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Case Study of Savan Seno Special Economic Zone*

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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 Laos to create job opportunities and to enhance labor skills in Laos. 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. In addition, the study of the main challenges of SEZ in Laos that affect the number of investors is limited. It is timely, therefore, 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 in order to improve the SASEZ. The finding is guided by three main theories, which are 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who invested in this zone, as well as academicians who are experts on SEZ in Laos; and the review of published and unpublished sources as the secondary data. The results show that firstly, good 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 supports from local authority are necessary for both domestic and foreign investors.

Keywords: Special Economic Zone, Foreign Investment, Domestic Investment

1. Introduction

1.1 Special Economic Zone

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. According to the Decree on Special Economic Zone and Specific Economic Zone in the Lao PDR,

“Specific Economic Zone is the area that the Government has determined as the area having the location and economic environment which can provide facilities and autonomy for 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).

1.2 Savan Seno Special Economic Zone

Savan Seno Special Economic Zone is the first special economic area in Laos, established under the decree of Prime Minister No 148/PM on 29 September 2003. It covers 677 hectares and divided into four zones, located at the tip of the Second Friendship Bridge and along the Road No.9 in Savannakhet province. The main objective of establishment of SEZ is 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.

1.3 Statement of Problem

There is a gap of investment between inside and outside the SEZ (only 31.04% of investment inside SEZ). Savan Seno has established for 15 years, but the number of investment is still lower than it supposed to be. Moreover, the study of the main problems within SEZ that affect to the investors is limited. Consequently, the author deems this as a good opportunity to examine the factors attracting investors to invest in Savan Seno Special Economic Zone.

1.4 Objectives

The objectives of this study are to:

- 1) Examine the factors which attracted investors to invest in Savan Seno SEZ,
- 2) Rank the important factors viewed by investors who invested in this SEZ,
- 3) Provide policy recommendations to improve SEZ in Lao PDR

2. Literature Review and Research Methodology

2.1 Literature Review

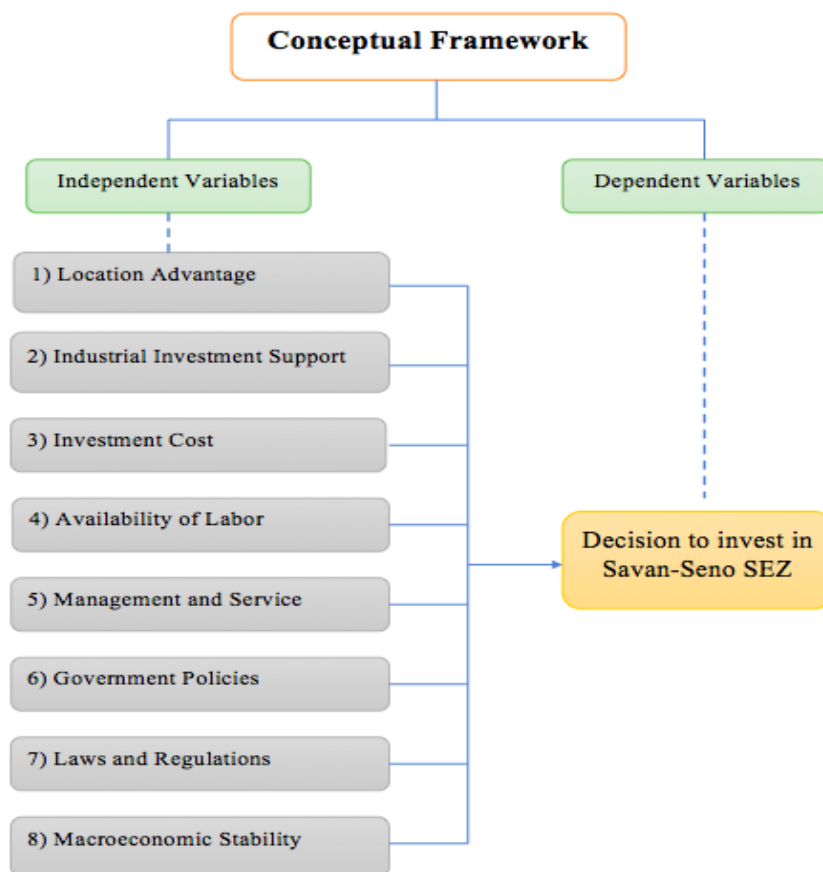
The finding is guided by three main theories, which are Heterodox approach, Agglomeration economies' approach, and OLI paradigm theory. Theories mentioned that SEZ is the best instrument of the government in order to develop the domestic economy and to compete with the world economy; since the government plays an important role in terms of investment, building human resources, technology transfer, institution setting, promotion policy and institutional reforms (Aggarwal, 2010).

