

# Analysis on the Market influencing factors of Laos attracting Chinese Enterprises to start a Business in Laos

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**Abstract:** With the gradual deepening of the initiative of the Belt and Road Initiative, the scale of China's investment in Laos has also expanded. The domestic investment environment in Laos continues to improve, and international cooperation is deepening. Both products and technologies have flooded into the Lao domestic market, which has had a huge impact and impact on the development of Laos' local economy. At the same time, Chinese companies choosing to invest and start businesses in the domestic market of Laos can expand the income sources of Chinese companies, increase the international reputation of Chinese companies, and promote social development. With the continuous strengthening of China-Laos cooperation in various fields, Laos has also taken some measures to attract Chinese companies to invest and start businesses in Laos, and China-Laos cooperation has reached a new level. However, due to the lack of economic growth in Laos and the lack of a comprehensive industrial sector, there are many problems in the investment environment. If Laos fails to take effective measures, it is likely to harm Chinese companies investing in Laos. Therefore, Chinese companies pay great attention to the industries of large regional and regional companies in Laos, which are closely related to the climate and market conditions in Laos.

## 1 Introduction

Laos has always been a friendly neighbor of China and the closest to China among the 10 ASEAN countries. With the deepening of the advocacy of "Belt and Road Initiative", the economy of Laos has grown rapidly, and Chinese direct investment in Laos has also been increasing. However, Chinese enterprises face many problems in the process of investment in Laos, such as policy risk, imbalance between market supply and demand and so on. In order to solve these problems, this paper focuses on taking Chinese start-up enterprises in Laos as an example, on the basis of analyzing the current situation of entrepreneurship, this paper analyzes the influencing factors and existing problems of Chinese enterprises starting a business in Laos from three aspects: the local trade and financial market, market supply and demand and the overall market risk. Finally, the paper puts forward some strategies to promote Chinese enterprises' venture investment in Laos. Through the discussion of this paper, it is expected to have a certain practical guiding significance for Chinese enterprises to invest and start a business in Laos, and at the same time have a certain reference and reference for the economic development of Laos.

## 2 The current situation of Chinese enterprises starting businesses in Laos

### 2.1 Industrial distribution

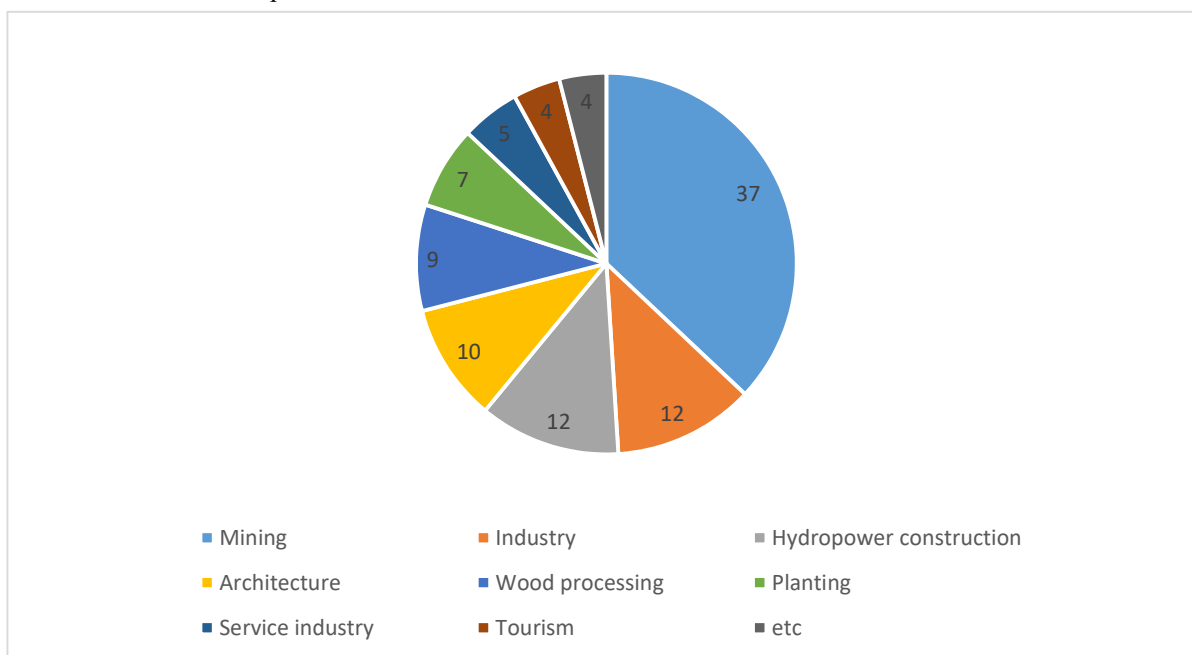
Although the overall economic growth level of Laos is not very high, it is rich in natural resources. These rich natural resources and economic growth potential have become an important driving force to attract Chinese enterprises to invest in Laos. There are a large number of Chinese enterprises investing in Laos, but affected by practical factors, the distribution of investment industry is very concentrated. Over the years, the mineral resources development and power generation industry have been important areas to attract foreign investment. According to Lao statistics, mineral resources and power development investment accounted for 27% and 25% of Laos's foreign investment in 2021, respectively, accounting for more than half of Laos's foreign investment. In recent years, Chinese enterprises' investment in Laos has shown different forms of growth. The development of mineral resources, manufacturing, construction, power supply, seeding, timber and service industries are all owned by Chinese enterprises. Chinese enterprises invest and start businesses in Laos in a number of industries and fields. This is not only conducive to the rapid economic growth of Laos, but also conducive to the development advocated by China's "Belt and Road Initiative", but also very beneficial to the

