

**Japanese Foreign Direct Investment in the Lao PDR:
Trends, Investment Decisions, and Management System Transfer**

by

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Acronyms and Abbreviations

AEC	:	ASEAN Economic Community
AFTA	:	ASEAN Free Trade Area
APU	:	Ritsumeikan Asia Pacific University
ASEAN	:	Association of Southeast Asian Nations
CEO	:	Chief Executive Officer
CLM	:	Cambodia, Lao PDR and Myanmar
CLMV	:	Cambodia, Lao PDR, Myanmar and Vietnam
DIP	:	Department of Investment and Promotion
EOJ	:	Embassy of Japan
EU	:	European Union
FDI	:	Foreign Direct Investment
FTPD	:	Foreign Trade Policy Department
GDP	:	Gross Domestic Product
GNP	:	Gross National Product
GSP	:	Generalized System of Preferences
IMF	:	International Monetary Fund
JBIC	:	Japan Bank for International Cooperation
JCCI	:	Japan Chamber of Commerce and Industry
JETRO	:	Japan External Trade Organization
JICA	:	Japan International Cooperation Agency
JICE	:	Japan International Cooperation Center
JIT	:	Just-In-Time
JMA	:	Japan Manufacturing Association
JMBCC	:	Japan-Mekong Business Cooperation Committee
LaoPDR	:	Lao People's Democratic Republic

LDC	:	Least Developed Country
METI	:	Ministry of Economy, Trade and Industry
MNCs	:	Multinational Corporations
MNEs	:	Multinational Entreprises
MOFA	:	Ministry of Foreign Affairs
MOIC	:	Ministry of Industry and Commerce
MPI	:	Ministry of Planning and Investment
NEM	:	New Economic Mechanism
NSEDP	:	National Socio-Economic Development Plans
ODA	:	Oversea Development Assistance
OECD	:	Organization for Economic Cooperation and Development
OLI	:	Ownership, Location and Internalization Advantages
QC	:	Quality Control
RCAPS	:	Ritsumeikan Centre for Asia Pacific Studies
R&D	:	Research and Development
SDGs	:	Sustainable Development Goals
SEZs	:	Special and Specific Economic Zones
SMEs	:	Small and Medium Enterprises
TNC	:	Trans National Corporations
UECM	:	Unrestricted Error Correction Modeling
UN	:	United Nations
UNCTAD	:	United Nations Conference on Trade and Development
US	:	United States
WEF	:	World Economic Forum
WTO	:	World Trade Organization

Certification

I, **LUANGKHOM Vilakhone** (51215601) hereby declare that the contents of this Master's Thesis (**Japanese Foreign Direct Investment in the Lao PDR: Trend, Investment Decision, and Management System Transfer**) are original and true, and have not been submitted at any other university or educational institution for the award of degree or diploma. All the information derived from other published or unpublished sources has been cited and acknowledged appropriately.

LUANGKHOM Vilakhone
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Summary

In recent decades, Japanese FDI has been an important share of the total investment contributing to socio-economic development in the Lao PDR. According to JETRO's annual report, in 2016 Japanese FDI inflow to the Lao PDR was at its lowest in comparison with neighboring countries in the region. Thus, this thesis aims to examine three main points: 1) the most influential factors behind Japanese investors' decisions and the reasons chosen by Japanese firms to operate their businesses in the Lao PDR, 2) how Japanese firms transfer and employ their management systems in the Lao PDR, and 3) the major challenges they have faced after their investment in the Lao PDR. Additionally, the trend of Japanese investment in the Lao PDR in the next five years will be examined on this stage. Similarly, a survey method was applied in this research by distributing standard questionnaires to 105 Japanese firms. The set of questions contains five main sections that cover the whole study picture. Several sections were generated using Likert scales that the respondents were requested to rate the level of importance of each question based on their perspective. **As a result**, 61.90% of questionnaire forms were returned, which reveals that investment incentives and laws (3.92) was the highest influential factor behind Japanese investors' decisions, while labor cost (3.80) was the most important reason Japanese investors considered when deciding whether to invest in the Lao PDR. Meanwhile, unskilled labor and labor availability were highest ranked or 34.1% of the total issues. In terms of Japanese management transfer, overall there was evidence of about 50% adaptation of Japanese practices. Empirically, the survey indicates that 69% of respondents believe that Japanese firms will increase their operations in the Lao PDR in the next five years, meaning the Lao government has to pay attention to improving skilled labor, core infrastructures, and investment approval procedures, to pull Japanese investment to the country. In conclusion, the sectors involved in investment have to create an outstanding strategy to strengthen the country to attract more Japanese FDI.

Key words: Trends, Investment Decisions, Factors, Management System Transfer, Characteristics of Japanese FDI, and Japanese Firms.

Chapter 1 - Introduction

1.1. Study background

For over three decades, the Lao People's Democratic Republic (Lao PDR) has implemented a worldwide economic cooperation policy with foreign countries. The New Economic Mechanism (NEM) policy was initiated in 1986. Since then, the Lao PDR has integrated its socio-economic development policy into its regional and international framework. Following this, the Lao PDR had been transforming itself from a landlocked to a land linked country to connect with the members of the Association of Southeast Asian Nations (ASEAN) in 1997. Presently, the number of foreign direct investments (FDI) in the Lao PDR is increasing, owing to several supporting influences such as political stability, low cost of labor, and location specific advantages. Additionally, more than 68 countries invested a total of USD 34 billion in the Lao PDR from 2008 to 2016 (MOIC, 2016).

Japan has invested in 102 projects with a total value of USD 438 million (1989-2015), and ranks eighth of FDI in the Lao PDR (DIP, 2016). Additionally, the Japan Chamber of Commerce and Industry (JCCI) and Japan External Trade Organization (JETRO) were established in 2009 and 2014, respectively. The purposes of JETRO are to promote economic partnership, trade, investment and industry development for both countries and promote more growth in the future, by focusing on two areas: **“1) Attracting direct investment into the Lao PDR, and 2) Providing support in developing local industries of the country”**, from the speech: *“We will promote investment from Japan and the growth of local industries”* Mr. Ishige Hiroyuki, JETRO Chairman and CEO delivered during the opening ceremony. Admittedly, a few years ago, Japanese investment flowing to the Lao PDR in 2013 had increased by 100 from

77 in 2012 (Maierbrugger, 2014). As a result, the economic trend in 2014–2015 revealed that Japanese firms increased their investment in the Lao PDR by turning away from China and Thailand, due to rising labor costs, political turmoil, and natural disaster (Thai, 2013). Actually, the establishment of JETRO in Vientiane was a result of the Lao PDR's focus on certain regional connectivity activities such as bridge building, access to the World Trade Organization (WTO), and the ASEAN Economic Community (JETRO, 2014).

Since 1955, the Lao PDR and Japan have had diplomatic relations and attempted to upgrade their cooperation into a strategic partnership in 2015. Overall, Japan is an important partner that approves Official Development Assistance (ODA) for the Lao PDR through socio-economic development projects, which are about USD 80–100 million per year; accounted for 23% of total ODA from overseas (MOFA, 2014). Conversely, ASEAN and Japan was started in 1973 to enhance their economic cooperation. Even so, the total value of bilateral trade was USD 229 billion (9.1% of ASEAN's total trade) in 2014, as most Japanese investors are interested in the ASEAN region (ASEAN, 2016).

Previously, the Lao PDR Government, led by high-ranking officials, has attended joint meetings between both countries, namely the Japan-Mekong Business Cooperation Committee (JMBCC) and other related meetings that have been held in Japan. This is in cooperation with the ASEAN-Japan Center, to promote and attract Japanese investors to expand their business to the Lao PDR (MPI, 2014). Even though the number of Japanese firms in the Lao PDR has risen every year, as stated by JETRO(2016) this amount is very small if compared with the other ASEAN member states. The share of four countries (Brunei, Cambodia, Lao PDR, and Myanmar) only accounted for 3.6 percent of the total Japanese FDI in ASEAN in 2015 (Table 3.8 in

Chapter 3). Regarding this problem, this study will explore the determinant factors of Japanese FDI outflow to the Lao PDR.

1.2. Aims

The purpose of this study consists of three points: **first, to examine the determinant factors** that influence the decisions of Japanese firms to invest in the Lao PDR and **the key reasons** for choosing the Lao PDR as a destination for their operations in comparison with neighboring countries, this thesis explores the most influential factors and reasons that affect Japanese investors and lead them to prefer the Lao PDR over other countries in the region. **Second, to examine the characteristics of Japanese outward FDI in the Lao PDR**, which come from Japanese investor's opinions and empirical survey of international trade organizations, and **third to investigate how Japanese-style management transfer to the Lao PDR**, this thesis examines how Japanese firms transfer their management system to the administration of their firms in the Lao PDR.

1.3. Research questions

This research aims to examine the trend of Japanese outward FDI in the Lao PDR; in particular, Japanese investors (firms and enterprises) will be the main category of this research. Therefore, this research will focus on answering the following three key research questions:

- 1) What are the determinant factors that influence the decision of Japanese investors to operate businesses in the Lao PDR and what are their reasons for choosing the Lao PDR as destination for investing rather than the neighboring countries in ASEAN?

- 2) How do Japanese firms transfer and employ their management system to the Lao PDR?
- 3) What are the major challenges that Japanese investors are facing when operating businesses in the Lao PDR?

In addition, based on the main research questions, there are sub-questions that will be answered as follows:

- 1) Why do they decide to invest in the Lao PDR rather than other ASEAN member states?
- 2) What is their satisfaction level of operating businesses in the Lao PDR?
- 3) What key elements should the Lao government improve to attract Japanese investors, and
- 4) What is the trend of Japanese investment in the Lao PDR in the next five years, determined by survey?

From these results, this research presents a good recommendation for the Lao government to develop a business environment to attract increased FDI, particularly Japanese FDI, to the country.

1.4. Significance

FDI is very crucial for contributing to economic growth and development in the Lao PDR. According to the eighth FiveYearNational Socio-Economic Development Plan (NSED) of the Lao PDR (2016–2020), it is a significant part of GDP growth, which accounted for 30% of the GDP. Presently, the government of the Lao PDR has

been trying to improve the country's business environment to attract increased FDI into the country, especially Japanese investment.

The Japanese government focuses on the ASEAN region and continues to expand its cooperation into comprehensive partnerships in terms of politics, economy and socio-culture. Moreover, Japanese investors are interested the ASEAN region as a destination for investing and the Lao PDR is also considered to be in this group, as it is located in central Southeast Asia. Consequently, the establishment of the ASEAN Economic Community (AEC) in 2015 was meant to increase investment opportunities for member countries and the Lao PDR, and enhance economic collaboration among member countries and dialogue partners. Therefore, this research will be a tool for policy-makers to create appropriate policies and promote economic cooperation in the future.

1.5. Research methodology

This research was conducted using mixed methods (qualitative and quantitative methods) to address its research questions and objectives. In addition, this study uses descriptive statistical analysis, which focuses on explaining the most substantial factor and reason (21 determinant factors and 13 reasons) affecting Japanese investors' decision to invest in the Lao PDR.¹

1.6. Scope

This study focuses on Japanese FDI in the Lao PDR by gathering primary data from Japanese firms across the whole country, accounting for 10 provinces

¹Details are in the 2nd part of Chapter 2

and Vientiane capital, with the aims of determining the imperative factors and reasons stimulating Japanese FDI flow to the Lao PDR.

1.7. Limitation

This research obtains empirical findings that address its research objectives and questions; however, this study was not without limitations. Thus, this section will report the three main limitations as follows:

First, government and private sector cooperation: starting from governmental organizations such as MPI, MOIC, and SEZs, some of them could not provide the appropriate data related to Japanese investment in terms of an overview of Japanese investment in the Lao PDR. Additionally, the list of Japanese firms including investment statistics and some data could not support this research because of government regulations, even though the researcher is from the government sector. Without these data, it was extremely difficult to contact the survey participant and distribute the questionnaire forms. For the private sector, including Japanese firms, some of them could not participate in the survey²; even when the researcher presented evidence in the form of an official document from MOFA, they were still denied.

Second, the survey method and tools: after the survey, we found that there were many limitations, in terms of time limit (only two months), during which the researcher had to work closely with Japanese firms and governmental organizations to obtain the appropriate data. As for the research instrument or questionnaire, the researcher found that selecting attributes (variables) was not covered in some parts of the target questions.

²Not able to satisfactorily answer the questionnaire.

Third, the study revealed that there are few previous studies about Japanese FDI, particularly in ASEAN regions, meaning some evidence such as literature review on Japanese firms might not be enough to support this research.

1.8. Thesis structure

This thesis covers five chapters as follows:

Chapter 1- *Introduction*: presents the general background, purposes, research questions, significance, methodology, limitation, scope, and structure of the thesis in short.

Chapter 2- *Literature Review and Research methodology*: this chapter comprises two main parts. First, the literature review focuses on FDI theories in terms of multinational enterprise, the main FDI determinants in the host country, and empirical determinants of Japanese FDI in Asia, including previous studies about Japanese investment. Second, the research methodology is described, including ways to process this study in the form of research design, sample size, data collection, research instrument (questionnaire design), and data analysis technique.

Chapter 3- *Recent Situations of FDI Inflow to ASEAN and the Lao PDR, and Empirical evidence of Japanese FDI*: this chapter addresses the recent situation of FDI inflow to ASEAN countries and the Lao PDR, and some evidence of Japanese FDI into ASEAN and the Lao PDR. This includes Japanese FDI inflow into ASEAN member countries, particularly the Lao PDR. The economic environment for FDI and FDI attractions in the Lao PDR are also identified in brief.

Chapter 4- *Survey and Results*: presents results of the field survey on Japanese FDI into the Lao PDR during 1989–2016, which will be explained based on the research

instruments. In this regard, the empirical sections such as the survey of Japanese firms, influential factors and reasons for selecting the Lao PDR for investment, and Japanese management systems including the trend of Japanese FDI into the Lao PDR will be revealed at this stage.

Chapter 5- *Conclusion and Recommendation*: this chapter coherently wraps up the overall study picture. The results of the field survey explained in Chapter 4 are reported once again in short. Similarly, the empirical evidence, findings, and recommendations regarding the research are also identified at this stage.

Chapter 2 –Literature Review and Research Methodology

This chapter has two main parts: First, the literature review covers relevant research on FDI theories. In addition, theoretical studies on FDI determinants will be explained in terms of main FDI determinants in the host country and empirical variables. Additionally, empirical determinants of Japanese FDI in Asia and previous studies on Japanese FDI will be examined. Second, the methodology provides details of the research procedure, including the process for analyzing this research.

Review of Related Literature

2.1. FDI definitions and types of foreign production

2.1.1. FDI definitions

In the past decade, many scholars and researchers from well-known international organizations have defined FDI based on their individual perspectives, but there is of yet no specific definition of FDI. The Organisation for Economic Co-operation and Development (OECD) Benchmark defines FDI as: “a key driver of international economic integration with the right policy framework in which it could provide financial stability, promote economic development and enhance the well-being of societies”(OECD, 2008). In other words, the United Nations Conference on Trade and Development (UNCTAD) and International Monetary Fund (IMF) classified FDI as ‘a direct investment involves a long-term relationship between direct investor and investment; reflecting a lasting interest is controlled by a resident entity of one economy (foreign direct investor or parent enterprise) in an enterprise resident in another economy in terms of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI indicates that the investor exerts a significant degree of influence

on the management of the enterprise resident in the economy'. Hence, FDI consists of three elements: equity capital, reinvested earnings, and intra-company (UNCTAD, 1999)&(2007). In addition, IMF (1993) highlights that FDI is capital flow.

According to Krugman and Obstfeld (2000) FDI means "international capital flows in which a multinational enterprise (MNE) or transnational corporation (TNC) in one country establishes or expands a subsidiary in another one. The outstanding aspect of FDI is that it engrosses not only a transfer of resources but also *the acquisition of control*". In contrast, Mody (2007) also argued that FDI engages a specific location in the connection between globalization and economic development. It transfers capital and technology from rich firms to poor countries, where the firms could earn high compensation while the economy of the poor countries grew rapidly.

Based on the credible definitions introduced above, this paper summarizes that FDI consigns to foreign firms, or investors intend to transfer their resources in terms of capital, technology, human resources, knowledge and skills, and management systems from their countries (home country) to operate businesses in another country (host country) based on the government policies and regulations of the host country.

2.1.2. Main types of foreign production (FDI Motivation)

This part concerns the motivation of foreign investors to invest in another country in the context of a production base. Behrman (1972) and Dunning and Lundan (2008) categorized four main types of foreign production (MNE activities) such as: 1) natural resource-seeking; 2) market-seeking; 3) efficiency-seeking; and 4) strategic asset-seeking.

- 1) **Natural resource seeking:** this is source-seeking FDI that searches for specific natural resources with a higher quality and lower cost. Additionally, some of these resources are not available in the investors' home countries, such as fossil and mineral fuels, gas, metals, and some agricultural products. These MNEs promote investing abroad to benefit from these resources and also become more profitable and competitive in the international market.
- 2) **Market seeking:** foreign investors focus on investing in a particular country or region to supply commodities and services to the local and neighboring markets. In other cases, some of the firms might seek another market and replace its activity in forms of export by investing in a third country or exporting to another market from there. Indeed, it also defends existing markets and encourages new markets at the same time. The most important point of this type of investment is the action of the host government in terms of special policies and regulations that may pose challenges to attracting investments.
- 3) **Efficiency seeking:** the efficiency seeking FDI is to take advantage of different factors endowments, economic systems and policies, and market structures, in such lower costs. Most of firms expect to reach cost efficiency, for example, low cost in labor or natural resources to reduce their production cost. In addition, MNEs also seek the advantages of the scope and scale of economies in both developed and developing countries where they invest.
- 4) **Strategic asset seeking:** this type of investment is an asset-seeking FDI that focuses on obtaining the assets of foreign firms. Its second goal is to support the strategic purposes of the firms in the long term, and maintain their share

in global competitiveness. Additionally, the strategic asset acquirer aims to profit from the benefits of such ownership through specializing activities and competencies in the forms of *acquisition, merger or joint venture* enterprises.

In contrast, Shatz and Venables(2000) also determined their own types of FDI, which divided this investment into horizontal and vertical FDI:

- 1) **Horizontal FDI** or Market Seeking FDI engages in serving local markets and regularly relates to the production process as superfluous materials are set up to supply different places. Thus, trade is replaced for this form of FDI, as head firms substitute exports with local production. Additionally, decreasing the market cost in terms of tariff or transportation costs become a point of motivation for investors, in some cases to improve the competition of the firm in the real market.
- 2) **Vertical FDI** or Asset Seeking FDI aims to reduce input costs, which involves production base and relocating parts in cheaper locations. This also takes the form of low labor costs of different skill levels and raw materials (not available in home country). Vertical FDI also creates trading; for instance, products from different part of production are distributed to different location.

2.2. Main FDI Theories

This thesis focuses mainly on FDI and other related theories. The study found that there are a considerable number of economic theories on FDI determinants based on a variety of perspectives, for instance, government policy, economic activities, and business environments. Dunning and Lundan(2008) pointed out that the theory of MNE

activity determinants not only describes the *location of value adding* activities, but is also associated with *ownership and organization* activities. As such, a theory of international resource allocation that concentrates on the *location of production* (based upon the spatial distribution of factor endowments and capabilities). Second, economic organization theory that is basically associated with the *ownership of production and techniques*, so the related transactions are controlled and supervised (including those that might strike on its location).

2.2.1. Theories of MNE activity determinants

This part concerns two theories that offer more comprehensive explanations of the foreign activities of a firm, mainly the eclectic paradigm of international production and internalization, which has drawn much attention in the literature.

2.2.1.1. Internalization Theory

As stated by Buckley and Casson (1976; 1991; and 2002), this theory is associated with the cross-border transactions of intermediate products of firms that are managed by hierarchies rather than determined by market, or intermediate products in imperfect markets. It also addresses the idea that MNEs perform several activities apart from production, such as research and development (R&D), marketing, and others. These activities are interdependent and correlated flows of intermediate products. In addition, it is not easy to organize the market for these products, because of their imperfections drive to establish the internal markets. Thus, transfer of capital is not only the mechanism of internal production, but includes the control and management of subsidiaries.

In principle, this theory is based on three hypotheses, including: 1) Firms expect to obtain high profit maximization in imperfect markets; 2) When intermediate products are in imperfect markets, incentives are used to set up internal markets (*this involves bringing activities that are linked by the market under common ownership and control*); and 3) MNEs are generated by internalization of markets across national boundaries.

Moreover, this theory supports the idea of MNEs in forms of subsidiary of their firm in the host country; if specific ownership is profitable for them, it will also increase FDI to the home country at the same time.

Furthermore, Thomas G. Parry and Rugman (1985) highlighted that MNEs that operate across national boundaries are replaced by different market functions with internal intra-firm transaction whenever the *cost of market transactions* is higher than the *cost of internal transactions*. Especially, internalized transaction will come up in the existence of imperfections or failure in markets.

