



FACTORS ATTRACTING INVESTORS TO INVEST IN LAO PDR:
CASE STUDY OF SAVAN SENO SPECIAL ECONOMIC ZONE

BY

MISS SOULINDA THAMMAVONGXAY

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS

FOR THE DEGREE OF DEGREE OF MASTER OF ARTS

(ASIA PACIFIC STUDIES)

COLLEGE OF INTERDISCIPLINARY STUDIES

THAMMASAT UNIVERSITY

ACADEMIC YEAR 2017

COPYRIGHT OF THAMMASAT UNIVERSITY

FACTORS ATTRACTING INVESTORS TO INVEST IN LAO PDR:
CASE STUDY OF SAVAN SENO SPECIAL ECONOMIC ZONE

BY

MISS SOULINDA THAMMAVONGXAY



A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF MASTER OF ARTS
(ASIA PACIFIC STUDIES)
COLLEGE OF INTERDISCIPLINARY STUDIES
THAMMASAT UNIVERSITY
ACADEMIC YEAR 2017
COPYRIGHT OF THAMMASAT UNIVERSITY

THAMMASAT UNIVERSITY
COLLEGE OF INTERDISCIPLINARY STUDIES

THESIS

BY

Miss SOULINDA THAMMAVONGXAY

ENTITLED

FACTORS ATTRACTING INVESTORS TO INVEST IN LAO PDR:
CASE STUDY OF SAVAN SENO SPECIAL ECONOMIC ZONE

was approved as partial fulfillment of the requirements for
the degree of Master of Arts (Asia-Pacific Studies)

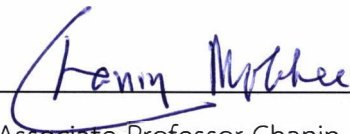
on **22 JAN 2018**
on.....

Chairman



(Associate Professor Peera Charoenporn, Ph.D)

Member and Advisor



(Associate Professor Chanin Mephokee, Ph.D)

Member



(Associate Professor Thamavit Terdudomtham, Ph.D)

Dean



(Associate Professor Decha Sungkawan, Ph.D)

Thesis Title	FACTORS ATTRACTING INVESTORS TO INVEST IN LAO PDR: CASE STUDY OF SAVAN SENO SPECIAL ECONOMIC ZONE
Author	Miss Soulinda Thammavongxay
Degree	Master of Arts (Asia-Pacific Studies)
Major Field/Faculty/University	Asia-Pacific Studies College of Interdisciplinary Studies Thammasat University
Thesis Advisor	Associate Professor Chanin Mephokee, PH.D.
Academic Year	2017

ABSTRACT

In 2003, the Lao government launched the first Special Economic Zone called “Savan Seno Special Economic Zone” or in short SASEZ, located on road no.9 of the East-West Economic Corridor. It is Lao government's policy to support and promote investment in Lao PDR to create job opportunities and to enhance labor skills in Lao PDR. However, the number of operating projects in the zone is still lower than it is supposed to be, accounting for only 55 percent of registered projects. Also, the study of the main challenges of SEZ in Lao PDR that affect the number of investors is limited. Therefore, it is timely to study this issue. The purposes of this study are to examine the factors, which attracted investors to invest in SASEZ, to rank the important factors from the perspective of investors, and to provide policy recommendations to improve the SASEZ. The finding is guided by three main theories, which are the Heterodox approach, Agglomeration economies' approach, and OLI paradigm theory. The study uses surveys applying Likert-type Scale method; in-depth interview targeted to government officials who are responsible for this task, investors who invested in this zone, as well as academicians who are experts on SEZ in Lao PDR; and the review of published and unpublished sources as the secondary data. The results show that firstly, excellent location, where the cost of production and labor are cheaper than many countries, is the most important factor that attracts foreign investment. Secondly, the flexible legal control and support from local authority are necessary for both domestic and international investors.

Keywords: Special Economic Zone, Foreign Investment, Domestic Investment

ACKNOWLEDGEMENTS

This thesis would not become a reality with the kind support and help of following individuals. I would like to extend my heartfelt gratitude and appreciation to all of them.

First and foremost, I would like to express my gratitude to my respectful thesis advisor Associate Professor Dr. Chanin Mephokee for all of his kindness and patience in shaping the direction to keep me going on the right track, as well as his encouragement to support me go through this hard time.

Secondly, I would like to thank my key informants including the government agencies (the officials from Special Economic Zone Promotion and Management Office, Savan Seno Special Economic Zone Authority) and companies in Savan Seno SEZ; as well as the academicians for their willing contributions in my study through sharing data information, interviews and questionnaire responses.

Thirdly, my appreciation extend to Assistant Professor Dr. Suphat Supachalasai, the director of Master of Asia Pacific Program and all staffs of the program for their assistance during my semesters, and especially the Thailand International Cooperation Agency scholarship program for giving me such an excellent opportunity to gain my knowledge and abilities as well as life experience in Thailand.

Lastly, I would like to express my boundless love to all my classmates and family who are always helping and encouraging me to complete my degree.

Miss Soulinda Thammavongxay

TABLE OF CONTENTS

	Page)
ABSTRACT	(1)
ACKNOWLEDGEMENTS	(2)
LIST OF TABLES	(6)
LIST OF FIGURES	(7)
LIST OF ABBREVIATIONS	(8)
CHAPTER 1 INTRODUCTION	1
1.1 Introduction	1
1.2 Statement of Problem	2
1.3 Research Objective	3
1.4 Scope of Research	3
1.5 Research Question	3
CHAPTER 2 REVIEW OF LITERATURE	4
2.1 Theoretical Framework	4
2.1.1 The Heterodox Approach	4
2.1.2 Agglomeration Economies' Approach	4
2.1.3 OLI Paradigm	5
2.1.4 Diamond Model	5
2.2 Literature Review	6

	(4)
CHAPTER 3 RESEARCH METHODOLOGY	10
3.1 Method	10
3.1.1 Data Sources	10
3.1.1.1 Primary Data	10
3.1.1.2 Second Data	10
3.2 Data Analysis	11
3.3 Hypothesis	11
3.4 Conceptual Framework	11
CHAPTER 4 CURRENT SITUATION AND DEVELOPMENT	13
4.1 Introduction of Special Economic Zone in Lao PDR	13
4.1.1 Definition of Special Economic Zone	13
4.1.2 History of Special Economic Zone in Lao PDR	14
4.2 Special Economic Zone in Savannakhet Province	17
4.2.1 Economy in Savannakhet Province	17
4.2.2 Savan Seno Special Economic Zone	19
4.2.2.1 The Savan Seno Special Economic Zone Authority (SEZA)	22
4.2.2.2 One Stop Service	23
4.2.2.3 Procedure of One Stop Service	23
4.2.2.4 Zones in Savan Seno Special Economic Zone	24
4.2.3 Incentive provided in Savan Seno Special Economic Zone	27
4.2.4 Development in Savan Seno Special Economic Zone	29
4.2.4.1 Before the Second Lao-Thai Friendship Bridge construction	29
4.2.4.2 After the Second Lao-Thai Friendship Bridge Construction	29
4.2.5 Investment within Savan Seno SEZ	30
4.3 Performance of Savan Seno Special Economic Zone	32

	(5)
CHAPTER 5 FINDINGS AND ANALYSIS	34
5.1 Analyze the Characteristics of Samples	34
5.2 Descriptive Statistic of Factors Attracting Investment in Savan Seno Special Economic Zone	36
5.2.1 Factors Attracting Investment in Savan Seno Special Economic Zone (Level of Importance)	37
5.2.1.1 Number of Employment	38
5.2.1.2 Number of Registered Capital	41
5.2.1.3 Companies' Countries of Origin	44
5.2.1.4 Business Sectors	47
5.2.2 Problematic Factors affecting Investment in Savan Seno Special Economic Zone	50
5.2.2.1 Number of Employment	50
5.2.2.2 Number of Registered Capital	53
5.2.2.3 Companies' countries of origin	56
5.2.2.4 Business Sector	58
CHAPTER 6 CONCLUSIONS AND RECOMMENDATIONS	61
6.1 Conclusion	61
6.2 Recommendations	61
6.3 Limitation of Study	63
REFERENCES	64
BIOGRAPHY	66

LIST OF TABLES

Tables	Page
4.1 Lists of Special and Specific Economic Zones in Lao PDR	15
4.2 Investment by sector in 2016	17
4.3 GDP of Savannakhet Province	19
4.4 Tax incentives in Industry sector	27
4.5 Tax incentives in Trade sector	27
4.6 Tax incentives in Service sector	28
4.7 Comparison incentives provided of the investment inside and outside the SEZ in Lao PDR	28
4.8 Start-up Business and Current Registration, and Targeted Plan of SASEZ	33
5.1 Likert-scale of companies in terms of number of employment	39
5.2 Likert-scale of companies in terms of registered capital	42
5.3 Likert-scale of companies' countries of origin	45
5.4 Likert-scale of Companies in Business Sector	48
5.5 Problematic Factors of Companies in terms of Number of Employment	51
5.6 Problematic Factors of Companies with Less than One Million USD of Registered Capital	54
5.7 Problematic Factors of Countries' Countries of Origin	57
5.8 Problematic Factors of Business Sector	59

LIST OF FIGURES

Figures	Page
3.1 Conceptual frameworks	12
4.1 Map of Special and Specific Economic Zones in Lao PDR and economic corridors	16
4.2 Forms of development in 2016	17
4.3 East West Economic Corridor route	20
4.4 Functions of One Stop Service in SEZ	23
4.5 One Stop Service Procedure	24
4.6 Map of Zone A of Savan Seno SEZ	25
4.7 Map of Zone B of Savan Seno SEZ	25
4.8 Map of Zone C of Savan Seno SEZ	26
4.9 Map of Zone D of Savan Seno SEZ	27
4.10 Percentage of foreign investment in SASEZ (2008-2017)	31
4.11 Percentage of Foreign Investments in each sector (2008-2017)	32
5.1 Percentage of Companies' Countries of Origin	34
5.2 Percentage of Number of Employment	35
5.3 Percentage of Number of Registered Capital	35
5.4 Percentage of Business Sectors	36

LIST OF ABBREVIATIONS

Symbols/Abbreviations	Terms
ADB	Asia Development Bank
SEZ	Special Economic Zone
EPZ	Export Processing Zone
EWEC	East West Economic Corridor
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
JICA	Japan International Cooperation Agency
MNE	Multinational Enterprise
MOU	Memorandum of Understanding
SASEZ	Savan Seno Special economic Zone
SD	Standard Deviation
SEZA	Savan Seno Special economic Zone Authority
SEZO	Special Economic Zone Promotion and Management Office
SME	Small and Medium Enterprises
VITA	Vientiane Industrial and Trade Area

CHAPTER 1

INTRODUCTION

1.1 Introduction

The concept of special economic development zone in Lao PDR was introduced in 2000 by Japan International Cooperation Agency (JICA) after the feasibility study of the Second Lao-Thai Friendship Bridge construction in Savannakhet province. The Decree on Special Economic Zone and Specific Economic Zone in the Lao PDR has identified the definition of Special Economic Zone as follows,

“Special Economic Zone is the new economic development area that the Government has determined as the area having the location and economic environment which can provide facilities and autonomy in undertaking business operations more than other areas countrywide, through comprehensive building of social and economic infrastructures, institutions and so on with a view to raising the competitive capacity of the business operations which will be the incentive for attracting the investment of all parties so that the economy in this area may be developed at a faster pace, compared to other areas.”

(Decree of Prime Minister on Special Economic Zone and Specific Economic Zone in the Lao PDR, 2010)

Savan Seno Special Economic Zone is the first special economic zone in Lao PDR under the decree of Prime Minister No 148/PM on 29 September 2003 and consisted of four zones with the areas about 677 hectares. It locates at the tip of the Second Friendship Bridge and along the Road No 9 in Savannakhet province. The main objectives of establishment of SEZ are to promote the investment for production, trade, and services along East-West Economic Corridor (EWEC) managed by specific decree of the zone based on the market economic mechanism under the

management and inspection of government. The categories of business activities are planned to develop in the SEZ include export processing zone, free trade zone and free service and logistic center (including tourism, banking, and other activities). To attract more investment, the Lao government has offered privileges to the investors particularly tax incentives such as tax holiday (2-10 years starting from profit-making year), corporate profit tax (8-10%), personal income tax (5% for both local and foreigners within SEZ) (*Decree of Prime Minister on Special Economic Zone and Specific Economic Zone in the Lao PDR*, 2010).

Based on the Implementing Report for year 2016 and Development Plan for year 2017 of the Special Economic Zones by Special Economic Zone Promotion and Management Office (SEZO), recently various companies in different sectors came to invest in the Special and Specific Economic Zones in Lao PDR including domestic and foreign investment; thus the number of FDI keeps on increasing. More employments are provided to local people and infrastructure are also improved. Savan Seno SEZ has attracted 89 companies to invest in the areas (19 domestic companies, 48 foreign companies, and 10 joint-venture companies), but in reality there are only 50 companies that are operating their businesses. The total amount of capital is USD 84,187,252 including USD 4,892,866 government's investment, USD 11,167,000 developers' investment and USD 68,127,386 retail investors' investment. Besides, there are USD 1,418,870 contributed to national budget (USD 1,098,099 from income tax, USD 253,634 from value added tax, USD 47,162 from profit tax, and USD 19,975 from fees and services); imported materials for infrastructure development USD 261,780,727 and exported USD 292,718,041; offered 4,229 job employments (4,128 local and 101 foreign labors) (SEZO, 2016).

1.2 Statement of Problem

There is a gap of investment between inside and outside the Savan Seno Special Economic Zone -only 31.04% of investment inside the zone. Although Savan Seno SEZ has been established more than 10 years with the increasing number of investment as time goes by, it turns out despite they registered for investment, not

all of them are operating their businesses in reality. Another reason is that, the study of factors and problems within SEZ in Lao PDR which are affected the investors' decisions is quite limited. Consequently, the author sees this as a good opportunity to examine the factors attracting investors to invest in Savan Seno Special Economic Zone.

1.3 Research Objective

The objectives of this study are to:

- Examine the factors which attracted investors to invest in Savan Seno Special Economic Zone based on investors' preferences
- Examine the problems facing investors invested in Savan Seno SEZ based on investors' preferences
- Provide policy recommendation to improve SEZ in Lao PDR

1.4 Scope of Research

This study would focus only on the Savan Seno Special Economic Zone in Lao PDR.

1.5 Research Question

What are the factors attracting investors to invest in Savan Seno Special Economic Zone?

What are the problematic factors affecting investment in Savan Seno Special Economic Zone?