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international impact of Chinese enterprises. The actual distribution of Chinese enterprises' investment in Laos is

shown in figure 1 below:



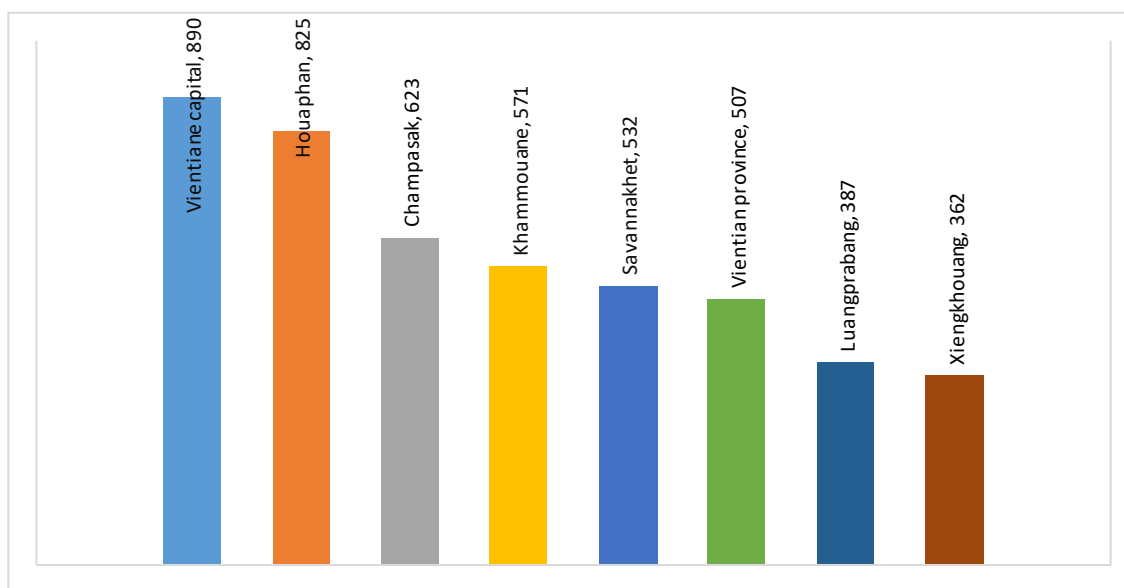
Source: official website of the Lao Ministry of Industry and Commerce

**Fig. 1** Distribution map of Chinese enterprises' venture capital industry in Laos in 2021

As shown in the chart, Chinese enterprises' investment and business in Laos are mainly concentrated in the mining, industrial and hydropower construction sectors, accounting for 37%, 12% and 12% of the total investment, respectively. Therefore, on the whole, Chinese enterprises' investment in Laos shows a good momentum.