2.2.1.2. The eclectic (OLI Paradigm)

To clearly understand internalization theory, the eclectic paradigm provides further explanation of its details and relationship. This theory is one of the MNEs activities theories, which is engaged in FDI. Based on Dunning (1979) and Dunning and Lundan (2008) identified the eclectic paradigm, which combines three stands of economic theory in the forms of location, industrial organization, and internalization. These are used to describe the ability and willingness of firms to serve markets and why these firms choose this advantage to exploit in international production instead of “domestic production, exports or portfolio resource flows”. Thus, the principal hypothesis that reflects when a firm decides to invest in a foreign country has three

elements that must be satisfied: a) Ownership (O) advantage, b) Location (L) advantage, and c) Internalization (I) advantage. Consequently, this theory is well-known as the OLI paradigm, which is described as follows (Table 2.1)

Table 2.1 : Ownership, location, and internalization (OLI) Approach

Direction of Serving Market	Ownership-specific advantages (internal factor)	Location-specific advantage (external factors)	Internalization advantages
FDI	YES	YES	YES
Exports	YES	NO	YES
Contractual Resource	YES	NO	NO

Source: Developed from (Dunning J. H., 1981)

- a) **“O” advantages** are intangible assets (resources) in the form of property rights, technologies, management, and organization systems. These are owned by the firm that does not find in other competitors in serving particular market. These advantages can reduce costs of investing aboard or inter-firm transactions.
- b) **“L” advantages** reflect an investor’s decision to use ownership advantages to produce in a foreign country, in which they will benefit from input factors such as natural resources, energy, materials, low labor costs, and transportation. This also reduces risks or barriers in export markets.
- c) **“I” advantages** refer to internalization theory, in that the firm possesses these advantages for its own use instead of selling or leasing them to foreign enterprises. As most foreign production happens within the firm, the parent and subsidiary establish an internal market to manage key sources of competitiveness. Thus, these are exploited to avoid unexpected costs, for

example, *cost of broken contracts and ensuing litigation* and other related issues that probably happen through licensing.

Moreover, Dunning (1979) specifies that OLI paradigm theory is appropriate to home and host country FDI. This is because the host country possesses O and I advantages, whereas the home country has the L advantages.

2.2.2. Related FDI theories

2.2.2.1. Market imperfections theory

Hymer (1976) and Kindleberger (1969) categorized market imperfections into two main types: 1) *structural imperfections of the market*, and 2) those associated with *transaction costs* in forms of shifting technical ability and knowledge. This theory also argued that if there is potential to make more profit in the host country in terms of compensating advantages than in the home country, the foreign owned firm will decide to make an investment instead of the local firm. Further, the firm must be allowed to compete on equal terms with original firms, and this advantage market is incomplete.

In addition, the researchers reveal that FDI happens when these three orders are satisfied: 1) the advantage of the host country could be transferable; for example, the subsidiary could use it without extraordinary cost to the parent firm; 2) the foreign firm could earn more profit by using these advantages itself than to certify it to an original producer; and 3) tariff and transport become major constraints on exporting the product to the host country (owing to unprofitability). Thus, the host country should resolve this issue to increase FDI.

2.2.2.2. Vernon's product life cycle theory

Based on Vernon (1966) and (1979), this theory is different from other FDI theories that separate the life cycle of a product into a chain of stages, in which the three main stages are described as: 1) monopoly advantage is that when the firm introduces a new product, which is exploited to avoid copying the product of other competitors. This stage uses exports instead of FDI, that illustrated by exporting, high cost of R&D, and quick technological change. 2) technology and investment flows happens between two developed countries, as most cases of copying occur in advanced countries, and 3) this stage presents more standardized and technologically advanced products, where comparative costs and factor ability will be managed by multinational investment.

Furthermore, in terms of the internationalization of innovating firm production, Vernon also classified it in another way: 1) domestic in nature, meaning the home country is the main market, and 2) production relocated to foreign countries; for example, the manufacturing sector is moved to other countries owing to lower labor costs. Hence, this theory attempted to explain the correlation of international production and exporting in forms of *the relocation of production activities*.

2.3. Theoretical studies of FDI determinants

2.3.1. Main FDI determinants of the host country

Figure 2.1 : Host country determinants of FDI

I. Policy Framework for FDI	II. Economic Determinants:
<p>Economic, Political and Social Stability Rule regarding entry and operations Standards of treatment of foreign affiliates Policies on functioning and structure of markets International agreement on FDI privatization policy Trade policy (tariffs and NTBs and Coherence of FDI and Trade policies) Tax policy Industrial and Regional policies</p>	<p>Principle economic determinants in host countries are based on type of FDI as follow:</p>
	A. Marketing Seeking:
	<p>Market size and Structure Per capital income Market growth Access to regional and global market Country specific consumer preference</p>
III. Business Facilitation	B. Resource Seeking:
<p>Investment promotion schemes: image-building and investment-generating activities and investment facilitation services Investment incentives Reduce 'hassle' costs related to corruption Bureaucratic inefficiency Social attractiveness Pre & Post investment services Protection of property and rights Good infrastructure and core service Economic morality</p>	<p>Land and building cost Raw materials, components, parts Low cost unskilled labour Skilled labour</p>
	C. Efficiency Seeking:
	<p>Cost of resource and assets adjusted for productivity for labour inputs Related input cost in term of transportation in host country and intermediate products Membership of a regional agreement Conducive to promoting a more cost-effective and product upgrading inter-country division of labour</p>
	D. Asset Seeking:
	<p>Technological, managerial relational and other created assets be they those embodied in individuals, firms or clusters of firms Physical infrastructure Macro-innovatory, entrepreneurial educational capacity or environment.</p>

Source: Developed from (Dunning J. H., 2002)

Dunning (2002) found that the attractive factors for FDI or FDI determinants in a host country could be classified into three main determinants: 1) Policy framework for FDI; 2) Economic determinants, and 3) Business facilitation. With reference, each of them will be considered based on entry mode, degree of foreign ownership and value chain of foreign investors (Figure 2.1).

2.3.2. Empirical variables of FDI determinants.

Most of the empirical literature identified a list of important variables that affect FDI, such as political stability, market size, and cost of labor. According to IMF, the significant factors that impinge on FDI are eight variables including market size, investment climate and political and economic stability and risk, trade, openness, fiscal incentives, factor cost, agglomeration effects, and economic cost (Lim, 2001). Additionally, Aseidu (2002) also addressed six well-known and used variables in the existing literature, namely real GDP per capital, political stability, infrastructure quality, cost of labor, openness of the host country, and trade barrier (taxes and tariffs); these variables influence attracting FDI to the host country.

Political and Economic Risks:

From an alternate perspective, Schneider and Frey (1985) identified two main factors that FDI is dependent on, namely economic and political determinants. Their study found that if the host country has higher real per capital gross national product (GNP) and a low balance of payments deficit, these factors will lead to attracting increased FDI to their country. In contrast, if any host country has many problems related to politics or political instability, this will cause a decrease in the FDI inflow. In addition, the IMF also reported that country-specific risks in terms of political issues and macroeconomic improbability are influences on and barriers to FDI (Lehmann, 1999).

Openness of the host country:

Kinoshita and Campos (2002) found that a positive determinant for increasing FDI and trade is the openness of the host country, which will help to improve the business environment and attract more foreign firms to the host country. In contrast, as stated in

Demirhan and Masca (2008), this openness might affect FDI differently based on its type. Markets seeking investment might have a positive impact on FDI because foreign firms will probably establish new subsidiaries in the host country to serve local markets in the case that it is difficult to import their products. However, some MNEs might prefer to invest in an open country if their business is related to export-oriented investments, because they would like to increase market imperfections and protect their trade from any unexpected cost related to export procedures.

Labor costs:

Based on the product life cycle theory, Vernon argued that low labor costs influence investors' decisions. If the host country has high potential in terms of lower labor costs, then it will attract increased FDI inflow to the country, particularly where lots of skilled labor is available long term (Lim, 2001). Conversely, as revealed in Demirhan and Masca (2008), cost of labor is one of the most empirical determinants for FDI, especially for export-oriented subsidiaries and labor intensive industries. At the same time, the skills of the labor force are also needed and influence investors' decisions about FDI location.

Infrastructure Quality:

This factor becomes one of the key constraints of the host countries. Nevertheless, this factor has high potential to attract FDI to the country, owing to the fact that several investors are interested and willing to invest if the host government agrees. In addition, if the infrastructure includes roads, water supply and electricity systems in the host country are in good condition, they represent a good opportunity to increase FDI flows to the country (Demirhan & Masca, 2008). Additionally, Wheeler

and Mody (1992) also certified that infrastructure quality has a positive influence on FDI.

2.4. Empirical determinants of Japanese FDI in Asia

2.4.1. Japanese-type FDI

Japanese-type FDI has had its own characteristics for centuries. Kojima (1985) attempted to indicate the difference between Japanese and American FDI types by comparing FDI from both to other Asian countries. For the Japanese side, he noted that Japanese FDI is export-oriented, which seeks abundant natural resources and a level of development of the host country where they could find a comparative advantage for themselves. Meanwhile, American FDI is related to the trade origin based on a pattern that has been the same for all countries over time.

Lakhera (2008) summarized the specific attributes of Japanese FDI as: i) The nature of Japanese FDI is export-oriented; ii) Leading new product creation in the context of high technology and modern organization techniques, with a significant focus on *just-in-time* (JIT) systems and quality control; iii) The establishment of a subsidiary production base in foreign countries shows that their percentage of imported components and goods is higher; iv) The networking of Japanese firms is extensive and the share of output-input through intra-company shipments is high. At this point, it is revealed that the connection between parent firms and subsidiaries is evident through their operation. v) At the same time, Japanese investors are also interested in market oriented that focus on the fragment of the market, and strategies and seek long term profit; vi) Japanese investors are more perceptive to environmental and cultural concurrence, and vii) Distinction of managerial practices among Japanese affiliates are accepted in terms of their operations and performances.

2.4.2. Empirical literature of Japanese FDI outflow in Asia

Existing studies on Japanese FDI outflow noted that the characteristics of the host country highly influence a firm's decision; for example, in the case of the United Kingdom, the location has driven Japanese FDI in the context of transaction cost and market seeking. This argument also appeared in France's case, because location advantage and share of domestic market are considered to be the main motives for raising Japanese FDI. Moreover, there were other significant determinants that influenced FDI in Latin American countries; namely, political stability, government policy on economy, and market size. In addition, it was found that Japan is closer to the East Asia region than others. In terms of Japanese FDI to East Asia countries, the researchers revealed that it was associated with government incentive or investment promotion strategy, good business environment for efficient production and market-friendly industry (Lakhera, 2008).

In other words, the origin of FDI flows were verified by important factors such as seeking to use *economies of scale*, access to sources of raw material, and obtaining other advantages from investments in neighboring Asian countries. Hence, these arguments led Japanese firms to move their production base to foreign countries to avoid losing comparative advantage.

Table 2.2 : Development of Japanese FDI flows

Period	Driving force	Sectors (Industries)	Facilitating factors
Prior to 1970	Non-Manufacturing	Investment in trade and commerce	Investment for Japanese trade
1970s	Natural resource-seeking, trade supportive and labour intensive FDI	Textile, steel, iron ore, raw materials, extractive and service sector and trading	Natural endowments
1980s	Market seeking and service driven FDI	Electronics, automobile, chemicals and service sectors	Large and protected markets, proximity to customer and production facilities
2000s	High value added service sectors, technology intensive, efficiency seeking and innovation driven	Microelectronics, service sectors	R&D, Skills, technology development, appropriate infrastructure, supporting institutions

Source: Developed from Japanese FDI flows in Asia (Lakhera, 2008)

Table 2.2 addresses the timeframe and development of Japanese FDI in the context of driving force, types of sector, and supporting factors. These identified the development of Japanese FDI over time as non-manufacturing, natural resource seeking, market seeking, and efficiency seeking.

2.5. Review of previous studies of Japanese FDI

1) **Sangiam** (2006) examines trends, patterns and determinants of Japanese FDI in Thailand in the time period mentioned above, as Japan is the highest ranking FDI in the country. In part of literature review, the author focuses on the empirical studies of FDI, especially Japan's FDI in services and manufacturing areas in Thailand. Econometric analysis was applied to this research using "the estimation technique of unrestricted error correction modeling (UECM)". The analysis outcomes reveal that the most important determinant of Japanese FDI is market size in both the short and long run, particularly in the manufacturing sector. In addition, to attract FDI into the country, the Thai government should organize efficient economic policies in terms of increasing market size. At the same time, they should reduce any barriers to trade, for example,

tariffs. Moreover, the infrastructure base is not good enough, and could be the main issue preventing attracting FDI in Thailand. However, at the present their government is trying to improve their systems through actions such as reducing trade barriers and related issues to create an attractive business environment for foreign investors and Japanese FDI.

2) VUONG and YOKOYAMA (2011) investigate and analyze which factors or attributes influence attraction of Japanese FDI to Vietnam in comparison with two countries, Thailand and China. Survey methodology was applied to this research by distributing standard questionnaires targeting Japanese firms. As for sampling, 1,500 Japanese firms that were investing in Vietnam, Thailand and China were asked to participate in the survey. The set of question consisted of 23 attributes that were generated using the Likert scale; participants were asked to respond to the questions based on their perspective. The results revealed that first; Vietnam is still more advantageous than both countries in terms of cost of production and labor force. Second, it recommends that Vietnam should preserve their strong points, such as political constancy, low cost of labor and production, and other investment opportunities. In contrast, it is also suggested that Vietnam improve weak points related to the macroeconomic and investment environment (11 of 16 attributes). For example, this includes transparency and input factors for production, including infrastructure.

3) Coy and Cormican (2014) examine the determinants that influence and attract Japanese Multinational Corporations (MNCs) to Ireland based on the question: *“What are the location-specific factors that influence the decision by Japanese MNCs to invest in Ireland?”*. Its purpose is to understand the investment factors related to Japanese firms in terms of policy, such as economic and business facilitation determinants, which

these policies are significant determinants for attracting Japanese MNCs. To determine the research outcomes, this study collected data from 11 Japanese MNCs and 2 agencies by conducting a survey (based on 23 FDI attributes). Additionally, the Kano model was applied to discover the level of satisfaction and importance of each attribute. The results found that the most significant factor is “low corporate tax rate”, followed by skilled labor. The research findings also reveal that the accession to regional markets is still necessary, while Japanese investors indicated that the domestic market is not imperative for them.

Research Methodology

2.6. Methodology

This section indicates the way this research was processed, which includes research design and sample size. The collection of primary and secondary data, and research instruments in terms of how to generate the questionnaires, determine the variables, and data analysis technique will be examined to address the main research questions of this study.

2.6.1. Research design

Research was conducted by applying mixed qualitative and quantitative approaches. The primary data comes from a survey, and the secondary data comes from previous studies that have been provided by international organizations and government sectors. These data will be analyzed to answer the research questions and objectives. In other words, this study is a descriptive statistical analysis, which focuses on explaining the most substantial factors and reasons affecting Japanese investors' decisions to invest in the Lao PDR.

2.6.2. Sample size and determining target

Japanese firms that are operating or investing business in the Lao PDR are the main target of this research. According to JETRO, MPI, MOIC, SEZ and EOJ (in Chapter 3), over the period of 1989 – September 2016 there were about 132 Japanese firms around the country, covering Vientiane capital and ten provinces. This number includes 100% Japanese owned firms, joint ventures, and representative offices as the total population of this study. In addition, 105 firms were selected based on the

systematic sampling method and a contactable list of the firms. Hence, the questionnaire forms were distributed to 105 firms (the exact target was 100 respondents). The survey period started from the middle of August 2016 to the end of September in the same year, accounting for 50 days in the Lao PDR. Nevertheless, only 65 questionnaire forms were returned, accounting for 61.90% of the total sample size and 49.24% of the total population. This amount was considered to be enough and as such was applied to the present research.

2.6.3. Data collection and sources

The data collection and sources are two important sections of this research. This study consists of two data sets, 1) Primary data, and 2) Secondary data. Primary data were collected using a questionnaire survey approach. The sets of questions were distributed to 105 Japanese firms across the whole country by sending official letters and e-mail to the firms directly. Some of them were asked to fill out the forms by calling and interviewing. Additionally, most of the questionnaires were filled out by high level officers such as chief executive officer (CEO), senior manager, and officials who were involved in firm policy making.

Secondary data sources were collected by requesting assistance from the Government of Lao PDR, private sectors, and international organizations, namely MPI, MOIC, the National Committee for SEZ, the Embassy of Japan, ASEAN Secretariat, Bank of Japan, and JETRO in Vientiane. Furthermore, to fulfill this research, a literature review of books, journals, academic papers, reports and official documents was also applied to this research.

2.6.4. Questionnaire design

The design of questionnaire is very significant to the research. A clear design will be convenient for the respondents to answer the questions. The questionnaire of this study was designed based on the literature review and previous studies (Appendix 1). It consists of five sections: 1) General firm information; 2) Determinant factors of Japanese firm and reasons for selecting the Lao PDR as a destination for investment instead of neighboring countries in ASEAN (21 attributes and 13 reasons); 3) Employment and management systems, which indicate how Japanese investors transfer their management system to the Lao PDR; 4) Trends of domestic sales, and import-export; and 5) Open-ended questions. Additionally, these sections comprise four types of question: 1) Yes / No questions or dichotomous format questions; 2) Rating scale questions that the respondents have to rate from 1 (lowest) to 5 (highest), well-known as a Likert-type scale (Table 2.3); 3) Closed format questions, in which respondents were asked to answer using multiple choice and options, and 4) Open-ended format questions designed for Japanese investors to express their opinions about doing business in the Lao PDR, especially the difficulties of operating a business in the Lao PDR.

2.6.5. Data analysis technique

2.6.5.1. Criteria for interpreting the average value of survey data.


A Likert-type scale³ method was used to measure the means (average values), modes (the most frequent number in a set of data), medians (the middle number in a sorted list of data), and standard deviation (the square root of the variance)(Saunders et al., 2009), which are contained in section 2, 3, and 5 of the questionnaire form. In order

³ Likert scale is from the name of Dr. Rensis Likert, “a sociologist at the University of Michigan, who developed a means of measuring psychological attitudes in a scientific way in 1932. It is a psychometric response scale primarily used in questionnaire to obtain participant’s opinion with a set of statement, which the respondents are requested to indicate their level of agreement with a given statement by way of an ordinal scale”.

to answer, the respondents were requested to rate the level of significance for each variable on five levels (1, 2, 3, 4, and 5) (Huang et al., 2014). Therefore, the interval scales are divided into five scales based on statistical function as follows

$$\begin{aligned} \text{Interval Scale} &= \text{Max Rate} - \text{Min Rate} / \text{Total of level} \\ &= 5 - 1 / 5 = 0.8 \text{ interval} \end{aligned}$$

Table 2.3 : Criteria for interpreting the average value of survey data

	Lowest				Highest
Rating	1	2	3	4	5
Average Point	(1.00-1.80)	(1.81-2.60)	(2.61-3.40)	(3.41-4.20)	(4.21-5.00)
Interpretation	Lowest	Low	Medium	High	Highest

Source: Generated from the result of interval scale in five points from 1 (lowest) to 5 (highest).

2.6.5.2. Data analysis technique

To analyze the data and determine research outcomes, this thesis uses the statistical software as stata 12.1 and Microsoft Excel to gather and summarize all the primary and secondary data. In addition, it will be employed to analyze the descriptive statistics and level of significance of the influential factors of Japanese investors in terms of mean and standard deviation, followed by reliable explanations that will address or answer the main research question of this study (all analysis will be covered in Chapter 4).

Chapter 3 -Recent Situations of FDI Inflow to ASEAN andthe Lao PDR, and Empirical Evidence of Japanese FDI

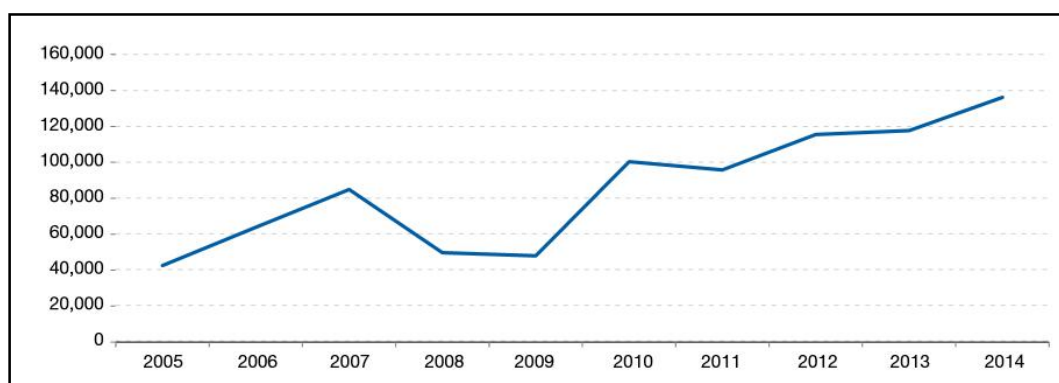
This chapter presents the circumstances of recent FDI inflow to ASEAN countries and the Lao PDR and some evidence of Japanese FDI into these areas, comprising three key points: first, briefing of FDI inflow to the region; second, Japanese FDI outflow into ASEAN countries and the Lao PDR, and third, the economic environment for FDI and FDI attraction in the Lao PDR are also identified in short.