CHAPTER 2

REVIEW OF LITERATURE

2.1 Theoretical Framework

2.1.1 The Heterodox Approach

This approach supports a mix of state-market interaction, which governments play important roles in terms of investment, building human resources, technology transfer, institution setting and the promotion policy and institutional reforms. Since the shortage of modern economic development of the local firms such as ineffective of a marketing plan, mismanagement and less access to international market; thus, SEZs can fulfill this gap by offering privileges such as good infrastructure, good administration, simpler regulatory system, skilled labor, tax incentives, finance and strategic location. As a consequence, SEZs is able to attract FDI and at the same time, foreign firms would generate essential spillovers too. Improvement in the country's investment climate will lead to the better performance of the economy. With that, theoretical foundations of setting up of SEZs is essential to better understand its contribution to the country's economic growth (Aggarwal, 2010).

2.1.2 Agglomeration Economies' Approach

This approach emphasizes resources allocation to promote productivity and creativity. SEZs are governments' promotion that focuses on foreign and local firms. Moreover, it seeks to achieve the benefits coming from global value chains. The clusters could improve the quality of production and create new innovation by grouping technology, information, specialized talent, competing companies, supporting companies, academic institution and so on. There are four factors of the successful cluster, which are firm structure, strategy and rivalry, demand conditions, factor conditions and supporting industries.

Consequently, this theory believes that SEZ is not the second-best policy, but it is the best instrument of the government to develop the domestic

economy and bring it to compete with the world economy. Also, SEZ has good impacts in terms of knowledge spillover, technology transfer, and productivity (Aggarwal, 2010).

2.1.3 OLI Paradigm

One of the most popular theories for foreign direct investment (FDI) is OLI Paradigm theory by John Dunning. This theory described three potential sources of the advantage why companies want to become MNEs in other countries. “O” represents Ownership specific advantages which make the firms of one nationality gain profits because it owns some specific assets that are not available in another nationality or competitors such as production techniques, entrepreneurial skills, trademark, etc. “L” represents Location-specific advantages, explaining the reasons why the firms decided to locate business activities outside their own countries such as low wages, availability of labors, natural raw resources, lower taxes, etc. Lastly, “I” represents Internalization advantages, which is a process to internalize the market. In order to maintain the advantages, firms must be able to access to the information and monitor human resources that are able to support new things such as the experts at doing research and development (Neary, 2008).

2.1.4 Diamond Model

Michael Porte’s “Diamond model” is a concept of clusters or countries’ competitive advantage analysis by considering and evaluating four main factors, which are affecting productivity of firms or countries.

1. Factor Endowment or Factor Condition is a necessary factor that should be considered. There are five sub factors including
 - Human resources: number of labor, working skills of labor, wages as well as a cost of labor recruitment
 - Physical resources: abundance of natural resources, quality of soil, water resource, mining, forest, energy, weather atmosphere, geography and location of the country, that affect to time zone of that country
 - Knowledge resources: sciences, technology, marketing strategy about products and services, statistic agency, report and basic information of market research, etc.

- Capital resources
- Infrastructure: transportation, telecommunication, public health systems as well as culture, citizens' quality of life, etc.

2. Demand Condition is the demand on product and service within a country; perhaps consists of opinions and preferences of consumers. If there is a high demand of consumers, it would pressure the firms to come up with product improvements such as higher quality, product innovations, etc.

3. Related Supporting Industries is an essential factor because a country will gain more competitive advantage when there are upstream or downstream businesses that facilitate or support the value chain in terms of sharing information and technical assistance in order to generate product development, product distribution, marketing or service, etc.

4. Firms strategy, structure and rivalry explains about working plans or strategies of firms or countries to achieve their goals and to compete the domestic rivalry

Moreover, Porter also mentioned about the government, because the government plays important role on policy making which affects factor of production such as tax barrier, protectionism, etc.

Thereby, when a country or firm is able to benefit from all factors above, they could gain more competitive advantages than another countries or firms (Smit, 2010) (Nathakorn, 2014).

2.2 Literature Review

Generally, Special Economic Zone (SEZ) are called differently around the globe such as Free trade zone (FTZ), Export Processing Zone (EPZ) and so on. Still, they share similar purposes, that is, attracting foreign direct investment (FDI), increasing employment, supporting country's export (Akinci & Crittle, 2008) (Aggarwal, 2007) (Hattarki, 2014). As the example, the aims of creating SEZ in the USA were supporting and promoting the international trade; while India aimed at promoting its export (Patcharee Pakdeenurit, Nanthi Suthikarnnarunai, & Wanchai Rattanawong,

2014). Furthermore, Hattarki added that SEZ does not only attract foreign investment but local investment as well (Hattarki, 2014) so that the government will be able to earn more money from investors while local firms would have an opportunity to compete with foreign competitors.

To achieve the goal of establishing SEZ, a location is an important factor that the government should take it into consideration. If the location was not suitable, the investors might not come to invest. Generally, there are many regions performed well in creating SEZs such as Asia, Africa, Latin America, and Central America except Southern Africa. The region failed due to an unsuitable location (Aggarwal, 2007). The successful SEZ usually locate in a strategic location, for example, the US government decided to set up the FTZ in the area of the airport, or inland port; the Chinese government chooses the area that was close to the investors, sources of investment funds and technical skills (Patcharee Pakdeenurit et al., 2014).

Aside from the good location, the government's privileges such as tax incentives are essential since those privileges help them to save their costs compared to non-SEZ. Thus, there is no doubt that they will invest in SEZ. Agreed by Funkhiaw's article mentioned that government's initiative such as government's support, government office's performance, law enhancement would be the successful factors in order to develop the SEZ (Funkhiaw, 2014).

In the article namely "Key Success Factor of Special Economic Zone for Thailand", the author suggested the government set up SEZ and provide privileges for investors since those things are very important in terms of attracting foreign investment. Moreover, they also mentioned eight key factors in evaluating the success of establishing SEZ in a country, which is 1) location advantage and macroeconomics of the country, 2) industrial investment support, 3) investment cost, 4) skilled labor, 5) management and service, 6) government policies, 7) laws and regulations, 8) stability and consistency of the government (P Pakdeenurit, Nanthi Suthikarnnarunai, & Wanchai Rattanawong, 2014).

Bouphavan and Chitthipha (2011) have analyzed the factors attracting FDI in Savannakhet province by using the descriptive method and determining five

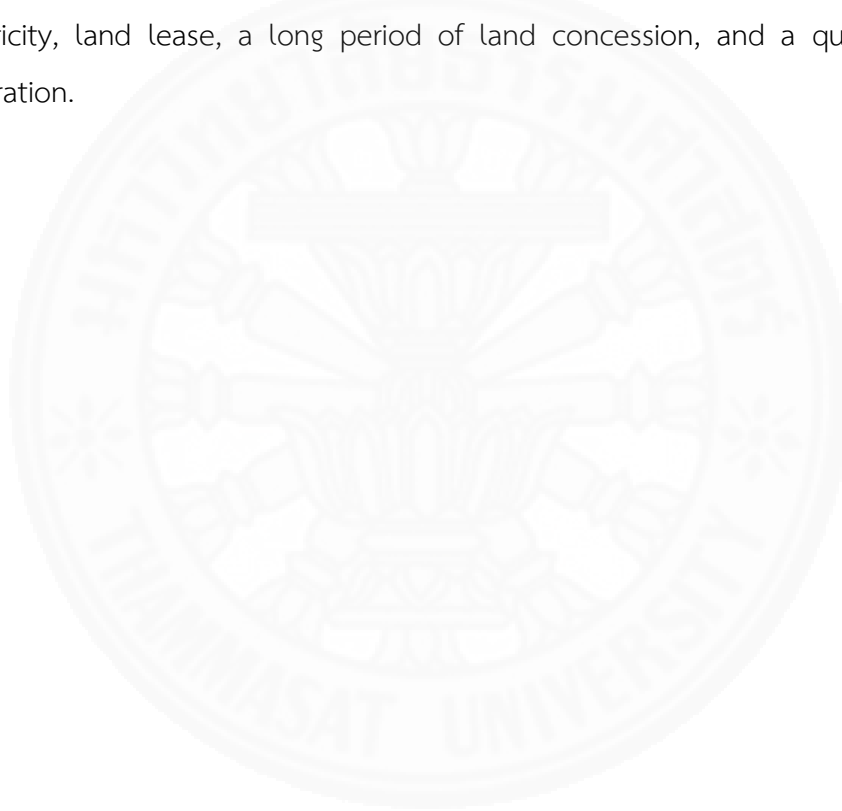
important factors used to measure the inflow of FDI (investment promotion policies and laws, location, financial and socio-cultural environment, and size of economics and market). The findings found that Savannakhet province is the second to Vientiane Capital in terms of the value of foreign investment. Besides, investment promotion policies and laws are the most important factors that attracted foreign investment; follow by market size and location factors. On the other hand, there are some problems regarding investment such as low standard of infrastructure and the scarcity of the labor since most of labors are likely to cross the borders to find jobs in neighboring country particularly Thailand where they can get higher paid (Bouphavanh&Chitthipha, 2011).

Thongkeo Xayyalath (2010) has studied on the overall of FDI in each sectors between 2001-2010 and explained the incentive of foreign investors to invest in Lao PDR by using the descriptive method to analyze the change of FDI in each period. The results showed that Lao government has been attracted foreign investment accounted for USD 13,697 million which consist of 1,690 projects by investors from 41 countries and the popular sectors are electric energy (33.60%), mining (25.78%) and service (12.30%). Moreover, the important factor attracting FDI in that period was tax exemption in terms of importing of raw material, income tax and profit tax as well (Xayyalath, 2010).

A study of FDI in Vientiane Industry and Trade Area which aimed to compare the investment promotion policy between inside and outside Industry and Trade Area and analyzed opportunity, challenge, and current problems facing the investors. The study found that from 2005-2011 there were 1,162 investment projects in Industry and Trade Area in Lao PDR. These projects came from more than 44 countries worth approximately USD 6,238 billion. The main sectors were electric energy, service, industry, construction and agriculture. Likewise, due to the low cost of electricity, water supply and land lease as well as long period of land concession (75-99 years), tax holiday 3-10 years and quick process in terms of register compare to investment outside the Industry and Trade Area; so all these reasons made investors decide to invest in Lao PDR. Nonetheless, there were some challenges for

investment such as lack of world class infrastructure and availability of labor (Nammanivong, 2013).

In conclusion, in international stage, researchers have mentioned that a good SEZ supposes to have a good location where is easy and convenient to access to the port, good privileges from the government especially tax incentives. On the other hand, in particularly the studies also have mentioned some attractive factors that affected the increasing of investment in Lao PDR such as investment promotion policy and laws, market size, location factor, tax exemptions, a low cost of water and electricity, land lease, a long period of land concession, and a quick process of registration.



CHAPTER 3

RESEARCH METHODOLOGY

3.1 Method

3.1.1 Data Sources

3.1.1.1 Primary Data

The primary data was collected by in-depth interview and questionnaires using Likert-type Scale method. The sample group for questionnaire comprises 11 companies that invested in Savan Seno SEZ; while in-depth interview are conducted with government officials who are responsible for this task, and academicians who are experts on SEZ in Lao PDR.

In the questionnaire, there are three main parts. Questions in the first part were to obtain the general information of the companies. In the second part, the companies were asked to rate the important of factors related to investment in Lao PDR on the 5-point Likert scale. The last part required them to rake the most attractive factors in terms of doing business in Savan Seno SEZ. Last but not least, three government officials and academicians were interviewed about the privileges and incentives that Lao government has offered to investors, the current problems that are occurring and a future of Savan Seno SEZ.

3.1.1.2 Second Data

The secondary data were collected through published and unpublished sources including the annual report of SEZ, amount of investment cost, tax incentives for SEZ from Ministry of Planning and Investment; the information of infrastructure such as road, telecommunication, utility, a number of labor, entertainment and services from the provincial office of Savannakhet province; details related to country's macroeconomics in recent years such as inflation rate, currency exchange rate from Bank of Lao PDR; as well as decrees, laws which come from government website, theories from working papers, journals and articles that related to the topic will be contributed to this research.

3.2 Data Analysis

The information from the questionnaires were analyzed and presented in tables and diagrams to indicate the percentage, mean score and standard deviation (SD); and samples are classified into groups by number of employment, number of registered capital, companies' countries of origin, and business sectors. As a result, the study found the different opinions concerning the main factors attracting investors' decision to invest in Savan Seno Special Economic Zone.

3.3 Hypothesis

According to variety of business activities and investors within Savan Seno Special Economic Zone, this study aims to examine the differences perspectives in terms of the demands of doing business in this SEZ.

Hypothesis 1: Companies that have different number of employee would have different demands

Hypothesis 2: Companies that have different amount of investment capital would have different demands

Hypothesis 3: Companies that have different nationality would have different demands

Hypothesis 4: Companies that have different business sector activities in terms would have different demands

3.4 Conceptual Framework

Basically, the conceptual framework of this study was adapted from literature review particularly OLI theory. The figure concluded eight independent variables, which represent the factors attracting investment. Moreover, sub-factors of each variable will be included in the interview questions.