The reason why Chinese enterprises choose to invest in Laos is related to the "investment environment" of Laos. From 1988 to 2019, the investment and business of Chinese enterprises in Laos reflected the characteristics of "regional cities", as shown in figure 2.

## 2.2 Regional distribution



Source: official website of the Lao Ministry of Industry and Commerce

**Figure 2** Statistical Chart of Chinese Enterprises' Investment in Laos in 1990-2021

In terms of specific investment areas, the main investors are concentrated in Vientiane, Huapan Province, Champasak Province and so on. In terms of the mineral resources investment areas of Chinese

enterprises in Laos, Taqu City, Basong County, Xinben County and Verabrie County, which are rich in mineral resources, are important places for investment. The

power resources of Pasai, Wansai and Puweng districts are the key areas for Chinese enterprises to invest.

### 2.3 The present situation of operation

Looking at the actual situation of Chinese enterprises operating in Laos in recent years, they have achieved good results, the specific conditions are as follows:

### 2.4 Trade is on the rise.

Over the past decade, the foreign trade volume of Laos has increased steadily, and the main sponsors are China, Thailand, Vietnam and other countries. By 2021, the total volume of trade between China and Laos will exceed 3 billion US dollars. Although the trade volume between China and Laos declined sharply from 2018 to 2021, on the whole, the cooperation between Lao and Chinese enterprises is still developing in a positive direction, which has laid a solid foundation for the cooperation and development of the two countries in the later stage.

### 2.5 The industry is becoming more and more rich.

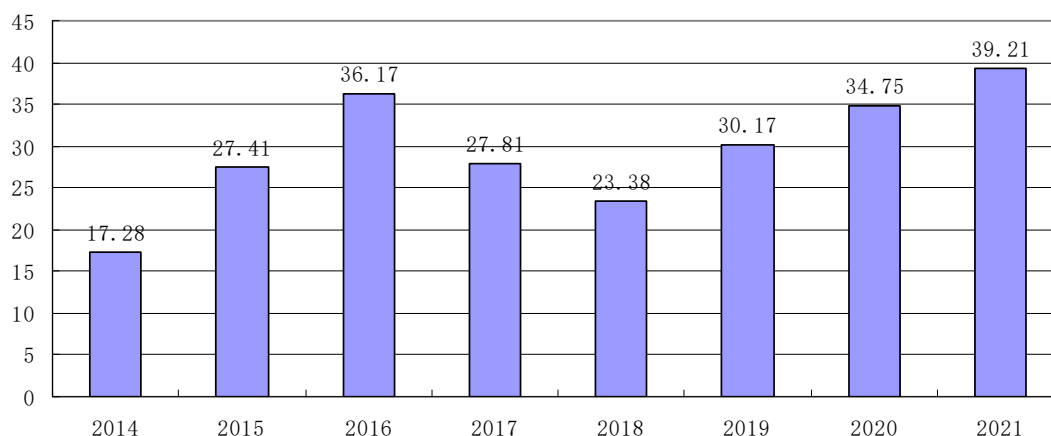
Before China invested in Laos, the main industries of Laos were agriculture, forestry and fisheries. In recent years, Chinese enterprises have been entering Laos, and investment and trade have increased exponentially. There are many Chinese enterprises in Laos. For example: agriculture: forestry: bananas, rubber, tea, vegetables, animal husbandry: pig farming, animal husbandry, poultry breeding, fishery: straw farming, fish

farming, industrial sectors: handicrafts, sewage, environmental protection, maintenance, medicine: medicine, post and telecommunications, commercial food, finance, commercial asset management, residential services, tourism, data consulting and various technical service industries. China's investment in these industries in Laos has not only promoted the development of Laos' local community economy, but also played a positive role in the development of Chinese enterprises.

## 3 Analysis of the market influencing factors faced by Chinese enterprises in starting a business in Laos

### 3.1 The influence of trade factors

As one of the main influencing factors of Chinese enterprises' investment in Laos, trade factors are mainly reflected in two aspects: first, Chinese enterprises make profits by selling products in Laos market; second, Chinese enterprises make profits by selling products produced in Laos to other countries. Through the survey, it is found that the bilateral trade between China and Laos has increased year by year from 2014 to 2021, from US \$1.728 billion in 2014 to US \$3.921 billion in 2021, as shown in figure 3. In this process, exports from other countries to Laos will have an impact on the trade of Chinese enterprises in Laos, such as the United States exporting nearly 20 billion US dollars of clothing and textiles to Laos from 2017 to 2019. This has had a great impact on the trade of Chinese enterprises in Laos.

