

# Potential business opportunities in the laos economics essay



**ASSIGN  
BUSTER**

The aim of this audit is to examine the potential business opportunities in the Laos. More specifically, this research focuses on the potential of business in exporting agricultural goods like copra and coffee from East Timor. The research will analyze Laos's 1) Cultural Environment; 2) Political and Legal Environment and 3) Economic Environment.

Lao People's Revolutionary Party (LPRP) is the only legal political party. The head of the state is President Choummaly Sayasone. The head of government is Prime Minister Bouasone Bouphavanh. The party through the all-powerful eleven-member Politburo and the 55-member Central Committee determines government policies. Important government decisions are vetted by the Politburo.

It dominates Lao politics, and opportunities for advancement are highly dependent on one's ranking within the party. Unlike the money politics of many neighboring countries, political success in Laos is highly dependent upon loyalty to the party and its ideology. Under this system, minorities and those of humble background have been able to attain high-ranking positions in the party.

Laos adopted its Constitution in 1991, amending it most recently in 2003. The National Assembly, which has added seats at every election, approves all new laws, although the executive branch retains the authority to issue binding decrees. The most recent elections took place in June 2006, when the National Assembly was expanded to 115 members. Laos has enacted a number of new laws in recent years, but the country is still governed largely through the issuance of decrees.

Laos is considered to be one of the world poorest countries in the world. Their aim has always been to strengthen their economy and to earn foreign exchange. Most of their population is involved in subsistence economy, in which families produce by themselves what is needed for daily basic living. Their drawback is that it is a landlocked nation with weak infrastructure. Mountains and forest cover almost 80 percent of the country. Laos perhaps has the highest ratio of forest cover to land area in all of Asia, 47 percent of the country is forested.

The country's per capita income in 2009 was estimated to be \$878. Agriculture, mostly subsistence rice farming, dominates the economy, employing an estimated 75% of the population and producing 37% of GDP. Domestic savings are low, forcing Laos to rely heavily on foreign assistance and concessional loans as investment sources for economic development

**Source: [www.economywatch.com](http://www.economywatch.com)**

International indices rate Laos poorly on transparency and ease of doing business. Corruption continues to hamper economic development.

The Lao Government reached agreement with the World Bank and the International Monetary Fund on additional reforms and the government agreed to expand fiscal and monetary reform. They also took measures to promote private enterprise and foreign investment, privatize or close state firms, and strengthen banking. The economy continues to be dominated by a relatively inefficient agricultural sector operating largely outside the money economy, and the public sector continues to play an important role.

**Source: [www.nationsencyclopedia.com](http://www.nationsencyclopedia.com)**

## **Laos – Trade**

The most recent reports for Laos exports show \$970 million, which includes electricity, garments, coffee, wood products, gold, tin, and copper mostly.

For Laos's exports, current partners include Vietnam, Thailand, France, Belgium, and Germany. As far as Laos's imports, numbers run approximately \$1.4 billion to include vehicles, fuel, machinery, and equipment.

For Laos's imports, the primary partners include Thailand, Vietnam, Japan, Singapore, Hong Kong, and the People's Republic of China. Currently, the infrastructure in Laos is lacking and the majority of workers in the country simply do not possess adequate skills.

**Source: IMF World Bank, 2009**

## **The Nature of Advantage**

International trade involves across border exchange and this increases the cost of trading. Factors like tariffs, restrictions, time costs and costs related with legal systems of the countries involved in trade make the international trade a costly affair; whereas the extent of restrictions and legal hassles are considerably low in case of domestic trade. The cost involved and factors of production separate international trade from domestic trade.

According to Daniels, Radebaugh and Sullivan (2004) Framework, the evolution of International Trade Theory is depicted as below:

**Source: Czinkota et al. 2004, p. 152.**

## **Comparative Advantage**

The two industries we are going to discuss here in relation to the theory of comparative advantage are as follows: Agriculture and Energy Industry.

The Lao economy is primarily an agricultural one and employed over 80% of the labor force. Agriculture has been a relatively dynamic sector with increases in cultivated land and yields for rice and maize as well as increasing production of cattle, pigs and chickens. Over the past twenty years paddy yields doubled, making Laos rice fields more productive than those of Thailand.

The government has an explicit goal of increasing the amount of irrigated land and decreasing slash and burn agriculture. Important crops are rice, maize, starchy roots, mung and soybeans, peanuts, tobacco, cotton, sugarcane, coffee and tea. In particular, coffee production has been viewed as an area of growth for the country. The abundant cover of first growth tropical hardwoods also gives

Power generation, largely from hydropower, has the greatest potential for private sector investment in the Lao PDR. Not only does the mighty Mekong and its tributaries run through the country, but Laos also has considerable supplies of gas and coal.

The vast majority of the power generated from hydropower is sold to Thailand. Laos depends on continued demand from Thailand to maintain its sales market and its current pricing. However, having many neighboring

countries as potential customers may serve the country well if the Thai market wanes.

Laos has a comparative advantage in logging, lumber and forest products because of their agriculture and more over their energy industry is just getting established.

## **Heckscher-Ohlin Factor Proportions Theory**

This theory suggests that each country has important factor endowments and as a result will tend to export products which make use of factors that are abundant there. The country will tend to import products that are locally scarce (Daniels, et al. 2004).

## **Current account balance**

US\$ -0. 64 billion (2010 forecast)

—

## **Current account balance by percentage of GDP**

-10. 1% of GDP (2010 forecast)

## **Shares in world total merchandising export**

0. 01% (2007)

## **Total exports**

US\$1. 033 billion (2008 estimate)

## **Export commodities**

wood products, coffee, electricity, tin, copper, gold

## **Total imports**

US\$1. 278 billion f. o. b. (2008 estimate)

## **Import commodities**

machinery and equipment, vehicles, fuel, consumer goods

## **Exports – major partners**

Thailand 32. 7%, Vietnam 14. 3%, China 5. 9%, South Korea 4. 8% (2007)

## **Imports – major partners**

Thailand 68. 5%, China 9. 3%, Vietnam 5. 5% (2007)

Source: <http://www.gfmag.com>

## **Laos current trade position using the extended form of Porter's Diamond of National Competitiveness**

Agriculture industry is the field suitable for diamond model and it is the major exports of East Timor and the major revenues, some main attributes are:

Factor conditions would be mainly land, labour, capital, climatic or weather condition and fertility of the soil are important factor conditions.

Demand conditions for agriculture products is high in local market and more than 90% percent of the population is dependant on agriculture. The global demand for coffee and other agricultural products are also very high.

Related and supporting industries would be the transport and manufacturing industries. Packing of the agricultural products is very important and processing of the products also plays a role.

<https://assignbuster.com/potential-business-opportunities-in-the-laos-economics-essay/>

Firm strategy, structure, rivalry would be depicted as below:

Laos government had support the firms by lifting the tax on coffee export which is sure to boost the coffee trade. Rivalry is the investor from other countries to the coffee industry also enjoys the benefit, so it increase the local competition.

### **Recommendations :**

Agriculture is considered as the primary source of work and income apart from Laos's exports and imports include industry and services. Of the three most workers are still involved with agriculture in one form or another. When we compare the countries exports with imports we can easily realize why the country is so much dependant on outside assistance. Laos can gradually increase the industry sector products such as electric power, timber to improve their economy.

Hydroelectric power development on the tributaries of the Mekong, the development of light industries such as garments and textiles, marketing of natural resources such as gypsum, tin, and wood products, and tourism development are the primary economic sectors that should be promoted for improvement.