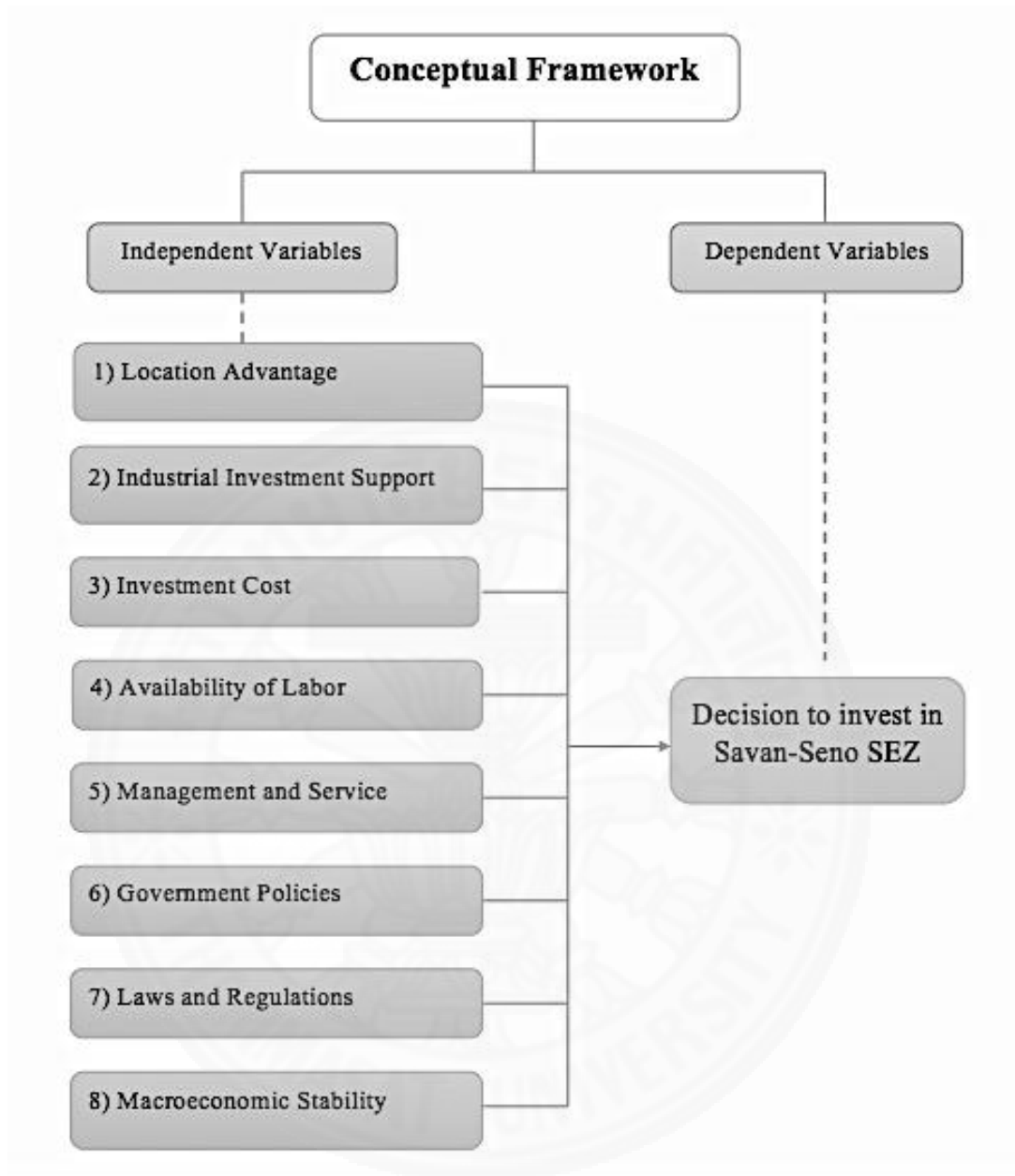


Figure 3.1 Conceptual frameworks

CHAPTER 4

CURRENT SITUATION AND DEVELOPMENT

4.1 Introduction of Special Economic Zone in Lao PDR

4.1.1 Definition of Special Economic Zone

The Decree of the Prime Minister on the Savan Seno Special Economic Zone No. 148/PM in 2003 stated that,

“Savan Seno Special Economic Zone or ‘SASEZ’ has areas of 305 ha and 20 ha at sites A and B, respectively, in the initial stage and as indicated on map 6.5 of the Main Report of the Study on Special Economic Zone Development in Border Area (Savannakhet province) in Lao PDR (February, 2001). This zone covers a land area allocated by the Government of Lao PDR for foreign and domestic investment in the fields of manufacturing, trade and service. All business activities in the SASEZ are promoted and managed in conformity with the applicable Laws, special incentives and special priority conditions. The SASEZ aims at attracting investment and high technology by being economic, industrial, trade, service and cooperation centre of the region.

(Decree of Prime Minister on Savan-Seno Special Economic Zone, 2003)

Therefore, on the Decree on Special Economic Zone and Specific Economic Zone in the Lao PDR No. 443 /PM in 2010 has defined the **Special Economic Zone** as:

“The new economic development area that the Government has determined as the area having the location and economic environment which can provide facilities and autonomy in undertaking business operations more than other areas countrywide, through comprehensive building of social and economic infrastructures, institutions and so on with a view to raising the competitive capacity of the business operations

which will be the incentive for attracting the investment of all parties so that the economy in this area may be developed at a faster pace, compared to other areas. The Special Economic Zone receives special promotion privileges, has autonomous economic and financial system, applies the management and administration system according to the mechanism of ‘smaller administration unit but wider society’, is supervised by the Administrative Committee and the Economic Executive Board, has the system ensuring the security, the protection of fine national culture and the sustainable conservation of environment, has an area of one thousand hectares and over, may comprised many specific economic zones. In case there are peoples living in the zone, it is not required to move them out from the Special Economic Zone. On the contrary, the arrangement shall be made to allow them to have the job and participate with the Zone in the development and have sustainable income.”

(Decree of Prime Minister on Special Economic Zone and Specific Economic Zone in the Lao PDR, 2010)

4.1.2 History of Special Economic Zone in Lao PDR

At the beginning, the idea about Special Economic Zone development has been brought up by the Lao government in order to develop the relationship with countries that share borders with Lao PDR, namely, China, Thailand, and Vietnam. However, roles and obligations of SEZ were ambiguous at that time. Later, the Lao government conducted the feasibility study on SEZ development in Savannakhet province, where is located between Thailand and Vietnam. This study was financially supported by the Japanese government since the Japanese government has funded to construct the East-West routes which drives through Savannakhet province which will be the priority for SEZ development.

In 2017, there are 12 SEZs in Lao PDR, including 4 Special Economic Zones and 8 Specific Economic Zones. The government offers various incentives for both domestic and foreign companies located in these zone. SEZs in Lao PDR can be

divided into three main categories: 1) Industrial Zones, 2) Tourism and new urban centers, 3) Trade and logistics areas as shown in Table. 4.1. Therefore, as we can see from Picture 4.1, all SEZs are located near the border areas, which are linked to production bases and international ports in neighboring countries such as China, Vietnam and Thailand.

Table 4.1 Lists of Special and Specific Economic Zones in Lao PDR

	Name of SEZs	Location	Establishment	Estimated investments (USD)	Land Areas (ha)
Industrial Zone					
1	Savan Seno SEZ	Savannakhet	2002	74,000,000	1,012
2	VITA Park	Vientiane	2009 (Upgrade 2010)	43,000,000	110
3	Champasak SEZ	Champasak	2015	162,500,000	995
4	Saysettha SEZ	Vientiane	2010 (Upgrade 2011)	128,000,000	1,000
5	Phoukhyo SEZ	Khammuan	2011	708,000,000	4,850
Tourism and New Urban Centres					
6	Golden Triangle	Bokeo	2007 (Upgrade 2014)	1,000,000,000	3,000
7	ThatLuang SEZ	Vientiane	2011	1,600,000,000	365
8	LongThanh SEZ	Vientiane	2008 (Upgrade 2012)	1,000,000,000	560
9	Luangprabang SEZ	Luangprabang	2016	1,200,000,000	4,850
Trade and Logistic SEZ					
10	Boten SEZ	Luangnamtha	2003 (Upgrade 2012)	500,000,000	1,640
11	Dongphosy SEZ	Vientiane	2009 (Upgrade 2012)	50,000,000	54
12	Thakhek SEZ	Khammuan	2012	80,000,000	1,035
Total				6,645,500,000	19,499

Source: Special Economic Zone Promotion and Management Office (SEZO)

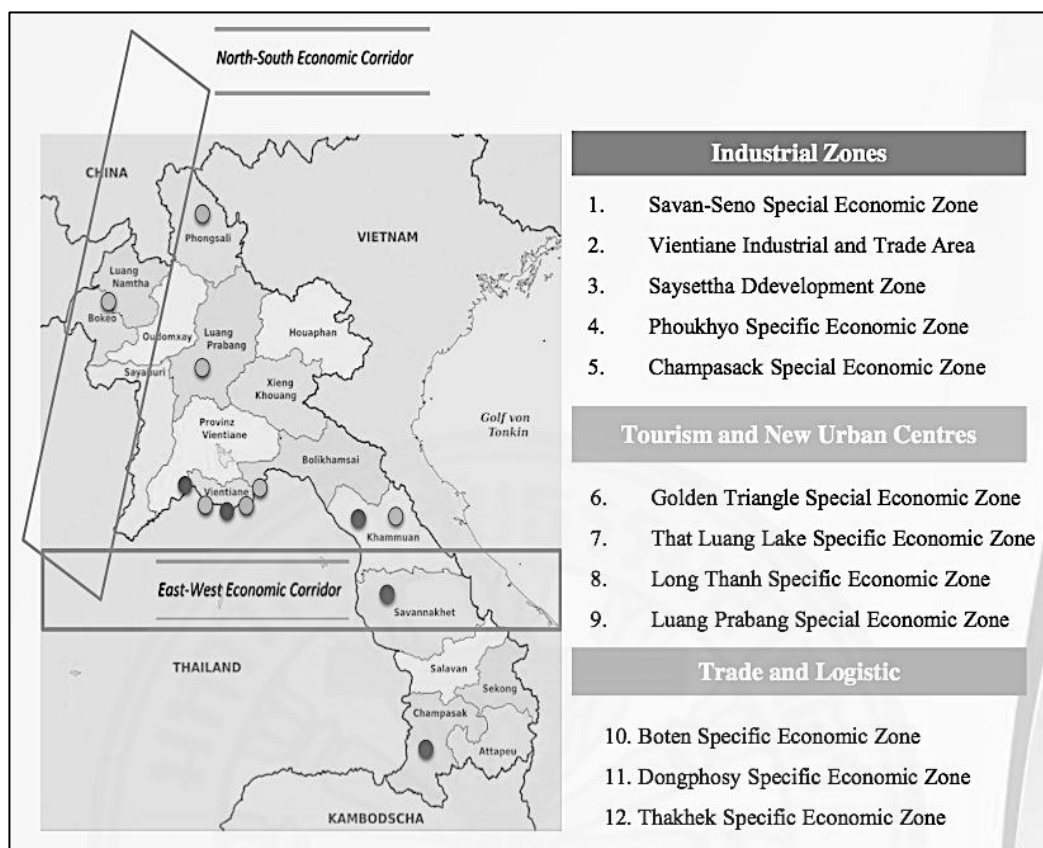


Figure 4.1 Map of Special and Specific Economic Zones in Lao PDR and economic corridors

Source: Special Economic Zone Promotion and Management Office (SEZO)

Generally, the Special Economic Zones in Lao PDR consist of three forms of development: 1) private developer, 2) government, and 3) joint venture (private and government). Figure 4.1 shows percentage of development in SEZs in Lao PDR: joint venture with 54%, following by private developers 38% and only 8% from the government. Moreover, among three sectors- service, industry, trade- service is the most popular sector in terms of investment accounting for 44% follow by industry and trade (table 4.2).

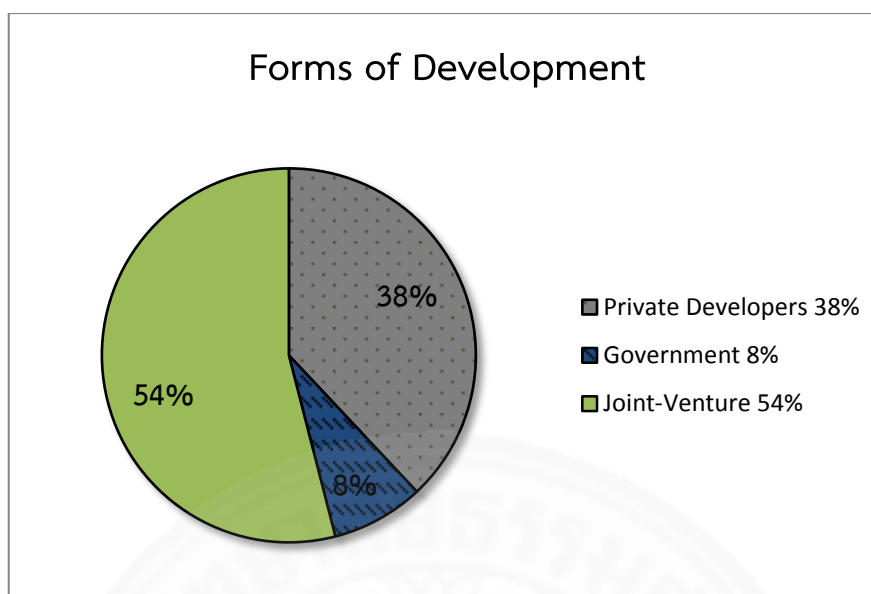


Figure 4.2 Forms of development in 2016

Source: Special Economic Zone Promotion and Management Office (SEZO)

Table 4.2 Investment by sector in 2016

Sector	Number of Enterprises	Registered Capital (USD)	Percentage
Industry	74	1,437,661,895	29
Trade	69	2,173,711,574	27
Service	113	2,052,252,046	44
Total	256	5,663,625,516	100

Source: Special Economic Zone Promotion and Management Office (SEZO)

4.2 Special Economic Zone in Savannakhet Province

4.2.1 Economy in Savannakhet Province

Savannakhet is the largest province among 17 provinces of Lao PDR in terms of land area and population. The total land area is 21,774 km², which is five times larger than Vientiane capital. There are 15 districts in Savannakhet and the provincial capital was called Kaysonephomvihane. According to the census in 2015,

the population in Savannakhet province is 974,000 and 63% of them are in the working age (16-60 years old) (MinistryofPlanningandInvestment, 2015).

The province is rich in natural resources. The main exports are gold, gypsum, copper, wooden products, forest products, re-export garment and natural dying textiles.

The province has comparatively good road infrastructure integrating the province with many socio-economic centers of Lao PDR and neighboring countries. National Road Number 13 runs through Savannakhet, linking Vientiane Capital to the north with Pakse City (Champasak province) to the south. Road Number 9 and the Second Lao-Thai Friendship Bridge opened in 2007 which make up a large part of the East-West Economic Corridor, a sub-regional socioeconomic development project that links Danang Port in South China Sea through central of Lao PDR and north and northeastern of Thailand to Mawlamyine Port of Myanmar.

Furthermore, Savannakhet Province has been enjoying rapid economic growth in this past decade. From 2010 to 2015, the province's economy raised up at a rate of 12% average per year, which was higher than the growth rate of the whole country during the same period (10.86% average per year). Savannakhet has a lot of flat areas, so previously agriculture sector has significant role in economy of the province. However, the growth of agriculture sector has been decreasing while the industry and service sectors continue to grow day by day.

Table 4.3 GDP of Savannakhet Province

	2005-06	2006-07	2007-08	2008-09	2009-10	2011-15
GDP (current price, million USD)	442.8	503.5	569.6	710.2	809.1	
GDP per capita (USD)	525	587	653	801	897	1,705
GDP growth (% p.a)	10	10.35	10.5	10.75	11	11-12
Structure of the economy						
Agriculture	56.98	55.54	53.97	52.38	50.73	39.34
Industry	19.49	20.35	21.34	22.36	23.43	31.15
Service	25.53	24.12	24.7	25.27	25.84	29.51
Sectorial growth rate of GDP						
Agriculture	7.2	7.22	7.23	7.25	7.27	
Industry	13.01	14.81	15.72	15.77	16.08	
Service	12	12.75	13.00	13.05	13.25	

Source: Savannakhet Province's Department of Planning and Investment (2010)

4.2.2 Savan Seno Special Economic Zone

During the 8th Greater Mekong Sub-region Ministerial Meeting in 1998, the Asia Development Bank (ADB) presented the idea of East-West Economic Corridor (EWAC), the economic development program aiming to boost development and integration of four countries among Southeast Asia including Myanmar, Thailand, Lao PDR and Vietnam. The EWEC is the 1,450 km long road, starting from Mawlamyine of Myanmar, passing 7 provinces of Thailand: Tak, Sukhothai, Phitsanulok, Phetchabun, Khon Kaen, Kalasin and Mukdahan; then Savannakhet province of Lao PDR and Da Nang, Vietnam as the end. Since the national route 9 which (starts from Savannakhet city to Dansavanh city) has been determined as the EWEC; hence, there were many developmental projects in Savannakhet such as the pavement along the route 9 and especially the plan to construct the Second Mekong Friendship Bridge in order to improve the logistics (Nozaki & Phouphet, 2015). Also, there is interesting point of EWEC since it is the shortest land route which connected Andaman Sea and South China Sea, and will expand the opportunities in terms of trade, investment, tourism, cooperation with outsiders such as India, China,

Hong Kong, Taiwan, etc. In particular, the EWECC is very essential for Lao PDR since it could change the geography from Land-locked to Land-linked country, and it will increase Lao PDR's competitiveness to compete with other countries in the economic world (Wannalertsakul, 2010).