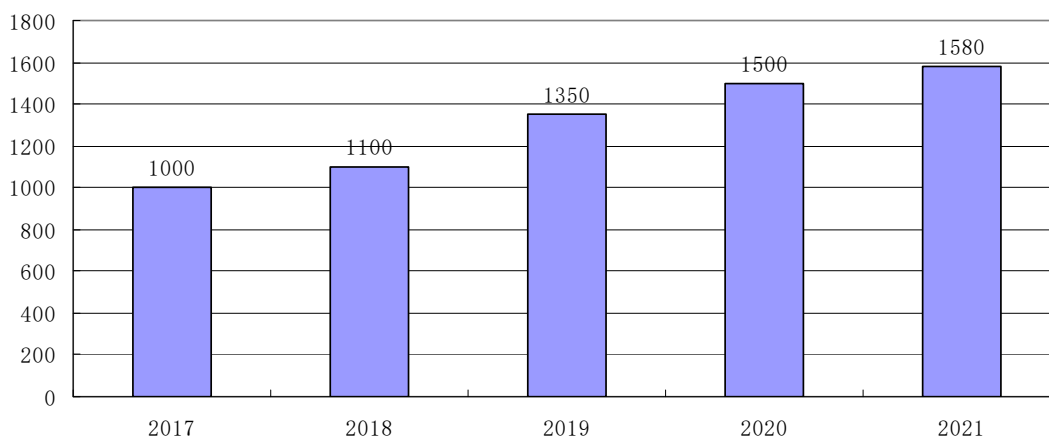


Source: official website of the Lao Ministry of Industry and Commerce  
**Figure 3** bilateral imports and exports of goods between China and Laos in 2012-2019

### 3.2 The influence of financial factors.

The impact of financial factors on the investment and entrepreneurship of Chinese enterprises in Laos is mainly reflected in the local financial system requirements of enterprises in Laos, which is also one of the important factors considered by many countries in the world when investing in other regions. Through the survey of the local financial market in Laos, it is found

that the financial market in Laos is relatively backward, which also affects the investment of Chinese enterprises in Laos. Combined with the survey of relevant data, it is found that although the investment of local financial institutions in Laos to Chinese enterprises is increasing from 2017 to 2021 (the specific situation is shown in figure 4), the credit line is not high and the increase is not large. This has also affected the enthusiasm and initiative of Chinese enterprises to invest in Laos.



Source: official website of the Lao Ministry of Industry and Commerce

**Figure 4** Statistical Chart of Credit provided by Lao Financial institutions to Chinese Enterprises in 2017-2021

The specific financial factors are as follows: first, the development of Lao financial institutions is slow, and the cooperation of Chinese banks in Laos is affected. The cooperation between Chinese commercial banks, development banks and Chinese policy banks in Laos has not been strengthened, resulting in the poor performance of Chinese banks in Laos. Chinese banks are not yet fully integrated into Lao economic growth, nor have they been recognized by Lao financial markets and domestic customers. Second, there are deficiencies in Laos's financial system. A scientific and reasonable financial system has become a prerequisite for a good financial environment. Laos is the birthplace of French colonialism, and its currency and even banking have French characteristics. After the independence of Laos, state-owned banks became the most important financial institutions, with a small number of private banks and insurance companies. The loan business of state-owned banks usually serves local enterprises in Laos, so it is difficult to provide a full range of financial services for Chinese companies.

