

Agribusiness investments in Lao PDR: Opportunities and challenges for poverty reduction

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Executive Summary

Foreign investors from Asia, Europe, the Middle East and the Americas have been travelling the globe in search of agricultural land and commodities to feed their populations and as inputs into domestic processing industries. The Lao People's Democratic Republic (Lao PDR) is no exception to this trend. These developments could bring important social and economic benefits for Lao PDR and its farming communities in terms of revenue generation, job creation, income diversification and increased agricultural productivity. At the same time, the expansion of foreign-invested commercial agriculture bears many risks for local communities, small-scale farmers and the environment.

This study gathers information regarding the extent of agribusiness investments in Lao PDR (with a focus on investments from China, Thailand and Vietnam), what is driving these investments both from the Lao and the investors' perspectives and how the foreign investments have benefited or undermined poverty alleviation in Lao PDR. The results of the study—along with findings from other country studies in the Mekong region, including Cambodia, Vietnam, Thailand and Myanmar—will be used principally to inform strategy development within Oxfam Hong

Kong. The study is based on an extensive literature review, complemented by key informant interviews and case studies.

Lao PDR has made significant progress in reducing the poverty rate which fell from 39% in 1998 to 34% in 2003 and to 28% in 2008. The country, however, trails behind its regional neighbours in achieving the Millennium Development Goals. While the agriculture and forestry sector continues to play an important role in rural and national economic development, the government has found that the overall contribution of the sector to national poverty reduction is relatively modest and below its potential. The sector contributes 35% to GDP (in 2008) and employs around 85% of the Lao workforce, mainly for subsistence cultivation of rice. Various policies have been adopted to promote commercialisation and industrialisation of the sector.

Foreign investors primarily from China, Thailand and Vietnam are investing in industrial tree and perennial crops through concession and contract farming.

The principle modes for foreign investors to make investments in Lao PDR are joint ventures and wholly foreign owned enterprises. In the agribusinesses sector, foreign investors mainly operate concessions or enter into contract farming arrangements. Concessions have expanded rapidly since the early 2000s, in particular in the central and southern parts of Lao PDR. The majority of contract farming ventures are thought to be informal, involving farmers and small traders. More formal arrangements are also becoming widespread, as Lao producers are increasingly integrating with regional and global supply chains, notably with China, Vietnam and Thailand. Farmers commonly provide land (and sometimes labour under the ‘2+3’ model) and the investor provides seedlings, fertilizer and equipment as a loan (and sometimes wages under the ‘1+4’ model) .

A variety of crops are being cultivated on concession land and through contract farming:

- Industrial **tree crops**, in particular **rubber**, but also teak, eucalyptus and agar wood, are among the most popular. In 2008, the total area under rubber was estimated to be around 140,000 ha throughout the country. The main investors are Chinese (through contract farming in the North) and Vietnamese (through concession farming in Cham-passak, Saravan and Attapeu Provinces) .

- **Sugarcane** is another important cash crop being grown both on concession land and through contract farming arrangements. Between 1995 and 2005, sugarcane areas expanded from 62,330 ha to almost 200,000 ha. Chinese investors source sugarcane through contract farming in the North while Thai investors are undertaking large-scale sugarcane concession and contract farming in Savannakhet Province.

- Recently, **maize** has emerged as an increasingly important crop. The area under maize is estimated to have expanded almost threefold within a decade from 23,000 hectares in 1995 to more than 66,000 hectares in 2005, in particular in the North where Thailand has been one of the main drivers.

- Foreign investors, including from China, Thailand, Vietnam, Korea, Italy, France and Japan have also expressed interest in **jatropha** cultivation on concession land or through contract farming. Overall, the area of land allocated to jatropha cultivation has been estimated at around 26,000 ha in 2009, most of which is thought to be immature or not productive.

- Another increasingly important crop is **cassava**, which was initially grown for human consumption and animal feed, but now is mainly grown for the export market, notably China, Vietnam and Thailand.

- A range of **other crops** are also being grown under contract farming, including tea, soybeans, coffee, rice and horticulture crops, through their extent appears comparatively limited.

Agribusiness expansion is mainly driven by investor interests and market demands, supported by Lao government policies and farmers' initiatives.

Market demand from neighbouring countries remains the main driver of agricultural commercialisation and investment growth in Lao PDR. High prices for natural rubber, for instance, coupled with high prices of possible alternatives such as synthetic rubber, are stimulating rubber expansion around the world. Demand for maize, cassava and sugarcane is also strong in Lao PDR's neighbouring countries. In some cases, government policies in the investor countries has also helped to promote overseas investments and stimulate domestic demand, such as Chinese subsidies for rubber cultivation overseas or domestic biofuel promotion in Thailand, Vietnam and China.

In addition, policies and interests of the Lao government, provincial authorities and the farmers themselves are also driving agribusinesses expansion. Since the adoption of the New Economic Mechanism in 1986, the Lao government has set out to commercialise the primarily subsistence agriculture sector as part of its broader development strategies. In addition, the government has adopted a number of policies targeted specifically at the agricultural sector and/or rural areas that favour a move towards greater commercialisation. Agricultural development policies have also been adopted by provincial and district authorities in an effort to attract revenue and promote regional development.

A diverse range of state actors are involved in agribusiness development in Lao PDR at national, provincial and village levels.

At the Lao government level, policy—and decision—making is divided between different ministries and between different levels (national,

provincial, district) . Among them, the **National Land Management Authority** is increasingly playing a key role in heightening awareness of land-related issues and partnering with NGOs and bilateral donors to carry out research, prepare data and mapping and to analyse the overall agribusiness situation in the country. The government is planning to combine parts of the NLMA with the Water Resources and Environment Administration into a new ministry focused on natural resources and environment, which would likely increase the profile of agribusiness-related issues.

In addition, the **National Assembly**, Lao PDR's parliamentary body, is an up and coming powerful entity. In recent years, the NA has raised significant concerns about land issues and queried government officials about the status and impacts. They have widely used the media and charismatic NA members to broaden awareness of their concerns. The National Assembly has also put pressure on the NLMA to address land issues, revise the 2003 Land Law and adopt a new land policy.

Much of the power in approving land concessions lies with the **provincial and district authorities**. Following the Lao government's policy on decentralization and deconcentration, foreign investment regulations assign powers to the provinces to authorise foreign investments in certain sectors provided that certain financial ceilings are observed. As a result, concessions are typically granted by provincial authorities with little involvement and monitoring at the Central Government level.

The **Lao Military** is another important stakeholder in approving land concession deals in the provinces. **Village heads** also play a role in decision-making. Some village headmen, for example, have reportedly been bribed by rubber companies to sign off on land deals that are not in the best interests of their communities.

While some farmers have benefited from agribusiness expansion, the poor are more likely to be negatively affected.

Agribusiness investments have provided direct employment and income opportunities for some farmers in Lao PDR. Contract farming can provide reliable markets and stable income through guaranteed prices for agricultural commodities, thus reducing market risks for the farmers. Agribusiness investments have also created employment on the concession plantations which often exceeds labour supply. In contrast, jobs in the processing facilities are mainly filled by foreign nationals due to a lack of required skills among local workers. Anecdotal evidence also points to indirect benefits, such as the growth of supporting businesses or increased agricultural productivity through access to seeds and infrastructure improvements, but the extent of these benefits is unclear.

However, not all have benefited equally. Poor villagers are often not able to benefit from contract farming arrangements due to the quality, size and location of their land (if they own any at all). They also tend to be more affected by loss of access to communal land and the food, feed and firewood it provides. In addition, poor farmers often lack the legal knowledge to understand the implications of the contracts they are signing or the market information to judge whether the prices offered are fair. In most cases, neither the investor nor the farmers have many possibilities to enforce their legal right. The jobs on the concessions tend to be insecure and badly paid. Conversion of subsistence agriculture to cash-cropping has also brought negative environmental impacts such as biodiversity loss and pollution, and is changing social structures in local communities. While the investments have provided government income, revenue generation remains below the potential due to low fee rates, tax exemptions and failure to collect fees and taxes.

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Note

\$ refer to US\$

\$1 = 8,000 kip

\$1 = 30 THB

1 Introduction

Foreign investors from Asia, Europe, the Middle East and the Americas have been travelling the globe in search of agricultural land and commodities to feed their populations and as inputs into domestic processing industries. The Lao People's Democratic Republic (Lao PDR) is no exception to this trend. In particular investors from Lao PDR's Asian neighbours are increasingly procuring agricultural concessions or entering into contractual arrangements with local farmers. The Lao government has welcomed these investments as part of its efforts to intensify agricultural production and expand commercial farming since the 1980s.