Figure 4.3 East West Economic Corridor route

Source: <https://www.everyday.com.kh/en/article/41385.html>

The study of Savan Seno SEZ has begun in July 2000 and aimed to draft the development plan, which included 1) the concept and policy of Special Economic Zone since it is a potential in terms of economic development, 2) the first plan of Special Economic Zone 3) the plan of organization for Special Economic Zones' management and development. The result of review of opportunities and limitations of Savannkhet province has shown that Savannakhet is a suitable place to establish the first special economic zone in Lao PDR by these below reasons:

1. Savannakhet has a very strategic location. Located next to the river Mekong, which forms the border with Thailand at that point, Savannakhet is linked with neighbouring Myanmar province by the Second Friendship Bridge.

2. Setting up SEZ is a good opportunity. It would help Suvannakhet to become the center of production process and freight forwarding service

3. Foreign investment promotion is very essential in terms of industrial production and service development. SEZ will attract not only investment capital, but also help the country regarding technology transfer.

4. SEZ development and related sectors will create employment, improve skills for both local investors and employees

5. The Lao government will be able to gain experience in terms of planning and management which is different from the simple investment

On 29 September 2003, the Decree of the Prime Minister on Savan Seno Special Economic Zone No 148/PM was promulgated with objectives in “determining organization, activities and basic policies on the SASEZ, in order to take advantage of the vantage ground of this zone to attract and promote foreign and domestic investments in compliance with the general investment policies of the government; to foster production, export and services growth, and create opportunities for learning experiences in the fields of business management and administration and use of new technology, as well as for promoting industrial, trade and service relationships with regional and international community” (Decree of Prime Minister on Savan-Seno Special Economic Zone, 2003).

In addition, the main objectives of the Savan Seno SEZ establishment are as follow:

1. to transform its strategic sectors to become the center of Indochina such as industry, trade, industrial service and shipping

2. to increase employment and improve the living standard of local people

3. to absorb the spillover in terms of knowledge and skills which is beneficial to industry and commerce such as foundation of business, strategic marketing and productive goods and services

4. to support the link between the Special Economic Zone and the local enterprises

4.2.2.1 The Savan Seno Special Economic Zone Authority (SEZA)

Article 51 of the Decree no 177/PM on the management regulations and incentive policies regarding the Savan Seno Special Economic Zone has classified the organization, which is responsible for the Savan Seno Special Economic Zone as follows. The Savan Seno Special Economic Zone Authority or “SEZA” is the highest state organization in charge of management of SASEZ activities, and is directly responsible before the government, with the Prime Minister Office as its guiding authority. The SASEZ functions include the management and promotion of investment in the SASEZ, planning, monitoring, implementation SASEZ’s development, creation of jobs and learning opportunities, transfer of new technology, creation of the seeds of and prerequisite factors for the gradual industrialization and modernization of the country. (Decree of Prime Minister on the Management Regulations and Incentive Policies Regarding the Savan-Seno Special Economic Zone, 2003)

The scope of rights of the SEZA include

“Considering and approving domestic and foreign investments as well as issuing license to create and operate a business, and authorizing business operating activities; signing concession agreements or MOUs; issuing an authorization to extend the scope of business activities; extending the duration period of the license to invest; and, in the event that the investor does not abide by the SASEZ Regulations or Lao PDR’s legal provisions, withdrawing from a contract and annulling and/or withdrawing the license to invest inside the SASEZ, by means of On Stop Service procedure;

- Controlling the implementation of rules, regulations, laws, orders, announcements/releases, contracts, decisions which were periodically issued and signed by the Government or by the SEZA;

- Examining the performance achieved by investors and SASEZ-registered enterprises in order to accord special policies towards the most outstanding ones or taking disciplinary measures against those who violate law and regulations during their business operating activities within the scope of SEZA’s responsibilities;

■ Contacting and negotiating contracts and making joint-venture business with judicial persons of both domestic and foreign origins, with prior approval by the government.”

(Decree of Prime Minister on Savan-Seno Special Economic Zone, 2003)

4.2.2.2 One Stop Service

To increase the number of investment and highest efficiency of business operation in the SASEZ, the SEZA has created One Stop Service bureau in order to facilitate the investors who interest or plan to invest in SASEZ. For example, issuing investment license, registration of the business enterprise, export-import license, VISA for investors and foreigner staffs, worker recruitment, consulting about Lao Laws and Regulations and dispute settlement, etc.



Figure 4.4 Functions of One Stop Service in SEZ

Source: Savan SENO Special Economic Zone Authority (2017)

4.2.2.3 Procedure of One Stop Service

For the procedure of One Stop Service, the investor will go to One Stop Service office at the zone to apply the application form, then the form will be sent to economic board of SEZ to check and if everything is correct, the office will issue investment license, enterprise registration certificate, tax payment documents and seal registration certificate to the investor; after that the investor is able to start the business. Besides, all the procedures that has mentioned earlier

would take only five working days; it is a very fast process compared to investment outside the SEZ, which would take about 30 working days.

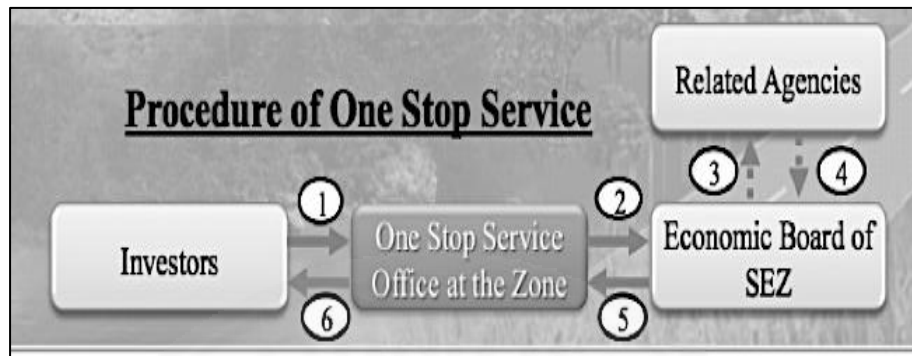


Figure 4.5 One Stop Service Procedure

Source: Savan SENO Special Economic Zone Authority (2017)

4.2.2.4 Zones in Savan Seno Special Economic Zone

Savan Seno Special Economic Zone comprises of four zones:

Zone A: Area 436 hectares as Trading, Financial Center and Entertainment operated by Savan City Co., Ltd. This zone is close to the Second Mekong friendship bridge. On the plan, there will be duty free shop, hotel, hospital, restaurant, conventional centers, sport centers and more.

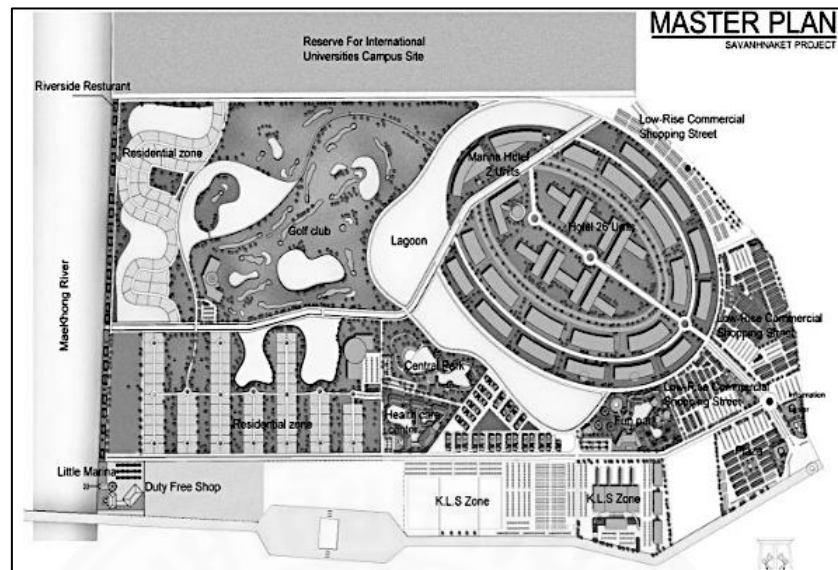


Figure 4.6 Map of Zone A of Savan Seno SEZ

Source: Savan SENO Special Economic Zone Authority (2017)

Zone B: Area 20 hectares located in Outhoumphone city as Logistic and Warehouse operated by Savan Seno Special Economic Zone Authority. Nowadays, the government of Lao PDR has invested in many infrastructure projects such as electricity, water and roads to support the growth.



Figure 4.7 Map of Zone B of Savan Seno SEZ

Source: Savan SENO Special Economic Zone Authority (2017)

Zone C: Area 220 hectares as Industrial Estate and Trade district where is located in pillar 10 of Kaisonephomvihan city; operated by Savan Park Co., Ltd.



Figure 4.8 Map of Zone C of Savan Seno SEZ

Source: Savan SENO Special Economic Zone Authority (2017)

Zone D: Area 180 hectares as Residential and Commercial Area operated by Savan City Co., Ltd. It is located on pillar 8 of Kaisonephomvihan city; including housing development and basic infrastructure projects in order to accommodate people who are moving out from zone A and for the workers who are working in factories of SASEZ.



Figure 4.9 Map of Zone D of Savan Seno SEZ

Source: Savan SENO Special Economic Zone Authority (2017)

4.2.3 Incentive provided in Savan Seno Special Economic Zone

Table 4.4 Tax incentives in Industry sector

Ratio of exports	Tax holiday	Profit tax after tax holiday
30% and below	5 years	8%
30-69%	7 years	8%
70% and above	10 years	8%

Source: Savan SENO Special Economic Zone Authority (2017)

Table 4.5 Tax incentives in Trade sector

Business type	Tax holiday	Profit tax after tax holiday
Domestic sales	5 years	10%
Re-exporting	3 years	10%
Exports	10 years	8%

Source: Savan SENO Special Economic Zone Authority (2017)

Table 4.6 Tax incentives in Service sector

Registered capital	Tax holiday	Profit tax after tax holiday
2 million USD and above	10 years	8%
0.5-2 million USD	8 years	8%
0.3-0.5 million USD	6 years	10%
0.15-0.3 million USD	4 years	10%
0.05-0.15 million USD	2 years	10%

Source: Savan SENO Special Economic Zone Authority

Table 4.7 Comparison incentives provided of the investment inside and outside the SEZ in Lao PDR

List	Investment inside SEZ	Investment outside SEZ
1. Tax rates		
1.1 Profit tax	Tax holiday 2-10 years, after that 8-10%	Tax holiday 2-7 years, after that 10-20%
1.2 Income tax	5%	0-24%
1.3 Excise Tax	5%	5-25%
2. Concession period for production and investment	25-99 years	Depends on areas and type of investment
3. Land lease fee	0.3 USD/m ² /year	Depends on areas that government supported
4. Application for investment	5 days	10-30 days
5. Electricity fee	0.03-0.08 USD/kwh	More expensive 10%
6. Water fee	0.03-0.66 USD/m ³	More expensive 10%
7. Import tax	Except	Depends on product type, average 0-40%
8. Investment cost	> 50,000 USD	Depends on areas and type of investment
10. Type of ownership	100% Foreign owned, Joint venture, 100% Local owned	100% Foreign owned, Joint venture, 100% Local owned

Source: Savan SENO Special Economic Zone Authority

4.2.4 Development in Savan Seno Special Economic Zone

4.2.4.1 Before the Second Lao-Thai Friendship Bridge construction

As mentioned earlier, Savan Seno Special Economic Zone was established in 2003 under the decree No.148/PM in 2003. However, in the first five years, the government seemed to focus on creating specific rules and regulations, and land clearance more than the investment promotion. Hence, there was no investment from foreign investor. Moreover, zoning has met the delayed progress due to many problems. For example, a problem on land compensation for local people at zone A, a lack of capital and capability of the government to develop basic infrastructure in the zone, an absence of national strategic road map for the SEZ development, difficulties in horizontal and vertical institutional cooperation, a weak legal framework, a lack of technical capacities and experiences of officials to manage the operation in the SEZ, an investment analysis and negotiations with investors; and poor information advertising (ADB, 2008).

4.2.4.2 After the Second Lao-Thai Friendship Bridge Construction

On 9 January 2007 the Second Mekong friendship bridge was opened to the general public and it was a great sign for investment in SASEZ. Then, on 13 June 2007 the Lao government and the joint venture company (Lao PDR and Thailand) named Savan City Co., Ltd decided to sign the Agreement on the Development of zone A of the SASEZ in order to improve zone A to become a trade and service hub. Unfortunately, due the impact of the recent global financial crisis and unstable politics in Thailand at that time, the development of zone A could not go as smoothly as it supposed to be. A year later, on 24 February 2008, SEZA as a representative of Lao Government and Malaysian company, named Pacifica Streams Development Co., Ltd have signed a Project Development (PDA) where both parties decided to cooperatively research and develop Site C to be a new commercial and industrial hub under the name of Savan Park.

After seven years since of the first decree of Special Economic Zone was announced. Finally, it was the first time to identify the role of Special Economic Zone and Specific Economic Zone in law level, as we can see when the government enacted the new investment promotion law in 2009, it has

improved many things about the Special Economic Zone. For example, in Article 3, it has identified the definition of Special and Specific Economic Zone; the principles of establishment the SEZ and related issues; the specification of the commission to the separated regulation on organizational administration, activities and management of special and specific economic zones are also mention in this law. Moreover, the individual SEZ decree of the Savan Seno SEZ in 2003, a general decree No. 443/PM was announced in October 2010, following the amended law of investment promotion. It has described the principles, regulations, organization, activities and policies that related to the Special and Specific Economic Zone. Besides, Two years after the approval of investment promotion law (2009 version), in October 2011 the 7th national development plan (2011-2015) was announced. In this time, it has showed the different position of SEZ such as a preparation for regional and local development of SEZ, directions and main tasks of the plan, sub-section of development of SEZ and so on (Nozaki & Phouphet, 2015).

Nowadays, the facilities and infrastructure (such as water supply, electricity, roads, etc.) have been settled inside the SEZ particularly in Site C, which is the most successful among four sites in SASEZ. For the investment, recently there are 89 companies have been registered in the zone with USD 300 million of total investment capital, and around 40 companies are operating their businesses.