3.1. Briefing of FDI inflow to ASEAN and the Lao PDR

3.1.1. FDI inflow into ASEAN

ASEAN (2015) notes that in recent years, FDI inflow into the region has been increasing. Although its share of global FDI flows in 2014 decreased at 16%, this does not affect FDIs to the region. In 2013, the total value of FDI inflow was USD 117.7 billion and USD 136.2 billion in 2014 (Figure 3.1). In addition, ASEAN member countries also are the largest recipient of FDI compared with other developing countries. The key elements of this achievement are mostly owing to ASEAN's strong economic basics (cost advantages and market factors), regional integration, and its attempts to constantly develop the business environment to become the prime investment destination and attract FDI to the region. For these reasons, foreign MNEs and firms continue to expand their businesses in the region, including industry, production, and services activities.

Figure 3.1 : FDI flows to ASEAN over 2005 – 2014 (USD million)



Source: ASEAN Investment Report 2015.

Moreover, this report revealed that two-thirds of FDI inflow to ASEAN was from the top five investment sources: the European Union (EU), Intra-ASEAN and Japan, the United States, and Hong Kong (China). However, not only the main sources of FDI contributed to this achievement, but contributions also came from intraregional investment among member states and other dialogue partners such as Australia, China, and the Republic of Korea, while the largest investor in manufacturing activities was still Japan in 2014 (Table 3.1 and Table 3.2).

Table 3.1 : Top ten sources of FDI inflow to ASEAN

Country / Region	Investment Value (US\$ Million)			Share to total inflows (%)		
	2013	2014	2015	2013	2014	2015
ASEAN	19,562.20	22,134.50	22,232.20	15.7	17	18.4
EU	24,511.30	24,989.90	20,127.60	19.6	19.2	16.7
Japan	24,750.20	15,705.40	17,559.40	19.8	12.1	14.5
USA	7,157.20	14,748.50	13,646.00	5.7	11.3	11.3
China	6,426.20	6,990.10	8,256.50	5.1	5.4	6.8
Republic of Korea	4,303.30	5,750.70	5,710.40	3.4	4.4	4.7
Australia	2,587.80	6,281.50	4,542.90	2.1	4.8	4.3
Hong Kong	5,251.20	9,813.20	4,542.90	4.2	7.5	3.8
Taiwan	1,382.80	3,253.90	2,807.00	1.1	2.5	2.3
New Zealand	335.9	550	2,241.20	0.3	0.4	1.9
Total for top ten	96,267.10	110,217.70	102,370.00	77.1	84.8	84.7
Other Sources	28,597.40	19,777.40	18,448.80	22.9	15.2	15.3
Total FDI inflow to ASEAN	124,864.50	129,995.10	120,818.80	100	100	100

Source: Adopted from ASEAN FDI Statistics Database.

Table 3.2 shows the detail of the top five investors and industries in the ASEAN region between 2013 and 2014. From the table, in 2013 the top five shares of total FDI flow to ASEAN accounts for 64% and increase to 66% in 2014. In addition, the top industry in 2013 was manufacturing, while the finance sector was the top industry in 2014.

Furthermore, intra-ASEAN investment is very important for member states. It has increased by 26%, around USD 5 billion, which accounts for 18% of total FDI inflow to the area. At the same time, FDI in manufacturing and extractive industries has decreased, whereas the agriculture sector has expanded at USD700 million. Nevertheless, most ASEAN firms focused in mining, agricultural sectors, and real estate, but firms from the EU and United States focused on the financial sector.

Table 3.2 : Top five FDI flows to and target industries in ASEAN during 2013-2014

INVESTING COUNTRY			
2013		2014	
Country (Economy)	Value (SUS millions)	Country (Economy)	Value (SUS millions)
EU	22,255.70	EU	29,268.50
Japan	21,766.10	ASEAN	24,377.40
ASEAN	19,399.60	Japan	13,381.10
China	6,778.50	United States	13,042.00
Hong Kong	5,230.20	Hong Kong	9,504.90
Total Top 5	75,430.10	Total Top 5	89,574.90
Top 5 Share of total FDI flows in ASEAN	64%	Top 5 Share of total FDI flows in ASEAN	66%

INDUSTRY RECIPIENT			
2013		2014	
Type of industry	Value (SUS millions)	Type of industry	Value (SUS millions)
Manufacturing	33,324.10	Finance	43,052.20
Finance	28,263.70	Manufacturing	22,215.30
Wholesale & Retail trade	13,946.60	Wholesale & Retail trade	17,055.20
Real estate	9,821.50	Real estate	10,040.00
Extractive activities (Mining & Quarrying)	8,042.20	Extractive activities (Mining & Quarrying)	7,295.10
Total Top 5	93,416.00	Total Top 5	99,657.90
Top 5 Share of total FDI flows in ASEAN	79%	Top 5 Share of total FDI flows in ASEAN	73%

Source: ASEAN FDI Statistics Database.

Table 3.3 : FDI net intra-extra inflow in ASEAN member states in 2015

Country	2015*			Share to total net inflow 2015*		
	Intra	Extra	Total net inflow	Intra	Extra	Total net inflow
Brunei	86.7	84.7	171.3	50.6	49.4	100
Cambodia	425.4	1,275.60	1,701.00	25	75	100
Indonesia	9,499.00	7,417.80	16,916.80	56.2	43.8	100
Lao PDR	221.8	857.3	1,079.20	20.6	79.4	100
Malaysia	2,719.00	8,570.60	11,289.60	24.1	75.9	100
Myanmar	2,230.60	593.8	2,824.50	79	21	100
Philippines	68.2	5,658.00	5,724.20	1.2	98.8	100
Singapore	3,416.30	57,868.50	61,284.80	5.6	94.4	100
Thailand	1,413.70	6,613.80	8,027.50	17.6	82.4	100
Vietnam	2,153.50	9,649.50	11,800.00	18.2	81.8	100
Total	22,232.20	98,586.60	120,818.80	18.4	81.6	100
ASEAN 6	17,200.90	86,213.30	103,414.20	16.6	83.4	100
CLVM	5,031.30	12,373.30	17,404.60	28.9	71.1	100

* *The share of FDI inflow is in percentage and the value is in USD millions.*

Source: Developed from ASEAN FDI Statistics database 2015

Table 3.3 shows the total value FDI net inflow of ASEAN member states by country, in which intra stands for intra-regional investment among ASEAN countries and extra stand for extra-regional investment. From the table, Singapore has the highest value of FDI inflow among member states at USD61,284.8 million, followed by Indonesia, Vietnam, and Malaysia, while the Lao PDR had USD 1,079.2 million (ranked ninth).

A remarkable aspect of FDI in ASEAN is well-known as transfer of labor-intensive manufacturing activities in terms of higher-cost locations, in which the firms will expand the production base from a country in ASEAN to other economies, for example, CLMV countries (Cambodia, Lao PDR, Myanmar and Vietnam). This state is to enhance the strength of the regional value chains and production networks to encourage connection among ASEAN member countries. In other words, the key factors

for attracting FDI to CLMV countries are economic growth, cost advantages, and endowment of natural resources. These factors reflect that FDI flows to these countries increased in 2013 and declined in 2014, as the FDI in Myanmar decreased. However, FDI in other countries was still at a high level (Table 3.4). The main sectors are manufacturing, infrastructure, real estate and construction (ASEAN, 2015).

Table 3.4 : FDI flows to CLMV countries during 2010 – 2014 (USDmillion)

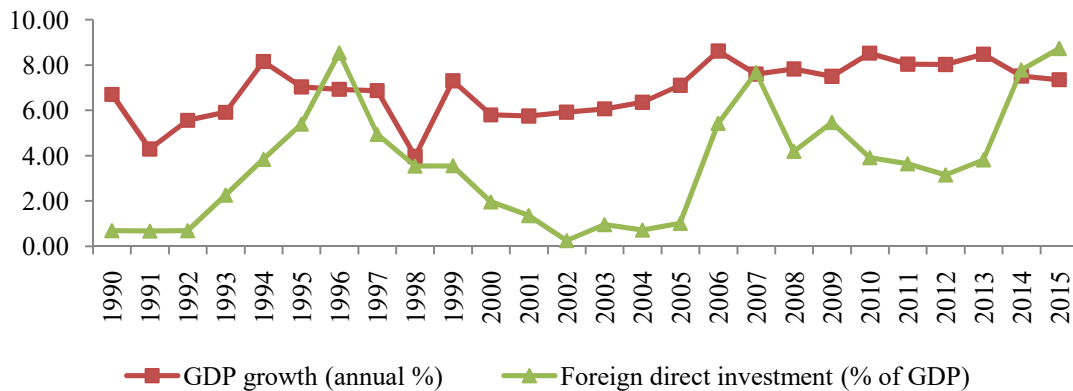
	2010	2011	2012	2013	2014
Cambodia	782.6	891.7	1,557.10	1,274.90	1,726.50
Lao PDR	332.6	466.8	2914.4	426.7	913.2
Myanmar	2,248	2,058	1,354.20	2,620.90	946.2
Vietnam	8,000.00	7,519.00	8,368.00	8,900.00	9,200.10
Total	11,363.90	10,935.80	11,573.70	13,222.50	12,786.10

Source: Developed from ASEAN FDI Statistics Database

3.1.2. FDI inflow to the Lao PDR

The Lao PDR is one of the countries in the world that has a rapid rate of GDP growth. As reported in the World Bank database (2015), from 1990-2015, the average GDP growth was around 7%–8% per year (Figure 3.2); GDP per capital increased from USD 1,754 in 2014 to USD 1,818 in 2015. This is one of the targets of Lao Government, to graduate from its status as a least developed country (LDC) in 2020. Additionally, investment is an important contribution to developing the country. According to the 8th Five Year National Socio-Economic Development Plan -NSED (2016-2020) of the Lao PDR, investment accounted for 30% of the GDP, while domestic and foreign private sector investment covered 54%–57% of total investment, followed by other types of investment such as investment in bank credit, loans and grants, and government budget finance (MPI, 2016).

Figure 3.2 : Comparison of rate of GDP growth and FDI flows to Lao PDR during 1990-2015



Source: Created from World Development Indicator Database

Figure 3.2 shows the rate of GDP growth and FDI flows to the Lao PDR over 15 years. This shows that the GDP of the Lao PDR has grown the same amount every year. At the same time, when the GDP grows, FDI flows also increased, particularly in recent years. This is despite the fact that in some cases FDI dropped in the past.

Since 1986, the Lao government has been implementing the NEM by transforming the market-oriented economy into modernized industries. This includes opening the country for foreign investors, as foreign investment is necessary to integrate its socio-economic development policy into its regional and international frameworks (World-Bank, 2008). Currently, there is a huge amount of FDI into the Lao PDR. It has risen owing to several influentially supported factors, such as political stability, low cost of labor, and location specific advantages. Based on the Law on Investment and Promotion of the Lao PDR (2016), investment activities are divided into three types, namely: 1) General business; 2) Concession business; and 3) Special and Specific Economic Zones (SEZ). The first type is supervised by the Ministry of Industry and Commerce (MOIC), the second is managed by the Ministry of Planning and Investment

(MPI), and SEZ is administrated by the Lao national committee for SEZ, which is now under the MPI⁴.

As stated in MOIC's report, No.1144/MOIC on 26 August 2016 about FDI in the Lao PDR—especially general business activities from 2008–2016—there are 68 countries, including the Lao PDR, that invest in the country. It consists of 115,524 business units⁵ with a total value of USD 34 billion. Meanwhile, foreign investment accounted for 4,230 business units, with a total value of USD 17.5 billion. The top ten foreign investors ranked by business unit is led by China, followed by Vietnam, Thailand, Republic of Korea, France, Japan, United States, Malaysia, Australia, and Canada (Table 3.5 and Figure 3.3). Furthermore, the main sectors were manufacturing industry, agriculture, and hospitality services (MOIC, 2016).

Table 3.5 : Top ten foreign direct investorsto the Lao PDR during 2008-2016 by MOIC

No.	Country	Business Unit	Value of FDI (US\$ million)
1	China	1,521	4,142
2	Vietnam	910	8,242
3	Thailand	538	2,294
4	Republic of Korea	332	519
5	France	144	200
6	Japan	118	662
7	United State	93	497
8	Malaysia	89	218
9	Australia	80	117
10	Canada	45	47

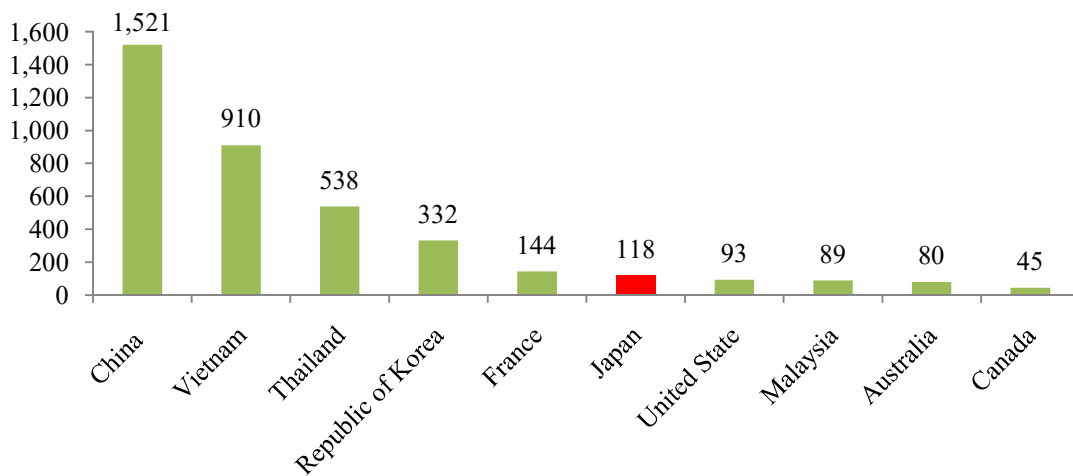
*Full list of FDI by MOIC are attached as appendix.

Source: FDI database, Ministry of Industry and Commerce, Lao PDR.

⁴ FDI statistics found that some of them might be overlapped, because before 2009 all investment was under MOIC. After the law on investment and promotion was amended in 2009, they were separated into three sectors. Therefore, the exact number of Japanese investment is difficult to summarize.

⁵ A business unit is a business organization of individuals or legal entities which shall have a name, capital, an administration and management, and an office, and which is registered as an enterprise under the law on enterprises of the Lao PDR, No.11/NA, 09 November 2005.

Figure 3.3: FDI business unit by country during 2008–2016 (Ranked by number of units)



Source: Created from MOIC-FDI Statistics Database, Ministry of Industry and Commerce.

From the MPI-FDI statistics database covering 1989–2015, more than 53 countries have invested and operated businesses in the Lao PDR, with a total value of USD 24 billion (foreign investment was USD 21.8 billion), which covered 4,518 projects (1,957 projects were 100% foreign investment; 1,093 projects were joint ventures). Also, it consists of mainly 15 sectors, electricity generation, mining, agriculture, services, industry & handicraft, hotel & restaurant, construction, telecommunication, wood industry, banking, trading, garment, consultant, public health, and education. Furthermore, in terms of foreign investors, China was ranked number one, followed by Thailand, Vietnam, Republic of Korea, and France (Table 3.6 and Figure 3.4) (MPI, 2015). As mentioned above, the MPI argued that Japan has ranked 8th in FDI to the Lao PDR since 1989–2015, based on the value of its investments. Most Japanese firms are investing in medium projects, and a few of them are large businesses. Although the Lao government has been attempting to attract Japanese investors in multiple ways, several matters are not clearly understood based on their perspective of the taxation, customs, labor, and transportation issues of the Lao

PDR. Regarding these challenges, MPI and Japanese investors have organized the private meeting “*The Lao PDR – Japan Public and Private Sector Joint Dialogues*” ongoing since 2007, to discuss and solve the issues confronted by the Japanese business community in the Lao PDR⁶.

In addition, JETRO argued that the Lao PDR is facing difficulty in attracting large Japanese MNEs; this is because of two major determinants, small population and high logistic cost⁷. According to WEF (2015), the population of the Lao PDR is around seven million, which is the smallest among CLMV countries and affects labor availability in terms of long-term quantity and quality. Additionally, the inefficiency of implementing legal framework becomes a significant challenge for the Lao PDR and influences Japanese investors’ decisions, especially large MNEs.

Table 3.6 : Top ten foreign direct investors to the Lao PDR during 1989–2015 by MPI

No.	Country	No. Project	Value of FDI (US\$ million)
1	China	834	5,484
2	Thailand	748	4,491
3	Vietnam	417	3,575
4	Republic of Korea	291	751
5	France	223	490
6	United State	114	150
7	Malaysia	103	813
8	Japan	102	438
9	Australia	87	128
10	Singapore	79	188

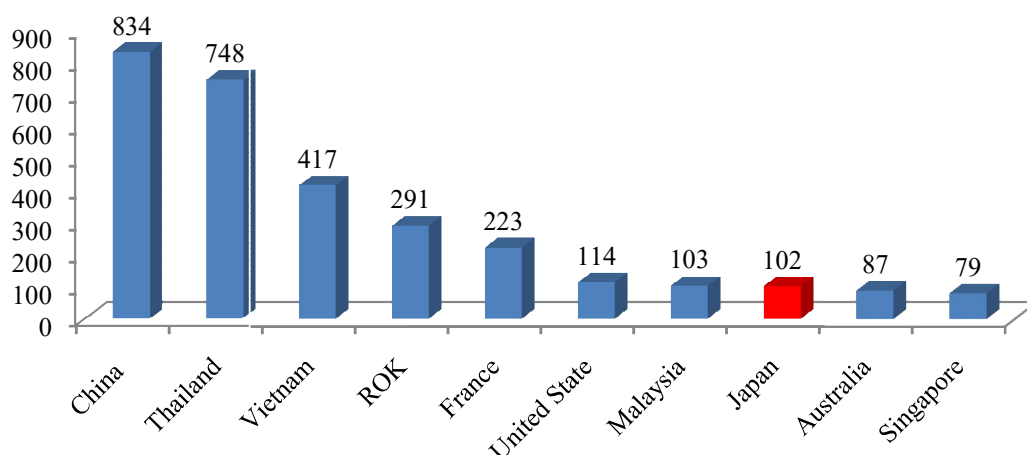
Source: Ministry of Planning and Investment (list of FDI by MPI are attached as appendix)

Note: The value of investment per project was not found in MPI database.

⁶Interviewed Mr. Bounpan Souvannavong, Deputy Director General of the Investment Promotion Department on 3 May 2017.

⁷Interviewed Mr. Tetsuo Shibata, Chief Representative in Vientiane on 4 May 2017.

Figure 3.4 : FDI project by country during 1989–2015 (Ranked by number of projects)



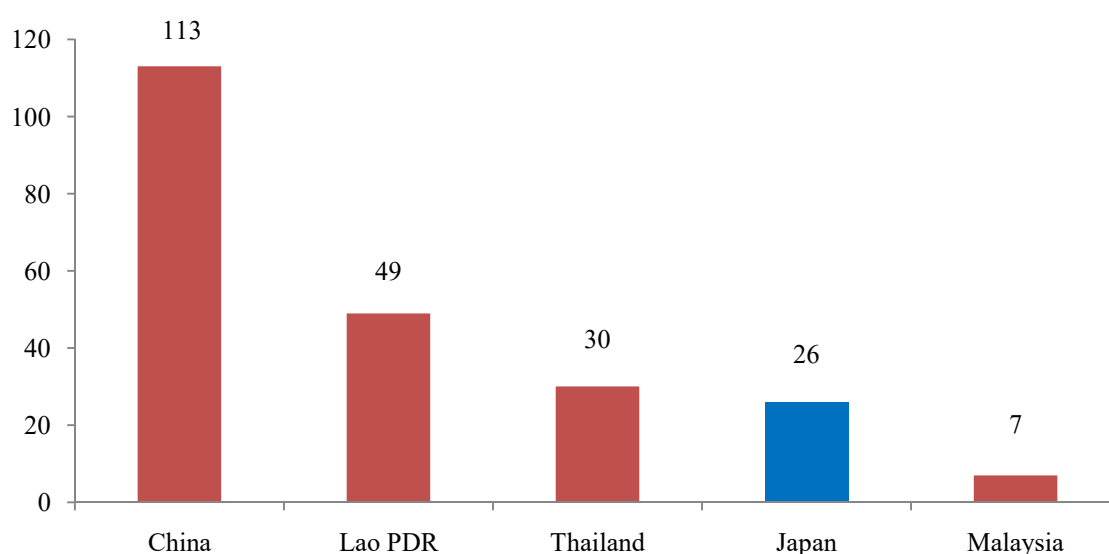
Source: Created from MPI-FDI Statistics Database, Ministry of Planning and Investment

SEZ is one of the major destinations for investment that is designed to bring increasing FDIs to the country. Currently, there are 12 SEZs in the Lao PDR. Eight of which are specific economic zones and four are special economic zones. According to the 8th Five Year NSEDP and SEZ's report, the trend of investment is rising. There are more than 294 firms that are investing (56 domestic, 217 foreign, and 21 joint venture firms). Additionally, the total value of investment is USD 32 billion. From 2008 to 2016, there have been more than 16 countries operating businesses in the areas; the average duration of investment is 3–99 years based on the Law on Investment and Promotion. Furthermore, the top five investors are led by China, Lao PDR, Thailand, Japan, and Malaysia (Figure 3.5). Most of the firms are investing in three main sectors, namely the service (49.37%), commercial (34.6%), and industrial sectors (16.3%) (SEZ, 2015).