In order to achieve the goal of establishing SEZ, location is one important point that government should be considered because if it was located in a wrong place, the investors might not come to invest. Aside from good location, government's initiative such as government's support, government office's performance, law enhancement could be the successful factors in order to develop the SEZ as well (Funkhiaw, 2014).

A study of FDI in Vientiane Industry and Trade Area, aimed to compare the investment promotion policy between inside and outside Industry and Trade Area. Besides, it also analyzed opportunities, challenges, and current problems of the investors. The study found that from 2005-2011, there were 1,162 investment projects in Industry and Trade Area in Lao PDR, which came from more than 44 countries. 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 registration compare to investment outside the Industry and Trade Area; so all these reasons made investors decide to come 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).

2.2 Research Methodology

The data for this study was collected from both primary and secondary sources. The primary data was collected by in-depth interview and questionnaires and applied in Liker-type Scale method. The samples are companies that invested in Savan Seno SEZ, government officials who are responsible for this task, and academicians who are experts on SEZ in Laos. The questionnaires asked the samples to rate the importance of attributes that related to investment in Savan Seno SEZ, also to rank the most attractive and problematic factors of doing business in Savan Seno SEZ. Moreover, the findings are based on the conceptual framework below.



3. Findings

3.1. Level of importance (Likert-Scale)

The author has classified the survey questionnaires using the cross-tab dividing samples into groups by number of the employment, nationality, and business sector.

3.1.1. Number of Employment

The number of employment symbolizes the size of business and it is 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 bigger scale of business or the business that based on labor intensive. Firstly, the companies that employed less than 100 workers have rated quality and availability of infrastructure, and quality of one stop service as the top choice in terms of importance of doing business at Savan Seno SEZ, followed by tax incentives, and logistic cost respectively. For the two least important attributes are first, quality of labor and non-tax incentives. Second, macroeconomic stability, convenience to access to services and entertainments, time use for delivering goods from production bases to destinations, and operating cost.

For the top three attributes of the companies that employed more than 100 workers are land lease/factory rental, logistic cost, and tax incentives, quality and availability of infrastructure. For the two least important attributes are first, non-tax incentives, second macroeconomic stability, utilities cost, and convenience to access to services and entertainments.

3.1.2. Nationality

This part is separated into two groups, which are ASEAN and Non ASEAN countries in order to find the different demands of investors who came from different regions. The top three scores of the companies from ASEAN countries are first, land lease/factory rental, and domestic laws and regulations. Second, quality and availability of infrastructure. Third, time use for delivery goods from production bases to destination, logistic cost and tax incentives had the same score. For the two least important attributes are first, operating cost; second, macroeconomic stability, utilities cost, and non-tax incentive.

The top three attributes of companies from Non-ASEAN countries, starting with tax incentives, secondly, logistic cost, quality and availability of infrastructure, and quality of one stop service

had the same score; and lastly, utilities cost. For the two least important attributes are time use for delivering goods from production bases to destination and convenience to access to services and entertainments.