4.2.5 Investment within Savan Seno SEZ

According to Figure 4.2, Thailand is the biggest investor in SASEZ (27.47%), followed by Lao PDR (25.27%), Japan (15.38%), Malaysia (9.89%) and 21.97% from other countries (France, the Netherlands, China, Australia, Belgium, and Korea).

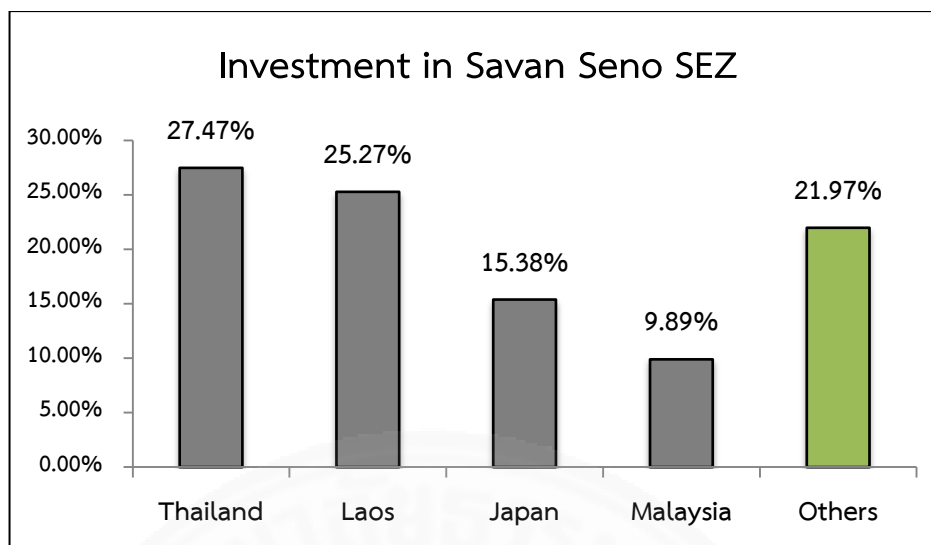


Figure 4.10 Percentage of foreign investment in SASEZ (2008-2017)

Source: Savan SENO Special Economic Zone Authority (2017)

In terms of percentage of foreign investments in each sector, figure 4.3 shows that Japanese is the biggest investor in industrial sector accounting for 31.03%. Secondly, the main player in trade sector goes to Thailand accounting for 53.33%, but surprisingly there is no investment in this sector from Japan and Malaysia while the investment from Lao investors is likely to focus more on service sector (such as supply concrete and water, consultant, recruitment agency and so on) in order to support the development within the zone, so the biggest investor in this service sector is Lao PDR.

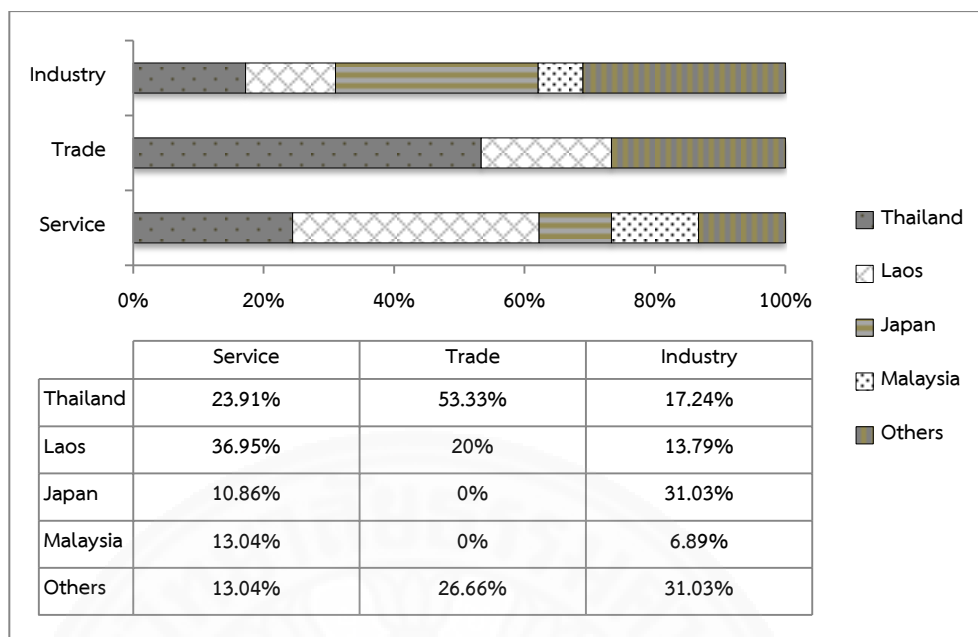


Figure 4.11 Percentage of Foreign Investments in each sector (2008-2017)

Source: Savan SENO Special Economic Zone Authority (2017)

4.3 Performance of Savan Seno Special Economic Zone

More than 10 years after the establishment, Savan Seno SEZ has been contributing approximately 1.4 million USD to national budget, which consisted of personal income tax (1.09 million USD), value added tax (0.253 million USD), profit tax (0.05 million USD), and service fees (0.02 million USD). The number imported materials for infrastructure development was 262 million USD and exported was 292 million USD. Recently, there are 89 companies have registered in the SASEZ with the total number of working capital 84 million USD (government 4.9 million USD, developers 11 million USD and investors 68 million USD); offering 4,229 job employments (4,128 local and 101 foreign workers) (SEZO, 2016).

Table 4.8 Start-up Business and Current Registration, and Targeted Plan of SASEZ

List	Unit	2015	2017	2020 (targeted plan)	2025 (targeted plan)
Registered Investment project	Companies	63	89	150	250
Registered Investment capital	Million USD	193	314	1,000	
Job employment	Person	1,746	4,229	20,000	44,000

Source: Savan Seno Special Economic Zone Authority

With reference to investment project (Table 4.8), there were about 60 companies registered in the zone in 2015, the five-year plan is to increase the number of companies by more than double. In 2017, the number of the companies reached 90, which the average growth rate is about 21 percent per year; therefore, it is more likely that in the next three more years, the number is likely to be more than double. The likelihood is also possible for the 2025 plan; because the zone plans to promote the investment by improving infrastructures, management and service of government, and the size of the investment zone, etc.

In terms of the number of investment capital, it plans to enlarge about 500 percent (from 200 to 1,000 million USD). However, in 2017, the number increased to only 314 million USD, which is only 31 percent of growth rate per year. Thus, according to the calculation, it is hardly possible to achieve the target by 2020 since it would be just 706 million USD. Moreover, the scale of registered capital shows that it consists only 9 percent of the threshold of the 'large investment' (5,000,000 USD above of registered capital).

In addition, the SEZA also planned for tenfold increase in the job employment (from about 2,000 people in 2015 to 20,000 people in 2020). The statistic in year 2017 showed that the growth rate of employment is extremely high, accounting for 71% per year. Even though the targeted plan of job employment is roughly high, it looks promising that the plan can be achieved by 2020 if they could maintain this rate and labor supply remains substantial.

CHAPTER 5

FINDINGS AND ANALYSIS

This chapter will provide findings and analysis of factors attracting investors to invest in Savan Seno Special Economic Zone (SASEZ). The analysis basically to explain which and why factors effecting to investors' decisions to invest in this zone (level of importance by using Likert-Scale), as well as the problematic factors occurring in terms of doing business in this zone.

5.1 Analyze the Characteristics of Samples

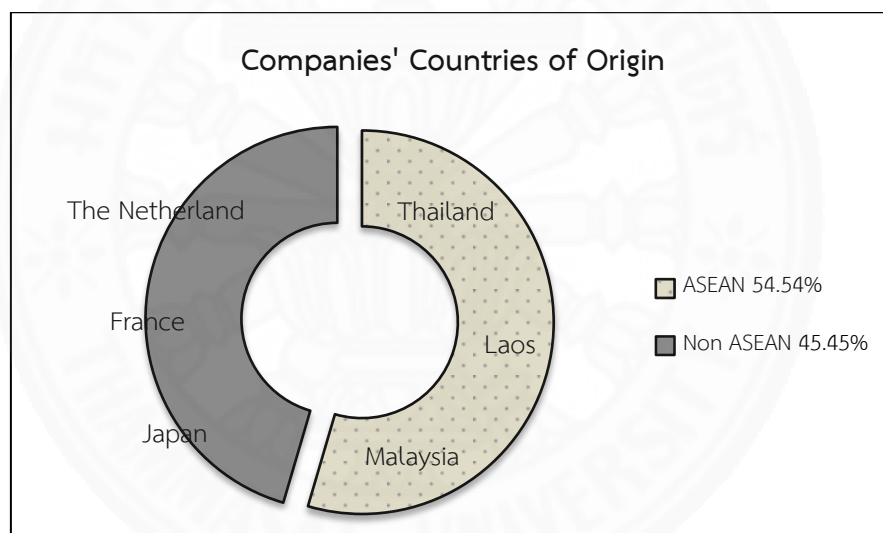


Figure 5.1 Percentage of Companies' Countries of Origin

Source: Field survey August 2017

In this research, respondents are divided into two groups according to country's origin of the companies, that is, ASEAN countries and Non-ASEAN countries. 54.54 percent of the companies are those who come from countries in ASEAN including companies from Thailand, Lao PDR, and Malaysia while 45.45% are from Non-ASEAN countries, namely, Japan, the Netherlands and France.

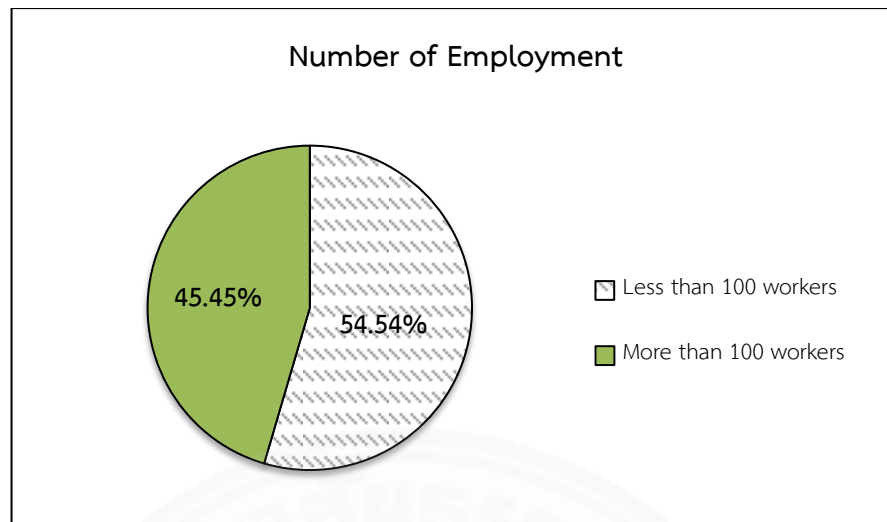


Figure 5.2 Percentage of Number of Employment

Source: Field survey August 2017

This study uses the using the cross-tab dividing samples into groups by the number of employment and the number of registered capital. Figure 5.2 shows the two groups of respondents in terms of the number of employment of firms that has been operating business in SASEZ. The first group is the firms that have less than 100 workers accounted for 45.45 percent and the second group is the firms that have more than 100 workers with 54.54 percent.

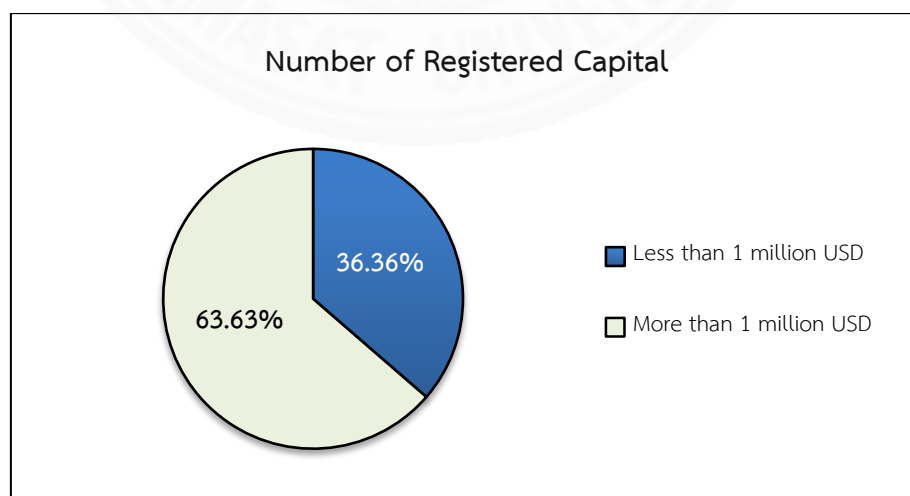


Figure 5.3 Percentage of Number of Registered Capital

Source: Field survey August 2017

According to the investment law of Lao PDR, the minimum of investment capital must be 50,000 USD. As it shows in Figure 5.3, the majority of the respondents are firms that have more than one million USD of registered capital (63.63 percent), and the rest (36.36 percent) is the firms that have less than one million USD.

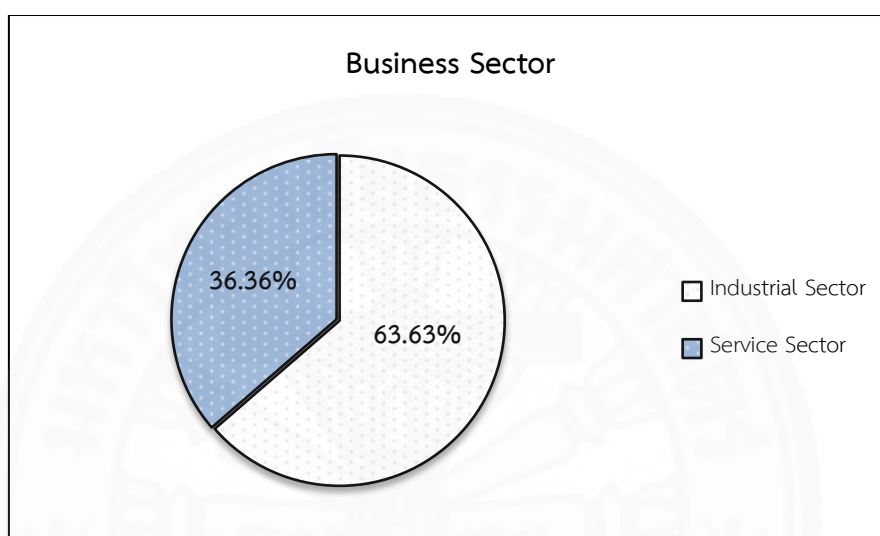


Figure 5.4 Percentage of Business Sectors

Source: Field survey August 2017

5.2 Descriptive Statistic of Factors Attracting Investment in Savan Seno Special Economic Zone

This part analyzes the primary data, which came from the second part of questionnaires, by using Microsoft Excel for Mac OS X. This research computed mean and standard deviation. The mean is an average score for each attribute, which is presented the importance level of that attribute. For SD score is presented the degree of deviation from mean score.