As explained at the end of Chapter 3, the SEZ was established in 2003 as a designated area for domestic and foreign investors to start up their businesses by

providing special policies and incentives. Each year, SEZs are able to attract several domestic and foreign firms, especially those in manufacturing, industry, trading, and service sectors. In 2016, there are about 30 Japanese firms that have invested in the area and focus on production activities such as MMC electronics Lao, Japan Tech, and Leonka World Lao; these firms have an investment value of more than one million US dollars.

Figure 3.5 : Top five investors in the SEZ by country during 2008–2016



Source: Summarized from Report of Lao National Committee for Special and Specific Economic Zone 2015

3.2. Japanese FDI outflow into ASEAN and Lao PDR

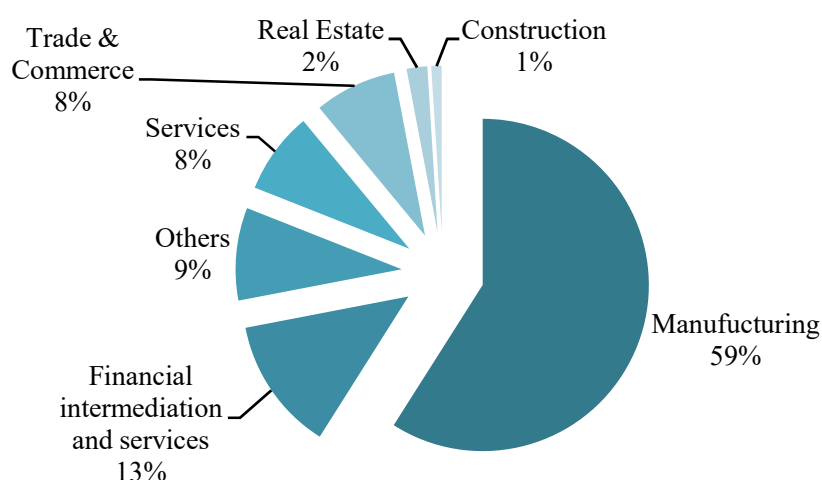
3.2.1. Japanese FDI outflow into ASEAN countries

Japan is a significant dialogue partner with ASEAN. In recent decades, Japan and ASEAN have had a good relationship in economic cooperation, such as their production network. Since the 1960s, Japan has become a major investor to the region. Nowadays, ASEAN has continued to be a main destination for Japanese FDI. At the same time, Japanese firms are expanding to operate their businesses in ASEAN areas, with the goal

of establishing new subsidiaries, factories, production lines, and other business functions. Regarding the ASEAN Investment Report (2013), Japanese FDI outflow to the ASEAN region accounted for more than 38% in 2012–2013, whereas Japanese manufacturing businesses covered 46% (USD 58 billion), which shows that Japan was the largest foreign investor in this sector. In addition, the number of Japanese firms in ASEAN has been increasing recently. In 2012, there were 5,500 Japanese firms in ASEAN, which helped to reduce unemployment by around 1.9 million people and generate sales worth more than USD 540 billion (METI, 2013).

The trend of Japanese FDI outflow to the region is related to two main points: first, ASEAN has been improving the regional business environment to facilitate foreign investors, and second, the benefits of ASEAN Economic Community (AEC) that influenced their decisions. In other points, location advantages, production efficiency networks and strategies, and risk diversification are also considered. Based on the Bank of Japan's statistics for 2005–2013, ASEAN obtained around 17.6% of Japanese outward FDI flow, and 58.7% of Japanese FDI flow to Asia was gained by ASEAN in 2013 (Table 3.7). In addition, the major sectors of Japanese FDI that flow to ASEAN are: the manufacturing industry accounted for 59% of the total such as electronics, machinery, chemicals, and transportation equipment; next, financial intermediation and the services industry covered 13% (banking and retailing activities), followed by other sectors (Figure 3.6).

Figure 3.6 : Major Japanese FDI sectors in ASEAN during 2010–2013



Source: Developed from ASEAN FDI Database (ASEAN investment report)

Table 3.7 : Japanese outward FDI to selected regions and ASEAN's share of Japanese FDI

	Japan Outward FDI Flows to Selected Region (US\$ million)			ASEAN Share of Japan global FDI flows (%)	ASEAN Share of Japan FDI flows to Asia (%)
	World	ASIA	ASEAN		
2005	45,728	16,313	5,057	11	31
2006	50,265	17,201	6,957	13.8	40.4
2007	73,549	19,384	7,786	10.6	40.2
2008	128,020	23,017	6,306	4.9	27.4
2009	74,698	20,763	7,040	9.4	33.9
2010	56,263	21,686	8,786	15.6	40.5
2011	107,598	39,104	19,411	18	49.6
2012	122,550	33,560	10,762	8.8	32.1
2013	135,749	40,755	23,906	17.6	58.7

Source: Bank of Japan – Balance of payment statistics. (ASEAN investment report 2013-2014)

JETRO (2016) classified Singapore as the highest ranking of Japanese FDI flow to ASEAN by country, which accounted for 32.1% in 2015, followed by Thailand (18.8%), Indonesia (17.6%), Malaysia (14%), Philippine (7.2 percent), and Vietnam (6.7%). Meanwhile, Brunei, Cambodia, the Lao PDR and Myanmar covered only 3.6%.

The total value of Japanese FDI outflow to ASEAN was at USD 20,244 million, which is higher than China at USD 8,867 million (Table 3.8).

Table 3.8 : Japanese FDI flow into ASEAN by country from 2005 to 2015 (million USD)

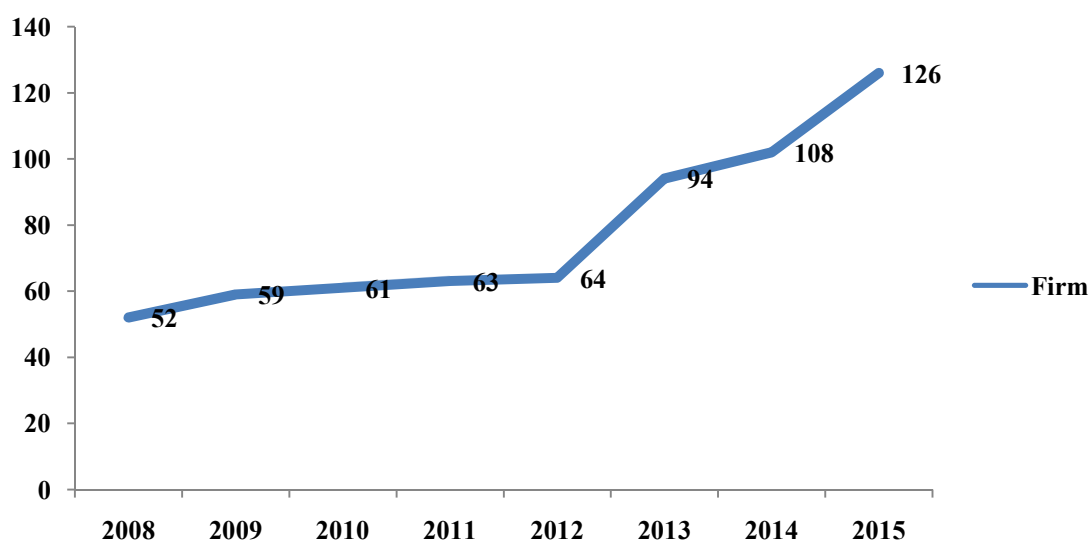
	2005	2011	2012	2013	2014	2015
China	6,575	12,649	13,479	9,104	10,389	8,867
ASEAN	5,002	15,721	14,349	23,619	23,134	20,244
Singapore	11.1	28.6	10.9	15	35.6	32.1
Thailand	42.5	20.4	29.4	43.1	24.8	18.8
Indonesia	23.7	23	26.6	16.5	21.3	17.6
Malaysia	10.5	9.2	9.1	5.4	5.6	14
Philippine	8.8	6.5	5.1	5.3	4	7.2
Vietnam	3.1	11.8	17.9	13.8	6.9	6.7
Others	0.3	0.6	1	0.9	1.8	3.6

Source: Developed from JETRO 2016

3.2.2. Japanese FDI outflow into the Lao PDR

Japan has been investing in the Lao PDR since 1989. Referring to Table 3.6, Japan has ranked number eight in terms of FDI inflow to the Lao PDR during 1989-2015, in which 102 projects received investment at a total value of USD 438 million. Its investment covered 16 sectors mainly, the manufacturing sector in machinery and garments, followed by the agricultural sector, consulting sectors and others. In 2012, there were 64 Japanese firms that invested in the Lao PDR; after that, it grew up rapidly to 126 firms in 2015 (Figure 3.7).

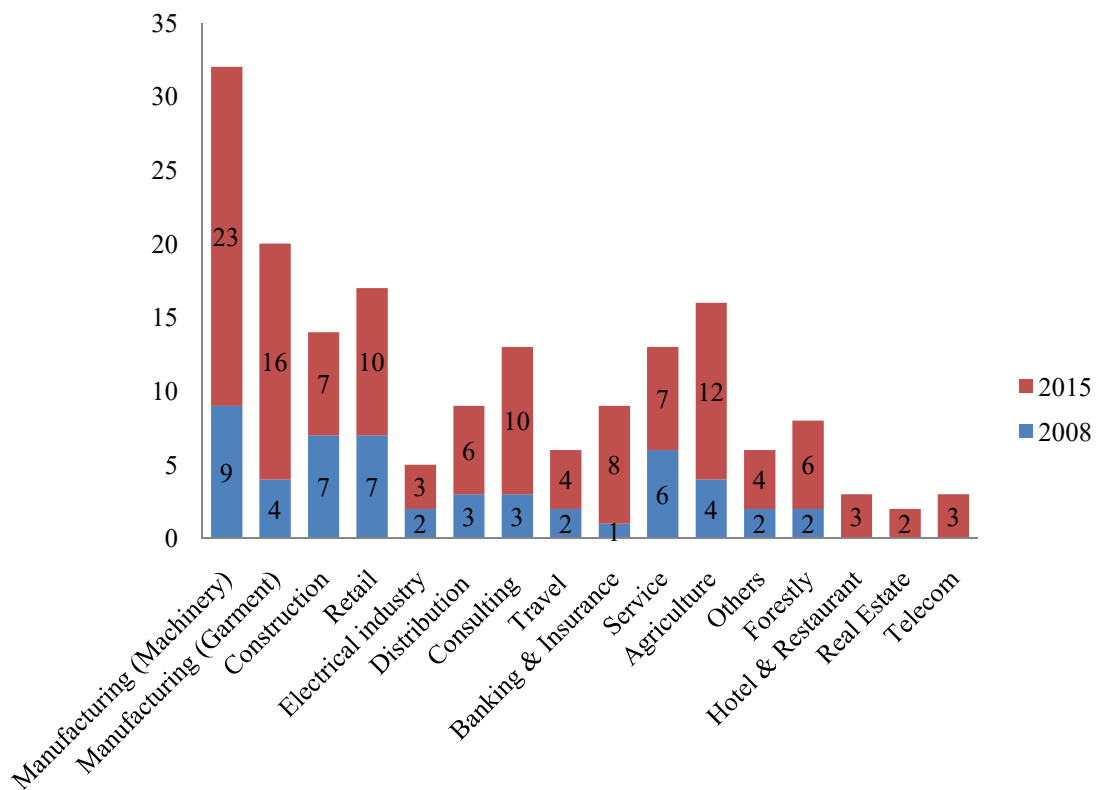
Figure 3.7 : Number of Japanese firms invested in the Lao PDR has almost doubled since 2012



Source: Embassy of Japan in Lao PDR.

Furthermore, Japanese firms have invested in several sectors. In 2008, they invested in 13 sectors, such as garment manufacturing (9 firms) and machinery (4 firms), construction (7 firms), retail (7 firms), and others (25 firms). If compared with 2015, Japanese firms increased their investment by three more sectors (real estate, telecom and hotel and restaurant). Nevertheless, the manufacturing sectors are still increasing, especially in machinery (23 firms) and garment (16 firms), followed by other sectors (Figure 3.8).

Figure 3.8 : Increasing number of Japanese firms in each sector in the Lao PDR by comparing 2008 & 2015



Source: Embassy of Japan in Lao PDR

According to JETRO, the number of Japanese firms has increased to 132 firms in 2016, particularly those in the SEZs in the manufacturing sector, for example: Shindengen Lao and Toyota Boshoko Lao produce spare parts for cars; Nikon produces equipment for cameras, and Nayada produces leather goods⁸. Beside this, JETRO argued that Lao PDR has suitable investment environment including political stability, cheap labor costs and robust economic growth, which are the major keys to influence and attract more foreign investors to the country. In addition, Table 3.9a shows the GDP growth rates of the Lao PDR in comparison with Cambodia, Myanmar, and Vietnam; the highest rate of GDP growth in the Lao PDR was 8.5% in 2013, then decreased to

⁸ Interviewed JETRO representative in Lao PDR on 24 September 2016

7.5% and 7.4% in 2014 and 2015, respectively. However, the average rate is about 7%–8% each year. Moreover, the Lao PDR has ranked the top five of the fastest growing economies at 7.4%, while Myanmar is ranked number one at 8.6% (WEF, 2016). The WEF (2015) noted that Lao PDR has ranked number 16 out of 140 countries in terms of pay and productivity, and its score is 4.7 points in comparison with other CLMV countries, whereas Vietnam is ranked 45, Cambodia is at 57, and Myanmar is at 73 (Table 3.9b). It means that the Lao PDR has an advantage in terms of labor cost. Conversely, Table 3.9c shows the ranking of the political stability index in 2015, on which the Lao PDR has ranked 71 of 194 countries at 0.48 scores. In comparison with Cambodia, Myanmar, and Vietnam, the Lao PDR has a more stable political situation (Global, 2017).

Table 3.9 : GDP growth rate, pay and productivity, and political stability index of CLMV countries

a) GDP Growth Rate of CLMV Countries during 2012-2015 (%)				
	2012	2013	2014	2015
Cambodia	7.3	7.5	7.1	7.0
Lao PDR	8.0	8.5	7.5	7.4
Myanmar	7.3	8.4	8.0	7.3
Vietnam	5.2	5.4	6.0	6.7

b) Pay and Productivity Ranking in 2015		
	Ranking*	Score*
Cambodia	57	4.2
Lao PDR	16	4.7
Myanmar	73	4.0
Vietnam	45	4.3

*Out of 140
Scale 1= Not at all -
7 = to a great extent

c) Political Stability Index in 2015		
	Rankin**	Score**
Cambodia	109	-0.10
Lao PDR	71	0.48
Myanmar	174	-1.17
Vietnam	96	0.01

**Out of 194
(-2.5 Weak -2.5 Strong)

Source: a) World Development Indicator, b) World Economic Forum, and c) The Global Economy.

Moreover, Professor Motoyoshi Suzuki, executive adviser of JICA to the MPI in the Lao PDR revealed that Japanese firms are mainly investing in eight provinces, the Vientiane capital, Savannakhet, Champasak, Xiengkhouang, Khammouan, Vientiane, Bolikhamxay, and Houphan. In other words, most of them are located in the capital (Table 3.10), which covered for more than 50% (calculated based on the increasing number of Japanese firms per year).

Table 3.10 : Locations of Japanese firms (projects) in Lao PDR from 2012-2015

Location /Province	2012		2013		2014		2015	
	Project	%	Project	%	Project	%	Project	%
Vientiane Captial	10	50	8	53.3	11	57.9	10	52.6
Savannakhet	3	15	3	20	5	26.3	5	26.3
Champasak	3	15	2	13.3	2	10.5	4	21.1
Xiengkhouang	1	5	1	6.7				
Khammouan	1	5	1	6.7				
Vientiane	1	5						
Bolikhamxay	1	5						
Houaphan					1	5.3		
Total	20		15		19		19	

Source: Ministry of Planning and Investment, Lao PDR

Furthermore, MPI argued that the trend of Japanese investment has been rapidly increasing in recent years. It is owing to the close cooperation of both sides (investors and government). In addition, several issues and challenges have been clearly resolved and responded to by the Japanese side in terms of policy issues such as taxation, customs, and labor availability. These challenges are turned into physical solutions. As a result, Japanese investors tend to move their production base to the Lao PDR. It is because the Lao PDR has facilitated many investments and is transparent⁹. Additionally, the Global Competitiveness Index 2015–2016 categorized the number of countries that

⁹ Interviewed Mr. Bounpan Souvannavong, Deputy Director General of the Investment Promotion Department of MPI, Lao PDR on 3 May 2017

has economic growth and potential for investment, which the Lao PDR ranks 83rd of 144 countries and its average score is 4.00 (on a scale of 1–7), while Vietnam ranks 56th (WEF, 2015). According to the Ease of Doing Business Report (World-Bank, 2017), the Lao PDR has ranked 139th of 190 economies and its average scale is 53.21 (scale ranges from 0 to 100), whereas Vietnam and Cambodia are still better ranking than the Lao PDR at 82nd and 131st, respectively (Table 3.11).

Table 3.11 : Global competitiveness index and doing business ranking

	Global Competitiveness Index Ranking		Doing Business Ranking	
	Rank	Score	Rank	Score
Cambodia	90	3.94	131	54.79
Lao PDR	83	4.00	139	53.21
Myanmar	131	3.38	170	44.56
Vietnam	56	4.30	82	63.83

Source: Doing Business Database 2016 and World Economic Forum 2015.

Similarly, the chief representative in Vientiane expressed his opinion based on Japanese investors' point of view that Japanese investment in the Lao PDR has been increasing not only in the manufacturing sector but also in other sector (services, hydro-power, and agriculture). From this perspective, it is argued that the advantage of the Lao PDR is market, which has become more attractive for service sector investment (finance, logistics, wholesale); especially in Vientiane capital, the market is enlarging for financing, retailing, tourism, and hotel businesses—all have high potential. For manufacturing, Lao workers have good hands-on skills, a good supply of electricity, and less of a language barrier with Thailand. In contrast, the disadvantage is the high logistics cost. For agricultural businesses, this is a very interesting area, and JETRO is now promoting a lot; Japanese investors can adapt Lao agricultural products to be more value-added. Conversely, the Thai Plus One Strategy is still a major advantage for the

Lao PDR. Some Japanese firms are turning from Thailand, but these days, Japanese firms in Japan invest directly to the Lao PDR, which is a good trend for the Lao PDR. It means that there is not only Japanese firms from Thailand (Thai+1), but direct investment from Japan is also happening.¹⁰

However, although Japanese FDI to the Lao PDR has been increasing rapidly based on the empirical evidence, if compared with other countries in the region, Japanese FDI outflow into the Lao PDR is the lowest. Table 3.8 shows that the share of four countries (Brunei, Cambodia, Lao PDR, and Myanmar) accounted for 3.6% of the total Japanese FDI to ASEAN in 2015, while neighboring Thailand was able to attract more than 18% as second ranking. Some Japanese firms that are operating businesses in the Lao PDR are a part of the “**Thailand-Plus-One**” model.

Thailand-Plus-One is a Japanese business model. It is when Japanese firms operate in industrial clusters in Thailand, and then relocate the labor-intensive parts of their production processes to designated SEZ areas in Cambodia, Lao PDR, and Myanmar (CLM), which share borders with Thailand. In addition, there are two factors that facilitated this model: 1) Rising wages and labor shortages in Thailand that affect Japanese FDI attraction in labor-intensive production to Thailand, and 2) The political and economic conditions of CLM countries have been improving to attract FDI. The other factor that makes them leading destinations for foreign investors is the proactive efforts supported by their governments (Oizumi, 2013). The well-known Japanese firms that invest in SEZ in the Lao PDR include Nikon, Aderans Lao, Toyota Boshoku Lao, Mitsubishi Electronics Material, and ISUZU Track Factory.

3.3. Economic environment for FDI and FDI attraction to the Lao PDR

¹⁰ Interviewed Mr. Tetsuo Shibata, Chief Representative of JETRO Vientiane on 3 May 2017

3.3.1. Economic environment for FDI in the Lao PDR

The government of the Lao PDR has always played an important role in improving business environments and creating efficient policies to facilitate investment and attract increased FDI to the country. For example, it has a role in basic infrastructure and economic zones including laws and regulations. Nevertheless, the Lao PDR has been a member of ASEAN since 1997. Its goal is to connect and integrate with the region and international frameworks as well as the ASEAN Free Trade Area (AFTA). In 2013, it has also become the 158th member of the World Trade Organization (WTO), which leads to a global market for goods and services. Currently, the Lao PDR has trade relations with more than 50 nations and has signed trade agreements with more than 18, such as Thailand, Vietnam, Australia, Japan, and others. Moreover, the Lao PDR has obtained unilateral tariff preferences under the Generalized System of Preferences (GSP) from 36 countries including Japan and European Union (EU) as an LDC country (MOIC, 2017). Since 1950, the Lao PDR has had diplomatic relations with 138 countries around the world and has become a member of more than 40 international organizations such as the United Nations (UN), World Bank, and IMF (MOFA, 2017).

However, the Lao PDR and Japan have established diplomatic relations since 1955. Then their relationship was upgraded to a strategic partnership in 2015. Japan has been well-known as a main ODA provider that contributes to developing the basic infrastructure in the Lao PDR in terms of grants, loans and technical cooperation, for example, in 2014, the Lao PDR received more than JPY 145 billion in grants from Japan (MOFA, 2017). Additionally, Japan has also established two trade organizations in Vientiane to expand the economic cooperation between both countries, namely,

the Chamber of Commerce and Industry of Japan in 2009, and the Japan External Trade Organization (JETRO) in 2014. Its purposes are to promote economic partnership, trade, investment and industry development between Laos and Japan to ensure more growth in the future. According to (World-Bank, 2016), the Lao PDR has ranked number 136 out of 190 as a destination for doing business.