3.1.3. Business Sector

The last category is divided into two groups, which are industrial sector and service sector in order to find the different demands since each sector might has different purposes to come to Savan Seno SEZ. The top three scores for the industrial sector are first, domestic laws and regulations, and quality and availability of infrastructure. Second, tax incentives, logistic cost, and land lease/ factory rental. Lastly, availability of labor, and quality of one stop service.

In terms of service sector, the top three scores are first, quality of one stop service and tax incentives. Following by quality and availability of infrastructure, and logistic cost, land lease/factory rental, and utilities cost and lastly, quality of labor and macroeconomic stability. For the two least important attributes are time use for delivering goods from production bases to destination, convenience to access to services and entertainments, and domestic laws and regulations.

3.2. Attractive Factors

Factors	Attractiveness		
	Score	Mean	Ranking result
Location Advantage	71	6.45	1st
Management and Service	60	5.45	2nd
Government Policies	54	4.9	3rd
Investment Cost	52	4.72	4th
Laws and Regulations	52	4.72	4th
Industrial Investment Support	43	3.9	5th
Availability of Labor	36	3.27	6th
Macroeconomic Stability	28	2.54	7th

Source: Field survey August 2017

According to the responses, the most attractive factor is location advantage, followed by management and service, government policies, investment cost, laws and regulations, industrial investment support, availability of labor, and the least attractive factor is macroeconomic stability.

The reason why location advantage has been ranked as the most attractive factor is that, Savan Seno is located in a center of East West Economic Corridor (EWEC) route connecting to many countries. The landlocked country is not a big problem here since all products are able to transfer to neighboring countries such as Thailand or Vietnam before shipping to other regions. Moreover, the Second Lao-Thai Friendship Bridge also plays an important role of investment in Savan Seno SEZ 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 Savan Seno SEZ aimed to save the transaction cost because it is close the main factories in neighboring countries. For example, Toyota Boshoku launched the factory in Savan Seno SEZ to produce car seats and export to assemble in Thailand.

3.3 Problematic Factors

Factors	Problem		
	Score	Mean	Ranking result
Laws and regulations	74	6.72	1st
Management and service	72	6.54	2nd
Industrial investment support	57	5.18	3rd
Government policies	53	4.81	4th
Availability of labor	45	4.09	5th
Investment cost	43	3.9	6th
Macroeconomic stability	28	2.54	7th
Location advantage	16	1.45	8th

Source: Field survey August 2017

For the problem of doing business in Savan Seno SEZ, the investors have ranked domestic laws and regulations as the most problematic factor; followed by management and service, industrial investment support, government policies, availability of labor, investment cost, macroeconomic stability, and location advantage subsequently.

The problems occurring in the zone are the instability and inconsistency between laws and regulations may reduce the investors' confidence to come to invest. Even though, the system of one stop service is good, sometimes because of limited experience of government officials make the process delay. For example, the decree mentioned that the company would get

the approval from the zone authority within five days after submitting application form, but in some cases it took longer. As well as the industrial investment support; after observing during fieldwork, zone C is the most developed among four zones of Savan Seno SEZ. 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. According to the interview of government officials who are working at The Savan Seno Special Economic Zone Authority, they explained that recently the labor factor does not effect the investors' decision to invest in the zone since a supply of labor is able to reach a demand of labor; however, the skilled labor is limited in the zone, so the companies usually imported or hired international workers for higher positions such as engineer, manager, etc.

4. Conclusion and Recommendation

Based on the results from interviews and questionnaires in accordance with the conceptual framework, the author has found three main findings. First of all, in terms of level of importance of the attributes to invest in Savan Seno SEZ, quality and availability of infrastructure, quality of one stop service, land lease/factory rental, domestic laws and regulations, tax incentives, and domestic laws and regulations all are regarded as important for the investors.