5.2.1 Factors Attracting Investment in Savan Seno Special Economic Zone (Level of Importance)

The author has classified the survey questionnaires using the cross-tab dividing samples into groups by number of employment, number of registered capital, companies' countries of origin, and business sector. There are totally 14 factors including

1) Availability of labor, and 2) Quality of labor; these two factors are under labor conditions.

3) Quality and availability of infrastructure means an industrial investment support or a common infrastructure which conduct by developers of the zone; it is including road, electricity, water supply, wastewater treatment system, etc.

4) Macroeconomic stability, which include inflation rate, exchange rate, etc.

5) Time use for delivering goods from production bases to destinations represents an advantage

6) Logistic cost, 7) Utilities cost, 8) Land lease/factory rental, 9) Operating cost; these factors indicate the cost of doing business that investor should be consider or calculate before investment

10) Quality of One Stop Service represents the ability and performance of the Lao government in terms of providing service to the investors or businessmen, who are interest to invest in this SEZ.

11) Convenience to access to services and entertainment explains the satisfaction of the investors in terms of other facilities when they come to live in Savannakhet province such as restaurant, school, hospital, banking, shopping malls, etc.

12) Tax incentives, and 13) Non-tax incentives are under government policies condition. Tax incentives indicate privileges that the government of host country offers to investors such as excise tax, exemption import materials and machineries, low rate of personal income tax, etc. For non-tax incentives are remittance of foreign workers or investors to their home countries, allowing companies to import foreign workers to work in the zone, etc.

14) Domestic laws and regulations represents the system and efficiency of Lao laws in terms of investment in Savan Seno SEZ

5.2.1.1 Number of Employment

The number of employment shows the size of business which can be divided into two groups; the companies that employed less than 100 workers would represent the SMEs or the companies that based on high technology or machinery. For the companies that employed more than 100 workers would represent the business that based on labor intensive.



Table 5.1 Likert-scale of companies in terms of number of employment

Factors	Companies employed less than 100 workers			Factors	Companies employed more than 100 workers		
	Mean	SD	Important Level		Mean	SD	Important Level
1) Quality and Availability of Infrastructure	4.5	0.5	Important	1) Land Lease	4.6	0.48	Very Important
2) Quality of One Stop Service	4.5	0.76	Important	2) Logistic Cost	4.4	0.48	Important
3) Tax Incentive	4.33	0.47	Important	3) Tax Incentive	4.4	0.48	Important
4) Logistic Cost	4.16	0.68	Important	4) Quality and Availability of Infrastructure	4.2	0.74	Important
5) Availability of Labor	4	1	Important	5) Quality of Labor	4	0.63	Important
6) Domestic Laws & Regulations	4	1	Important	6) Time Use for Delivering Goods from Production Bases to Destinations	4	1.09	Important
7) Land Lease	4	0.57	Important	7) Domestic Laws & Regulations	4	0.89	Important
8) Utilities Cost	3.83	0.68	Important	8) Availability of Labor	3.8	0.97	Important
9) Quality of Labor	3.66	0.74	Important	9) Operating Cost	3.8	0.74	Important
10) Non-tax Incentive	3.66	0.74	Important	10) Quality of One Stop Service	3.8	0.4	Important
11) Macroeconomic Stability	3.5	0.95	Neither Important nor Unimportant	11) Non-Tax Incentive	3.6	1.2	Important
12) Convenience to Access to Services & Entertainments	3.5	0.95	Neither Important nor Unimportant	12) Macroeconomic Stability	3.4	0.8	Neither Important nor Unimportant
13) Time Use for Delivering Goods from Production Bases to Destinations	3.5	1.11	Neither Important nor Unimportant	13) Utilities Cost	3.4	1.2	Neither Important nor Unimportant
14) Operating cost	3.5	0.76	Neither Important nor Unimportant	14) Convenience to Access to Services & Entertainments	3.4	0.8	Neither Important nor Unimportant

Source: Field survey August 2017

The first group is companies that employed less than 100 workers; they have rated 10 factors as 'Important'. The top scores were the quality and availability of infrastructure, and quality of One Stop Service, having same mean score of 4.5 and SD at 0.5, 0.76 respectively. Followed by tax incentives which had mean score of 4.33 and SD at 0.47; logistic cost with 4.16 of mean score and 0.68 of SD. Availability of labor, and domestic laws and regulations had the same mean score of 4 and SD at 1; while land lease or factory rental had mean score of 4 and SD at 0.57. Then, utilities cost had mean score of 3.8 and SD at 0.68; quality of labor, and non-tax incentives had the same mean score at 3.66 and SD at 0.74. Nonetheless, the rest of four factors were rated as 'Neither Important nor Unimportant'; macroeconomic stability, and convenience to access to services and entertainments also had the same mean score of 3.5 and SD at 0.95, while time use for delivering goods from production bases to destinations, operating cost had same mean score but SD at 1.11, 0.76 subsequently.

The second group is the companies that employed more than 100 workers; land lease/factory rental was rated as 'Very Important' with the mean score of 4.6 and SD at 0.48. Next are factors that were rated as 'Important', including logistic cost, and tax incentives; each having the same mean score of 4.4 and SD at 0.48. Quality and availability of infrastructure had mean score of 4.2 and 0.74 for SD. Followed by quality of labor, time use for delivering goods from production bases to destinations, and domestic laws and regulations, each having the same mean score of 4 and SD at 0.63, 1.09, 0.89 respectively. Availability of labor, operating cost, and quality of One Stop Service, each factor has the same mean score of 3.8 and SD at 0.97 0.74 0.4 respectively. For non-tax incentives was rated at 3.6 in terms of mean score and 1.2 in terms of SD. Lastly, macroeconomic stability, utilities cost, and convenience to access to services and entertainments were rated as 'Neither Important nor Unimportant'; each having the same mean score of 3.4 and SD at 0.8 for macroeconomic stability and convenience to access to services and entertainments, while utilities cost had SD at 1.2.

In terms of number of employment (table 5.1), the findings show that the companies that employed less than 100 workers noticed quality and

availability of infrastructure, and quality of One Stop Service as the most important factor; while the companies that employed more than 100 workers picked land lease. As mentioned above that companies that employed less than 100 workers are SMEs or companies, which are more likely to use high technology or machinery; the complete infrastructure would be more beneficial for them since a small size of business itself usually rely on a common infrastructure, which facilitated from developer(s) of the zone. If they have to construct infrastructure by themselves, it might be better to invest in other zone where can fulfill this issue. Moreover, the quality of One Stop Service is also important for them because of being a small size of business, the quickly and fully service from the SEZA who is a representative of the government could benefit for them because they do not need to go to the head office in Vientiane capital to do a registration and other documents which waste their time and budget.

The reason for companies that employed more than 100 workers is that basically they need the huge areas to settle their factories, but in cheap price in order to save their expenses. For example, a comparison between SASEZ and Vientiane Industrial and Trade Area (VITA Park) in Vientiane capital, the land lease at VITA Park is 0.025-0.06 USD/m²/month, while the land lease at Savan Seno SEZ is only 0.3 USD/m²/year. If the price of land lease or factory rental in this zone were cheaper than other places, why the investors would not come to SASEZ.

5.2.1.2 Number of Registered Capital

This part has divided into two groups, that is, the companies with less than one million USD, which represents small and medium scale of business, and the companies with one million USD upwards, which represents big scale of business.

Table 5.2 Likert-scale of companies in terms of registered capital

Factors	Companies with less than 1 million USD			Factors	Companies with 1 million USD upwards		
	Mean	SD	Important Level		Mean	SD	Important Level
1) Quality and Availability of Infrastructure	4.5	0.5	Important	1) Logistic Cost	4.57	0.49	Very Important
2) Land Lease	4.5	0.5	Important	2) Tax Incentives	4.42	0.49	Important
3) Tax Incentives	4.25	0.43	Important	3) Quality and Availability of Infrastructure	4.28	0.69	Important
4) Domestic Laws & Regulations	4.25	0.82	Important	4) Quality of One Stop Service	4.28	0.69	Important
5) Quality of One Stop Service	4	0.7	Important	5) Availability of Labor	4.14	0.83	Important
6) Logistic Cost	3.75	0.43	Important	6) Land Lease	4.14	0.63	Important
7) Operating Cost	3.75	0.43	Important	7) Quality of Labor	4	0.75	Important
8) Non-Tax Incentives	3.75	0.82	Important	8) Time Use for Delivering Goods from Production Bases to Destinations	4	0.92	Important
9) Availability of Labor	3.5	1.11	Neither Important nor Unimportant	9) Domestic Laws & Regulations	3.85	0.98	Important
10) Utilities Cost	3.5	1.11	Neither Important nor Unimportant	10) Utilities Cost	3.85	0.98	Important
11) Quality of Labor	3.5	0.5	Neither Important nor Unimportant	11) Macroeconomic Stability	3.71	0.8	Important
12) Convenience to Access to Services & Entertainments	3.25	0.82	Neither Important nor Unimportant	12) Operating Cost	3.57	0.9	Important
13) Time Use for Delivering Goods from Production Bases to Destinations	3.25	1.29	Neither Important nor Unimportant	13) Non-Tax Incentives	3.57	1.04	Important
14) Macroeconomic Stability	3	0.7	Neither Important nor Unimportant	14) Convenience to Access to Services & Entertainments	3.57	0.9	Important

Source: Field survey August 2017

The second part is based on the number of registered capital (Table 5.2); the first group is the companies with the capital less than one million USD, they rated these eight factors as important level: quality and availability of infrastructure, land lease or factory rental, both had the same mean score of 4.5 and SD at 0.5; domestic laws and regulations, tax incentives have the same mean score of 4.25 and SD at 0.82, 0.43 respectively; quality of One Stop Service had 4 for mean score and SD at 0.7; logistic cost, operating cost, non-tax incentives have the same mean score of 3.75 and SD for both logistic cost and operating cost at 0.43, while non-tax incentive had SD of 0.82. The rests were rated in the middle level (Neither Important nor Unimportant). Availability of labor and utilities cost had the same mean score of 3.5 and SD at 1.11; while quality of labor also had 3.5 for mean score but SD was 0.5. Time use for delivering goods from production bases to destinations and convenience to access to services and entertainments were in same mean score of 3.25 and SD at 0.5 and 0.82 respectively. Lastly, macroeconomic stability had 3 for mean score and 0.7 for SD.

The second group is companies with the capital one million USD upwards; logistic cost got 'Very Important' level since it had the highest mean score among 14 factors (4.57) and SD at 0.92. Besides, the rests were rated at 'Important' level; tax incentives had mean score of 4.42 and SD at 0.49. Quality and availability of infrastructure and quality of One Stop Service had same mean score of 4.28 and SD 0.69; availability of labor and land lease or factory rental had same mean score which is 4.14, with the different SD for availability of labor was 0.83 and 0.43 for land lease or factory rental. Quality of labor and time use for delivering goods from production bases to destinations also had the same mean score of 4 and SD at 0.75, 0.92 respectively. Next, utilities cost and domestic laws and regulations were in the same mean score and SD, which are 3.85 and 0.98. For macroeconomic stability were 3.71 for mean score and SD at 0.8. Operating cost and convenience to access to services and entertainments also had same mean score of 3.57 and SD at 0.9; while non-tax incentives was the same mean score, but got SD at 1.04.

According to the tables above (table 5.2), each group has different preferences. The small number of capital group perceived quality and availability of infrastructure, and land lease as the top rank in terms of important level; while the more number of capital group noticed logistic cost factor. Since companies invest in low number of capital and business type generally focusing on

facilitating other companies in the zone (such as concrete factory, job recruitment agency, consulting agency, etc.) not to produce a product to export. So, they would concern about the full infrastructure support by the government or developer and a low rate in terms of land leasing or office rental rather than logistic cost or tax incentive factors. While the big scale of capital would concern about logistic cost, it is possible that they want to save budget by seeking a place that has location advantage, easy and shortcut transferring products from production base to destination. The motive why Savan Seno has a location advantage because it is located in a center of EWEC route connecting to many countries. The landlocked country is not a big problem here since all products are be able to transfer to neighboring countries such as Laemchabang port in Thailand or Danang port in Vietnam before shipping to other regions. Moreover, the Second Lao-Thai Friendship Bridge also plays an important role of investment in this zone since the number of investment was increased rapidly after the bridge construction in 2008. However, based on the statistic of investment in the zone, the biggest trade partner of Savan Seno is Thailand since the products that produced in the zone were exported to Thailand; so it could assume that the companies that came to SASEZ aimed to save the transaction cost since it is close the main factories in neighboring countries. For example, Toyota Boshoku launched the factory in SASEZ to produce car seats and export to assemble in Thailand.

5.2.1.3 Companies' Countries of Origin

This part is categorized into two groups, which are ASEAN and Non ASEAN countries. Lao PDR is near the companies' countries of origin in terms of geography, so it is beneficial for investors from ASEAN countries to set SASEZ as one of their supply chain. Besides, the similarity of cultures is another advantage of investing here. For example, Lao people can understand Thai language, so it is easier for Thai investors in terms of communication when they came to invest here rather than other countries. On the other hand, companies from Non-ASEAN countries such as Japan, France, and so on; they might have higher standard and more focus on details compare to companies ASEAN countries. So, in this part will find the different demands of investors who came from different regions.

Table 5.3 Likert-scale of companies' countries of origin

Factors	ASEAN Countries			Factors	Non-ASEAN Countries		
	Mean	SD	Important Level		Mean	SD	Important Level
1) Land Lease	4.6	0.48	Very Important	1) Tax Incentives	4.5	0.5	Important
2) Domestic Laws and Regulations	4.6	0.8	Very Important	2) Logistic Cost	4.33	0.74	Important
3) Quality and Availability of Infrastructure	4.4	0.48	Important	3) Quality and Availability of Infrastructure	4.33	0.74	Important
4) Time Use for Delivering Goods from Production Bases to Destinations	4.2	1.16	Important	4) Quality of One Stop Service	4.33	0.74	Important
5) Logistic Cost	4.2	0.4	Important	5) Utilities Cost	4.16	0.68	Important
6) Tax Incentives	4.2	0.4	Important	6) Availability of Labor	4	1.15	Important
7) Quality of One Stop Service	4	0.63	Important	7) Land Lease	4	0.57	Important
8) Availability of Labor	3.8	0.74	Important	8) Non-Tax Incentives	4	0.81	Important
9) Quality of Labor	3.8	0.4	Important	9) Quality of Labor	3.83	0.89	Important
10) Access to Services & Entertainments	3.8	0.97	Important	10) Operating Cost	3.83	0.68	Important
11) Operating Cost	3.4	0.8	Important	11) Macroeconomic Stability	3.66	1.1	Important
12) Macroeconomic Stability	3.2	0.4	Neither Important nor Unimportant	12) Domestic laws & Regulations	3.5	0.76	Neither Important nor Unimportant
13) Utilities Cost	3.2	1.16	Neither Important nor Unimportant	13) Time Use for Delivering Goods from Production Bases to Destinations	3.33	0.94	Neither Important nor Unimportant
14) Non-Tax Incentive	3.2	0.97	Neither Important nor Unimportant	14) Convenience to Access to Services & Entertainments	3.16	0.68	Neither Important nor Unimportant

Source: Field survey August 2017

The ASEAN companies rated land lease or factory rental, and domestic laws and regulations as ‘Very Important’ with the same mean score of 4.6 and SD at 0.48, 0.8 subsequently. There are 9 factors for ‘Important’ level; quality and availability of infrastructure had mean score of 4.4 and SD at 0.48. Time use for delivering goods from production bases to destinations had mean score of 4.2 and SD at 1.16, while logistic cost and tax incentives had the same mean score and SD 4.2, 0.4 respectively. Quality of One Stop Service had mean score of 4 and SD at 0.63; followed by availability of labor, quality of labor, and convenience to access to services and entertainments with the same mean score of 3.8 and SD 0.74, 0.4, 0.97 subsequently. And the last attribute was operating cost, which had mean score of 3.4 and SD at 0.8. For the rests were rated as ‘Neither Important nor Unimportant’, which are macroeconomic stability, utilities cost, and non-tax incentive, each having same mean score of 3.2 and SD at 0.4, 1.16, 0.97 subsequently.