These developments could bring important social and economic benefits for Lao PDR and its farming communities in terms of revenue generation, job creation, income diversification and increased agricultural productivity. At the same time, the expansion of foreign-invested commercial agriculture bears many risks for local communities, small-scale farmers and the environment, such as loss of access to land, forests and water through the expansion of plantations or speculative land grabbing. Many of those that are engaging in market-orientated

production are also being exposed to increased input costs and volatile farm –gate prices, leading to increased indebtedness, increased risk due to reduced diversification and declining soil fertility due to mono –cropping.

Some work is now being done to reduce the costs and maximize the benefits of rapid agro –industrialisation for small farmers. This includes a growing albeit still limited body of research on agribusiness expansion in the region. Another stream of work focuses on strengthening customary rights to land and natural resources, community mobilization to defend those rights, the promotion of alternative/integrated agriculture focused on household food security and food sovereignty, critiques of a –gro –industrialisation. Yet another stream focuses on improving contract farming, facilitating access to markets, value chain interventions, trade and investment liberalisation etc. There is often little cross over between these groups. Moreover, work on the policy level is very limited, particularly compared with work in sectors such as extractives and hydropower.

Given this, there is both a need and an opportunity for Oxfam Hong Kong (OHK) to support work in this sector. In order to do this, OHK needs to develop a better understanding of the nature, scope, drivers, modalities and impacts of agro –industrialisation in the Mekong sub –region. In addition, OHK needs to have a better understanding of what is already being done by others to minimise the costs and maximize the benefits of agro –industrialisation, the strengths and weaknesses of this work and the potential added value for Oxfam Hong Kong.

To this end, this study gathers information regarding the extent of agribusiness investments in Lao PDR (with a focus on investments from China, Thailand and Vietnam) , what is driving these investments both from the Lao and the investors' perspectives and how the foreign investments have benefited or undermined poverty alleviation in Lao PDR. The results of the study – along with findings from other country studies in

the Mekong region, including Cambodia, Vietnam, Thailand and Myanmar – will be used principally to inform strategy development within OHK. Specifically, the study aims to

- Inform decision making by OHK on how best to address the impact of agribusiness expansion in Laos.
- Inform decision making by OHK on whether to target Chinese agribusiness companies as part of our strategy for addressing the impact of agribusiness expansion in Laos and if so how this will be done.
- Provide an overview and critical analysis of agribusiness expansion and related responses in Laos that may be of value to various stakeholders engaged in work on agro-industrialisation in Laos and in the region.

In terms of methodology, the study is in part based on a thorough review of available literature. In addition, existing analyses were complemented with information obtained through interviews with policy makers, business people, representatives from international organisations and civil society in Lao PDR. In addition, a series of case studies¹ was undertaken, focusing on the impacts of Asian agribusiness investment projects on poverty in certain areas, including:

- Thai Mitr Phol concession and contract farming in Savannakhet Province
- Asian agribusiness investments in Saravan Province
- Vietnamese rubber investments in Attapeu and Champassak Provinces
- Thai and Chinese maize contract farming in Bokeo and Sayaboury Provinces
- Chinese investments in sugarcane planting in Phongsaly Province

¹ The first four case studies were undertaken by the Lao National Economic Research Institute (NER-I), under the Ministry of Planning and Investment. The final case study was carried out by the Comité de Coopération avec le Laos (CCL), an OHK partner.

(See Figure 1 for a map of Lao provinces.)

Figure 1: Map of Lao provinces



Source: Adapted from Wikipedia



2 Lao PDR's development context

Lao PDR is a landlocked country in Southeast Asia with a population of approximately 6.6 million. The country aims to become 'landlinked' as it is bordered by Myanmar to the northeast, Vietnam to the east, Cambodia to the south, Thailand to the west and Yunnan Province of the People's Republic of China to the northwest. Lao PDR became a communist state in 1975, and in the same year the government embraced a Soviet-style command economy system that replaced private enterprise with state enterprise and cooperatives. In 1986, following realisation that a command style economy was hampering growth and development, the Government Lao PDR (GOL) initiated an open door policy and all-round economic reforms. These were consecrated in the 1991 constitution, which proclaimed adoption of the New Economic Mechanism, decentralising economic control and promoting the development of private enterprise.

Lao PDR's 7th *National Growth and Poverty Eradication Strategy and the National Socio-Economic Development Plan (NSEDP) 2011–2015* is the government's main planning tool and was recently approved by the National Assembly. The GOL expects to build on existing achievements and take the country a step further on the path of holistic and sustain-

able development. The mobilisation of domestic and international financial support is seen as essential to ensure success in implementing the 7th NSEDP. The GOL is expected to reach its goals and objectives due to a number of significant achievements, including robust economic growth, progress in public financial management, reduction in poverty and progress in achieving other Millennium Development Goal (MDG) targets, improvement in social standards, expansion of socio-economic infrastructure, development of the institutional and legal framework and important milestones in sectoral management.²

Lao PDR has made significant progress in reducing the poverty rate which fell from 39% in 1998 to 34% in 2003 and to 28% in 2008.³ The severity of poverty has also been declining, although less so in rural than in urban areas. Poverty reduction, however, has been slower than in most of the neighbouring countries and Lao PDR remains one of the poorest countries in Southeast Asia. Poverty in rural areas is almost twice that in urban areas (32% compared to 17%, see Figure 2). Poverty remains highest in the upland areas where remote villages located far from markets and infrastructure are lagging particularly far behind.

Lao PDR also trails behind its regional neighbours in achieving the MDGs.⁴ Close to 40% of Lao children were moderately or severely underweight in 2006. Many of the poor regions are also characterised by limited access to clean water and sanitation and low literacy levels. The majority of the population, in particular in areas where poverty is high, continues to rely on agriculture as the main source of food and income. This highlights the potential of much-needed investments in rural areas

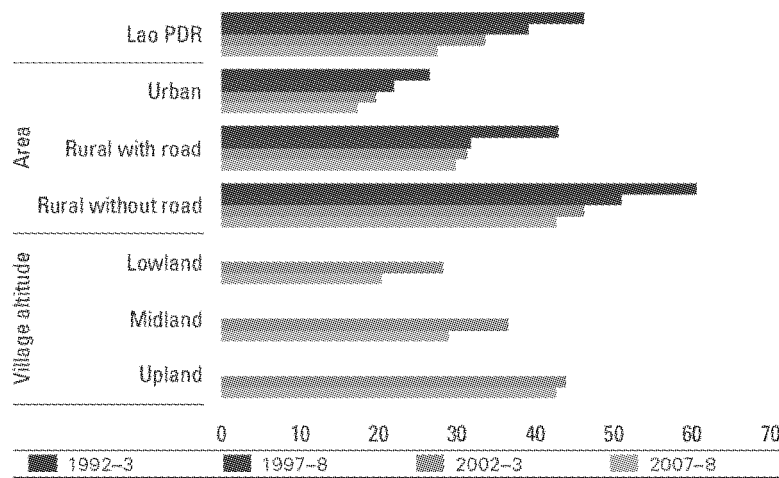
2 MPI (2009a)

3 World Bank (2011). These figures refer to people living below the national poverty line which is defined as consumption of less than 2,100 calories per person per day. People living below the international poverty line of \$1.25 fell from 57% to 37% during that period. (Engvall et al., 2010)

4 World Bank (2011)

to help improve agricultural productivity and diversify income opportunities, but also the vulnerability of agriculture-dependent communities to changes in production patterns and land distribution that are bound to result from increased agribusiness investment.

Figure 2: Percentage of population below the National Poverty Line



Source: Engvall et al. (2010) , reproduced in World Bank (2011)

While the agriculture and forestry sector continues to play an important role in rural and national economic development, the GOL has found that the overall contribution of the sector to national poverty reduction is relatively modest and below its potential. Of the total land area, around 2% (or 520,000 ha) were used for swidden agriculture in 2005 and around 5% (or 1.2 million ha) for permanent agriculture (see Table 1) . The South tends to receive most rainfall (around 3,000 mm a year) compared to 1,000–1,500 mm in the Northern provinces.⁵ The agriculture sector contributes 35% to GDP (in 2008) and employs around 85% of the Lao workforce, mainly for subsistence cultivation of rice which accounts for around two thirds of cultivated area.⁶ Input use and yields are very low by national standards. Irrigation is also limited at just 1% of land area. The irrigated areas on the floodplains of the

⁵ Schönweger and Üllenberg (2009)

⁶ MAF (2006)

Mekong and its tributaries generate much of Lao PDR's marketable surplus of rice and other crops.

