The High Costs of Foreign Investment in Laos

The Government of the Lao PDR (Laos) prioritizes achieving rapid high economic growth in a bid to graduate from Least Developed Country (LDC) status by 2020. To achieve this highly unlikely goal, the government is pursuing an aggressive foreign investment strategy to increase and maintain high growth figures, at huge social, environmental and economic costs to the country.

The Lao government offers many incentives to foreign investors: plenty of unexploited natural resources; hydropower potential; large areas of fertile agricultural land; low labour costs; socio-political stability and low political risk.[1]

However, there is no protection for local people from the destruction wreaked by investment projects. Lao people have no say in the country's development strategy, nor do they have adequate legal recourse or access to justice when their rights are violated, lands taken, and environments poisoned. Those who criticize and protest the government's actions are dealt with harshly.

The largest foreign investors in Laos are China, Thailand, Vietnam, South Korea, Japan, France, Malaysia, Australia, USA and India. China has become the largest investor in Laos, accounting for about 40 % of total foreign investments.

Investment figures from 2015 show that the bulk of foreign direct investment (FDI) is in the natural resources sector: almost 50 % in electricity generation followed by agriculture and mining.[2] Investments include large-scale commercial agriculture, timber processing, mining, infrastructure projects and Special Economic Zones (SEZs).

As of mid-2015, the Lao Government had signed agreements for, or was exploring more than 70 hydropower projects, 15 of which were operational or under construction.[3]

Laos' dreams of becoming an 'electricity hub' for its more advanced neighbours has already destroyed fragile eco-systems and traditional food sources, especially local fisheries that are the main source of protein for local populations. Thousands of families have been forcibly relocated from dam sites without adequate compensation and arrangements for alternative livelihoods.

The Lao hydropower development plan includes nine dams on the lower Mekong mainstream, of which the 1,285 megawatt Xayaburi dam is the first. The project is being built by Ch. Karnchang, one of Thailand's largest construction companies and financed by six Thai commercial banks.[4]

The Xayaburi dam will destroy important fish habitats, block critical fish migration routes for up to 100 species, including the Mekong Giant Catfish, and block the flow of sediments and nutrients, affecting agriculture as far downstream as the Mekong Delta in Vietnam. Thousands of people in the country will be negatively affected through relocation and/or destruction of riverbank agriculture and livelihoods.[5]

Equally controversial is the Don Sahong Dam located in Southern Laos, which is jointly developed by the Malaysian company Mega First Corporation Berhad (MFCB) and the Government of Laos. The dam will block the main channel for fish migrating

[1] http://www.investlaos.gov.la/index.php/why-laos
[2] http://www.investlaos.gov.la
[3] http://www.poweringprogress.org/new/power-projects
[4] https://www.internationalrivers.org/campaigns/xayaburi-dam
[5] https://www.internationalrivers.org/campaigns/xayaburi-dam

between Cambodia, Laos, and Thailand, and threaten vital subsistence and commercial fisheries in the Lower Mekong Basin.[6]

Agricultural investments include banana, rubber, and eucalyptus plantations, and subcontracting arrangements, mainly in corn and cassava. Precise data for such investments are difficult to come by since many investors make deals directly with provincial and district authorities, bypassing even the meager national regulatory system.

There are currently 10 operational SEZs in the country, with areas ranging from 100 to 5,000 hectares and land lease agreements from 50-99 years. Projects in the SEZs include financial services, restaurants and bars, luxury hotels and residences, recreation facilities, conference centres, casinos, entertainment zones, agricultural and manufacturing industries, warehouses, etc.[7]

Laos receives support from the World Bank, Asian Development Bank, UN agencies and bilateral donors to establish FDI and business-friendly polices and regulations, which they and the Lao government claim will bring in the infrastructure, technical capacity, jobs, and revenue needed for poverty reduction.

In reality however, Laos has become a supplier of natural resources (timber, agricultural lands, minerals, energy), agricultural commodities (cassava, corn, banana, sugarcane, soybean, tea, vegetables) and industrial tree crops (rubber, teak, eucalyptus and acacia) to largely foreign and few domestic investors.[8] As the country's natural wealth is drained, benefits to local populations—especially in rural areas—are hard to find.

Long-term land leases to investors—whether for plantations, tourism, real estate or SEZs—have resulted in landlessness, unemployment and food insecurity. Agricultural lands and water sources have become dangerously polluted by overuse of hazardous chemicals. Local people working in or living around plantations show symptoms of poisoning due to chemical fertilizers, pesticides and herbicides. Plantation workers receive low wages and are often not paid for several months.

While wealth has increased in the capital and other large towns, much of rural Laos remains impoverished with little access to even basic health and education services. More and more rural people are migrating to urban areas inside the country and to Thailand, where they work poorly paid and precarious jobs.

The gold rush of investment capital pouring into the country has entrenched corruption from national to local levels. The gaps between policies, law, and practice are huge, in large part because of investment agreements being signed at many different levels. Much of the expected investment revenue is lost under the table. Little makes it to public coffers for building robust public investment in essential infrastructure and services.

---

[6] https://www.internationalrivers.org/campaigns/don-sahong-dam
[7] http://www.investlaos.gov.la/index.php/special-economic-zone-sez
[8] http://www.laolandissues.org/wp-content/uploads/2011/12/GTZ-FDI-2010.pdf