3.3.2. FDI attraction to the Lao PDR

3.3.2.1. Law and regulation

The Lao government has attempted to develop and improve the law on investment promotion for each period. The first law was approved in 1989 by the Supreme People's Assembly. After that it was amended three times in 1994, 2004, and 2009 by the National Assembly. The current version is the law on investment promotion last altered in 2009. This version combines the law on foreign and domestic investment promotion together. It means that there is no difference between foreign and domestic investors because they have the same rights and benefits; for example, tax exemptions and access to one-stop-services. This law contains 99 articles that facilitate investors with special policies and protection by the government (MPI, 2016).

3.3.2.2. Investment promotion incentives

Under the law on investment promotion in 2009, the Lao government has provided an investment promotion incentive to attract both domestic and foreign investment in terms of tax, duty, and non-tax incentives. It is provided based on specific sectors, mainly agriculture, industry, handicraft, services, and education and healthcare. These incentives serve the activities that are associated to poverty reduction, the improvement of people's living conditions, infrastructure, human resource

development, and job creation. In terms of tax and duty incentives, it actson corporate profit taxexemption, which is different for each zone¹¹; for example, when investing in zone 1 for agriculture sector, the period of tax exemption is around 10 years. For investment in the construction of a hospital or educational institutes, the period of rental or land concession is 15 years. In addition, investors are also allowed customs dutiesand tax incentives, such as exemption from profit tax in the next accounting year, if the net profit derived from business activities is employed for business expansion and exemption from import duties for importation of raw material, machines or vehicles thatare directly utilized for production.Furthermore, non-incentives are also provided for investors, for instance, permission to bring in foreign nationals to undertake investment feasibility studies; the ability tobring in foreign technicians, experts, and managers if qualified Lao nationals are not available to work on investment projects; tolease land for up to 20 years, and allowance to own all improvements and structures on the leased land; to transfer the lease to others and sell or remove any improvements and structures; and anentry and exit visa (MPI, 2016).

3.3.2.3. Special and specific economic zones

Special and Specific Economic Zones (SEZs) were set up by the Lao government. Based on the new investment promotion law in 2009 and the seventh 5-Year NSEDP of the Lao PDR, SEZs were created to attract more investment to the country by developing the existing zones in the potential areas. Nowadays, there are 12 SEZs in the whole of the Lao PDR. Four of them are special economic zones, namely 1) Savan-Seno, 2) Golden triangle, 3) Boten beautiful land, and 4) Vientiane industrial-

• ¹¹Zone 1: Mountainous, plateau zones with no economic infrastructure to facilitate investments;
Zone 2: Mountainous, plateau zones with a moderate level of economic infrastructure to accommodate investments;
Zone 3: Plateau zones with good economic infrastructure available for investments.

trade area. There are also eight specific economic zones: 1) Phoukyeo, 2) Saysettha Development, 3) Thatlouang lank, 4) Dongphosy, 5) Long tang, 6) Thakhek, 7) Champasak-SME, and 8) Luangprabang. The SEZs cover an area of 25,000 ha, its purposes being aimed at trade, tourism, industry, and services. They are designed to attract domestic and foreign investment with special policies and incentives. Most Japanese investors are interested in SEZs and there are more than 30 firms operating in SEZs in the manufacturing sector (MPI, 8th Five Year National Socio Economic Development Plan 2016-2020, 2016).

Chapter 4 – Survey and Results

This chapter presents the results of a field survey on Japanese FDI into the Lao PDR during 1989–2016, which will be explained based on the research instruments and questionnaire mentioned in Chapter 2. Thus, it comprises various empirical sections, mainly the survey of Japanese firms, influential factors, reasons for selecting to invest in the Lao PDR, and Japanese management systems. Consequently, the trend of Japanese FDI into the Lao PDR was also examined.

4.1. Survey of Japanese firms in the Lao PDR

From the field survey that took place in August and September 2016, Table 4.1 indicates the general profile of surveyed firms (Japanese only). With regard to the number of respondent, 65 firms (61.90% of total sample size), out of 41 firms (63.1% of total respondent firms) were established during 2011–2015, while nine and eight firms were founded during 2000–2005 and 2006–2010, respectively. In terms of the form of investment, 61 firms (93.8%) is green field investment; meanwhile merger and acquisition comprise only four firms. In addition, 46 firms or 70.7% are 100% Japanese owned enterprises that are managed by Japanese investors directly, of which nine firms are joint ventures above 50% and up to minority 49% is five firms. For example, Japanese-Lao firms or Japanese-Thai Firms those are joint businesses. Moreover, there are four representative offices located in Vientiane capital, such as NTT Communication and Mitsubishi Corporations.

Table 4.1 : General profile of the surveyed firms in the Lao PDR

	Respondents	%		Respondents	%
Establishment Year			Register capital (US\$)		
1992 - 1999	4	6.2	< 1 million	39	60
2000 - 2005	9	13.8	1-5 millions	21	32.3
2006 - 2010	8	12.3	6-10 millions	3	4.6
2011 - 2015	41	63.1	Over 11 millions	2	3.1
2016 -	3	4.6	Total	65	100%
Total	65	100%	Turnover capital (US\$)		
Form of investment			< 1 million	39	60
Green field	61	93.8	1-5 millions	23	35.4
Merge & Acquisition	4	6.2	6-10 millions	1	1.5
Total	65	100%	Over 11 millions	2	3.1
Ownership			Total	65	100%
Japan 100%	46	70.7	Sectors		
Joint venture above 50%	9	13.8	Agriculture	5	7.7
Up to minority 49%	5	7.7	Manufacturing	32	49.2
Representative office	5	7.7	Services	28	43.1
Total	65	100%	Total	65	100%
Type of investment			Size of Employee		
General business	44	67.7	1-99 (Workers)	47	72.3
Concession	5	7.7	100 - 299	11	16.9
SEZs	16	24.6	300 - 499	5	7.7
Total	65	100%	500 -	2	3.1
Locations			Total	65	100%
Vientiane capital	42	64.6			
Provinces	23	35.4			
Total	65	100%			

Source: Field Surveyed 2016.

Additionally, 60% of respondents have registered and turnover capital less than one million USD, but only two firms have more than 11 million USD. With regard to employment, these firms have been employing over 6,889 workers, of which 96.44% are Lao citizens, while Japanese comprise about 123, and other foreigners make up 118 including Thai, Indians, French, and Americans. With this number, 47 firms (72.3%)

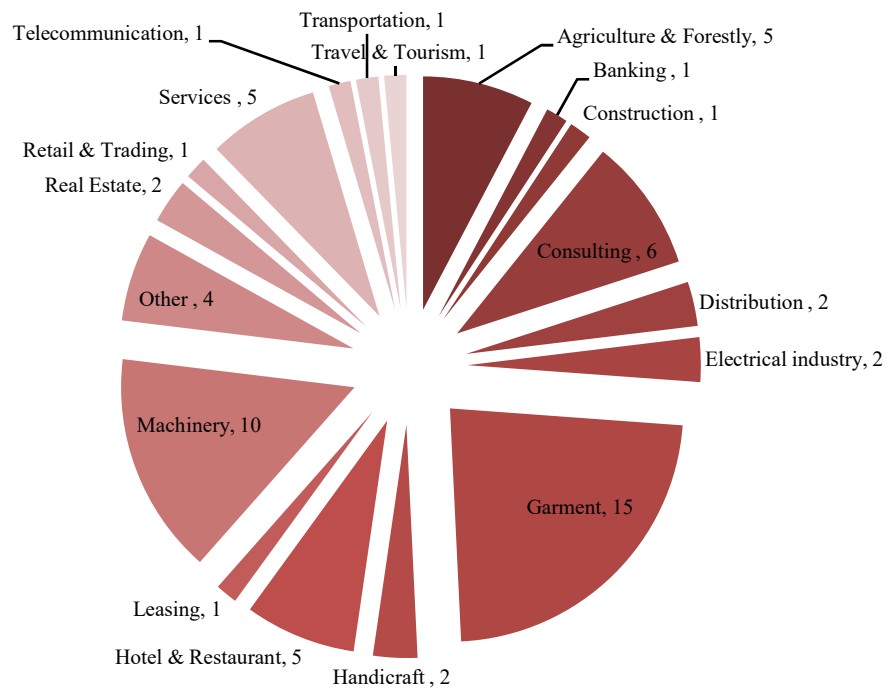
have an average of between 1–99 workers, and only two firms have more than 500 workers, namely Aderans Lao, and Lao Midori Safety Shoes.

In term of types of investment, this survey also found that most of the firms are investing in general business, which accounts for 67.7%, followed by SEZs and concession¹² (24.6% and 7.7%, respectively). In addition, the major sector is manufacturing (32 firms or 49.2%) such as machinery and garment factories; services are 43.1%, and agriculture is 7.7% of the total respondents. Additionally, 42 firms (64.6%) are located in Vientiane capital, and 23 firms (35.4%) are in provinces around the country, in particular SEZ areas such as Champasak SMEs, Savan-Seno and Vientiane Industrial Park. Likewise, the main activities of the firms are production (39 firms), services (24 firms), trading (2 firms), and only one firm is construction (Field surveyed, 2016).

Figure 4.1 shows the detail of sub-sectors of Japanese firms that participated in the survey, which comprises 18 sub-sectors in forms of their business type. From this figure, we saw that garment and machinery account for 15 and 10 of 65 firms, respectively, while services sectors in hotels and restaurant, agriculture & forestry, consulting, and other services firms cover only 21 firms. However, other sectors such as electrical industry, banking, telecommunication, real estate, and distribution including retail and trading also participated in this survey

¹²The duration of concession investment is 11–50 years.

Figure 4.1 : Details of sub-sectors of participating Japanese firms,2016



Source: Field survey, 2016.

4.2. Result of determinant factor evaluation

4.2.1. Evaluation of Japanese FDI determinants for the Lao PDR

This section assesses the most influential factors affecting Japanese investors' decisions. Based on the questionnaire that was distributed to Japanese firms in the Lao PDR, this study selected 21 attributes (factors) that depend on the Lao economic situation and covers three parts such as government, economy, and business facilitations of the Lao PDR. Therefore, to indicate the most important factors, the respondents had to rate the level of significance from 1 (lowest) to 5 (highest), as mentioned in Chapter 2.

The results of this survey show that the first three highest factors are investment incentives and laws (3.92), political and socio-economic stability (3.84), and cost of

labor (3.80). These results support to the argument of investment incentive and lawsthat was explained in 3.3.2 of Chapter 3, which reflects that most of Japanese investors are interested inthese incentives in terms of special policies for investors. Likewise, it also supports Table 3.9 that the political and socio-economic stability and cheap labor costs of the Lao PDR are highly influential determinants forJapanese investor whencomparedwithCLMV countries. In addition, JETRO clarifies the minimum wage in CLMV and Thailand based on their laws, meaning the minimum wage of the Lao PDR is lower than that of Cambodia, Vietnam, and Thailand has become a considerable factor influencing Japanese investors in this region (Table 4.2).

Table 4.2 : Minimum wage of CLMV countries and Thailand

	Minimum Wage	US\$	Per Day / Month	Per US\$	Local Currency
Cambodia	567,000	139.90	Month	4,053	Riels
Lao PDR	900,000	109.64	Month	8,209	Kip
Myanmar	3,600	2.63	Day	1,371	kyat
Vietnam	3,500,000	153.91	Month	22,740	Dong
Thailand	300	8.82	Day	34	Bath

Source: JETRO, 2017.

Additionally, the location advantage of connection withneighboring countries is at 3.7 (high level). It reflects that these factors influence Japanese investors' decisions at a high level, between 3.41and4.20. Hence, Japanese investors will consider these factors before they decide whether to invest or do business in the Lao PDR (Table 4.3). These results are connected to the argument of Behrman, Dunning and Lundan that Japanese FDI is efficiency-seeking investment and the location-specific advantage of theeclectic Paradigm, as stated by Dunning and Lundan.

Table 4.3: Evaluation of Japanese FDI determinants for the Lao PDR

Factors	Observations	Average	Mode	Median	Std.Dev
Investment Incentive and Laws	65	3.92	4	4	0.89
Political and Socio-Economic Stability	65	3.84	4	4	0.90
Laobour Cost	65	3.80	3	4	0.88
Location Advantage -Connect Neighbors	65	3.71	3	4	0.94
Business Cost	65	3.64	3	4	0.83
Friendly Business Environment	65	3.61	3	4	0.84
Investment and Trade Agreement	65	3.58	3	4	1.04
No Natural Disaster	65	3.58	4	4	1.10
Government Actions for Resolving Problems	65	3.55	4	4	1.04
Low Corruption and Transparency	65	3.54	4	4	1.29
Laobour Productivity - Skills	65	3.46	4	4	1.06
Export Cost (Transportation fee)	65	3.38	3	3	1.22
Documentation Procedures	65	3.38	3	3	0.99
Infrastructure (Road, Electricity, Water)	65	3.37	3	3	1.04
Availability of Industrial Park and Site	65	3.30	3	3	1.00
Size of Market and Potential	65	3.21	3	3	1.29
Political Influences	65	3.20	3	3	1.15
Currency and Exchange Rate	65	3.12	3	3	0.91
Technology Capacity - Innovation	65	3.11	3	3	1.08
Supporting Industry	65	3.10	3	3	0.81
No Competition in Lao's Market	65	3.09	3	3	1.19
Other: Safety of living	1	4.00	4	4	0.00

Source: Field survey 2016, analyst by Stat 12.1.

4.2.2. Reasons Japanese firms choose the Lao PDR as a destination for investment

This part concerns the reasons why Japanese investors select the Lao PDR as a destination for business investment rather than its neighboring countries in ASEAN, from the perspective of Japanese investors. In addition, this research attempts to consider the possible reasons that Japanese investors might be taking into account before choosing the Lao PDR. There were 13 reasons associated to economic conditions in the Lao PDR such as politics, special policies, locations, labor, natural resources, industrial sites, and relocation from neighboring countries to the Lao PDR. To reveal the outcome, this section also asked respondents to rate the level of significance from 1 to 5, as mentioned above.

Table 4.4 : Key reasons of Japanese investors for choosing the Lao PDR as a destination for business operation rather than neighboring countries in ASEAN

Reasons	Observations	Average	Mode	Median	Std.Dev
Labour Cost	65	3.80	3	4	0.99
Government Policy (Incentive & Law)	65	3.60	3	3	0.82
Political and Socio-Economic Stability	65	3.52	3	3	0.88
Friendly Business Environment	65	3.44	3	3	0.77
Location Advantage of Lao PDR	65	3.32	3	3	1.07
To Supply Products to Neighboring Market	65	3.32	3	3	1.04
Labour Availability	65	3.29	3	3	0.95
Highly Profit Expectation	65	3.27	3	3	0.82
New Production Base	65	3.18	3	3	1.25
Industrial Site	65	3.00	3	3	0.90
Natural Resources / Raw Material Availability	65	2.97	3	3	1.13
Relocation from Neighboring Countries	65	2.86	3	3	1.03
To Supply Products to Domestic Market	65	2.67	3	3	1.12
Other:					
Safe of Living	1	5			0
GDP growth	1	5			0
Expect to be No.1 in Lao Market	1	5			0

Source: Field survey 2016, analyst by Stat 12.1.

Table 4.4 shows the ranking of the most significant reasons that Japanese investors select the Lao PDR as destination for investment rather than neighboring countries: first ranking is labor cost (3.80); for instance, the cost of production, which connects to the previous section (Table 4.2). Second is a government policy that Japanese firms evaluated at 3.60; as described in Chapter 3 of this thesis regarding its investment incentives and laws. To promote investment both domestic and foreign, the Lao government pays attention to improving incentives and relevant laws for each period. It also attempts to create a suitable environment to facilitate investors in terms of infrastructure improvement, tax and custom incentives, supporting necessary information, financial accession, and equity in business competition including rights

protection—for example, the right to use the land, and transfer assets or company to others according to the regulations. In other words, the Lao government has provided special incentives to specific sectors, business activities and zones; for instance, investment in SEZs will be offered special incentives. Currently, the MPI amended a new investment law and was approved by the National Assembly in 2016, which has become an attractive FDI incentive of the Lao PDR in a comparison with neighboring countries. The WEF (2015) indicated in the first pillar that Lao PDR has ranked 32 of 140 economies regarding burden of government regulation, while Cambodia is 69, Vietnam is 90, and Myanmar is 111. It shows that the Lao PDR has played an important part in improving its legal framework to support regional and global economies. In contrast, JETRO argued the Lao government always has attempted to reform its regulations by learning from other neighboring countries and investors' feedback to create attractive investment incentives. Therefore, these reasons become advantages of the Lao PDR to attract Japanese investors to the country¹³. Ranking third is political and socio-economic stability (3.52), which supports the argument in Table 3.9c by comparison with other CLMV countries; the Lao PDR has more a stable political and socio-economy situation than neighboring countries. In the same way, its friendly business environment is also an important factor that has been considered by foreign investors. Moreover, the results also present other important reasons such as living safety, economic development and expecting to be the first rank in the Lao market, which is assumed by respondents. These results also link to the location-specific advantage of the OLI Paradigm, in which Japanese firms focus on the low cost of labor.

¹³ Interviewed JETRO Representative in Vientiane office on 10 May 2017

Table 4.5 : Interest of Japanese investors in business operation in Southeast Asia

	Respondents			Remark
	YES	NO	Total	
Head Office in Southeast Asia	31	34	65	10 Firms located in Japan
%	47.70%	52.30%	100%	
Interest to invest in ASEAN	24	10	34	No Head office in Southeast Asia
%	70.58%	29.42%	100%	
Investing in ASEAN	34	31	65	
%	52.30%	47.70%	100%	
Investing more than two countries	19	15	34	Investing in ASEAN region
%	55.90%	44.10%	100%	
Relocated from other countries	18	47	65	
%	27.70%	72.30%	100%	

*Note: Multiple answers.

Source: Field surveyed, 2016.

Furthermore, the survey revealed that 31 firms have a head office in Southeast Asia, mainly Thailand (8 firms) and the Lao PDR (8 firms), followed by Singapore, Cambodia and the Philippines. Likewise, 10 firms are located in Japan. Nevertheless, 34 firms do not have head offices in this region, but 24 of 34 firms are interested in investing in ASEAN, especially in CLMV countries because of the low cost of labor. In addition, about 34 firms (52.30% of respondents) have been investing in ASEAN countries and 19 of 34 firms (55.90%) have invested in more than two countries such as Singapore, Thailand, and Myanmar. Besides, the study discovered that 18 firms in Lao PDR were relocated from other countries such as China, Thailand, and Japan; they were relocated because of rising wages and political stability in the host countries (Table 4.5). In other words, cheap labor, a new production base, and the economic development of the Lao PDR are the important reasons for Japanese investors.

Hence, there are various sources for accessing information about investment in the Lao PDR. Most Japanese investors could access this using government sources, which covers 27 firms (41.54%), while JETRO and the Japanese Embassy in Vientiane accounted for 19 firms (29.23%), and other sources such as business seminars, friends, garments associations, and individual survey are about 19 firms of the total respondents (Table 4.6).

Table 4.6 : Japanese firms’ access to investment information about the Lao PDR

	Government	JETRO & Japan Embassy	Others	Total
Respondents	27	19	19	65
%	41.54%	29.23%	29.23%	100%

*Note: Multiple answers.

Source: Field surveyed, 2016.

4.2.3. Employment and management systems of Japanese firms in the Lao PDR

The Japanese management system is a significant part of its investment. Therefore, this section evaluates the supervision style practices in three main groups; mainly work organization and administration, group consciousness, and labor relations. To find the level of importance of each group, the rating method was applied to identify an average point: 1 (lowest) – 5 (highest); level 1 is “No adaptation of the Japanese system”; level 3 is “50% adaptation”; and level 5 is “Equal to Japanese system”.

Table 4.7 : Evaluation of Japanese management style in three groups in the Lao PDR

Practices	Observations	Average	Mode	Median	Std.Dev
1) Work Organization & Administration	65	3.01	3	3	
Job classification	65	2.81	3	3	0.83
Multifunction skill	65	2.81	3	3	0.85
Education & Training	65	3.21	3	3	1.11
Wage system	65	3.24	3	3	1.09
Promotion	65	2.98	3	3	0.94
Role of first-line supervisor	65	3.01	3	3	0.91
2) Group Consciousness	65	3.19	3	3	
Small-group activities	65	3.00	3	3	0.87
Information sharing	65	3.26	3	3	0.85
Sense of unity	65	3.32	3	3	1.02
3) Labour Relations	65	3.25			
Hiring policy	65	3.24	3	3	0.94
Long-term employment	65	3.27	4	3	1.01
Harmonious labour relations	65	3.43	4	4	0.97
Grievance procedure	65	3.07	3	3	0.83

Source: Field survey, 2016.

Table 4.7 shows the average score of Japanese management-style transfer to the Lao PDR in three main groups. In addition, the overall score in the labor relations group shows the medium performance (3.25), which is 50% of adaptation to Japanese practices. At the same time, the level in group consciousness and work organization and administration are at similar levels of 3.19 and 3.01, respectively.