Table 1 : Land area and uses in Lao PDR (2005)

Type of Land	%	in million ha
Country area	100	23.680
Land area	97	23.080
Swidden agricultural fields and upland rice	2	0.520
Permanent agriculture	5	1.184
Grassland	2	0.568
Forest area	41	9.827
Unstocked Forests	42	9.946
Land equipped for irrigation	1	0.300

Source: MAF 2005 (in Schönweger and Üllenberg, 2009)

The overall strategic direction for the sector is to “ensure a successful gradual transition from subsistence into commercial smallholder production” .⁷ The GOL aims to achieve this through applying innovative technologies and science-based practices for systematic and continuous production of high-value agri-food products for local value-added agro-processing for domestic, regional and global markets. Further details on policies and strategies, including the promotion of foreign agribusinesses, is provided in Section 4.2.

⁷ Douangsavanh (2010)



3 Overview of foreign agribusiness investments in Lao PDR

The assessment of agribusiness investments in Lao PDR is marred by substantial data challenges. Table 2 present data from the top ten countries investing in Lao PDR from 2001 to March 2010. This data shows that Thailand, Vietnam and China are consistently the top three investors. Table 3 shows investment from 2009 and 2010 by sector with mining, manufactory and hydropower generation on top. There is no comprehensive and reliable data on existing land uses, including the extent of land concessions and contract farming. In particular information on land concessions granted at the provincial level are often not recorded – in part due to time and technical capacity constraints among local officials – or transmitted to the national level. Villagers may also underreport their plantations for fear of tax increases. ⁸ The Lao National Land Management Authority (NLMA) , with the assistance of the German GIZ ⁹, is in the process of establishing an inventory of land concessions. ¹⁰ A summary of the available information presented in this section is provided in Table 4.

⁸ Shi (2008)

⁹ Gesellschaft für Internationale Zusammenarbeit, formerly GTZ.

¹⁰ At the time of writing, only the list of concessions in Vientiane Province was publicly available. Additional information on concessions throughout the country has already been gathered by NLMA, but has not yet been published or translated into English.

Table 2: Top Ten FDI Countries in Lao PDR (2001 – March 2010)

Year	2001	2002	2003	2004	2005	2006
Thailand	3.3	6.3	96.44	57.22	450.9	655.2
China	13.41	62.58	119.85	28.19	58.12	423.23
Vietnam	3.41	6.87	8.66	63.27	43.26	261.17
France	12.60	13.36	17.61	2.52	370.25	12.14
Korea	10.37	12.79	13.74	14.20	10.21	163.74
Japan	0.50	0.38	3.34	4.52	4.40	401.50
India		0.13	0.20			350.00
Australia	0.40	0.49	1.50	292.70	21.28	1.39
Malaysia	1.50	4.85	70.77	3.25	3.37	3.15
Singapore	0.25	0.70	36.15	3.17	1.20	43.46
Year	2007	2008	2009	2010		TOTAL
Thailand	92.72	375.19	908.64	3.73		2.6*
China	496.05	107.24	932.89	344.02		2.5*
Vietnam	155.91	149.42	1.4*	49.90		2.1*
France	13.14	0.50	11.73	0.21		454.08
Korea	82.15	59.88	74.87	3.35		445.33
Japan	6.11	0.84	3.73	8.10		433.44
India			2.47			352.80
Australia	13.62	1.90	0.66	0.50		334.45
Malaysia	53.21	0.13	10.92	0.15		151.32
Singapore	15.90	1.40	5.68	5.30		113.24

Values in US \$ million, TOTAL values in US \$ billions

Source: National Economic Research Institute (2010a)

Table 3: Value of Investment by Sector in Lao PDR in 2009 and 2010 (Millions)

Sectors	Total Value (2009 – Jan – Dec) (millions)	Total Value (2010 – Jan – Dec) (millions)
Electricity Generation	218.26	
Agriculture	89.83	1.50
Mining	2.2*	154.74
Manufacturing	198.72	219.04
Services	1.0*	4.75
Trading	16.63	11.03
Construction	27.19	4.75
Hotel & Restaurant	44.22	1.10

Wood Industry	13.63	
Banking	77.00	
Telecom	83.77	
Garment	1.20	
Consultancies	6.89	2.4
TOTAL	4.3 *	429.39

* Billions

Source: National Economic Research Institute (2009b; 2010b)

Table 4: Summary of available information on key agribusiness crops in Lao PDR

	Extent	Location	Main foreign investors
Rubber	140,000 ha(2008)	54% in the Northern provinces 18% in the Central provinces 28% in the Southern provinces	<ul style="list-style-type: none"> China (mainly contract farming in the North) Vietnam (mainly concessions incl. in Champassak, Saravan and Attapeu Provinces)
Sugarcane	200,000 ha (2005) (further expansion since then, but extent not known)	Nothern Uplands, Centre	<ul style="list-style-type: none"> China (mainly contract farming, incl. in Phongsaly, Luang Namtha and Oudomxay Provinces) Thailand (mainly concessions and contract farming in Savannakhet Province)
Maize	66,000 ha (2005) (further expansion since then, but extent not known)	75% in the Northern Uplands	<ul style="list-style-type: none"> Thailand (mainly contract farming), also China and Vietnam
Cassava	Not known	Contract farming, small concessions	<ul style="list-style-type: none"> China (mainly contract farming, incl. in Luang Namtha and Oudomxay Provinces), also Thailand and Vietnam
Jatropha	26,000 ha (2009) land allocated, but limited production	Not known	<ul style="list-style-type: none"> Mainly Asian investors, incl. China, Malaysia and Korea

Note: Sources are provided in Section 3.

3.1 Modes of operation

The principle modes for foreign investors to make investments in Lao PDR are joint ventures (JV) and wholly foreign owned enterprises.¹¹ The foreign investor can enter into JV agreements with a private domestic investor or a public-sector entity. A minimum contribution of 30% of registered capital (i.e. stated share capital) to the enterprise is required. A wholly-foreign owned enterprise can include a sole trader enterprise, a sole limited company, a limited company, an ordinary partnership or a limited partnership. Business cooperation by contract is also possible, but rarely used because such arrangements do not qualify for tax incentives and cannot be used for concession-related investments.

In the agribusinesses sector, foreign investors mainly operate concessions or enter into contract farming arrangements. Concessions tend to be favoured by investors because they allow for greater control of the cultivation process. Existing analyses at provincial and local levels provide an indication of the rapid expansion of agricultural concessions since the 2000s (as elaborated below). Extrapolating from an initial survey of concessions in Vientiane and Luang Namtha Provinces, a GIZ study estimates that 2–3 million ha, or 10%–15% of Lao territory, are already under concessions (including active and pending investment projects in the areas of mining, hydropower and agriculture).¹²

Preliminary data for Vientiane and Luang Namtha Provinces shows that concessions are the dominant form of investments in the two provinces, both in terms of number of projects and surface area (Table 5). A breakdown of land uses for foreign-invested concessions in Vientiane Province shows that almost 9% of land concessions (or 26,000 ha) are used for agriculture or forestry, while the vast majority of con-

¹¹ See DFDL Mekong (2010) for further details.

¹² Schönweger and Ülkenberg (2009)

cession area is allocated to mining. In Luang Namtha, contract farming is more widespread, accounting for around half of all land investment projects in the province, though covering around a fifth of the area.