Non-ASEAN companies almost rated all factors as ‘Important’, starting with tax Incentives, which had mean score of 4.5 and SD at 0.5. Logistic cost, quality and availability of infrastructure, and quality of One Stop Service had the same mean score of 4.33 and SD at 0.74. Utilities cost had mean score of 4.16 and SD at 0.68. Next, availability of labor, land lease/factory rental, non-tax incentives, had the same mean score of 4 and SD at 1.15, 0.57, and 0.81 respectively. Quality of labor and operating cost also had same mean score of 3.83 and SD at 0.89, 0.68 subsequently; and lastly, macroeconomic stability which had mean score of 3.66 and SD at 1.1. The rests were rated as ‘Neither Important nor Unimportant’; domestic laws and regulations had mean score of 3.5 and SD at 0.76. Following by time use for delivering goods from production bases to destinations, mean score of 3.33 and SD at 0.94 and convenience to access to services and entertainments, mean score of 3.16 and SD at 0.68.

ASEAN companies have rated land lease, and domestic laws and regulations at the highest score; while Non-ASEAN companies chose tax incentives as the highest score. It is expected that ASEAN investors would concern about the cheaper price of land lease, since SEZs among ASEAN region are pretty similar and competitive in terms of incentives or distance from production base to

destination; so land lease is another one important factor that could affect investors' decisions. Besides, domestic laws and regulations are also important, if domestic laws in country A are more systematic and consistent than country B, it could attract investor to invest in country A. Moreover, they also concern domestic laws and regulations to ensure whether it is consistent, matching international standard especially dispute settlement mechanism.

Companies from Non ASEAN countries rated tax incentives, the reason is that there are many SEZs among this region (such as Dawei SEZ in Myanmar, Mukdahan SEZ in Thailand, Phnom Penh SEZ in Cambodia, etc.) and each of them provides similar tax incentives; so the investors would consider setting the companies or production bases at the place that they could earn more benefit. For example, comparing Mukdahan SEZ and Savan Seno SEZ, both are located in the same border point but offered different tax incentives; Mukdahan SEZ set tax holiday 8 years and 50% reduction on corporate income tax the following 5 years, and personal income tax 35% (maximum); while Savan Seno SEZ provides tax exemption for import materials to the zone and export products to abroad, tax holiday on corporate income for 2-10 years, after that 8-10%, and only 5% for personal income tax. As regards the list of investment in SASEZ, the big companies such as Toyota or Nikon decided to locate their spare parts-factories in Savan Seno SEZ and export to assembling factories in Thailand instead.

5.2.1.4 Business Sectors

The last category is divided into two groups in order to find the differences in demands and purposes to come to SASEZ. They are industrial sector and service sector.

Table 5.4 Likert-scale of Companies in Business Sector

Factors	Industry sector			Factors	Service sector		
	Mean	SD	Important Level		Mean	SD	Important Level
1) Domestic Laws & Regulations	4.42	0.72	Important	1) Quality of One Stop Service	4.5	0.86	Important
2) Quality and Availability of Infrastructure	4.42	0.49	Important	2) Tax Incentives	4.5	0.5	Important
3) Tax Incentives	4.28	0.45	Important	3) Quality and Availability of Infrastructure	4.25	0.82	Important
4) Logistic Cost	4.28	0.45	Important	4) Logistic cost	4.25	0.82	Important
5) Land lease	4.28	0.69	Important	5) Land Lease	4.25	0.43	Important
6) Availability of Labor	4	0.75	Important	6) Utilities Cost	4.25	0.43	Important
7) Quality of One Stop Service	4	0.53	Important	7) Quality of Labor	4	1	Important
8) Time Use for Delivering Goods from Production Bases to Destinations	3.85	1.24	Important	8) Macroeconomic Stability	4	1.22	Important
9) Quality of Labor	3.71	0.45	Important	9) Availability of Labor	3.75	1.29	Important
10) Convenience to Access to Services & Entertainments	3.57	1.04	Important	10) Operating Cost	3.75	0.43	Important
11) Non-Tax Incentives	3.57	1.04	Important	11) Non-Tax Incentives	3.75	0.82	Important
12) Utilities Cost	3.42	1.17	Neither Important nor Unimportant	12) Time Use for Delivering Goods from Production Bases to Destinations	3.5	0.86	Neither Important nor Unimportant
13) Macroeconomic Stability	3.14	0.34	Neither Important nor Unimportant	13) Convenience to Access to Services & Entertainments	3.25	0.43	Neither Important nor Unimportant
14) Operating Cost	3	1.51	Neither Important nor Unimportant	14) Domestic Laws & Regulations	3.25	0.82	Neither Important nor Unimportant

Source: Field survey August 2017

According to Table 5.4, factors that rank in the top of mean score of industry sector are domestic laws and regulations (4.42), and quality and availability of infrastructure, which had SD at 0.72 and 0.49 respectively. It possibly. This is because the industry firms usually produce products for export more than selling in domestic market, so they are pretty consider not to violate rules of law and regulation. Also, the quality and accessibility of infrastructure are important factor especially roads to border checkpoints before export products to other countries.

Following by Tax incentives, logistic cost, and land lease or factory rental, each having the same mean score of 4.28, but the first two attribute had the same SD at 0.45, while land lease or factory rental had SD at 0.69. Availability of labor, and quality of One Stop Service had the same mean score of 4 and SD at 0.75 and 0.53 respectively. Time use for delivering goods from production bases to destinations had mean score of 3.85 and SD at 1.24. Quality of labor had mean score of 3.71 and SD at 0.45. Convenience to access to services and entertainments, and non-tax incentives had the same mean score of 3.57 and SD at 1.04. Moreover, utilities cost which had mean score of 3.42 and SD at 1.17, macroeconomic stability which had mean score of 3.14 and SD at 0.34, and operating cost had mean score of 3 and SD at 1.51; were rated as 'Neither Important nor Unimportant'.

On the other side (service sector), quality of One Stop Service, and tax incentives had the highest mean score of 4.5 and SD at 0.86 and 0.5 subsequently. If they could not receive good incentives or privileges from the government, it is possible that service firms might settle their businesses outside the SEZ where they are able to gain more profits by spreading services to everyone not only firms within SEZ.

Following by quality and availability of infrastructure, and logistic cost, land lease or factory rental, and utilities cost, these four factors had the same mean score of 4.25, but different SD; quality and availability of infrastructure, and logistic cost had the same SD at 0.82; while land lease or factory rental and utilities cost also had SD at 0.43. Next, quality of labor and macroeconomic stability had the same mean score at 4 and SD at 1 and 1.22 respectively. Finally, availability

of labor, operating cost, and non-tax Incentives, each having the same mean score of 3.75 and SD at 1.29, 0.43, and 0.82 subsequently. All these 11 factors that mentioned earlier were rated as 'Important'. For the 'Neither Important nor Unimportant' level includes time use for delivering goods from production bases to destinations, mean score of 3.5 and SD at 0.86; convenience to access to services and entertainments, and domestic laws and regulations had the same mean score of 3.25 and SD at 0.43 and 0.82.

5.2.2 Problematic Factors affecting Investment in Savan Seno Special Economic Zone

The second part of discussion is the problematic factors affecting investment in Savan Seno SEZ. It also consists of four groups including number of employment, number of registered capital, companies' countries of origin, and business sectors.

5.2.2.1 Number of Employment

According to the companies that employed less than 100 workers (Table 5.9), there are three factors have been ranked as the most problematic factor of doing business in Savan Seno SEZ, which are industrial investment support, management and service, and government policies; each having score=38 and mean=6.33. And then, laws and regulations, score=35 and mean=5.83. Availability of labor and investment cost also had the same score=22 and mean=3.66. For the last two factors are macroeconomic stability, score=15 and mean=2.5; and location advantage score=8 and mean=1.33 subsequently.

Table 5.5 Problematic Factors of Companies in terms of Number of Employment

Factors	Companies employed less than 100 workers			Factors	Companies employed less than 100 workers		
	Score	Mean	Ranking result		Score	Mean	Ranking result
Industrial Investment Support	38	6.33	1st	Industrial Investment Support	29	5.8	1st
Management and Service	38	6.33	1st	Management and Service	29	5.8	1st
Government Policies	38	6.33	1st	Availability of Labor	29	5.8	1st
Laws and Regulations	35	5.83	2nd	Laws and Regulations	27	5.4	2nd
Availability of Labor	22	3.66	3rd	Government Policies	23	4.6	3rd
Investment cost	22	3.66	3rd	Investment cost	21	4.2	4th
Macroeconomic Stability	15	2.5	4th	Location Advantage	13	2.6	5th
Location Advantage	8	1.33	5th	Macroeconomic Stability	9	1.8	6th

Source: Field survey August 2017

For the companies that employed more than 100 workers, there are also three factors have been ranked as problematic factor, which are industrial investment support, management and service, and availability of labor; each having score=29 and mean=5.8. Afterwards, laws and regulations, score=27 and mean=5.4; government policies, score=23 and mean=4.6; investment cost, score=21 and mean=4.2; location advantage, score=13 and mean=12.6; and lastly, macroeconomic stability, score=9 and mean=1.8.

In terms of the number of employment (Table 5.5), both companies (less than 100 workers and more than 100) agreed to rank three factors as the most problematic of doing business in Savan Seno SEZ; first is investment industrial support, second is management and service. However, there is still a different perception since the companies that employed less than 100 workers perceived government policies as the most problematic factor while the companies that employed more than 100 workers perceived availability of labor factor. It caused by many reasons, companies with more number of labors are depending on labor-intensive and every process of their production needs labors especially the unskilled labor; at this point they would concern about a supply of labor to ensure that their companies could run smoothly in case they expand a size of business in the future. On the other hand, as we have known the skilled labor in the least developed country like Lao PDR is very limited; so, the companies have to import or hires foreigners who are the skilled workers to work in a high position or technical works such as engineer, manager, etc. which means they have to spend more budget for this point.

Besides, findings from interviews of government officials who are working at SEZA, they mentioned that at the beginning many investors were not confident coming to invest in this zone because basically Lao PDR has less population and most of them are employed in agriculture. So, investors have to deal with many problems. For example, Lao people are not familiar working in shift and it was difficult for them in terms of time management, many labors often left their jobs to help their families during the farming season and it created a shortage of labor. The same as one academician's point of view, she also mentioned that one thing

the investors particularly who want to invest in Lao PDR usually concern is about availability of labor.

5.2.2.2 Number of Registered Capital

There are two groups in terms of the number of registered capital, the first group is the companies with less than one million USD of registered capital. They ranked management and service as the most problematic factor with score=49 and mean=7. Thereafter, laws and regulations, score=46 and mean=6.57; industrial investment support, score=40 and mean=5.71; government policies, score=34 and mean=4.85; availability of labor. The last three factors are investment cost, score=25 and mean=3.57; macroeconomic stability, score=18 and mean=2.57; and location advantage, score=11 and mean=1.57.

Second is the companies with one million USD upwards of registered capital. Industrial investment support, and government policies are in the first place with score=27 and mean=6.75. Second place is availability of labor, score=22 and mean=5.5. Management and service, and laws and regulations also had the same score=18 and mean=4.5. Followed by investment cost, score=16 and mean=4; location advantage, score=10 and mean=2.5; and macroeconomic stability, score=6 and mean=1.5.

Table 5.6 Problematic Factors of Companies with Less than One Million USD of Registered Capital

Factors	Companies with less than 1 million			Factors	Companies with 1 million upwards		
	Score	Mean	Ranking result		Score	Mean	Ranking result
Management and Service	49	7	1st	Industrial Investment Support	27	6.75	1st
Laws and Regulations	46	6.57	2nd	Government Policies	27	6.75	1st
Industrial Investment Support	40	5.71	3rd	Availability of Labor	22	5.5	2nd
Government Policies	34	4.85	4th	Management and Service	18	4.5	3rd
Availability of Labor	29	4.14	5th	Laws and Regulations	18	4.5	3rd
Investment cost	25	3.57	6th	Investment Cost	16	4	4th
Macroeconomic Stability	18	2.57	7th	Location Advantage	10	2.5	5th
Location Advantage	11	1.57	8th	Macroeconomic Stability	6	1.5	6th

Source: Field survey August 2017

In terms of the number of registered capital (Table 5.6), management and service is the most problematic factor for companies with less than one million USD, while companies with one million USD perceived two factors as the most problematic factor which consists of industrial investment support and government policies. As mentioned earlier that management and service refer to One Stop Service of SEZA, it is true that the structure of One Stop Service itself is good, but sometimes because of limited experience of government officials make the process delays. For example, the decree mentioned that the company would get the approval from the zone authority within five days after submitting the application form, but practically it took longer time. It understandable if it happens to the big investment capital company because the government has to consider the qualifications and check details of company's information carefully; but in case of the small number of investment capital, it should not happen. Besides, sometimes the quality of service and human resources are not really good compared to international standard. For example, there was a case when the government officials and foreign investors misunderstood each other because of language barrier especially English communication. Furthermore, there is a shortage of government official, who has high experience and ability to persuade investors to invest more in this zone.

During fieldwork observation, only zone C is the most developed zone among four zones in Savan Seno SEZ. The big companies have complained about industrial investment support issue. For example, the expansion and standardization of road construction are required; some zones are insufficient in terms of water supply and unstable electricity, which are the setback of companies' production activities. A case of Essilor Company, a producer of lenses; their production process needs a stable electricity because when the brownout occurs, the plastic will stick inside the machine and get clot because of a cooler temperature. The company has to throw it away since it can be reused. After interviewing about government policies topic, the author would presume that it would not be the serious problem for investors, but the thing is that they want the government to give more privileges such as time extension for tax exemption.