However, the degrees of importance vary according to the number of employment of each company, nationality of investors, and types of investments. Secondly, the author has found that there are some sets of factor that could constitute either attractions or problems of investments. The factor that seems to be the most attractive is location advantage, while the least attractive factor is macroeconomic stability. Moreover, the most problematic factor is laws and regulations, while the least problematic factor is location advantage.

Having found the above factors and identified the problems, the author would recommend the government to provide various policies in order to attract different industries with different demands. Besides, since the investors perceive the domestic laws and regulations as the most problematic factor of doing business in the zone, the government should reform the laws and make it consistent in order to raise the confidence of the investors. 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.

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Appendix

Number of employment

Attributes	Number of employment			
	Less than 100 workers		More than 100 workers	
	Mean	Level of importance	Mean	Level of importance
Availability of labor	4	Important	3.8	Important
Quality of labor	3.66	Important	4	Important
Quality and availability of infrastructure	4.5	Important	4.2	Important
Macroeconomic stability	3.5	Neither Important nor Unimportant	3.4	Neither Important nor Unimportant
Time use for delivery goods from production bases to destination	3.5	Neither Important nor Unimportant	4	Important
Logistic cost	4.16	Important	4.4	Important
Utilities cost	3.83	Important	3.4	Neither Important nor Unimportant
Land lease/Factory Rental	4	Important	4.6	Very Important
Operating cost	3.5	Neither Important nor Unimportant	3.8	Important
Quality of One Stop Service	4.5	Important	3.8	Important
Convenience to access to services & entertainment	3.5	Neither Important nor Unimportant	3.4	Neither Important nor Unimportant
Tax incentives	4.33	Important	4.4	Important
Non tax incentives	3.66	Important	3.6	Important
Domestic laws & regulations	4	Important	4	Important

Nationality

Attributes	Nationality			
	ASEAN countries		Non ASEAN countries	
	Mean	Level of importance	Mean	Level of importance
Availability of labor	3.8	Important	4	Important
Quality of labor	3.8	Important	3.83	Important
Quality and availability of infrastructure	4.4	Important	4.33	Important
Macroeconomic stability	3.2	Neither Important nor Unimportant	3.66	Important
Time use for delivery goods from production bases to destination	4.2	Important	3.33	Neither Important nor Unimportant
Logistic cost	4.2	Important	4.33	Important
Utilities cost	3.2	Neither Important nor Unimportant	4.16	Important
Land lease/Factory Rental	4.6	Very Important	4	Important
Operating cost	3.4	Neither Important nor Unimportant	3.83	Important
Quality of One Stop Service	4	Important	4.33	Important
Convenience to access to services & entertainment	3.8	Important	3.16	Neither Important nor Unimportant
Tax incentives	4.2	Important	4.5	Important
Non tax incentives	3.2	Neither Important nor Unimportant	4	Important
Domestic laws & regulations	4.6	Very Important	3.5	Neither Important nor Unimportant

Business sector

Attributes	Business Sector			
	Industry		Service	
	Mean	Level of importance	Mean	Level of importance
Availability of labor	4	Important	3.75	Important
Quality of labor	3.71	Important	4	Important
Quality and availability of infrastructure	4.42	Important	4.25	Important
Macroeconomic stability	3.14	Neither Important nor Unimportant	4	Important
Time use for delivery goods from production bases to destination	3.85	Important	3.5	Neither Important nor Unimportant
Logistic cost	4.28	Important	4.25	Important
Utilities cost	3.42	Neither Important nor Unimportant	4.25	Important
Land lease/Factory Rental	4.28	Very Important	4.25	Important
Operating cost	3	Neither Important nor Unimportant	3.75	Important
Quality of One Stop Service	4	Important	4.5	Important
Convenience to access to services & entertainment	3.57	Important	3.25	Neither Important nor Unimportant
Tax incentives	4.28	Important	4.5	Important
Non tax incentives	3.57	Important	3.75	Important
Domestic laws & regulations	4.42	Important	3.25	Neither Important nor Unimportant

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