Concessions tend to be more common in the central and southern parts of Lao PDR, including large-scale Vietnamese rubber and Thai sugarcane plantations (see Section 3.3). The South tends to be more suitable for large-scale agriculture due to better infrastructure and more suitable terrain. In contrast, contract farming dominates in the hillier North (although concessions also exist in the region while contract farming is also found further South). In part this development is a conscious choice by provincial authorities; in 2005, the three Northern provinces Luang Namtha, Bokeo and Oudomxay agreed not to grant land conces-

Table 5: Land-related projects in Vientiane and Luang Namtha Provinces (2009)

	Vientiane Province (total surface 1,852,600 ha)		Luang Namtha (total surface 961,200 ha)	
	Number of projects	Surface (ha)	Number of projects	Surface (ha)
Total	237	391,709	107	25,366
Concessions	198	390,374	23	19,291
Lease	34	177	61	126
Contract Farming	5	546	23	5,949
Sector				
Agriculture	114	62,551	43	18,140
Rubber	46	25,104	36	18,110
Mining	55	4326,944	5	5,502
Industry	30	714	12	48
Investors are	1. Lao (149)		1. Lao (58)	
	2. Chinese (25)		2. Chinese (45)	
	3. S-Korean (24)		3. Thai (1)	

Source: Schönweger and Üllenberg (2009)

sions to rubber investors.¹³ In addition, smallholder agriculture was already widespread in the region by the time most of the investors came, including to grow rubber for Chinese buyers, which could then be engaged in contract farming.¹⁴

The majority of contract farming ventures are thought to be informal, involving farmers and small traders¹⁵. In Champassak Province, for instance, much of the contract farming with Thai buyers conducted through ‘gentlemen’s agreements’ that are based on trust rather than written contracts with producers.¹⁶ Such agreements have been widely used along the Thai–Lao border for decades and often involve extended families or friends. Informal agreements are also found in the North between Chinese buyers and Lao rubber producers, including through long established business networks between the Han and Chinese ethnic groups and their Lao counterparts.¹⁷

More formal arrangements are also becoming increasingly widespread—a trend that is expected to continue, in particular where Lao producers are integrating with regional and global supply chains that require regular monitoring and quality control.¹⁸ The most common contract farming arrangement (at least on paper) that is also officially favoured by the Lao government is the ‘2+3’ model where farmers provide land and labour and the investor provides seedlings, fertilizer and equipment as a loan. Future profits are usually divided 70:30 or 80:20 (farmer/investor) although incidences where farmers were allowed to keep only 50% of the income have also been reported.¹⁹

13 Shi (2008) . Despite this agreement Chinese investors nevertheless manage to procure concessions (see Section 2.3) .

14 Shi (2008)

15 Setboonsarng et al. (2008)

16 Zola (2009)

17 Shi (2008)

18 Zola (2009)

19 Fullbrook (2007)

The contractual arrangements are often made between provincial or district authorities and private firms entailing the production of a certain commodity on a certain number of hectares in a certain area (e.g. district).²⁰ Local authorities facilitate the participation of smallholder producers in the schemes in different ways that range from incentives to compulsory participation by setting production targets. The Chinese Chi-angsen sugar company, for instance, began sourcing sugarcane from Nhotou District under a contract with the district authorities in 1996.²¹ Payments were initially made to the district office to hand out to the farmers, but the company has been paying the farmers directly for the past five years ago. Farmers are given the inputs needed for growing the sugarcane (fertiliser and pesticides), the cost of which is deducted from the sale of the sugarcane at market price rate (without additional interest).

Rubber contracts in Luang Namtha are usually signed for 30–35 years with the option of renewal.²² Arrangements between Chinese companies and local government in Luang Namtha and Oudomxay also included negotiated benefit sharing on plantations, with collected rubber being split between enterprise and smallholder by 50:50, 60:40 or 70:30, etc.²³ In Savannakhet Province, at the Mitr Lao Sugar Factory, the 2+3 model is also used.²⁴

In practice, contracts tend to change to the ‘1+4’ model where the farmer only provides the land and is paid for the labour, as highlighted in a survey of rubber smallholders in Luang Namtha.²⁵ Under this arrangement, farmers retained around 30% of the profit. In some cases, this change is favoured by the farmers themselves, in particular for slow-growing crops such as rubber which takes 7–8 years to mature during which time the farmers prefer to receive a stable wage. Investors

20 World Bank (2008)

21 CCL (2011)

22 Shi (2008)

23 World Bank (2008)

24 NERI (2011a)

25 Shi (2008)

also choose this model for the greater control over the plantation and higher returns (compared to the relatively small wages that are paid) .

3.2 Crops

A variety of crops are being planted on concession land and through contract farming. Industrial tree crops, in particular **rubber**, but also **teak**, **eucalyptus** and **agarwood**, are among the most popular. In 2008, the total area under rubber was estimated to be around 140,000

Table 6: Current and planned rubber plantations in Lao PDR

	Rubber planted 2007 (ha)	Rubber planted 2008 (ha)	Planned for 2010 (ha)
Northern	16,555	75,900	166,500
Phongsaly	15	12,600	26,400
Luang Namtha	8,770	21,700	20,000
Bokeo	700	9,800	25,000
Sayaboury	70	5,200	50,000
Oudomxay	4,500	17,100	21,00
Luang Prabang	2,500	9,500	22,000
Houaphan	0	0	2,100
Central	2,950	25,650	34,360
Vientiane Capital	100	600	0
XiengKhouang	0	50	60
Vientiane	100	9,200	10,000
Borikhamxay	1,000	5,100	4,000
Khammouane	1,500	6,100	6,300
Savannakhet	250	4,600	14,000
Southern	8,700	39,000	48,500
Saravan	1,400	4,700	6,500
Champassak	6,700	20,100	33,500
Sekong	100	6,200	5,000
Attapeu	500	8,000	3,500
Total areas	28,205	140,550	249,360

Source: NAFRI 2009. 2007 numbers from FRC/NAFRI Survey; 2008 data and 2010

ha throughout the country (Table 6). Just over half of rubber area is found in the North. The provinces with the largest areas include Luang Namtha (rubber accounts for half of agricultural land use in the province²⁶), Phongsaly and Oudomxay Provinces in the North and Champassak Province in the South. Around 23% of rubber plantings are estimated to be by smallholder farmers while the rest is made up of contract farming and concessions.²⁷

Sugarcane is another important cash crop being grown both on concession land and through contract farming arrangements. Between 1995 and 2005, sugarcane areas expanded from 62,330 ha to almost 200,000 ha.²⁸ Since then, production has expanded further, in particular due to large-scale sugarcane concessions and contract farming by Thai investors in Savannakhet Province (see Section 3.3). One of the key Chinese companies involved in sugarcane production has been the Mengpeng Sugar Manufacturing Co. Ltd., which operates in northern Lao PDR in collaboration with sugar refiners across the border in southern Xishuangbanna. The company moved its entire sugarcane planting process from Xishuangbanna to Luang Namtha province in 2006, enrolling 1,500 households from 60 villages in Muang Sing District.²⁹

Recently, **maize** has emerged as an increasingly important crop, in particular in the North.³⁰ The area under maize is estimated to have expanded almost threefold within a decade from 23,000 hectares in 1995 to more than 66,000 hectares in 2005. The Northern Uplands accounted for around three quarter of area increase, mainly since 2002. Expansion has accelerated further since 2005, in particular in Sayaboury, Oudomxay and Bokeo provinces. This rapid expansion was mainly driven by demand for food and feed from Thailand, China and Vietnam (see Section 3.3). Information on the business arrangements between Lao maize

26 Schönweger and Ülkenberg (2009)

27 Manivong (2009)

28 World Bank (2008)

29 Diana (2008)

30 World Bank (2008)

producers and foreign buyers is very limited. It appears that maize is mainly grown by independent small farmers and under contract farming arrangements, and less so concessions. The size of the area under the various arrangements is not known.

Foreign investors, including from China, Thailand, Vietnam, Korea, Italy, France and Japan have also expressed interest in jatropha cultivation on concession land or through contract farming. Detailed information is only available for Vientiane Province where jatropha plantations (almost all concessions) are being developed by South Korea (ca. 10,000 ha), Malaysia (1,500 ha) and China (200 ha), although it is unclear how many of these projects are already active.³¹ Overall, the area of land allocated to jatropha cultivation has been estimated at around 26,000 ha in 2009, most of which is thought to be immature or not productive.³² The majority of reported jatropha cultivation was under contract farming and destined for the overseas markets. An unknown, though likely minor area of jatropha was also cultivated by independent smallholders. Other biofuel feedstocks that may be grown in the future include sugarcane and cassava (for bioethanol).

Another increasingly important crop is **cassava** which was initially grown for human consumption and animal feed, but now is mainly grown for the export market.³³ Generally the cassava is planted, sliced and dried in Lao PDR with the dried product exported primarily to China for further processing.

A range of **other crops** are also being grown under contract farming, including tea, soybeans, coffee, rice and horticulture crops. Information on their extent is not available, but it appears that they only play a minor role compared to the other crops.

31 Schönweger and Üllenberg (2009)

32 Gaillard et al. (2010)

33 Diana (2008) in Rutherford, et al. (2008)

3.3 Investor countries

The vast majority of agribusiness investments come from the South-east and East Asian regions. China, Thailand and Vietnam are Lao PDR's top three investors and also the main agribusiness investors due to their vicinity to Lao PDR, historical ties and high demand for agricultural inputs. Other Asian investors include South Korea, Japan, Taiwan and Malaysia. Kuwait also recently began to show interest in land for rice cultivation, but these discussions are still at the investigative stage. Judging from available information, the role of North American and European investors appears to be limited, but a more detailed analysis goes beyond the scope of this study which focuses on investments from China, Thailand and Vietnam (see Box 1 for a comparison of investments from the three countries operating in Saravan Province) .

