Ten years ago, NGOs got the cream of the crop because they offered the best salaries and job security." Now, NGOs are finding it difficult to keep new staff because the private sector is offering good jobs with a good future.

AMCHAM member Lao Mountain Coffee, under the leadership of founder Steve Feldschneider, has shown that opportunity exists for SMEs, growing rapidly since its humble beginnings in 2001. Lao Mountain Coffee sells special-grade, Fair Trade-certified coffee, green teas, and specialty Pu'er tea. The company is building close ties with small coffee-producing villages and is working to increase farmer incomes and strengthen the Lao coffee harvest.

### Coca-Cola

Perhaps no brand is quite as symbolic of American business in emerging markets as Coca-Cola. Coke products have long

been sold in Laos, alongside Pepsi and other brands, but in 2012, Coca-Cola appointed a fully licensed bottling partner in country, heralding a new level of U.S. corporate engagement in Lao PDR.

According to Mark Griffin, General Manager of Lao Coca-Cola Bottling Co. Ltd., the company "operates its own sales and delivery teams in Vientiane Capital" and works with distribution partners in the provinces, and the process of building a nationwide distribution system is well underway. Griffin explains that there are also plans for a bottling plant to be built near Vientiane, "which will be an important step" since products are currently imported from neighboring Thailand.

Griffin says that "while Laos has a smaller population than its neighbors, Coca-Cola sees good potential for growth" because the population is young and the economy has "one of the fastest rates of growth in ASEAN."

### Mining and Hydropower

Although consumer goods are proliferating in Laos, the major drivers of the economy are mining and hydropower. The two industries account for over a quarter of Laos' gross domestic product.

Robert Allen is the CEO and General Manager of Theun-Hinboun Power Company (THPC). Allen has seen tremendous growth in the power sector since he arrived in 1996. THPC, which is not U.S.-owned, operates a hydropower plant with 500 megawatt capacity, and sells electricity domestically and for export to



Signing ceremony of a joint venture agreement to form Lao Coca-Cola Bottling Co., Ltd., recently held at Vientiane.

Thailand. When THPC was established in 1998, it marked the first private involvement in a hydropower project in Laos.

According to Allen, the growth of the U.S. commercial presence in Laos has not been a smooth upward curve. He recalls that a handful of major American companies, such as Hunt Oil and Anglo-American Gold, had moved in during the early stages of economic liberalization, but by the late 1990s, they had not found what they were looking for and departed.

But, according to Allen, “the government’s attitude toward American business has changed immensely,” particularly in the past two years. Laos is now more interested in attracting U.S. companies and American businesses are becoming more interested in Laos “as a stepping stone to the rest of the region and to the ASEAN countries” and due to Laos’ young population and an abundance of land. However, he points out that challenges remain, including a small market and a legal framework that can be difficult to navigate.

Chris Manley (RMA Lao) supports Allen’s assessment. “There is more construction, more infrastructure development, and more investment,” says Manley. Across all of the brands that RMA represents, Manley has noted “more competitors coming in to the market,” particularly as the boom in mining, hydropower, and agriculture helps to fuel the country’s eight percent annual growth rate.

### **The Legal Market and Foreign Investment**

According to Danyel Thomson, Senior Legal Adviser at the international law firm DFDL, Laos’ legal framework is improving. Since first coming to Laos in 2007, she has seen the government make great strides in the development of legislation, particularly now in conjunction with the schedule of WTO commitments.

When DFDL first started in Laos in 1994, the legal services sector in Laos was quite small. Over the past few years both international and domestic Lao firms have proliferated. DFDL sees a steady flow of investors from countries such as China, India, and Japan. Some



*Chao Anouvong Park along the Mekong River in Vientiane*

are interested in the tried and true sectors of hydropower or plantation agriculture. There are also new types of companies and products entering the scene, such as pharmaceuticals and cosmetics, which are a reflection of rising discretionary income among Lao consumers.

Additionally, since 2007, there has been an increase in American companies and investors looking to do business in Laos, a sign of both improving U.S.-Lao relations and a signal that “Laos is on the brink of a time when it is welcoming investment from around the world.”

### **AMCHAM LAO CHAPTER**

The Lao Chapter of The American Chamber Of Commerce In Thailand (AMCHAM) was launched in September 2012 to support the American commercial presence in Laos and strengthen relationships with local partners and other chambers.

The Lao Chapter seeks to work with members to make the business community’s voice heard. In addition, the organization aims to promote U.S. investment in Laos, give members a venue for networking, and facilitate giving back to the local community.

Chris Manley, Chair of the Lao Chapter, explains that before the AMCHAM Chapter was formed there was no avenue for U.S. businesses and investors to address the Lao government or the U.S. Embassy on issues of common concern. Chapter membership has quickly grown to 14 companies. Manley hopes to keep the

momentum going by holding monthly events, using support and ideas provided by the parent AMCHAM Thailand.

### **EX-PAT LIFE IN LAOS**

Despite the progress made and the potential that exists in Laos, Allen feels that there remains “a perception problem.” Laos is one of the poorest countries in the world, and undoubtedly poverty remains a major challenge. However, in some ways, this can be “misleading” for companies and investors looking to do business in Laos. The quality of life in Vientiane and some of the other cities in Laos surprises many visitors.

As Rick Reece explains, the country is quite safe and there exists “an intimate expat community in Vientiane.”

Since coming to Laos 15 years ago, Reece finds that the “quality of life has improved a lot.” Electricity in urban areas is better than most countries in the region other than Thailand, and internet and phone service are reliable and rapidly modernizing. Public health issues for expats are not a major concern, as clean water is accessible. Health care still requires a trip across the river to Udon in Thailand for major problems, but there are clinics in Vientiane capable of dealing with routine health care needs. More generally, Reece characterizes Vientiane as “relatively clean and well organized, with urban poverty not a grinding issue.”

For those with a bit of patience, there are opportunities and markets in Laos that are ripe for business. Of course, there are real challenges, including a low GDP per capita, a tight labor market, and some infrastructure limitations. But developments like the establishment of AMCHAM Lao Chapter will go a long way toward helping new American businesses navigate any obstacles. In sum, the last thirty years have seen tremendous growth, and the best days of the U.S. business community lie ahead in Laos. ■

*Matthew Younger is the Economic and Commercial Officer, and Melia Ungson is an intern in the Political and Economic Section, at the U.S. Embassy in Vientiane, Laos. Matthew can be contacted at: [youngermb@state.gov](mailto:youngermb@state.gov) Melia can be contacted at: [ungsonmc@state.gov](mailto:ungsonmc@state.gov).*