In terms of work organization and administration, it was found that the wage system is based on education and work experience in the Lao PDR, while Japan it is determined by period of services (seniority) and merit. Nevertheless, this survey determined that education and training (3.21) and wage system (3.24) are quite when compared with others. In addition, promotion (2.98) and job classification and multifunction skill (2.81) were reported as low scores.

However, education and training and multi-skill ability are still important elements for Japanese firms to develop worker's capacity and could be responsible for several job tasks. In the Lao PDR, job duties are determined and fixed based on types of activities. In contrast, they are flexible in Japan. Thus, Japanese firms attempt to utilize a job rotation system to improve the multi-skill of employees, which is used in production activity more than management (Schlunze, 2002). Indeed, this survey revealed that 95.4% have provided job training for their employees (Table 4.8a). Furthermore, 51 of 65 firms in administration filed and 34 of 40 firms in the production field apply job rotation practice to their workers (Table 4.8b).

Table 4.8 : Evaluation of job training and rotation in Japanese firms

a) Job Training	Respondents		
	YES	NO	Total
	62	3	65
%	95.4%	4.6%	100%

b) Job Rotation	Monotony Only	Multi-Skilling Only	Both	Non	Total
Administration	3	16	32	14	65
%	4.2%	24.7%	49.2%	21.6%	100%
Production	3	7	24	6	40
%	7.5%	17.5%	60%	15%	100%

*Note: Multiple answers.

Source: Field survey, 2016.

As described above, the promotion and wage system had low and medium rates. Table 4.9a shows the difference gap between manager promotions in administration and supervisor in production groups, of which 61.6% utilizes both internal promotion and external recruiting for manager positions, and only 33.8% use internal promotion only. For the production field, 52.5% employ both methods for supervisors, whereas 40%

decided to select internally to promote their employees. Likewise, the survey explored the determinants of wage system and found that the most significant factor in the Lao PDR for both fields is skill (4.15 and 3.62, respectively), followed by experience. These results also showed that age is not important, when leadership, job motivation and language ability (Japanese) are also considered (Table 4.9b).

Table 4.9 : Types of promotion and determinants of the wage system

a) Promotion	Internal Only	External Only	Both	Total
Manager in Administration	22	3	40	65
%	33.8%	4.6%	61.6%	100%
Supervisor in Production	16	3	21	40
%	40%	7.50%	52.50%	100%

b) Determinants of	Administration					Production				
	Total	Average	Mode	Median	Std.Dev	Total	Average	Mode	Median	Std.Dev
Wage System										
Skill	65	4.15	5	4	0.81	40	3.63	3	4	1.05
Experience	65	3.88	3	4	0.91	40	3.58	3	3	1.01
Other firm rate	65	3.09	3	3	0.93	40	3.15	3	3	0.80
Age	65	2.88	3	3	1.01	40	3.10	3	3	0.90
Other:	4	4.50				3	4.33			

Source: Field survey, 2016

In practice, hiring policy, employment, and grievance procedure are the key elements of labor relations. From the survey, we found that these components are at a medium level, which means that Japanese firms have played an important role in this issue. In term of hiring policy, most Japanese firms concentrate on new college and university graduates (47.7%), and experienced workers (27.7%) in the administration field. They are hired because the firms need employees who have skill-knowledge and are part of a new generation. Admittedly, 10.8% of respondents havenot focused on type of employees. In contrast, part-time students and experts are also considered. However, most manufacturing firms are interested in hiring new high school graduates (35%), especially in production or the garment industry, where graduates from

university and experience accounted for 20% and 25% of desired workers, respectively. Additionally, 20% of firms accept inexperienced workers, villagers, and junior workers who are primary school graduates (Table 4.10).

Table 4.10 : Employment and labor relations of Japanese firms in the Lao PDR

Hiring	High School	University	Experienced	Others	Total
Administration	9	31	18	7	65
%	13.8%	47.7%	27.7%	10.8%	100.0%
Production	14	8	10	8	40
%	35%	20%	25%	20%	100%

Source: Field survey, 2016

Group consciousness is a basic characteristic of Japanese management style. In the survey, it was noted that a sense of unity (3.32), information sharing (3.26), and small group activity are not small scores. These factors show that Japanese investors attempt to transfer their management system to the Lao PDR in practice. In Japan, the well-known small group activity is called “quality control circle activity” or “QC circle”. It is used for developing work processes and improving productivity. According to the survey, there were 25 firms (62.5%) in manufacturing that use this activity (Table 4.11).

Table 4.11 : Use of QC circle activities

QC Circle Activities	YES	NO	Total
Respondents	25	15	40
%	62.50%	37.50%	100%

Source: Field survey, 2016.

For the production control section, the survey found that 40 firms are associated with production activities. Indeed, most Japanese manufacturing firms employ a production system called the Just-In-Time (JIT) production system to control their production process and finish in time. This is an important system in Japan. Therefore, Table 4.12a shows that 26 firms (65%) have been implementing the JIT system, which is a high number, nearly equal to 50% of adaptation of the Japanese system in the Lao PDR. On the other hand, Table 4.12b shows the average score of the four elements of the production control system that Japanese firms have implemented in the Lao PDR. As a result, all factors were high rates, with quality control highest (3.65), followed by equipment (3.40), process management (3.38), and maintenance (3.25). These outcomes revealed that Japanese firms have been applying their production control system to the Lao PDR to operate their business in a manner equal to their parent firm in Japan.

Table 4.12 : Use of the Just-In-Time system and evaluation of production control

	Respondents				
	YES	NO	Total		
a) Just-In-Time System	26	14	40		
%	65%	35%	100%		
b) Production Control*	Production				
	Total	Average	Mode	Median	Std.Dev
Quality control	40	3.65	5	4	1.23
Equipment	40	3.40	4	3	0.71
Process management	40	3.38	4	3	0.93
Maintenance	40	3.25	3	3	0.71

Note: *the average point from 1 (lowest) to 5 (highest) of the Japanese system.

Source: Field survey, 2016.

In terms of human resource management, as mentioned in Table 4.1 Japanese firms in the Lao PDR have employed more than 6,800 workers. Furthermore, this study

also examined local management, such as the nationality of the CEO, position of managers, and decision making. The survey found that there is a high ratio of Japanese CEOs, which accounts for 59 firms (90.8%). It means that Japanese investors manage their firms by themselves, while Laotian and Thai cover only 6% (Table 4.13a). For managers in the administration field, there is a high ratio of Laotian managers in accounting, human resources, and general administration (45%, 64.6%, and 55.4%, respectively); however, Japanese fulfill manager roles in procurement and sales and marketing (48% and 61.5%, respectively). In addition, the survey reveals that most departments in the production field such as manufacturing and production and quality control have a high ratio of Japanese managers, while Laotian managers are responsible for procurement. It shows that Japanese investors have played an important role in the production process and their firm's output (Table 4.13b).

Table 4.13 : Nationality of CEO and manager of Japanese firms in the Lao PDR

a) Nationality of CEO	Laotian	Japanese	Thai	Others	Total
Respondents	3	59	3	0	65
%	4.6%	90.8%	4.6%	0	100%
b) Nationality of Managers					
Administration:					
Procurement	29	31	4	1	65
	45%	48%	6%	2%	100%
Accounting	44	17	3	1	65
	67.7%	26.1%	4.6%	1.5%	100%
Human Resource	42	17	5	1	65
	64.6%	26.1%	7.7%	1.5%	100%
Sale & Marketing	20	40	4	1	65
	30.8%	61.5%	6.1%	1.5%	100%
General Administration	36	20	7	2	65
	55.4%	30.8%	10.8%	3.0%	100%
Production:					
Manufacturing	15	21	4	0	40
	37.5%	52.5%	10%	0%	100%
Production control	9	26	5	0	40
	22.5%	65%	12.5%	0%	100%
Quality control	13	15	7	5	40
	32.5%	37.5%	17.5%	12.5%	100%
Procurement	26	10	3	1	40
	65%	25%	7.5%	2.5%	100%

Source: Field survey, 2016.

Overall, the survey also identified that the position of local managers in many firms is at level two (44.6%) and level three (29.2%) (Table 4.14a). Likewise, in decision making, most of the firms account for level five (33.8%) and level four (32.3%). As a result, it was summarized that one-third of Japanese firms in the Lao PDR make plans and receive approval from the parent firm in Japan, while some of them make and approve their own plans (Table 4.14b).

Table 4.14 : Position of local manager and levels of decision making

a) Positions of Local Manager		Firms	%
Level 5	CEO is southeast asian and all important positions are held by local	7	10.7%
Level 4	CEO is southeast asian and majority of important position are held by local	1	1.5%
Level 3	Japanese and Southeast Asian share management positions and important position roughly equally	19	29.2%
Level 2	CEO is Japanese and many important positions are held by Japanese	29	44.6%
Level 1	Most important senior management positions, including CEO, are held by Japanese	9	13.8%
Total		65	100%
b) Levels of Decision Making			
Level 5	Subsidiary in Lao PDR makes and approves its own plans	22	33.8%
Level 4	Subsidiary in Lao PDR makes plans for approval by parent in Japan	21	32.3%
Level 3	Subsidiary submits plans and parents evaluates and gives or withholds approval	7	10.7%
Level 2	Subsidiary submits suggested plans and parent decides	7	10.7%
Level 1	Parent in Japan makes plans and decisions	8	12.5%
Total		65	100%

Source: Field survey, 2016.

The results of this section indicate that Japanese investment is supported by the ownership-specific advantage of the OLI paradigm in forms of owner property rights, technology, management, and organization system. In addition, Japanese FDI in the Lao PDR is a facet of the internalization (I) advantage, it is because some Japanese firms are located in neighboring countries such as Thailand (Thai+1), then turn to the Lao PDR to establish a new production base. This has become a new trend of Japanese FDI to ASEAN countries, particularly the Lao PDR. However, Japanese firms that invest in the Lao PDR are not only those from Thailand, but there is also direct investment from Japan.

4.2.4. Trends of domestic sales, export and import

To investigate the performance of Japanese firms in the Lao PDR, the survey also tries to assess the trend of domestic sales and export of Japanese companies. Thus, Table 4.15a indicates the share between domestic sales and export—only 10 firms

(27.8%) produce and sell their products to domestic market, whereas 21 firms (58.3%) export to other countries. It shows that Japanese firms are export oriented. Unfortunately, we found that most firms (29 firms or 44.6%) do not find it convenient to publicize their revenue (value) based on their regulations. Nevertheless, the main markets that these firms export and supply their products to have been disclosed. The first main market is Japan (38.5%), followed by ASEAN (24%), including Thailand, Indonesia, Malaysia, and Vietnam. In addition, domestic (Lao PDR) accounted for 22.1%. In this part respondents were allowed to choose multiple answers (Table 4.15b).

Table 4.15 : Local domestic sales and export ratio, main market and local content ratio

a) Ratio of Domestic Sale and Export:	Domestic Sale			Export		
	Firms	%	Value (\$US)	Firms	%	Value (\$US)
0%	21	58.3%		10	27.8%	
1-19%	3	8.3%	NA	1	2.8%	NA
20-59%	1	2.8%	NA	1	2.8%	NA
60-99%	1	2.8%	NA	3	8.3%	NA
100%	10	27.8%	NA	21	58.3%	NA
Total	36	100%		36	100%	
No Answer	29	44.6%				
Total Respondents	36	55.4%				
%	65	100%				

b) Main Marget*	Domestic	Japan	ASEAN	US	EU	Others	Total
Respondents	23	40	25	6	8	2	104*
%	22.1%	38.5%	24.0%	5.8%	7.7%	1.9%	100%

c) Local Content Ratio	In Lao PDR		ASEAN	
	Firm	%	Firm	%
1-19%	3	18.8%	1	6.2%
20-59%	1	6.2%	1	6.2%
60-99%	1	6.2%	5	31.3%
100%	11	68.8%	9	56.3%
Total	16	100%	16	100%

Note: *Multiple Answers

Source: Field survey, 2016

Furthermore, Table 4.15c evaluates the level of local content ratio (Lao PDR and ASEAN) in 16 firms, reporting that 11 firms (68.8%) have been utilizing the local content to their products, while nine firms (56.3%) have been exploiting the ASEAN content ratio, including the Lao PDR. As a result, most firms were interested in the natural resources of the host country.

4.2.5. Direction of Japanese FDI into the Lao PDR.

4.2.5.1. Level of satisfaction of doing business in the Lao PDR

As mentioned in Chapter 3, more than 132 Japanese firms have been doing business in Lao PDR, which covers around 18 sub-sectors. To access Japanese the opinions of investors, the survey examined 65 firms in terms of satisfaction, expansion of investment, and willingness for recommending the Lao PDR to other Japanese investors.

Table 4.16 : Level of satisfaction of doing business; plan to expand investment, and recommendations for the Lao PDR

a) Satisfy	YES	NO	Total
Respondents	35	30	65
%	53.8%	46.2%	100%
<hr/>			
b) Plan to expand investment			
Respondents	36	29	65
%	55.4%	44.6%	100%
<hr/>			
c) Recommend Lao PDR			
Respondents	54	11	65
%	84%	16%	100%

Source: Field survey, 2016

Table 4.16a indicates that 53.8% of the firms were satisfied after establishing their business in the Lao PDR, especially in terms of the country's political stability,

investment facilitations, cheap labor costs, plentiful natural resources, and government supervision. In contrast, 46.2% were not satisfied, because of the high cost of transportation for export, lacking basic infrastructures, and the accession of government sector is too difficult in regarding information and systems including regulations on investment procedures, which have always changed and are quite different as mentioned in the law on investment promotion.

In contrast, Table 4.16b shows that 55.4% have plans to increase their investment and business in the form of production. This is because of the high demand from neighboring countries' markets, such as China; multi-channel, and potential to benefit in the country; and the low cost of living and industrial sites that supported by the Lao government. In contrast, 44.6% do not have plans; the causes might be the small labor force and increasing wage. Furthermore, 84% of respondents would recommend the Lao PDR to other (Japanese) investors, giving reasons such as tax exemption for export-import, AEC, the country's political stability, and high economic growth, particularly in agricultural sectors and related industries. Only 16% of those surveyed would not suggest the Lao PDR because of unexpected costs and the small market (Table 4.16c).

4.2.5.2. Japanese perspective on the key challenges of doing business in the Lao PDR

In general, after doing businesses in any country there is no firm that has not encountered problems. This is a good opportunity to explore and examine what business issues that they have to find the best solutions to improve a condition for investment. According to the survey, 41 firms provided their opinions on this matter, 34.1% of whom were facing unskilled labor and labor availability issues. Even through the Lao PDR is well-known as cheap labor country, some workers from rural areas may have a

low level of education, and some are interested in working in neighboring countries such as Thailand, because of high compensation and benefits. Additionally, transportation cost, in terms of export and its procedure become the second ranked, while documentation procedure is one of the most prominent issues that foreign investors identified, as this process is complicated and takes too long (Table 4.17).

Table 4.17 : Key challenges facing Japanese investors in the Lao PDR

Challenges:	Respondents	%
Unskills labour and labour stability in long term (Quatity)	14	34.10%
Transportation problem in term of cost, procedure to export	9	22.00%
Proeducture to start a business	6	14.60%
Difficult to access government data, lack of suppliers in some products, raw materials and ODA project scale are limited	5	12.20%
Law and reguation related to tax are not clear	4	9.80%
Unexpected costs	3	7.30%
Quality of core infrastructure is not good	2	4.90%
Total:	41	100%

Source: Field survey, 2016

Likewise, JETRO (2015) reported that quality of employees is the highest management issues in the Lao PDR, accounting for 72.2% (46.2% in 2014). The other issues, such as wage increase, employee retention, difficulty in quality control and local procurement of raw materials and parts, are also taken into account (Table 4.18).

Table 4.18 : Management issues in the Lao PDR

Matters	Firms	Survey (%)	
		2015	2014
Quality of Employees	18	72.2%	46.2%
Wage Increase	18	66.7%	61.5%
Employee Retention Rate	18	61.1%	38.5%
Difficulty in Quality Control	12	58.3%	66.7%
Difficulty in Local Procurement of Raw Materials and Parts	12	50.0%	50.0%

Source: JETRO, 2015

According to (WEF, 2015), the most problematic aspect of doing business in the Lao PDR in the perspective of foreign investors, which the respondents were requested to select the five most problematic for doing business in Lao PDR from 16 variables (1 most problematic to 5). The results show that an inadequately educated workforce is the most problematic, with a 23.2 score, followed by accessing to financing, inadequate supply of infrastructure, poor work ethic in the labor force, complexity of tax regulations and corruption.

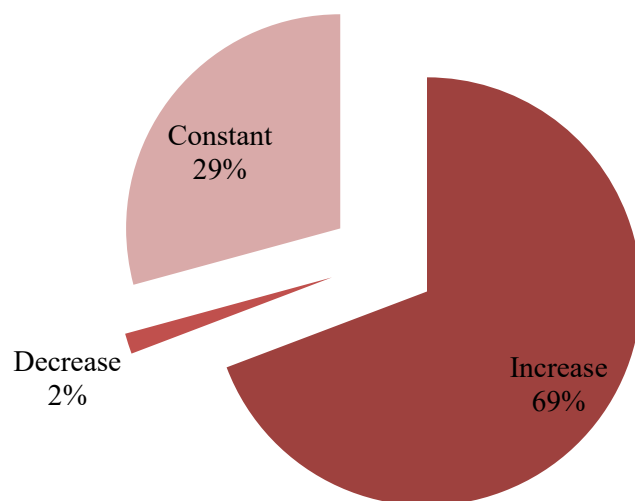
4.2.5.3. Trend of Japanese investment in the Lao PDR over the next five years.

There are various surveys and predictions about the trend of Japanese investment in both a global and regional context. Therefore, this part of the research concludes with a set of questions meant to estimate the trend of Japanese investment in the Lao PDR over the next five years. As a result of the survey, 69% of respondents agreed that Japanese investors will invest their business in the Lao PDR, because there are many possibilities profit. In other words, the rate of economic growth and attractive business environment, including the development of SEZs, will lead them to the Lao PDR, by both governments and JETRO. In contrast, 29% thought that investment will be constant, caused internal market, high competitiveness in neighboring countries in term of developing SEZs. In fact, if there are direct flights between Japan and the Lao PDR, it will function as a channel to attract more Japanese investors or tourists to the Lao PDR. Only 2% indicated that investment will decrease, owing to an uncertain labor force and government regulations (Figure 4.2).

To attract more Japanese FDI to the country, the Lao government is a central force for developing and improving the currently inconvenient conditions. On the

survey, firms were requested to rate the level of significance from 1 (lowest) to 5 (highest) of the selected important elements that needed improvement.

Figure 4.2 : Trend of Japanese investment in the Lao PDR over the next five years



Source: Field survey, 2016

The results revealed that the first component is unskilled labor (4.31), meaning that the government should improve the level of education for young people, which is one of the targets of the Sustainable Development Goal (SDGs) of the UN that the Lao PDR must address by 2020 as planned. Second, the core or basic infrastructure is an important factor. Because the Lao PDR is located in central Southeast Asia, the improvement of infrastructures will assist people in the region as well as foreign investors. Moreover, application for investment and procedure are emphasized; government sectors should consider and pay attention to this issue to attract increased FDI (Table 4.19).

Table 4.19 : Investment factors needing improvement by the Lao government

Factors	Respondents	Average	Mode	Median	Std.Dev
Skills Labour	65	4.31	5	4	0.85
Basic Infrastructures	65	4.08	4	4	0.80
Application for Investment and Procedure	65	4.06	5	4	0.85
Business Environment	65	4.05	4	4	0.86
Investment Incentive and Laws	65	4.03	4	4	0.87
Labour Availability (Quantity)	65	3.86	4	4	0.95
Industrial Sites	65	3.77	4	4	0.90
Others					

Source: Field survey, 2016

4.3. Empirical literature on the surveys of Japanese FDI

According to JBIC (2013), Japanese FDI to ASEAN managed to increase over 2014-2016 owing to a business environment that facilitates investment. Most ASEAN countries were categorized as a highly-sought destination for global investment, including Indonesia, Thailand, and Vietnam. In addition, several Japanese firms are considering expanding their production network in the region, the most influential determinants for which are lower costs, regional integration, the AEC, industrial groups, and the market potential of the region (JMA, 2013). Furthermore, the survey results of overseas business operations by manufacturing companies (JBIC, 2016) indicated that Japanese firms will expand their operations in CLMV as in the Lao PDR in terms of small and medium enterprises (SMEs) in the next three years, by regarding to the ratio of “strengthen/expand” in rest of Asia & Oceania. Table 4.20 shows the prospect for Japanese operations by region for SMEs, which CLMV countries exceeded by 80%, while the Lao PDR accounted for 85.7% for SMEs and 37.8% for large corporations.

Table 4.20 : The ratio of strengthen or expand in the rest of Asia & Oceania

	Mid-tier firms / SMEs	Large Corporations
Myanmar (10)	90.0%	63.5%
Lao PDR (7)*	85.7%	36.8%
Cambodia (12)	83.3%	49.0%
Vietnam (50)	80.0%	69.3%
India (41)	75.6%	74.3%

Note:*Number of respondent firms

Source: JBIC 2016

As reported in JETRO (2015), the future business plan of Japanese firms in the next two years in the Lao PDR will expand around 52.9%, while those in Myanmar, as an ASEAN member state, will exceed 76.7%, in particular ventures in food manufacturing (64.1%); communication and software, finance and insurance cover 65.7% and 62.7%, respectively. In the same way, firms have plans to increase the number of local employees by up to 64.7% year by year, while Japanese employees will increase 13.3%. Therefore, these results show that Japanese SMEs firms might increase their investment in the Lao PDR in the next three years.