China

Chinese investors are most prominently involved in **rubber** plantations in the North. Most of the rubber is sourced through contracts between large formal or smaller informal investors and local farmers under '2+3' (or in practice '1+4') models. Chinese companies are also holding a limited number of concessions, such as 166,667 ha allocated to Yunnan Rubber under a national contract signed by the Prime Minister for rubber development in Luang Namtha, Bokeo, Sayaboury and Oudomxay.³⁴ In addition to sourcing raw materials for direct export, Chinese investors are expected to gradually shift preliminary processing from Xishuangbanna in Southern China to Luang Namtha to avoid expected pollution taxes.³⁵

Moreover, Chinese companies are involved in contract farming of other crops in the northern region, such as **cassava** in Luang Namtha and Oudomxay Provinces. Similar to rubber, cassava is part of China's

34 Shi (2008)

35 Shi (2008)

Going Out Strategy³⁶ and Lao PDR is a target for significant investment to meet China's growing demand. **Sugarcane** is also an important crop for Chinese investors in the north, including in Phongsaly, Luang Namtha and Oudomxay Provinces.³⁷ Other crops include tea, watermelon, green bell peppers, maize, sesame and soybeans.³⁸

Chinese agribusiness investments are also found further South. In Vientiane Province, Chinese companies have procured concessions for rubber (4,700 ha) and small areas for jatropha, agar wood, corn and green beans.³⁹

In Saravan Province, China is the largest agribusiness investor, accounting for 38% of foreign agricultural investments in 2004–2009.⁴⁰ The Chinese company Golden Van Enterprise has reportedly entered into a concession contract with the Lao national government for 50,000 ha in the eastern districts of the province to plant industrial trees including eucalyptus and acacia. However, to date only 252 ha have in fact been officially conceded so far while 31,543 ha are being surveyed.⁴¹

Thailand

The Thai **Mitr Phol Group** is the most prominent Thai agribusiness investor in Lao PDR. The company began operating in the country in 2005.⁴² Since then, the company procured 40-year concession rights for 10,000 ha in Sayaboury (8,014 ha), Champhone (1,100 ha) and Outumphone (912 ha) districts in Savannakhet Province primarily for sugarcane production. Of that area, 7,790 ha are being cultivated, either by

36 Setboonsarng et al. (2008) ; CCL (2011)

37 Setboonsarng et al. (2008) ; Zola (2007)

38 Schönweger and Üllenberg (2009)

39 NERI (2011c)

40 NERI (2011c)

41 NERI (2011c)

42 According to the factory management, the remaining 2,210 ha are not useable for sugarcane plantation

the company itself (5,256 ha) or through contract farming (2,534 ha).⁴³ Around 1,200 households are engaged in contract farming. The company has requested additional concession land of 11,700 ha, most of which would be located in Outumphone district.

Mitr Phol set up the Mitr Lao Sugar Factory which produces both refined sugar (for sale in Lao PDR) and semi-processed⁴⁴ sugar for export to Thailand and then the EU. In 2009/2010, the company sourced around 366,000 tonnes of sugarcane (up from 221,000 tons in 2008/2009) to produce 37,000 tonnes of semi-processed and 1,500 tonnes of refined sugar.

Under the contract farming arrangement with Mitr Lao Sugar Factory, the cost of preparing the sugarcane field is covered initially by the company. To this end, the factory hires Vietnamese and Thai companies that bring heavy machinery and are paid to clear and prepare the land and to plant and fertilize the first sugarcane crop. The one-off cost of the land preparation is then paid back by the farmer over a 2–3 year period. According to a survey of farmers from Kachu village taking part in sugarcane contract farming, the total cost is estimated to amount to

Table 7: Cost of sugar plantation in Savannakhet province

Item	Cost (\$)	Share (%)
Land clearance	1,100	45
Land preparation	233	10
Planting	150	6
Sugarcane seed	385	16
Fertiliser (12 packs)	495	20
Labour cost	100	4
Total cost	2,463	100

Source: Estimated by NERI using data from field survey. Data for 2009.

43 Semi-processed sugar only requires limited further processing in Thailand, i.e. washing and packing, before being exported to the EU.

44 Bangkok Post (2006)

19.7 million kip or \$2,463 per ha (Table 7). The farmer can also participate in the preparatory process for a daily wage of 20,000 kip or \$2.5. After harvesting, the revenue from selling the sugarcane will first be used to pay off the debt and the rest is paid out to the farmer.

Another Thai company involved in sugarcane farming is the **Khon Kaen Sugar Industry Public Company Limited** (KSL) which reportedly signed a joint venture agreement with Ban Pong Intertrade Ltd (BPI) and the Government of Lao PDR in 2006 to establish a 10,000 ha sugarcane plantation and sugar mill in Savannakhet Province.⁴⁵ To this end, the partners set up the Savannakhet Sugar Corporation (SSC) to execute the project. Commercial sugar production began in 2010 with an estimated maximum capacity for cane crushing of 3,000 tonnes of cane per day.⁴⁶ Raw sugar is exported to the European Union. In 2010 KSL's actual overall volume of sugarcane was lower than expected. Sugarcane plantations and sugar mills in Lao PDR (and Cambodia) contributed to this increased loss due to the projects being in the early stages of their investment period.⁴⁷ As of 31 October 2010, KSL paid-up capital of THB 685million (ca. \$23 million) for SSC which totals 98.5% of the investment.⁴⁷

Thailand is the third largest agricultural investor in Saravan Province (Table 8).⁴⁸ Most of these investments are located in flatland areas in the central and western parts of the province. Crops include rubber, eucalyptus, acacia, cassava and maize. Most of the Thai investments are concessions. An exception is the Chanachai Company, which in addition to a 100 ha concession, engages in contract farming on over 1,000 ha, buying over 6,000 tonnes from its contractors for export to Thailand and selling domestically. The company provides credit for buying seedling, fertilizer and insecticides and gives minimum price guarantee for contracted villagers.

45 Bangkok Post (2006)

46 KSL (2011)

47 KSL (2011)

48 NERI (2011c)

Table 8 : Examples of Thai agribusiness investments in Saravan Province

Project	Concession contract (ha)	Actual concession (ha)	Being surveyed (ha)
Lao – Thai Hau rubber plantation company	8,000	100	8,660
Sayo AA company	NA	100	133
Asia – Pacific eucalyptus plantation company	10,000	100	9,675
Cassava plantation project (Asian agro – corporation)	1,000	100	2,167

Source: Saravan Provincial Department for Planning and Investment, cited in NERI (2011c)

In addition, Thailand has been one of the main drivers behind the rapid growth in maize production in the North, in particular in Bokeo Province, but also Oudomxay and Sayaboury Provinces.⁴⁹ Improvements in road infrastructure (Route No. 3) between Bokeo Province and the Thai border have greatly facilitated trade and investment. The maize is procured by traders directly from farmers or through contract farming with Thai investors. Bokeo farmers also supply Thai investors with horticulture products through contract farming. Oudomxay farmers are exporting substantial amounts of cassava to Thailand and farmers from Luang Namtha sell sugarcane to Thai processors across the border.

Farmers are also able to sell to processing companies being set up by Thai investors in the Northern region, such as the livestock feed mill at ThaNgong District (Oudomxay Province)⁵⁰ or a maize drying factory in Sayaboury Province.⁵¹

Thai companies are also investing in rubber concessions in Vientiane Province, though at a smaller scale than the Chinese (1,890 ha).⁵²

49 World Bank (2008)

50 World Bank (2008)

51 KPL (2010)

52 Schönweger and Ülkenberg (2009)

Vietnam

By 2009, Vietnamese companies were involved in 17 agribusiness investment projects in Lao PDR worth \$157 million.⁵³ Most of these projects are large scale rubber plantations led by DauTiengViet–Laos Rubber Joint Stock Company, DakLak Rubber Company, Viet–Laos Rubber Joint Stock and the HoàngAnhGia Lai (HAGL) Group. In contrast to Chinese investors much of the rubber cultivation is located on concession land.

In 2008, the **Dao Tieng Viet–Laos Rubber Joint Stock Company** set up a 4,000 ha rubber tree plantation in southern Champassak Province.⁵⁴ The company was established in June 2007 by DauTieng Rubber Company, Binh Duong Import–Export Company and Hung Vuong Joint Stock Company. It has a goal of planting 10,000 ha and by late 2007 had planted 2,300 ha already.