5.2.2.3 Companies' countries of origin

According to the companies from ASEAN countries, the most problematic factor of doing business in Savan Seno SEZ is laws and regulations with total score=43 and mean=7.16. Followed by management and service, score=39 and mean=6.5; government policies, score=30 and mean=5; industrial investment support, score=29 and mean=4.83; availability of labor, score=25 and mean=4.16; investment cost, score=23 and mean=3.83; macroeconomic stability, score=17 and mean=2.83; and the last is location advantage score=10 and mean=1.66.

For the companies from Non ASEAN countries, both laws and regulations, and industrial investment support has been ranked as the most problematic factor with the same score=30 and mean=6. Followed by management and service, score=29 and mean=5.8; government policies, score=27 and mean=5.4; availability of labor, score=24 and mean=4.8; investment cost, score=20 and mean=4. For macroeconomic stability, and location advantage are the least problematic factor since they had the same score=10 and mean=2.

Table 5.7 Problematic Factors of Countries' Countries of Origin

Factors	ASEAN companies			Factors	Non-ASEAN companies		
	Score	Mean	Ranking result		Score	Mean	Ranking result
Laws and Regulations	43	7.16	1st	Laws and Regulations	30	6	1st
Management and Service	39	6.5	2nd	Industrial Investment Support	30	6	1st
Government Policies	30	5	3rd	Management and Service	29	5.8	2nd
Industrial Investment Support	29	4.83	4th	Government Policies	27	5.4	3rd
Availability of Labor	25	4.16	5th	Availability of Labor	24	4.8	4th
Investment cost	23	3.83	6th	Investment cost	20	4	5th
Macroeconomic Stability	17	2.83	7th	Macroeconomic Stability	10	2	6th
Location Advantage	10	1.66	8th	Location Advantage	10	2	6th

Source: Field survey August 2017

Table 5.7 indicates that the companies from ASEAN and Non-ASEAN have been ranked these following factors as the top three of most problems of doing business in Savan Seno SEZ: government policies, management and service, and the first place are laws and regulations. However, the ASEAN companies did not concern industrial investment support factor but for the Non-ASEAN companies, they also ranked it as the most problematic factor. The determinant is that Non-ASEAN investors usually came from developed countries, so their standards are pretty high and strict in order to guarantee the quality of their products. For ASEAN investors, they are more understandable and adaptable about this problem since they are proximity living in the same region and facing a similar situation in their own countries.

5.2.2.4 Business Sector

The companies in industrial sector perceived that the three most problematic factors of their businesses are laws and regulations, score=44 and mean=6.28; management and service, score=42 and mean=6; and industrial investment support, score=41 and mean=5.85 respectively. Followed by availability of labor, score=38 and mean=5.42; government policies, score=33 and mean=4.71; investment cost, score=26 and mean=3.71; location advantage, score=16 and mean=2.28; and the last is macroeconomic stability with score=12 and mean=1.71.

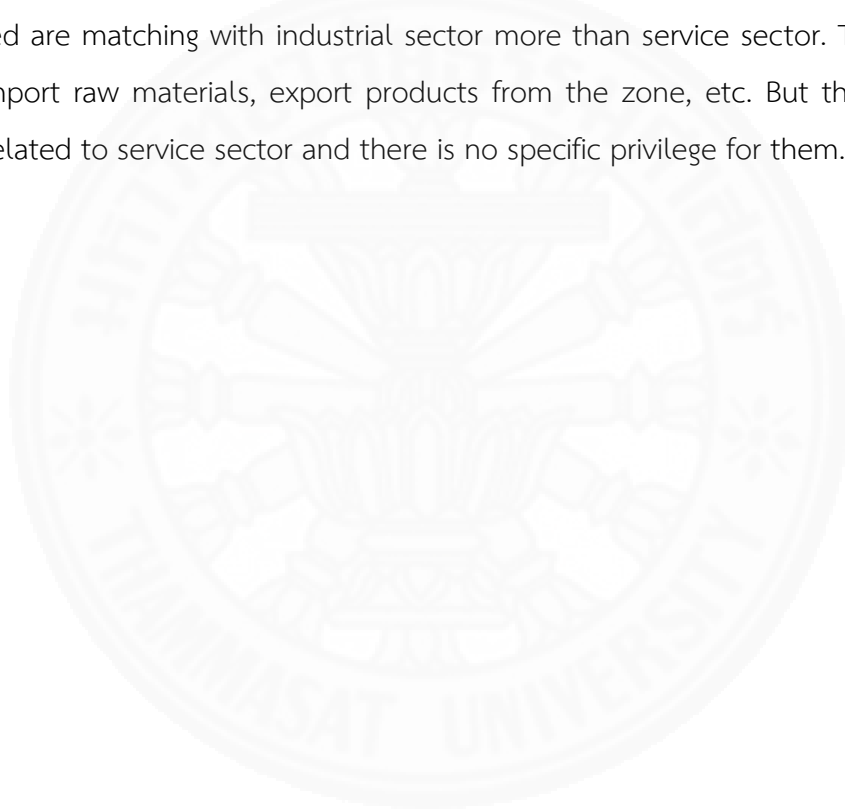
The top three problematic factors for the service sector are laws and regulations, score=29 and mean=7.25; management and service, score=26 and mean=6.5; and government policies, score=24 and mean=6. Besides, industrial investment support, and macroeconomic stability had the same score=18 and mean=4.5. Followed by investment cost, score=17 and mean=4.25; availability of labor, score=11 and mean=2.75; and location advantage, score=4 and mean=1.

Table 5.8 Problematic Factors of Business Sector

Factors	Industrial sector			Factors	Service sector		
	Score	Mean	Ranking result		Score	Mean	Ranking result
Laws and Regulations	44	6.28	1st	Laws and Regulations	29	7.25	1st
Management and Service	42	6	2nd	Management and Service	26	6.5	2nd
Industrial Investment Support	41	5.85	3rd	Government Policies	24	6	3rd
Availability of Labor	38	5.42	4th	Industrial Investment Support	18	4.5	4th
Government Policies	33	4.71	5th	Macroeconomic Stability	18	4.5	4th
Investment cost	26	3.71	6th	Investment cost	17	4.25	5th
Location Advantage	16	2.28	7th	Availability of Labor	11	2.75	6th
Macroeconomic Stability	12	1.71	8th	Location Advantage	4	1	7th

Source: Field survey August 2017

As showing in Table 5.8, both industrial and service sectors had the same perception about two most problematic factors of investment in Savan Seno SEZ which are laws and regulations, and management and service. It is likely that the industrial sector would likely to criticize about infrastructure development in the zone, which is industrial investment support factor. It is because the developer(s) did not prepare a complete infrastructure before investors came especially in the beginning period, so some companies had to wait or construct by themselves. While the service sector has ranked government policies, the reason is that the privileges offered are matching with industrial sector more than service sector. There is no tax for import raw materials, export products from the zone, etc. But those things are not related to service sector and there is no specific privilege for them.



CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusion

Based on the results from interviews and questionnaires in line with the conceptual framework, the author has found two main findings. First of all, in terms of the level of importance of the factors attracting investors to invest in Savan Seno SEZ, the findings demonstrate that different groups of investors have different perspectives and demands. Quality and availability of infrastructure, quality of One Stop Service, logistic cost, land lease or factory rental, domestic Laws and regulations, and tax Incentives, all are regarded as important for the investors. Moreover, the findings also conform with the hypothesizes that estimated that tax incentives and logistic cost factors are the most attractive factors. However, the degrees of importance varies according to the number of employee of each company, number of registered capital, companies' countries of origin, and types of business.

Secondly, the author also found the most problematic factors of investment in Savan Seno SEZ in different groups of samples including industrial investment support, management and service, availability of labor, government policies, and laws and regulations.

6.2 Recommendations

Having found the above factors and identified the problems, the author would recommend:

1. In order to solve the management and service problem, first of all, the government particularly SEZA which is a government representative should try to improve their service or even the human resources within the organization itself to make it reach for the investors' needs. If there is a shortage of official or officials are not able to persuade investor, they should find a new channel such as increasing

more advertisement and promotion through website or social media which is faster and easy to access; asking assistance from international organization for skills training in order to improve their ability to deal with customer or investor.

2. For a shortage of labor, the government should not encourage only labors who are working in neighboring countries to return and work in their homeland, but also promote to other provinces around Savannakhet province. In my point of view, if there are comparable wages and social welfare provided, not only Lao labors in other countries would come back, but also labors from other provinces would come as well.

3. For infrastructure support, the SEZA could ask other developer(s) to respond for this task in case they do not have enough budget to do it; coordinate with provincial government in order to expand roads around the city and to border points; construct more water works system and try to solve the brownout problem.

4. From government side, they should not extend or give more intensives to investors because it would be unfair for investors who invested outside SEZ, as well as creating the unexpected effects in long term such environment issue, government revenue decreasing, etc. However, different investors have different demands and all problems might not be solved at one time, so it is the task of the government to prioritize the sectors that are of most significance to the Savan Seno SEZ. For example, if the government really wants to persuade the big investor or worldwide company, it should be a special negotiation case by case.

5. Lastly, since the investors perceived the domestic laws and regulations as one of the most problematic factors of doing business in the zone, the government should reform the laws and make it clear and consistent in order to raise the confidence of the investors. For example, a recommendation from the United States that Lao should change issuing business license to business registration system, which is easier for investors. Unfortunately, it has a research limitation since there is no mention which laws or regulations and how they created a problem for investors. So the author would like to suggest this limitation for the further study.

6.3 Limitation of Study

1. The availability of information

The study faced limited access to data and information especially from the Lao government. For example, a private data that is not able to disclose, information on government websites did not provide enough and updated information. In order to get more detail, it required many processes and take time.

2. Unable to in-depth interview

The second limitation is that author could not reach the goal as the interview investors, who invested in Savan Seno SEZ due to many problems. For example, before entering to the SEZ, the author needs to get related documents from the government agency first and submitting to the request for interview to the firms. Then, the firms need some times to consider. As this problem occurred plus a tight schedule of doing fieldwork, so the author has decided to conduct the survey questionnaires instead which is easier and save time.

3. Comparison to another SEZs in Lao PDR

At the early state, the author expected to compare the performances between Savan Seno SEZ and another SEZs in Lao PDR; unfortunately, it could not be made. In order to compare, a lot more details are needed, but in fact as mentioned earlier that information is relatively limited. In addition, every SEZ has its own uniqueness and objectives, which possibly because of the size, location, time of establishment, etc. Thus, it is difficult to compare.

REFERENCES

- ADB. (2008). *Lao People's Democratic Republic: Building Lao PDR's Capacity to Develop Special Economic Zones*. Retrieved from <https://http://www.adb.org/sites/default/files/project-document/64172/42032-lao-tar.pdf>
- Aggarwal, A. (2007). *Impact of special economic zones on employment, poverty, and human development*: Indian Council for Research on International Economic Relations New Delhi.
- Aggarwal, A. (2010). Economic impacts of SEZs: Theoretical approaches and analysis of newly notified SEZs in India.
- Akinci, G., & Crittle, J. (2008). Special economic zones: Performance, lessons learned, and implications for zone development. *Washington DC: The World Bank*, E3.
- Bouphavanh&Chitthipha. (2011). *Factors affecting FDI in Savanhnakhet province*.
- Decree of Prime Minister on Savan-Seno Special Economic Zone*. (2003). Vientiane: Ministry of Planning and Investment.
- Decree of Prime Minister on Special Economic Zone and Specific Economic Zone in the Lao PDR*. (2010). Vientiane: World Trade Organisation Retrieved from https://http://www.wto.org/english/thewto_e/acc_e/lao_e/WTACCLAO20A1_LEG_3.pdf.
- Decree of Prime Minister on the Management Regulations and Incentive Policies Regarding the Savan-Seno Special Economic Zone*. (2003). Vientiane: Ministry of Planning and Investment.
- Funkhiaw, A. (2014). Acceptation, Expectation and Success Factors of Border Special Economic Zone Development in Tak Province. *6*(4), 1-14.
- Hattarki, V. (2014). SEZ (SPECIAL ECONOMIC ZONE) AN OVERVIEW, CHALLENGES AND FUTURE IN INDIA. *Indian Streams Research Journal*, *4*(3).
- MinistryofPlanningandInvestment. (2015). Executive Summary, Savannakhet Province. Retrieved from [http://www.investLao PDR.gov.la/index.php/where-to-invest/provinces/savahnakhet](http://www.investLaoPDR.gov.la/index.php/where-to-invest/provinces/savahnakhet)
- Nammanivong, P. (2013). *A Study of FDI in Vientiane Industry and Trade Area Vientiane*. (Master), Vientiane.

- Nathakorn. (2014). Dynamic Diamond Model. Retrieved from <https://plajaibal.wordpress.com/2014/12/07/dynamic-diamond-model-แบบจำลองเพชรแห่งควา/>
- Neary, P. J. (2008). Foreign direct investment: The OLI framework. *Princeton encyclopaedia of the world economy*.
- Nozaki, K., & Phouphet, K. (2015). Progress and Prospect of SEZs in Lao PDR. *Progress Report on the Potentials on the Indochina Economic Zone, ed. the Economic and Social Research Institute (ESRI), ESRI*.
- Pakdeenurit, P., Suthikarnnarunai, N., & Rattanawong, W. (2014). Key Success Factor of Special Economic Zone for Thailand. *Lecture Notes in Engineering and Computer Science*.
- Pakdeenurit, P., Suthikarnnarunai, N., & Rattanawong, W. (2014). Special Economic Zone: Facts, roles, and opportunities of investment. *Lecture Notes in Engineering and Computer Science*.
- SEZO. (2016). *The Implementing Report for 2016 and Plan for 2017 of the Special Economic Zone*. Retrieved from Vientiane:
- Smit, A. J. (2010). The competitive advantage of nations: is Porter's Diamond Framework a new theory that explains the international competitiveness of countries? *Southern African Business Review*, 14.
- Wannalertsakul, S. (2010). Savan-Seno Special Economic Zone: Opportunities and Obstacles for Investment from Thailand.
- Xayyalath, T. (2010). *The attractiveness of FDI in Lao PDR in 2010-2011*. (Master of Economics), National University of Lao PDR.

BIOGRAPHY

Name	Miss Soulinda Thammavongxay
Date of Birth	August 11, 1994
Educational Attainment	2016-2017: Master of Arts, Master of Arts in Asia Pacific Studies, College of Interdisciplinary Studies, Thammasat University, Bangkok Thailand. 2012-2016: Bachelor of International Relations, Faculty of Law and Political Science, National University of Lao PDR, Vientiane, Lao PDR 2012-2016: Bachelor of Business Administration, The Lao-American College, Vientiane, Lao PDR
Scholarship	2016: Thailand International Cooperation Agency (TICA)
Publications	Bachelor's thesis: The Effect of Greece's Financial Crisis (Unpublished)