### 3.3 Factors of market supply and demand

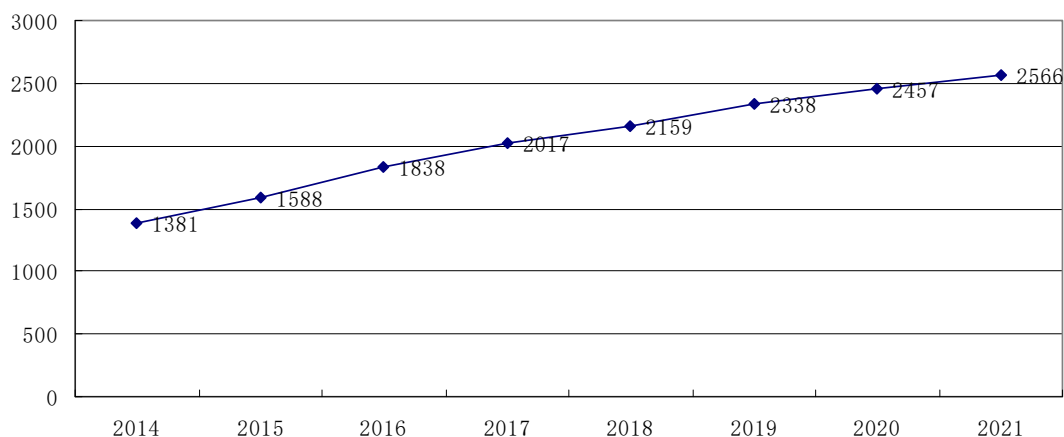
The unique supply and demand relationship between China and Laos will have an impact on Chinese enterprises' investment in Laos. In addition, from a global perspective, the relationship between market "prosperity" and "demand" is an important market factor for Laos to attract Chinese enterprises to do business in Laos.

### 3.4 The influence of market supply factors

Depending on the global economic situation, the prices of most of the products and services produced and sold are not clear, which may also have a negative impact on the development of the company. Laos has a unique geographical location and is rich in mineral resources, water resources and agricultural resources. Chinese companies investing in Laos will be able to buy natural and other resources at lower purchase prices, reducing costs for Chinese companies to some extent. Taking natural resources as an example, Laos has unique advantages in minerals, forests, land and other natural resources. Therefore, Chinese enterprises can make high profits by making use of their own advantages, such as capital and technology; in addition, considering the relatively small population, large area and cheap labor of Laos, these are the main reasons why Chinese enterprises choose to invest in Laos.

### 3.5 The influence of market demand factors

The market demand in Laos has a great impact on the business of Chinese enterprises in Laos. Specifically reflected in the following aspects: first of all, the strength of Lao residents continues to improve, and the market is positive for Chinese enterprises to invest in large companies in Laos. After entering the 21st century, the economy of Laos has been in the stage of "rapid development". Residents' income is increasing and disposable income is also rising. It is precisely because of the rich demand market. To a certain extent, the "sales problem" of Chinese enterprises investing in Laos has been reduced.



Source: official website of the Lao Ministry of Industry and Commerce  
**Figure 5** Statistics of per capita GDP in Laos, 2014-2021

As shown in figure 5, from 2014 to 2021, the GDP growth of Laos increased from US \$1381 to US \$2566, an increase of 85.45%. At the same time, the population of Laos also showed exponential growth. This means that the average spending power of urban and rural residents has increased, and Chinese enterprises have invested and sold in Laos, thus attracting more Chinese enterprises to invest and develop in Laos.

### 3.6 Market risk factors

Unlike domestic investment projects, global investment projects will face additional market risks. For Chinese enterprises investing in Laos, if effective measures can be taken to overcome the impact of market risks, it will certainly attract more Chinese enterprises to invest and develop in Laos. At present, the impact of market risks faced by Chinese enterprises in the process of investment in Laos is mainly reflected in the following aspects:

The risk of foreign exchange restriction. Laos stipulates that foreign investors must trust the Lao Central Bank before recovering profits from their investment in Laos, and this process is relatively long. Considering the imperfect trust system in Laos, the risk is relatively high, which enhances the risk of Chinese enterprises investing in Laos.

The risk of failure. In the process of identifying the investment of Chinese enterprises in Laos, it is mainly restricted through the corresponding "access" mechanism, and the application of this mechanism directly causes many Chinese-funded enterprises to become local enterprises in Laos. This gives Chinese enterprises a full demonstration in the process of entering the Lao market, and then affects the enthusiasm of Chinese enterprises to enter the Lao market.

### 3.7 The investment industry is too concentrated, the added value of the industry is not high, and it is facing greater market risk.