The **DakLak Rubber Company** started operating rubber plantations in Lao PDR in 2004 with an investment of \$30 million (later expanded to \$50 million) .⁵⁵ The company's concession area of 10,000 ha is located in Champassak (6,000 ha) and Saravan (4,000 ha) Provinces. Of the area, 9,000 ha has been planted with rubber while the remainder is used for coffee (350 ha) and cashew nuts (650 ha) . In 2011, 500 ha of rubber area will be harvested. The company is also building its first rubber processing factory with capacity of 6,000 tonnes per year which will be finished in 2011. Two additional factories will be built in 2012.

Concessions of the **HAGL Company** – a multinational Vietnamese Corporation with diversified business activities including rubber, mining, hydropower, real estate and sports franchises – are located in Attapeu Province. In 2007 the company was granted a 10,000 ha plot of land for

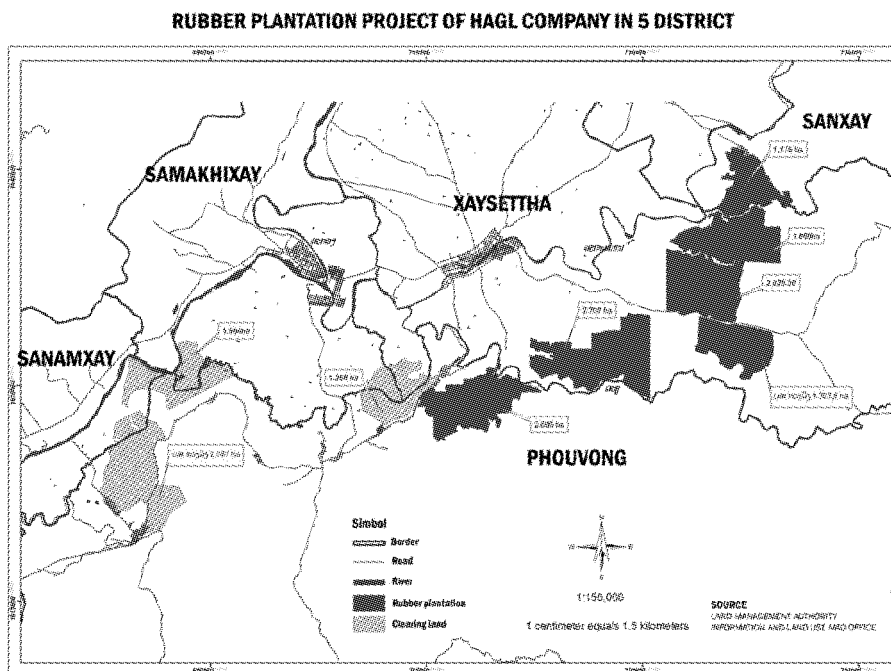
53 OHK Vietnam case study

54 VNA (2008)

55 NERI (2011b)

35 years, of which 8,078 ha had reportedly been allocated by early 2010.⁵⁶ It is alleged that HAGL was able to acquire the land in part because of the aid they provided the GOL to construct the Southeast Asian Games athletes' village in Vientiane.⁵⁷ According to research carried out for this study, the rubber plantation area was in fact reported to be 11,400 ha, with another 4,889 being cleared (Figure 3).⁵⁸

Figure 3: Rubber plantations of the HAGL Company in five districts
Source: NERI (2011b)



In 2004, the government granted the Vietnam General Rubber Corporation a 50-year concession of 10,000 ha for rubber cultivation in Bachiang District (Champassak Province).⁵⁹ The Viet-Lao Rubber

56 Kenney-Lazar (2010)

57 Kenney-Lazar (2010)

58 NERI (2011b)

59 Obein (2007)

Company was set up to implement the project. By 2008, 8,000 ha had reportedly been planted. Also in Bachiang District, the **Kaosouyaotiang Viet–Lao Company** (commonly referred to as the Yao Tiang Company), a partnership of three Vietnamese companies, received a 40–year concession, also covering 10,000 ha.⁶⁰ Only 2,318 ha of land had been surveyed by 2008 of which 1,305 ha had been planted.

In Saravan Province, Vietnamese companies hold concession contracts for 18,000 ha, of which 8,850 ha have actually been granted (Table 9).⁶¹ The main crops are rubber and cassava, primarily located in the central and western part of the Province. Most of the companies operate concessions, but also undertake limited contract farming (e.g. cassava farming to supply Hufuco's cassava powder factory).

Table 9: Vietnamese agribusiness investments in Saravan Province

Project	Concession contract (ha)	Actual concession (ha)	Being surveyed (ha)
DakLak – Caosu rubber plantation company	7,000	7,100	5,024
Yao (Dau) Tieng Vietnam	1,000	350	1,770
Coecco rubber plantation company	3,000	100	NA
Mingdao Vietnam company	5,000	200	4,009
Cassava plantation 1,000 ha project	1,000	100	NA
Hufuco company (cassava plantation and processing)	1,000	1,000	614

Source: Saravan Provincial Department for Planning and Investment, cited in NERI (2011c)

In Vientiane Province, Vietnamese companies are only involved in two industrial tree plantations.⁶²

60 Baird (2010)

61 NERI (2011c)

62 Schönweger and Ülkenberg (2009)

Similar to China and Thailand, the Vietnamese market is also providing an important incentive for production expansion in the North, such as cassava from Oudomxay Province maize and livestock from Xiengkhouang Province, sugarcane from Luang Namtha Province, and maize, soybeans and other products from Houaphan Province.⁶³

Box 1: Comparing Thai, Chinese and Vietnamese agribusiness investments in Saravan Province

Saravan Province, where Thai, Chinese and Vietnamese investors are active in both contract and concession farming, provides a useful case study to compare investments from the three Asian countries:

- *Location and accessibility:* Vietnamese and Thai investors are located in the central and western parts of the province where road, telecommunication and information infrastructure is relatively better developed, while Chinese investments are concentrated in the less accessible eastern part.
- *Crops:* The investment from China focuses on tree crops, including eucalyptus, acacia and medicinal trees, while investment from Vietnam and Thailand include both tree crops (rubber, acacia and eucalyptus) and annual cash crops (cassava, maize) .
- *Mode of operation:* Chinese investors hold only concession rights, while Thai investors (and to a lesser extent Vietnamese investors) operate both concessions and contract farming (although concessions are the preferred mode by both) .
- *Employment:* Thai and Chinese investors use local unskilled labour while Vietnamese investors also import unskilled (often informal) workers.

Source: NERI (2011c)

63 World Bank (2008)

4 Drivers of foreign agribusiness investments

The expansion of foreign agribusiness investments is driven both by market demands and the policies of investor governments to support their companies' overseas investments, as well as the policies and interests of the Lao government, provincial authorities and the farmers themselves.

4.1 Investor perspective

Market demand from neighbouring countries remains the main driver of agricultural commercialisation and investment growth in Lao PDR. In some cases, government policies in the investor countries has also helped to promote overseas investments and stimulate domestic demand.

Meeting market demands

High prices for natural rubber due to tight global markets, coupled with high prices of possible alternatives such as synthetic rubber, are stimulating rubber expansion around the world.⁶⁴ China is by far the world's

64 Shi (2008)

largest consumer of natural rubber, primarily for its domestic car industry. Chinese industries are relying increasingly on imports of raw rubber to make up for stagnant domestic supply that is unable to meet domestic demand. Rubber growing areas in China are limited to Yunnan, Hainan and small parts of Guangdong, making the richer soils, relatively easily available land and proximity of Northern Laos attractive to Chinese investors.

Chinese demand for maize is also strong. Despite being the world's second largest producer after the US, China became a net maize importer in 2010, purchasing more than 1 million tonnes, the highest amount since the mid-1990.⁶⁵ Biofuel demand is also expected to stimulate further expansion of jatropha plantations, including from China as indicated by the ambitious target set out in the Northern Plan.

Over-capacities in the Thai sugar processing and ethanol industries are also stimulating sugarcane investments in Laos to produce the necessary raw materials. In addition, Thailand has set up processing facilities in Laos to produce refined sugar which is then exported to Europe. By growing and processing the sugarcane in Lao PDR, Thailand is able to take advantage of duty- and quota-free access to the EU market under the Everything but Arms initiative.