Chapter 5 - Conclusion, Recommendations, and Further Research

This chapter wraps up the overall conceptions of this study in coherence and reviews the research aims and questions of this study. The results of the field survey explained in Chapter 4 will be reported once again to respond to the key research questions. Similarly, the empirical evidence, findings, and recommendations regarding the research are also pointed out at this stage.

5.1. Conclusion

Overall, Japanese investment to the Lao PDR has been increasing when compared year by year, but appears very small if compared with other ASEAN member states. Thus, this research aimed to examine three points: 1) the most important factors influencing Japanese investors' decisions to operate their business in the Lao PDR¹⁴; 2) the most outstanding reasons for choosing the Lao PDR as a destination for investment¹⁵; and 3) to examine the trend or direction of Japanese outward FDI to the Lao PDR in the next five years (2016–2020). Likewise, the other research foci of this study were to evaluate the transfer of Japanese management style to their operation in the Lao PDR and, finally, to assess the key matters that investors confront during their business operation in the Lao PDR, including the main components¹⁶ that the Lao government should improve to attract more foreign investors, such as Japan, to the country.

As described in Chapter 1, this research is significant because FDI is essential for the Lao PDR, as it drives the Lao economy to grow faster and achieve its goals.

¹⁴This section consists of 21 possible factors based on the economy of the Lao PDR

¹⁵This section consists of 13 possible reasons

¹⁶This section consists of 7 possible components

Thus, the Lao government has added FDI to the NSEDP of each period. To make this process more efficient and effective, the government has been attempting to improve business environments, which are one of its strategies to attract more investment and businesses to the country, especially Japanese investors.

The Japanese government has turned to concentrate in the ASEAN region and continues to expand cooperation into comprehensive partnership in terms of politics, economy and socio-culture. The ASEAN region is marked as an important destination for investing. It is because of this point that the Lao PDR located in the center of the region, has to develop itself to become a destination chosen by foreign. Consequently, the findings of this study might be a potential tool for policy-makers to create appropriate policies and attract increased Japanese investment into the Lao PDR in the future. The results of the survey were able address to the study's main research questions (Chapter 1), which are summarized as follows:

5.1.1. Concerning the determinant factors that influence Japanese investors' decisions

Among the 21 attributes contained in the second section of the questionnaire, most were rated at a high level (3.41–4.20). As a result, it was revealed that the highest rating determinant factor is investment incentives and laws, at 3.92; it shows that Japanese investors are satisfied with these incentives and they influence their investment decisions. In comparison with CLMV countries, the Lao PDR has a high rate of political and socio-economic stability, and rapid economic growth, especially labor costs. However, the survey showed that the location advantage factor, its connection to neighboring countries, is a significant component in terms of its geography. It is a transitional space in the region and connects five countries in

ASEAN. This result reveals that attractive incentives and laws will generate more investment, both foreign and domestic. Stability in politics and society will also lead investors to operate an increased number of businesses. In the same way, low labor cost is also discussed. Consequently, these results connect to the argument of Behrman, Dunning and Lundan that Japanese FDI is an efficiency-seeking investment and part of the location-specific advantage of the eclectic paradigm, as stated by Dunning and Lundan.

5.1.2. Concerning the key reasons influencing Japanese investors' decisions when choosing the Lao PDR as an investment destination rather than the neighboring countries in ASEAN

Of the 13 reasons selected based on Lao economic conditions, the most important reason that was considered by Japanese investors when investing in the Lao PDR is **labor cost**, which was rated at 3.80, and encompasses cheap labor in rural areas or provincial workers. This is because the firms would like to reduce their production costs and the Lao PDR is well-known as a country with cheap labor in the region. The second reason is special policies about investment that are designed to draw foreign investors to the country in form of laws or strategies (3.60); political and socio-economic stability (3.52) is ranked number three, for instance, the Lao PDR has a safe living situation and there are no society issues and economic growth. Alternately, a friendly business environment is one of the empirical reasons chosen by Japanese investors. This is because the Lao PDR has industrial sites to help investors do business in the country. These results also link to the location-specific advantage of the OLI paradigm, in which Japanese firms focus on low labor costs to choose a destination for their investment.

5.1.3. Major characteristics of Japanese management transfer to the Lao PDR

The results of the survey overall show that Japanese management style practices were 50% adapted in the Lao PDR in terms of labor relations, meaning that Japan has transferred their management systems to manage their firms in the host country. Most Japanese firms (95.4%) provide job training for their employees. Over 49% of both production and administration divisions use job rotation in their systems. Table 4.12 shows that 65% of production firms use the JIT system in their productive activities. Ultimately, the results of this section indicate that Japanese investment is supported by the internalization and ownership-specific advantages of the OLI paradigm in the forms of property rights, technology, management, and organization systems. In other words, it is because some Japanese firms located in neighboring countries such as Thailand (Thai+1) then move to the Lao PDR to establish a new production network. This has become a new trend of Japanese FDI to ASEAN, particularly the Lao PDR.

5.1.4. Major challenges of doing business in the Lao PDR from a Japanese perspective

Replies to the third research question of this study determined the key issues faced by Japanese firms in the Lao PDR. Unskilled labor and labor availability was highest ranked, accounting for 34.1% by Japanese investors' perspectives. This is possibly owing to the lower levels of education of workers from rural areas (primary or high school graduates), which is not suitable for some duties in the Japanese firms. The other issue is transportation problems (22%), in terms of logistic cost for exporting including documentation procedures for investment approval. This point was often mentioned, as its procession is too complicated and takes too long; it is requested that the relevant sector pay more attention to this as to reduce any such barrier to investment. Likewise, JETRO also noted that a problem related to investing in the Lao PDR is one

regarding employees, such as worker quality, employee retention, and difficulty of quality control.

5.1.5. Trend of Japanese investment in the Lao PDR

This empirical finding addresses the sub-research question of this study. The survey identified that most of Japanese firms (69%) thought that Japanese investment in the Lao PDR will increase in the next five years (2016-2020). This is because of several potentials that support the beneficial gain of these firms. In addition, the growth of the Lao economy and other attractive business environments such as SEZs will be the main factors for selecting the Lao PDR. The results of JETRO and JBIC surveys supported the argument that Japanese firms will increase their investment in CLMV countries. However, 29% of respondents argued that owing to the size of the domestic market, high competitiveness in neighboring countries in terms of developing SEZs might make Japanese investment in the Lao PDR remain at the same level (constant). Only 2% disputed that investment will decrease; this is owing to uncertainty in the labor force and government regulations. In contrast, some respondents proposed that if transportation between both countries is expanded—for instance, if there are direct flights from Vientiane to Tokyo—a channel will open to lead Japanese investors to the Lao PDR. Currently, as a policy to attract visitors, the Lao government has approved visa exemption for Japanese citizens. This means that it is very convenient for Japanese to visit the Lao PDR.

Additionally, the result of the survey by JBIC (2016) reported that Japanese firms will expand their operations in CLMV as in the Lao PDR in terms of small and medium enterprises (SMEs) in the next three years, which CLMV countries exceeded by 80%, while the Lao PDR accounted for 85.7% for SMEs and 37.8% for large

corporations. Furthermore, JETRO (2015) revealed that Japanese investor plans to expand their investment to the Lao PDR around 52.9%, while those in Myanmar, as an ASEAN member state, will exceed 76.7%, in particular ventures in food manufacturing (64.1%); communication and software, finance and insurance cover 65.7% and 62.7%, respectively. These results are an important evident that Japanese SMEs firms might increase their investment in the Lao PDR in the coming years.

5.2. Recommendation for involved sectors and further research

To ensure these findings will lead the relevant sectors to improve the poor conditions of business environments in the Lao PDR to attract increased FDI, in particular Japanese FDI, this section will provide some recommendations to the government sections and direction for further study.

5.2.1. Recommendation for government sectors

Regarding the empirical findings of this study, we found that there were many influential factors that increase Japanese FDI flow to the Lao PDR. Additionally, we also recognize that some determinant factors become weaknesses or barriers. The involved sector, mainly government¹⁷ and private organizations, have to pay attention to these matters. Thus, it is a good opportunity to propose recommendations that might help to improve them, as below:

First, unskilled labor: to improve this factor, the government should improve the level of education, such as a basic education (primary level); however, workers should be at least high school graduates. Most foreign firms provide job training before work;

¹⁷MPI, MOIC, and SEZs

at the same time, the worker should be prepared at all times to learn something new. This will help the firms reduce the work required and unexpected costs.

Second, uncertain labor availability: most of Laotian labor is located in the provinces. In particular, the southern parts are interested to turn to work in Thailand. This is due to several reasons, based on family conditions. To solve this issue, the researcher thinks that the government should closely work with private sectors to create jobs for supporting these workers with reasonable compensation and benefit. It might be one of the factors to consider before deciding to work in the neighboring countries.

Third, core infrastructures: at this point, the government has played an important role in addressing this issue, such as a road to connect to neighboring countries, energy (electricity), and water supply. These factors are very necessary for operating their businesses. However, these basic infrastructures cannot provide long-term support for because of high demand. To resolve this, the government should take into account and attempt to recover and generate alternative ways to make it more sustainable, for instance, searching for new energy sources such as wind.

Fourth, reduce unnecessary procedures: this part relates to investment approval procedure that was completed in the survey. The government should adapt all documentation procedures by comparing with the lessons of other countries, to facilitate investment. Additionally, they should reduce un-necessary steps and generate an investment center for helping investors when they confront any problems.

5.2.2. Direction for further study

From this study, we identified several important viewpoints that should be considered in further research:

- 1) The research questions should focus more on other points or be more specific, so as to access Japanese investors' opinions more easily.
- 2) The research instrument should be clearer and more convenient for investors to use by selecting more suitable variables from the empirical evidence of previous studies and using recommendations from supervisors.
- 3) The survey should be organized using step-by-step planning, and actions should be regularly coordinated with the concerned sector to avoid unexpected results in terms of data collection.
- 4) The survey method is also significant for the research; if we do not plan, we could not obtain the data in limited time, especially in the Lao PDR.
- 5) The analysis factor is necessary to calculate the level of importance of each factor; if possible, the researcher should search for other methods to accomplish this, possibly by applying the econometrics model for a more reliable result.

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APPENDIX 1: Questionnaire for Japanese firms

QUESTIONNAIRE

On the direction of Japanese foreign direct investment to the Lao PDR

Date: 15 August 2016

Dear Sir / Madam,

This is a formal invitation for you to contribute with the response of a survey. The purpose of this survey is to gather primary data from Japanese investors in the Lao PDR to fulfill the Master's thesis mentioned in the above title. This work is supported by the **Ministry of Foreign Affairs of the Lao PDR, Ritsumeikan Asia Pacific University (Japan), and Japanese Grant Aid for Human Resource Development Scholarship provided by the Government of Japan.**

The data collected from this survey will be used for statistical analysis and kept in complete confidence, thus no individual company information will be utilized for other reasons. The researcher would like to appeal the Japanese business owners or relevant authorities in the organization to fill up this survey based on your company's data and evaluation.

The researcher will appreciate your kind cooperation in taking this survey questions which will take around 15 minutes. Your opinion is very important for me to complete my research. After you finish it, please kindly send us as soon as possible. Thank you very much for your valuable time and support, and best wishes to your business.

If you have any questions related to this study, please feel free to contact me (Mr. Vilakhone Luangkhom, Tel: 020 77715574, E-mail: vilalu15@apu.ac.jp).

QUESTIONNAIRE

This questionnaire is proposed for research on the direction of Japanese Foreign Direct Investment in the Lao PDR, supported by the Ministry of Foreign Affairs of the Lao PDR and Ritsumeikan Asia Pacific University in Japan. Therefore, I would like to request your kind cooperation in answering the following questions:

SECTION 1: GENERAL INFORMATION OF YOUR COMPANY

Please write and tick to answer following questions:

1. Basic Company Information

1.1 Company Name: _____

1.2 Years of Establishment: _____

- 1.3 Type of Ownership:**
- 100% Foreign owned enterprise
 - Joint venture up to minority 49%
 - Joint venture above 50%
 - Other _____

1.4 Registered Capital (US Dollars):

- Less than a million
- 1- 5 Million
- 6-10 Million
- 11-20 Million
- Other _____

Turnover Capital (US Dollars): Less than a million

- 1-5 million
- 6-10 Million
- 11-20 million
- Other _____

1.5 Sector of your investment in the Lao PDR (Tick only one sector):

- ◆ **Agricultural Sector:**
 Agriculture Forestry Other _____

- ◆ **Mining Sector:**
 Mining Other _____

- ◆ **Manufacturing Sector:**
 Garment Machinery Electrical industry
 Handicraft Other _____

- ◆ **Service Sector:**
 Hotel & Restaurant Banking & Insurance Consulting
 Construction Telecommunication Retail & Trading
 Travel & Tourism Real Estate Service _____
 Telecom Distribution Other _____

1.6 Main Activity: Production

Trading

Services

Other _____

1.7 Location of your investment/business projects: Vientiane Capital

Provinces: _____

1.8 Form of investment:

Green field investment

Mergers and Acquisitions

Other _____

1.9 Type of investment in the Lao PDR:

General Business

Concession

Special and Specific Economic Zones (SEZ)

In term of Concession / SEZ –About how long is your investment term?

- Less 5 Years
- 5 -10 Years
- 11-20 Years
- 20- 50 Years
- Other _____

1.10 Target market that your business supplies for (One or Multiple Answer):

- Domestic (Lao PDR)
- Japan
- ASEAN _____
- United State
- European Union
- Other _____

1.11 Does your company have a head office in Southeast Asia? YES NO

Name of Company: _____ Country: _____

1.12 Does your business invest in the ASEAN region except for theLao PDR?

- YES NO

If YES please tick (one or multiple answers in the case of more than one country):

- Brunei Cambodia Indonesia Myanmar
- Malaysia Philippines Singapore Vietnam
- Thailand

If NO–Isyour business interested in investing in ASEAN? YES NO

Please tick (one or multiple answers in the case of more than one country):

- Brunei Cambodia Indonesia Myanmar Lao PDR
- Malaysia Philippines Singapore Vietnam Thailand

If NO please give the reason: _____

1.13 Did your company relocate your production/service activity to Laos from another country? Yes (Country _____) No

Please give the reason: _____

1.14 How do you get information about investment in the Lao PDR? (Tick one/multiple answer)

- Government of the Lao PDR Websites and News JETRO
 Embassy of Japan Business Seminar Friends
 Other _____

SECTION 2:

DETERMINANT FACTORS OF JAPANESE FDI IN THE LAO PDR

2.1 This part concerns the determinant factors – How important are these following factors that influence Japanese investment decision in Lao PDR? **Please rate the degree of importance and circle the appropriate number from 1 (Lowest) to 5 (Highest).**

NO.	FACTORS	RATINGS				
		Lowest				Highest
1	Investment Incentives and Laws	1	2	3	4	5
2	Political and Socio-Economic Stability	1	2	3	4	5
3	Political Influences	1	2	3	4	5
4	Low Corruption and Transparency	1	2	3	4	5
5	Documentation Procedures	1	2	3	4	5
6	Government Actions for Resolving Problem	1	2	3	4	5
7	Investment and Trade Agreement	1	2	3	4	5
8	Size of Market and Potential	1	2	3	4	5
9	Labor Cost	1	2	3	4	5
10	Business Cost	1	2	3	4	5
11	Labor Productivity - Skills	1	2	3	4	5

12	Technology Capacity - Innovation	1	2	3	4	5
13	Currency and Exchange Rate	1	2	3	4	5
14	Export Cost (Transportation Fee)	1	2	3	4	5
15	No Competition in the Lao PDR Market	1	2	3	4	5
16	Location Advantage – Connect Neighbors	1	2	3	4	5
17	Infrastructure (Road, Electricity, Water)	1	2	3	4	5
18	Friendly Business Environment	1	2	3	4	5
19	Availability of Industrial Park and Site	1	2	3	4	5
20	Supporting Industry	1	2	3	4	5
21	No Natural Disasters	1	2	3	4	5
22	Others (Please Specify)	1	2	3	4	5

2.2 This part concerns the reasons why Japanese investors choose the Lao PDR as a destination for business investment instead of the neighboring countries in ASEAN. **Please rate the degree of importance and circle the appropriate number from 1 (Lowest) to 5 (Highest).**

NO.	REASONS	RATINGS				
		Lowest				Highest
1	Government Policy (Incentives, Laws)	1	2	3	4	5
2	Political and Socio-Economic Stability	1	2	3	4	5
3	Location Advantage of the Lao PDR	1	2	3	4	5
4	Natural Resources / Raw Materials Availability	1	2	3	4	5
5	Labor Cost	1	2	3	4	5
6	Labor Availability	1	2	3	4	5
7	Industrial Site	1	2	3	4	5
8	Relocation from Neighboring Countries	1	2	3	4	5
9	New Production Base	1	2	3	4	5
10	Friendly Business Environment	1	2	3	4	5
11	To Supply Products to Domestic Market	1	2	3	4	5
12	To Supply Products to Neighboring Market	1	2	3	4	5
13	High Profit Expectation in the Lao PDR	1	2	3	4	5

14 Others (please specify)	1	2	3	4	5
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SECTION 3: EMPLOYMENT AND MANAGEMENT SYSTEM OF YOUR COMPANY IN THE LAO PDR

3.1 Management Transfer

Please evaluate the level of adaptation of Japanese system and assign the point as below.

I. Work Organization & Administration	No adaptation system	50%	Equal to Japanese system		
1. Job classification	1	2	3	4	5
2. Multifunction skill	1	2	3	4	5
3. Education & Training	1	2	3	4	5
4. Wage System	1	2	3	4	5
5. Promotion	1	2	3	4	5
6. Role of First-line supervisor	1	2	3	4	5
II. Group Consciousness					
7. Small-group activities	1	2	3	4	5
8. Information Sharing	1	2	3	4	5
9. Sense of unity	1	2	3	4	5
III. Labor Relations					
10. Hiring Policy	1	2	3	4	5
11. Long-Term employment	1	2	3	4	5
12. Harmonious Labor Relations	1	2	3	4	5
13. Grievance procedure	1	2	3	4	5

3.2 HR & Organization Issues in the Lao PDR - Please tick to answer the following questions:

1. Number of employees (Please write your answer)	Total: _____ Japanese: _____ Lao: _____ Other: _____
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2. Locus of strategic decision making	<input type="checkbox"/> Subsidiary in Laos makes and approves its own plans. <input type="checkbox"/> Subsidiary in Laos makes plans for approval by parent in Japan. <input type="checkbox"/> Subsidiary submits plans and parent evaluates and gives or withholds approval. <input type="checkbox"/> Subsidiary submits suggested plans and parent makes decisions. <input type="checkbox"/> Parent in Japan makes plans and decisions.			
3. Position of local managers	<input type="checkbox"/> CEO is Southeast Asian (<input type="checkbox"/> Lao, <input type="checkbox"/> Thai, <input type="checkbox"/> other) and all important positions are held by locals. <input type="checkbox"/> CEO is Southeast Asian (<input type="checkbox"/> Lao, <input type="checkbox"/> Thai, <input type="checkbox"/> other) and the majority of important positions are held by locals. <input type="checkbox"/> Japanese and local Southeast Asians (<input type="checkbox"/> Lao, <input type="checkbox"/> Thai, <input type="checkbox"/> other) share management positions and important positions roughly equally. <input type="checkbox"/> CEO is Japanese and many important positions are held by Japanese. <input type="checkbox"/> Most important senior management positions, including CEO, are held by Japanese.			
4. Nationality of Chief Executive Officer (CEO)	<input type="checkbox"/> Japanese <input type="checkbox"/> Lao <input type="checkbox"/> Thai <input type="checkbox"/> Other _____			
5. Nationality of managers in main departments – Japanese managers or foreign managers? (Multiple Answers)	Department Procurement 2. Accounting 3. Human Resource 4. Sales/Marketing 5. General Administration	Japanese <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Lao <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Thai <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
6. Type of employees mainly hired in management	<input type="checkbox"/> Recent high school graduates <input type="checkbox"/> Recent university graduates <input type="checkbox"/> Experienced workers in any industry <input type="checkbox"/> Others:			

7. Is on-the-job training the primary training method?	<input type="checkbox"/> Yes <input type="checkbox"/> No (What method _____)																																				
8. Is jobrotation used for reducing monotony or/and multi-skilling of workers in management?	<input type="checkbox"/> Monotony only <input type="checkbox"/> Multi-skilling only <input type="checkbox"/> Monotony & Multi-skilling <input type="checkbox"/> No																																				
9. Promotion of managers in management	<input type="checkbox"/> Internal only <input type="checkbox"/> External recruiting <input type="checkbox"/> Internal & External recruiting																																				
10. Factors determining salary of managers:	Please circle <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;"></th> <th style="width: 10%; text-align: center;">Low</th> <th style="width: 10%;"></th> <th style="width: 10%; text-align: center;">Average</th> <th style="width: 10%;"></th> <th style="width: 10%; text-align: center;">High</th> </tr> </thead> <tbody> <tr> <td>1.Skill</td> <td style="text-align: center;">1</td> <td style="text-align: center;">2</td> <td style="text-align: center;">3</td> <td style="text-align: center;">4</td> <td style="text-align: center;">5</td> </tr> <tr> <td>2.Experience</td> <td style="text-align: center;">1</td> <td style="text-align: center;">2</td> <td style="text-align: center;">3</td> <td style="text-align: center;">4</td> <td style="text-align: center;">5</td> </tr> <tr> <td>3.Other company rate</td> <td style="text-align: center;">1</td> <td style="text-align: center;">2</td> <td style="text-align: center;">3</td> <td style="text-align: center;">4</td> <td style="text-align: center;">5</td> </tr> <tr> <td>4.Age</td> <td style="text-align: center;">1</td> <td style="text-align: center;">2</td> <td style="text-align: center;">3</td> <td style="text-align: center;">4</td> <td style="text-align: center;">5</td> </tr> <tr> <td>5.Others _____</td> <td style="text-align: center;">1</td> <td style="text-align: center;">2</td> <td style="text-align: center;">3</td> <td style="text-align: center;">4</td> <td style="text-align: center;">5</td> </tr> </tbody> </table>		Low		Average		High	1.Skill	1	2	3	4	5	2.Experience	1	2	3	4	5	3.Other company rate	1	2	3	4	5	4.Age	1	2	3	4	5	5.Others _____	1	2	3	4	5
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4.Age	1	2	3	4	5																																
5.Others _____	1	2	3	4	5																																

3.3 This part is ONLY for Production and Manufacturing Sectors

Please evaluate the level of adaptation of the Japanese system and assign the points as below.