First, the investment of Chinese enterprises is too concentrated. Through the industry analysis of Chinese

enterprises' direct investment in Laos, we can see that the industry distribution is too concentrated. The three largest direct investment industries for Chinese companies, including mining, water supply and agriculture, account for 80 per cent of total investment, and these industries are also industry-based industries. For example, in the past five years, Chinese enterprises have directly invested in eight major projects in Laos, including seven energy projects. Overall, the investment in these industries is over-dependent on natural resources, and if you continue to invest in these industries, it will not only increase investment, but also affect industry profits and increase profit risks. Second, infrastructure investment is huge. Although the investment in infrastructure is conducive to the development of Laos, it is also conducive to the local economy of Laos, but for Chinese enterprises, the stability of investment returns is not high and is greatly affected by the policy. This also poses a major threat to Chinese enterprises' investment in Laos.

### 3.8 The market mechanism is not perfect, the policy is lack of transparency, and is faced with great potential risks.

Although Laos is very supportive of Chinese enterprises' investment, it is not perfect in policy formulation, especially the provisions on tax exemption for foreign investors and import taxes in the new Lao Investment Promotion Law are not included in the tax law. The survey found that 54.84% of Chinese enterprises think that Laos's investment policy is not satisfactory. The lack of transparency in Lao policy has led to increased uncertainty, which in turn affects the recognition of Chinese enterprises to the Lao market.

### 3.9 The imbalance between market supply and demand structures

Although Laos has developed rapidly in recent years, the overall economic growth is low and the cost of living in residential areas is low, resulting in insufficient market

demand. In general, foreign direct investment in the host country can promote industrial development and help to improve the manufacturing process, thus raising the industrial level as much as possible. Similarly, Laos's acceptance of Chinese direct investment contributes to the development and improvement of its manufacturing system. While Chinese enterprises invest directly in Laos and can provide funds and technology to Laos, the export of Chinese foreign investment will also have a significant impact on Laos's domestic market, which will help to promote the development of Laos's industrial system. First of all, China's direct investment has brought a lot of financial support to Laos, which alleviates the problem of insufficient domestic investment in Laos and promotes the development of Laos industrial system. Second, after Chinese direct investment in Laos, investment enterprises will cooperate with local enterprises in Laos, which is conducive to the technological improvement of local enterprises in Laos.

### **3.10 The structure of entrepreneurial industry is not reasonable enough.**

The establishment of Chinese-funded enterprises in Laos has promoted the growth of local economy and rapid social development in Laos, especially the construction of large-scale projects, which has played a positive role in the development of local economy in Laos and laid a solid foundation for the social development of Laos. However, the implementation of these projects requires billions of dollars of investment, and these investments will hinder the development of some emerging industries at any time, which also affects the development of other industries. It is precisely because the industrial investment is too concentrated that the risk is difficult to predict, which has also become an important difficulty encountered by Chinese enterprises in the process of starting a business in Laos.

## **4 Countermeasures to promote the success of Chinese enterprises in Laos**

### **4.1 Make rational use of the trade and financial environment**

In order to improve the investment efficiency of enterprises, Chinese enterprises need to fully understand and understand the local market environment and financial environment in Laos. In recent years, China's influence on trade, financial services and other countries has increased exponentially, which has brought opportunities for the development of Chinese enterprises. Therefore, before entering the Lao market, Chinese local enterprises need to fully discover their own advantages, and also need to understand the local trade environment and financial environment of Laos, so as to lay a foundation for enterprise investment. In terms of specific investment, Chinese investment enterprises need to combine the different characteristics of different

provinces and cities in Laos to choose suitable for enterprises to carry out financial services. For example, the rapid growth of financial sales in Vientiane can focus on targeted marketing and development. In addition, Chinese enterprises can also invest and set up science and technology enterprises in Vientiane, which can not only get the support of the local government of Laos, but also effectively solve the problem of capital, which is conducive to promoting the development and growth of Chinese enterprises investing in Laos.