Maize contract farming is also driven by demand for feed in the growing livestock sector in Thailand and China. Charoen Pokphand (CP) is the most well-known Thai agribusiness involved in intensive industrial farming in the livestock and poultry sector. Through its subsidiary CP Laos Co. Ltd., established in 2006 as the latest CP investment in the Mekong Region, the company sources maize from Lao PDR. CP has been promoting contract farming since 2002, as well as animal

65 Shi (2008)

feedmill production and livestock farming.⁶⁶

Investor governments' policies

Since 1999, the **Chinese government** has encouraged Chinese companies to invest overseas under the 'going out' policy. The government supports its state-owned companies through official state visits where numerous agreements are signed between the two governments. In 2000, Chairman Jiang Zemin listed rubber development in northern Lao PDR (and specifically the operation of Sino-Lao Rubber Company in Luang Namtha) as one of the key cooperation projects with Lao PDR and garnered official support from both national governments.⁶⁷ In 2004, Vice Prime Minister Wu Yi visited Lao PDR which resulted in signing of a national agreement of 2,500,000 mu (166,667 ha) of rubber development in four northern provinces including Luang Namtha. Additionally, Premier Wen Jiabao signed broad-scoped notes to develop Lao mining and power sectors and to devise a master plan for integrated development in nine northern provinces. In 2010, a Chinese company signed a 10-year MOU for the Laos-China Agriculture Development Cooperation Project which aims to help farmers produce high quality agriculture crops so they can stop growing opium poppies.

One of the key drivers of China's overseas agriculture investment is the opium substitution scheme promoted by the Chinese government in Lao PDR. The scheme was started in the 1990s and the Chinese government has committed over 500 million Yuan (\$77 million) to this scheme. From 2006, the Yunnan Provincial government has taken the lead in implementing this scheme with an aim towards developing cooperation in the agricultural field with Lao PDR. Yunnan state farms were actively encouraged to expand into northern Lao PDR since 2004, aided

66 OHK Thailand case study.

67 Shi (2008)

by financial support such as subsidies, loans and tariff exemptions. As Shi (2008) notes, “almost all large-scale, formally organised Chinese rubber investments in northern Laos work under the directive of opium (or poppy) replacement” (p21) .

Subsidies are also available for other crops. In Phongsaly Province, the Yunnan government provided 2 million Yuan as initial credit for investment in sugarcane. The investor is then exempt from taxes when importing the sugarcane.⁶⁸

The Chinese government is also promoting domestic biofuel production and use, and is likely to look increasingly overseas for biofuel feedstocks to meet its growing demand. The government is planning to increase domestic biofuel production from 1 million tonnes in 2005 to 12 million tonnes in 2020.⁶⁹ Expansion is aided by subsidies under a special fund to support the development of renewable energy resources. Most of the ethanol is produced from corn, but the government is looking to diversify into other feedstocks, such as sugar, oilseeds, sweet sorghum, wheat, sweet potato and cassava. China would also like to expand forestry-based biodiesel, such as jatropha seeds, Chinese dogwood nuts, rape seed and waste vegetable oil given domestic shortfalls in alternative feedstocks.⁷⁰

In 2003, Thailand initiated the Ayerwaddi – Chao Phraya – Mekong Economic Cooperation Strategy (ACMECS) with Lao PDR, Cambodia and Myanmar which, among other areas of cooperation, provides the policy framework for contract farming between Thai investors and farmers in the three countries.⁷¹ The ACMECS has become the main mechanism through which Thai agribusinesses source agricultural raw materials from selected border areas. Signatory countries have designated

68 CCL (2011)

69 USITC (2011)

70 ADB (2009)

71 Zola (2009)

eight priority cooperation areas, three of which involve Thai and Lao provinces.⁷² Other cooperation areas under consideration include Nan and Loei Provinces in Thailand and Sayaboury Province in Lao PDR.

The Thai government has also been promoting biofuels as a substitute for benzine (gasohol) and diesel (biodiesel).⁷³ The government is targeting bioethanol based on molasses (sugarcane) and cassava from between .30 – .74 million tonnes per year (tonnes/year) by 2012 and 1.09–2.48 tonnes/year by 2020. Biodiesel based on palm oil is targeted at .36 – .43 tonnes/year by 2011, .94 –1.03 tonnes/year by 2014 and 1.06–1.29 tonnes/year by 2020.⁷⁴ Biodiesel based on jatropha is also being promoted. Sugarcane is the main source of material for gasohol, though cassava can also be used. Different challenges have confronted biodiesel producers in Thailand, as the choice of palm oil as the main feedstock has put biodiesel processors in direct competition with the suppliers of cooking oil. This has resulted in the government looking to diversify its biodiesel feedstock sources by growing other energy crops such as jatropha, with some of the seeds being imported from Lao PDR.

Lao PDR is the largest recipient of **Vietnam's** investments with 86 projects accounting for 42% of Vietnam total overseas investment. From 1989–2009, Lao PDR received investment in 178 projects with a registered capital value of \$3563 million. The drive by Vietnam to invest is due to Lao PDR's rich natural resources and potential for forest development.⁷⁵ Lao officials often feel obliged to approve Vietnamese projects. This discursive pressure is clearly an important factor, with the

72 i.e. Nakhon Phanom Province, Thailand and Khammouane Province, Lao PDR; Mukdahan Province, Thailand & Savannakhet Province, Lao PDR; and Ubon Ratchathani Province, Thailand and Champassak Province, Lao PDR (Zola, 2009).

73 ADB (2009)

74 ADB (2009)

75 Vietnam OHK case study

Second Indochina War still being used as justification for special favours to the Vietnamese. In 2004, the GOL signed a bilateral agreement with the government of Vietnam in support of Vietnamese investment in rubber development in Lao PDR. This would become the basis for future investment arrangements between Vietnamese rubber companies and the GOL.⁷⁶

Similar to its Asian neighbours, the Vietnamese government is trying to promote biofuel use, although with limited success to date.⁷⁷ In November 2007 the government approved a biofuel development project until 2015 (with a vision to 2025).⁷⁸ Biofuel production targets have been set at 50 million litres of pure biodiesel by 2020 (to blend with diesel to produce 500 million litres of blended biodiesel) and 500 million litres of bioethanol by 2020 (to blend with gasoline to produce 5 billion litres of gasohol). Possible raw material inputs include sugarcane, sweet sorghum and cassava for bioethanol and jatropha and fish fat for biodiesel. The government is planning to use 1 million ha to plant tree crops for biofuel production domestically.⁷⁹

Since the 2008 food crisis, some governments have also shown increasing interest in procuring land overseas in order ensure domestic food security. The Gulf States in particular have been seeking land for food production to make up for land and water constraints at home and reduce reliance on food imports. As part of a MOU between the Kuwaiti and Lao governments, Kuwait is studying the feasibility of expanding irrigated rice production in Lao PDR for export to Kuwait.⁸⁰

76 Baird (2010)

77 VietNamNet (2008)

78 Milbrandt and Overend (2008)

79 Baumüller (2008)

80 VT (2010b)

4.2 Lao perspective

National government policies

Since the adoption of the New Economic Mechanism in 1986, the Lao government has set out to commercialise the primarily subsistence agriculture sector as part of its **broader development strategies**. Since then, agriculture commercialisation has become an integral part of the *National Growth and Poverty Eradication Strategy* and the *National Socio-Economic Development Plan*. The 6th NSEDP 2006–2010 highlighted the potential of plantations and contract farming for economic growth, encouraging “private initiatives including those by foreign investors and traders from neighbouring countries to promote contract farming, especially in horticulture and tree crops” . The 7th NSEDP, approved in October 2010, sets targets for commodity production of 100,000 tonnes of high quality rice seeds by 2015, produce 40,000 tonnes of high quality maize seeds, expand maize production to 150,000 hectares, and produce coffee at more than 553,000 tonnes.⁸¹

In addition, the government has adopted a number of **policies targeted specifically at the agricultural sector and/or rural areas** that favour a move towards greater commercialisation.⁸² The *Agriculture and Forestry Sector Strategy*, developed by the Ministry of Agriculture and Forestry (MAF) to put the relevant targets of the 6th NSEDP into practice, sets out four goals for the agriculture and forestry sector, including: increasing food production; increasing commodity production; stabilising shifting cultivation and promoting sustainable forest management (including through expansion of tree crops) .