	No adaptation system		50%		Equal to Japanese system
1. Production Control					
1. Equipment	1	2	3	4	5
2. Maintenance	1	2	3	4	5
3. Quality Control	1	2	3	4	5
4. Process Management	1	2	3	4	5

<p>2. Nationality of managers in main departments – Japanese managers or foreign managers?</p> <p>(Multiple Answers)</p>	<table border="1"> <thead> <tr> <th>Department</th> <th>Japanese</th> <th>Thai</th> <th>Lao</th> </tr> </thead> <tbody> <tr> <td>1. Manufacturing</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>2. Production Control</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>3. Quality Control</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>4. Procurement</td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </tbody> </table>	Department	Japanese	Thai	Lao	1. Manufacturing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. Production Control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. Quality Control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. Procurement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>										
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<p>4. Is job rotation used for reducing monotony or/and multi-skilling of workers in production?</p>	<p><input type="checkbox"/> Monotony only</p> <p><input type="checkbox"/> Multi-skilling only</p> <p><input type="checkbox"/> Monotony & Multi-skilling <input type="checkbox"/> No</p>																														
<p>5. Is the quality control (QC) circle employed?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>																														
<p>6. Is just-in-time (JIT) production employed?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>																														
<p>7. Promotion of supervisors in production -manufacturing</p>	<p><input type="checkbox"/> Internal only</p> <p><input type="checkbox"/> External recruiting</p> <p><input type="checkbox"/> Internal & External recruiting</p>																														
<p>8. Factors determining salary of manufacturing worker:</p> <p>1. Skill</p> <p>2. Experience</p> <p>3. Other company rate</p> <p>4. Age</p> <p>5. Others _____</p>	<table border="1"> <thead> <tr> <th colspan="2">Please circle</th> <th>Low</th> <th>Average</th> <th>High</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> </tbody> </table>	Please circle		Low	Average	High	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
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SECTION 4:

TRENDS OF DOMESTIC SALES, EXPORT AND IMPORT

4.1 Ratio of Domestic Sales and Export:

Country	Value (Million USD)	%
Domestic sales		
Export (outside of the Lao PDR)		

4.2 Local Content Ratio in Lao PDR and ASEAN:

What is the average local (Lao PDR) content ratio in your products?	%
What is the average ASEAN (including Lao PDR) content ratio in your products?	%

SECTION 5: OPEN – ENDED QUESTIONS:

5.1 What are the difficulties of operating a business in the Lao PDR?

Please give the reasons:

5.2 Are you satisfied with the business environment in the Lao PDR?

YES NO Please give the reason: _____

5.3 What should Lao's government do to enhance the current business environment to make it more attractive to Japanese investors? **Please rate the degree of importance and circle the appropriate number from 1 (Lowest) to 5 (Highest).**

NO.	FACTORS	RATINGS				
		Lowest				Highest
1	Investment Incentive and Law	1	2	3	4	5
2	Application of Investment Procedure	1	2	3	4	5
3	Infrastructure	1	2	3	4	5
4	Skilled Labor	1	2	3	4	5

5	Labor Availability (Quantity)	1	2	3	4	5
6	Industrial Site	1	2	3	4	5
7	Business Environment	1	2	3	4	5
8	Others (Please specify)	1	2	3	4	5

5.4 Do you have plans to increase capital or expand your investment in the Lao PDR in the future?

YES NO Please give the reason: _____

5.5 Will you recommend the Lao PDR as a destination for investing to other Japanese investors that are interested in investing in the ASEAN region?

YES NO Please give the reason: _____

5.6 What do you think is the trend of Japanese investment in Lao PDR in the next five years?

Increase Decrease Constant Other _____

<p>Please give the reasons:</p>

Thank you very much for your kind assistance.

APPENDIX 2: List of Japanese firms in the Lao PDR

	Name of Japanese Firm	Location
1	Advanced Agriculture Co., Ltd. (JALUX FRESH FOODS Co., Ltd.)	Sekong
2	Lao Agro-Organic & Distillery Inc. (LAODI)	Vientiane
3	Lao Tsumura Co., Ltd.	Salavan
4	Lao Japan Marketing Sole Co., Ltd. (AKASAKA GENERAL GROUP)	Vientiane
5	SHIKO Co., Ltd.	Champasak
6	Lao KAWATURU Co., Ltd.	Champasak
7	Representative Office of Harada Foods Co., Ltd	Vientiane
8	Tochimoto Lao Co., Ltd.	Vientiane
9	Lao Juetand Agriculture Development	Xayaburii
10	Lao Japan Trading Development Co., Ltd.	Vientiane / Xayaburi
11	Lao Nippon AFD Co., Ltd	Xiengkhouang / Huaphan
12	Lao-Japan Agro Development Xiengkhouang Co.,Ltd	Xiengkhouang / Huaphan
13	Oji Lao Plantation Forest Co., Ltd.	Vientiane, Khammuan, Attapue
14	South White Charcoal Factory	Savannakhet
15	N & N Location Service	Vientiane
16	Plantation and Chacoal Processing Co., Ltd.	Bolikhamxay
17	Lao Charcoal Trading Company Co., Ltd.	Vientiane
18	General Agriculture & Forestly Lao Co., Ltd.	Vientiane
19	Laos Tin Smelting % Refining Co., Ltd.	Savannakhet
20	Hazama Ando Coprporation International Division Asia Branch Lao Office	Vientiane
21	Sanpo International Corporation Vientiane Office	Vientiane
22	Lao Nishimatsu Construction Co., Ltd.	Savannakhet
23	(株) 清水建設 (臨時)	Vientiane
24	(株) フジタ (臨時)	Vientiane
25	(株) クボタ (臨時)	Vientiane
26	(株) 大林組 (臨時)	Vientiane
27	Mysay Sana Design and Construction Co., Ltd	Vientiane
28	Hello Lunch Lao	Vientiane
29	MUGINOHO GLOBAL PTE. TED.	Vientiane
30	Lao Yamaki Co., Ltd.	Vientiane
31	SANTEI LAO Co., Ltd.	Vientiane
32	Creative Business Corp., (LAO) LTD.	Vientiane

33	HATCHI LAO Co., Ltd.	Vientiane
34	Craft Industry Co., Ltd.	Savannakhet
35	KB YAGI LAO Co., Ltd.	Vientiane
36	TAILON LAO Co., Ltd.	Vientiane
37	LANE XANG TOYS CLOTHES., LTD.	Vientiane
38	Varitha Huaan Ando Lao Co., Ltd.	Champasak
39	AISHIN LAO Co., Ltd.	Vientiane
40	Tominaga Lao Co., Ltd.	Vientiane
41	Lao Industries Development Co., Ltd.	Khammuan
42	Lao Igeto Co., Ltd.	Vientiane
43	TOYO Rosai Co., Ltd. (代表事務所)	Savannakhet
44	Lao Midori Safety Shoes Co., Ltd.	Vientiane
45	Lao Shoes Co., Ltd.	Vientiane
46	NADAYA LAO CO., L T D .	Champasak
47	Misuzu Lao Co., Ltd.	Savannakhet
48	Lao Tool Co., Ltd.	Vientiane
49	MANI VIENTIANE Co., Ltd.	Vientiane
50	SISIKU LAO CO., Ltd.	Vientiane
51	Thai Kowa (予定)	Champasak
52	Mandec World Lao Co., Ltd	Savannakhet
53	Rexxam Lao (予定) (VITA Park内)	Vientiane
54	Dai-Ichi Denshi Lao Co., Ltd.	Vientiane
55	MMC Electronics (Lao) Co., Ltd.	Vientiane
56	Shindengen Lao Co., Ltd.	Champasak
57	KITANI ELECTRIC LAO., LTD	Savannakhet
58	Asahi Maxima Lao Co., Ltd.	Vientiane
59	Tokyo Coil Engineering (Lao) Co., Ltd.	Vientiane
60	TSB Lao Co., Ltd.	Vientiane
61	KP-Nissei Mizuki (Lao) Co., Ltd.	Savannakhet
62	Nikon Lao Co., Ltd.	Savannakhet
63	KOYO (LAO) CO., LTD.	Savannakhet
64	Santhiphab Suzuki Laos Factory	Vientiane

65	MEIWA LAO SOLE Co., Ltd.	Vientiane
66	Japan Tech Co., Ltd.	Champasak
67	TOYOTA BOSHOKU LAO Co., Ltd.	Savannakhet
68	DAIWA HARNESS LAO CO., LTD.	Champasak
69	KP Beau Lao Co., Ltd.	Savannakhet
70	Leonka World Lao Co., Ltd.	Champasak
71	Aderans Lao Co., Ltd.	Savannakhet
72	Nam Ngiep1 Power Co., Ltd (関西電力)	Bolikhamsay
73	セカタムプロジェクト(関西電力)	Champasak
74	ナムパックプロジェクト(神戸グリーンパワー (株))	Champasak
75	NTT Communications Vientiane Representative Office	Vientiane
76	AMZ・CRESCERE Co., Ltd.	Vientiane
77	PASCO Lao Sole. Co., Ltd.	Vientiane
78	Japan Computer Entertainment and Animation Studio Co., LTD	Vientiane
79	Studio Ikkyu	Vientiane
80	Logitem Laos GLKP Co., Ltd.	Savannakhet
81	LAO NISSIN SMT CO., LTD.	Savannakhet
82	Representative Office of SG Sagawa (Thailand) Co., Ltd.	Savannakhet
83	Representative Office of FLIX AGENCIES (JAPAN), INC.	Vientiane
84	OCS Laos Co., Ltd.	Vientiane
85	Lao Japan Airport Terminal Service CO., Ltd. (L -JATS)	Vientiane
86	Japan Carbon Co., Ltd.	Khammuan
87	KM.Med Tech & Trading	Vientiane
88	C & K	Vientiane
89	Lapon Co., Ltd.	Vientiane
90	Trendy lao import export co, ltd	Savannakhet
91	Global View Sole Co., Ltd.	Vientiane
92	Lao Toyota Service Co., Ltd.	Vientiane
93	IMAI-LAO AUTO SERVICE Co., Ltd.	Vientiane
94	Komatsu Ltd Vientiane Representative Office	Vientiane
95	Kubota Laos Co., Ltd.	Vientiane
96	MARUHAN Japan Bank Lao Co., Ltd	Vientiane

97	Bank of Ayudhya PCL. (Krungsri (三菱東京UFJ銀行のタイ子会社) (の支店))	Vientiane
98	Sumitomo Mitsui Banking Corporation Phnom Pehn Representative Office (ラオスに拠点を有するACLEDA Bank Plc.(カンボジア)の株式の18.25%を保有)	Vientiane
99	AEON Leasing Service (Lao) Co., Ltd.	Vientiane
100	Capital Nomura Securities Public Company Limited	Vientiane
101	LAO ASEAN LEASING Co., Ltd	Vientiane
102	GL Leasing (Lao) Co., Ltd.	Vientiane
103	Toyota Tsusho Leasing (Lao) Co., Ltd	Vientiane
104	MSIG Insurance (Lao) Co., Ltd	Vientiane
105	Representative Office of Starts Corporation Inc.	Vientiane
106	Savan-Japan Joint Development Co., Ltd.	Savannakhet
107	Mountain Field Consultant	Vientiane
108	Nippon Koei Co., Ltd.	Vientiane / Savannakhet
109	NIKKEN SEKKEI CIVIL ENGINEERING LTD REPRESENTATIVE OFFICE	Vientiane
110	Tokyo Consulting Firm Co., Ltd.	Vientiane
111	Oriental Consultants CO., Ltd.	Vientiane
112	LIC Corporation	Vientiane
113	LeFu Co., Ltd., Lao PDR	Vientiane
114	Lao Japan Reserch & Consulting	Vientiane
115	TVS Consulting Co., Ltd	Vientiane Savannakhet
116	KMC LAO Sole Co., Ltd.	Vientiane
117	Paktai Pathana Company Limited	Champasak
118	FUJI GROUP	Vientiane
119	Italian Tomato ASEAN Sole Co., Ltd.	Vientiane
120	Jumping Lao Tour Co., Ltd.	Vientiane
121	Happy Smile Tour	Vientiane / Luangprabang
122	APEX LAOS CO., LTD.	Vientiane
123	H.I.S. Lao Co., Ltd.	Vientiane / Luangprabang
124	Champa Japanese Language Center	Vientiane
125	Laos-Japan Human Exchange Education Center	Champasak
126	AMZ MARUNOUCHI LAO CO., LTD.	Vientiane
127	Mitsui&Co..(Asia Pacific) Pte.Ltd. Vientiane Representative Office	Vientiane

128	Sumitomo Corporation Asia & Oceania Pte.Ltd., Vientiane Representative Liaison Office	Vientiane
129	Mitsubishi Corporation Vientiane Representative Office	Vientiane
130	Marubeni Asean Pte.Ltd.Vientiane Liaison Office	Vientiane
131	Toyota Tsusho Corporation Vientiane Liaison Representative Office	Vientiane
132	Sojitz Corporation	Vientiane

APPENDIX 3 : List of FDI country and sectors in the Lao PDR (USD)

Summary Investment Projects by Country from 1989-2015

No.	Country	Project	Value (US\$)
1	Lao PDR*	2580	6,748,084,508
2	China	838	6,559,581,521
3	Thailand	752	4,494,184,613
4	Vietnam	418	3,577,181,539
5	Malay	104	819,558,773
6	South Korea	291	751,072,139
7	France	224	490,639,743
8	Japan	102	438,267,441
9	Natheland	16	434,466,484
10	Norway	6	346,435,550
11	United Kingdom	54	201,863,480
12	Singapore	79	187,761,475
13	India	22	163,772,237
14	America	115	151,800,113
15	Australia	88	135,152,812
16	Indonesia	4	106,719,551
17	Hongkong	50	88,547,259
18	Taiwan	73	86,663,554
19	Canada	40	65,791,144
20	Switzerland	15	44,492,192
21	Malie	1	40,000,000
22	Russia	24	38,459,130
23	Angola	1	37,500,000
24	Sweden	15	19,019,558
25	Cambodia	11	8,363,324
26	Germany	31	7,833,128
27	Italy	9	4,478,813
28	Belgium	13	3,694,852
29	Peru	1	3,000,000
30	Israel	5	2,692,600
31	Panama	1	1,750,000
32	North Korea	4	1,732,800
33	Myanmar	7	1,710,000
34	New Zealand	6	1,592,000
35	International Financial Enterprise	1	1,590,000
36	Bergina Faso	1	1,530,000
37	Finland	3	1,249,065
38	Siranga	7	1,035,000
39	Tajikistan	1	1,000,000
40	Denmark	8	611,384

41	Nepan	3	500,000
42	Pakistan	3	489,784
43	Austria	2	390,000
44	Hungary	3	380,000
45	Bangladesh	3	250,000
46	Bolivia	2	230,000
47	Philippines	3	218,000
48	Spain	2	202,800
49	Luxemburge	1	200,000
50	Ukraine	1	200,000
51	Cuba	1	185,000
52	Ireland	2	164,000
53	Turakey	1	100,000
Total:		6048	26,074,387,366

No.	Types of Business	Projects	Domestic Share		Foreign Share	Total Value
			Private	Public		
1	Domestic	1479	2,688,264,044	112,843,484	896,122,691	3,697,230,219
2	Foreign Owned 100%	1963	3,374,000		8,438,630,473	8,442,004,473
3	Joint Venture	1101	2,000,787,288	1,946,189,693	9,991,549,694	13,938,526,674
Total		4,543	4,692,425,331	2,059,033,177	19,326,302,858	26,077,761,366

No.	Sectors	Projects	Domestic Share		Foreign Share	Total Value
			Private	Public		
1	Hydropower	38	403,748,960	1,455,226,560	5,393,754,920	7,252,730,440
2	Mining	190	863,494,028	51,019,900	4,292,609,427	5,207,123,355
3	Agriculture	623	69,152,781	17,483,387	2,610,102,301	2,696,738,469
4	Service	428	133,677,726	94,219,589	1,922,094,949	2,149,992,263
5	Industry and Handicraft	617	161,616,606	45,805,789	1,395,431,271	1,602,853,666
6	Hotel and Restaurant	238	61,617,314	94,595,521	665,160,391	821,373,227
7	Construction	110	127,439,697	21,640,000	632,935,309	782,015,006
8	Telecom	18	44,210,509	138,962,400	479,515,986	662,688,895
9	Banking	31	23,570,000	23,220,000	325,273,622	372,063,622
10	Wood Industry	132	53,287,677	3,053,850	298,859,537	355,201,064
11	Trade	311	38,915,261	412,927	207,765,327	247,093,516
12	Garment	104	6,367,389	49,770	85,790,945	92,208,104
13	Public Health	12	8,260,100		53,043,030	61,303,130
14	Consulting	156	6,794,538		49,589,810	56,384,348
15	Education	56	2,008,700	500,000	18,253,341	20,762,041
Total:		3,064	2,004,161,288	1,946,189,693	18,430,180,166	22,380,531,147
1	Foreign Owned 100%	1963	3,374,000		8,438,630,473	8,442,004,473
2	Joint Venture	1101	2,000,787,288	1,946,189,693	9,991,549,694	13,938,526,674
Total		3,064	2,004,161,288	1,946,189,693	18,430,180,166	22,380,531,147

APPENDIX 4 : Japanese firms in SEZs from 2003 to 2016

No.	Firms	SEZs	Zones	Sector	Registered Value (US\$)	Plan Value (US\$)
1	Daiwa Harness Lao	Champasak	A	Industry	1,000,000	1,000,000
2	Shindengen Lao	Champasak	A	Industry	1,000,000	1,000,000
3	Varitha Heran Ando Lao	Champasak	A	Industry	450,000	450,000
4	Japan Tech	Champasak	A	Industry	905,000	905,000
5	Nayada Lao	Champasak	A	Industry	1,000,000	1,000,000
6	Leonka World Lao	Champasak	A	Industry	300,000	505,325
7	Mishudori Lao	Champasak	A	Trading	100,000	100,000
8	JFC Lao	Champasak	A	Trading	100,000	100,000
9	Institute of Lao-Japan development	Champasak	Champasak	Service	50,000	300,000
10	Lao tin Smelting and Refining	Savan-Seno	C	Industry	150,000	150,000
11	Kitani Electric Lao	Savan-Seno	C	Industry	1,000,000	1,000,000
12	Mentec World lao	Savan-Seno	C	Industry	700,000	1,000,000
13	Aderans Lao	Savan-Seno	D	Industry	200,000	200,000
14	Misuzu Lao	Savan-Seno	C	Industry	1,000,000	1,000,000
15	KP Beau Lao	Savan-Seno	C	Industry	100,000	2,000,000
16	Toyota Boshoko Lao	Savan-Seno	C	Industry	5,600,000	7,200,000
17	Nikon Lao	Savan-Seno	B	Industry	8,000,000	8,000,000
18	Koyo Lao	Savan-Seno	B	Industry	500,000	500,000
19	O.M Lao	Savan-Seno	C	Trading	300,000	1,000,000
20	Logitem Lao GLKP	Savan-Seno	B	Service	700,000	3,000,000
21	Isuzu Truck Service Factory	Savan-Seno	B	Service	860,000	2,000,000
22	NTT Communicaiton Lao Branch	Savan-Seno	A	Service	100,000	100,000
23	Toyoroza	Savan-Seno	A	Service	30,000	30,000
24	Shishiku Lao	Vientiane	Vientiane	Industry	600,000	
25	MMC Electronics lao	Vientiane	Vientiane	Industry	4,000,000	20,000,000
26	Lao tool	Vientiane	Vientiane	Industry	2,500,000	2,500,000
27	Dai-Ichi Denshi Lao	Vientiane	Vientiane	Industry	300,000	4,000,000
28	Mashakashi Kosai Lao	Vientiane	Vientiane	Trading	100,000	
29	FX Toy Lao	Vientiane	Vientiane	Industry	1,000,000	
30	Shashaki	Vientiane	Vientiane	Industry	100,000	