### **4.2 Optimize the structure of supply and demand**

Improving the supply and demand system is an important measure for Laos to attract Chinese enterprises to invest in Laos. It is very important to promote cooperation between enterprises of the two countries to provide a better market supply and demand environment for Chinese enterprises investing in Laos by increasing the level of demand and supply. At present, Sino-Lao relations are at an all-time high, and China's "Belt and Road Initiative" initiative coincides with Laos's national strategy, while Laos enjoys domestic peace, economic stability and rich natural resources, including natural resources, forest resources, water resources and mineral resources. All these have laid the foundation for Chinese enterprises to invest in Laos. On the other hand, Chinese enterprises have obvious advantages in the fields of agricultural development and food processing, mineral processing, tree processing, tourism development, modern infrastructure, building materials and equipment development. These advantages have provided convenience and laid the foundation for the optimization of Laos's overall supply and demand market.

### **4.3 Scientifically choose the entry mode of entrepreneurship in Laos to reduce the risk of entrepreneurship.**

Market risk is the influencing factor of Chinese enterprises' investment and entrepreneurship in Laos. At the same time, political factors and legal risks are also important factors. Therefore, for Chinese enterprises, on the basis of fully understanding the characteristics of the Lao market, it is also necessary to study and analyze the mode of entering the Lao local market. In terms of specific measures, we can choose the mode of entering the Lao market on the basis of full communication between the Chinese government and the Lao government, so as to finally achieve the effect of "1-year-1-year-2". Of course, when choosing specific channels, we should also take into account the investment environment of the industrial and commercial sector, and we should not blindly copy the development experience in other countries.

For the Lao market, how to reduce the risk of Chinese enterprises investing in Laos market is a key issue for Laos to attract Chinese investment at the present stage. Considering the 46th anniversary of the founding of Laos, there is still great uncertainty in the

overall investment environment, especially in the political environment and legal environment, which is also the key risk for Chinese enterprises to invest in Laos. Therefore, both the Chinese government and the Lao government should pave the way and communicate with enterprises in dealing with foreign investment, and provide the most stable and preferential policies for venture capital; at the same time, Chinese enterprises also need to go to Laos to analyze and study the local cultural, economic and social conditions, so as to pave the way for later entry into the Lao market.

#### 4.4 Formulate a sound marketing plan

Product sales is the ultimate way for Chinese enterprises to make profits after investing in Laos. Therefore, it is very important for Chinese enterprises to formulate a sound, scientific and reasonable marketing plan. In the specific aspect, the marketing plan of Chinese enterprises in Laos can be improved through the following measures: first, to improve the pertinence of the products. Chinese enterprises investing in Laos must have an in-depth understanding of the market demand in Laos in the process of producing products and services, so as to improve the pertinence of products and consumer satisfaction. Marketing activities are meaningful only when users' expectations are met. Secondly, advertising channels need to cooperate with local retailers, distributors and even retail stores, so as to broaden the sales channels of products and let more users understand the products and services of enterprises; third, in terms of the retail price of products, because the average income of Lao residents is not high, it requires Chinese enterprises to choose appropriate pricing methods and make reasonable pricing, so as to ultimately improve the sales success rate of Chinese enterprises and achieve business goals.

#### 4.5 Implement the "localization" management strategy

In the process of starting a business for Chinese enterprises in Laos, "localization" management is the best way to achieve entrepreneurial results. Therefore, when doing business in Laos, Chinese enterprises need to pay special attention to strengthening exchanges with the local government. The government is the representative of public interests, and enterprises must have a comprehensive understanding of government policies, which is conducive to the smooth implementation of their "localization" management strategy. In the process of implementing the "localization" business strategy in Laos, the specific measures of Chinese enterprises include: first, to clarify the localization of products. Chinese enterprises invest and start businesses in Laos, requiring that the products they produce and sell must meet the needs of consumers, that is, the products must be "domestic" in order to be recognized by the Lao people and have a market; second, improve the localization of enterprise management. Chinese enterprises investing in Laos must ensure the

localization of the mode of management, that is, in terms of production, operation, management, marketing, after-sale, etc., which is conducive to improving the recognition of Chinese enterprises by the Lao people and to the better development of Chinese enterprises investing in Laos.

## 5 Conclusion

In short, as a close neighbor of China, Laos is also the nearest to China among the 10 ASEAN countries. China's direct investment in Laos under the initiative of "Belt and Road Initiative" will not only promote the development of Sino-Lao relations, but also play a significant role in enhancing the economic growth of Laos, as well as cooperation and development among other ASEAN countries.

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