The *Agricultural Development Strategy 2011–2020* provides the framework, vision and long-term development goals of the Government

81 GOL (2010)

82 For further details on these policies, see World Bank (2008) , pp15.

of Laos (GOL) for the sustainable development of the sector, aiming at food and income security.⁸³ The long-term goals until 2020 include: a) gradual introduction and increased application of modernised low-land market oriented agricultural production, adapted to climate change and focused on small-holder farmers; b) conservation of upland ecosystems, ensuring food security and improving the livelihoods of rural communities.⁸⁴ One of the main goals of the strategy until the year 2015 includes Goal 2: *Increased and modernised production of agricultural commodities will lead to ‘pro-poor and green value chains’ , targeting domestic, regional, and global markets, based on organisations of small-holder farmers and partnering investments with the private sector.*⁸⁵

The detailed Agriculture Master Plan (AMP) and the associated Agriculture Investment Plan (AIP) form part of the GOL's implementation plan for the Agricultural Development Strategy and are integrated into the 7th NSEDP. The AMP focused on seven programs:

- Food Production - enabling food security to be one of the highest priorities in the agriculture sector;
- Commodity Production - ensuring that exports from the agriculture and forestry sector represent one-third of Laos' overall exports and the value chains of five major exported agricultural commodities are organised and farmers organisations have emerged;
- Sustainable production patterns, land allocation, and rural development - ensuring land allocation is completed and farmers reduce shifting cultivation and adopt sustainable production systems;
- Forestry Development - enabling the reform of public administration in the forestry sub-sector, improvement of laws and regulations, participation of local people, etc.;

83 MAF (2010)

84 GOL (2010)

85 GOL (2010)

- Irrigated Agriculture - ensuring the implementation of the Irrigated Agriculture Strategy 2020;
- Other agribusiness and forestry infrastructure - such as mechanisation, post-harvest handling, market infrastructure, etc; and
- Agriculture and Forestry Research and MAF Capacity-building - creating of new partnerships, better coordination with long term ODA, research into the FDI and private sector roles.⁸⁶

Other relevant policies include:

- *Land and Forest Allocation Program* (1993) which promotes sustainable management and use of natural resources, works towards elimination of shifting cultivation and encourages commercial agriculture production. The Program involves zoning land into agricultural and forest land and replacing customary with statutory land use rights.
- *Stabilization of Shifting Cultivation Policy*, which aims to halt swidden agriculture by 2010 by transforming subsistence agriculture into sedentary market-oriented commercial agriculture.
- *Opium Eradication Program* which aims to eliminate this cash crop.
- *Village Cluster (Koum Baan) Development Program* which seeks to concentrate scattered upland communities in village clusters for improved public service delivery, infrastructure provision, and administrative support.

The national government is also working towards **increasing forest cover**, including through the expansion of commercial tree plantations, such as rubber, eucalyptus, teak and tree crops. Targets set out in the NSEDP include >50% of land area by 2010 (6th NSEDP) and 65% by

⁸⁶ Douangsavanh (2010)

2015 (7th NSEDP). The *Lao National Forestry Strategy to the Year 2020* plans to increase “forest” cover from 40% to 70%. To this end, the government “provides incentives, including allocation or lease of land for tree planting, property rights on planted trees, land tax exemption for registered plantations and free distribution of seedlings to farmers and organizations”.⁸⁷

In addition, the national government is actively seeking to **promote-foreign direct investments (FDI)**. The 7th NSEDP is designed to rely much more heavily on FDI to achieve the plan's GDP growth targets. FDI approvals in 2009 were extraordinarily high at \$4.3 billion, well over 70% of GDP.⁸⁸ The 7th NSEDP has programmed a foreign investment expenditure rate of 18% of GDP per annum for the next five years, which is considered high by most standards.⁸⁹ The high FDI approvals were considered impressive but also appeared uncoordinated and in a number of cases poorly negotiated. In some cases, foreign investors reportedly drafted their own land concession agreements at give-away prices.

In view of this approach, the 2009 Investment Promotion Law⁹⁰ offers incentives to attract investments throughout the country and in particular to remote areas. One such incentive is to allow foreign ownership of land even though most Lao families do not yet have legally secure titles to their own land and home. It also outlines mechanisms (e.g. Articles 40 to 55) to offer income tax holidays for timeframes between 1 to 10 years as per investment type and location.⁹¹ The Law offers three levels

87 MAF, July 2005, cited in Shi (2008)

88 Gloccheski (2010)

89 Ibid.

90 As of January 2011, even though the Investment Promotion Law has been promulgated and is current law, the GOL has not implemented yet. An implementing decree is expected by the end of 2011.

91 Perera (2011)

of ‘promoted sectors’ which cut across agriculture, industry, handicrafts and services. To this end, the Law also identifies different zones that receive increasingly more generous incentives the further away they are from Vientiane. “Zone 1” (most remote) investments are entitled to a profit tax exemption for 7 years and a reduced tax rate of 10% thereafter (among other incentives).⁹² Companies are exempt from import and export duties, have the flexibility to carry forward balance sheet losses into the next fiscal year for a period of 5 to 10 years and are exempt from profit taxes for the first 14 to 15 years of their operations, benefiting in particular rubber investments that commonly take around 7–8 years to start generating outputs.

There are also special conditions that apply to concession investments for agriculture (as with other sectors); however each investment is negotiated on a case by case basis and no details of the final concession agreements are available in the public domain.

The national government’s promotion of land concessions and contract farming has lessened over recent years. In response to concerns over negative impacts of these investments, the then Prime Minister Bouasone Bouphavanh in May 2007 announced a moratorium on issuing land concessions.⁹³ He also noted that the government favoured ‘2+3’ contract farming arrangement. The moratorium was reportedly lifted in June 2009⁹⁴, but again reinstated in the following month for concessions over 1,000 ha.⁹⁵ Despite the moratorium, however, concessions continue to be granted.⁹⁶

92 Shi (2008)

93 VT (2007)

94 VT (2009a)

95 VT (2009b)

96 Schönweger and Üllenberg (2009)

Up until the 2009 moratorium on the issuances of concession licenses, over 2,000 concession contracts were signed at the national and provincial levels. The average fee rate for land concessions was \$2 to \$6 per hectare. The concession rates were recently revised and published in the 2009 Decree on Land Concessions. Fees now range between \$5 and \$300 depending on the area and leasing Objective (see Table 10). The GOL's zoning and classification of state land for lease and concession is based on geographical landscape, socio-economic situation, and the government's policy for sectoral promotion. This is divided up into three Areas with the third area having the highest rates given full investment opportunities:

Area 1: Upland area, plateau area, plain area where economic infrastructure is not convenient for investment.

Table 10: Revised Land Concession Rates

Leasing Objectives	Leasing Rate per hectare per year (US \$)		
	Area 1	Area 2	Area 3
Food processing, agricultural products, agricultural production equipment ¹⁰⁰	200	300	
Plantation of short – lived plants and food plants	5	10	15
Fruit tree and perennial plants	5	10	20
Commercial plantation	6	10	20
NTFP and medical plants	7	15	25
Commercial tree plantation (10 years harvested)	8	15	25
Fast grown tree plantation (below 10 years harvest)	10	20	30
Rubber tree plantation	30	40	50

Source: GOL (2009)

Area 2: Upland area, plateau area, plain area where economic infrastructure can partly facilitate investment.

Area 3: Upland area, plateau area, plain area where the economic infrastructure can fully support investment.⁹⁷

It is worth noting that despite these ambitious goals and the political emphasis on agriculture for development, agricultural spending has in fact been declining and largely focused on the South.⁹⁸ Moreover, in light of limited funding, provincial authorities have tended to respond to the priorities of private investor and donor funding rather than promoting locally adapted agricultural strategies. As a result, the Mekong corridor and the lowland areas have seen significant progress in agricultural development while many of the upland areas have largely stagnated with poor infrastructure and limited market access.⁹⁹

Provincial or district-level measures

Agricultural development policies have also been adopted by provincial and district authorities in an effort to attract revenue and promote regional development. The 5th Party Congress (1991) of Luang Namtha Province, for instance, identified rubber as a key poverty alleviation strategy and an instrument to stabilise shifting cultivation.¹⁰⁰

The “Northern Plan” ,developed by the Chinese–Lao Yunnan–Northern Lao Cooperation Working Group and covering the northern nine provinces¹⁰¹, sets a target of up to 100,000 ha of rubber plantations

97 GOL (2009)

98 World Bank (2008)

99 Oraboune and Nanthavongdouangsy (2006)

100 Shi (2008)

101 Phongsaly, Luang Namtha, Bokeo, Oudomxay, Houaphan, Xiengkhouang, Luang Prabang, Sayaboury and Vientiane.

by 2015 and up to 150,000 ha by 2020, while jatropha plantations are envisaged to expand to at least 100,000 ha by 2020.¹⁰²

Another example is Bokeo Province where the local government has promoted maize expansion by exempting imported seeds from local taxes and by organizing farmers into maize producer groups that are registered at the district level.¹⁰³ The province also benefited from road upgrading that improved access to China and Thailand.

Provincial authorities have also been promoting contract farming for export to Thailand under the Ayerwaddi – Chao Phraya – Mekong Economic Cooperation Strategy (see also Section 3.3).¹⁰⁴ Between 2005 and 2009, Champassak Province concluded five Memoranda of Understanding with UbonRatchathani Province in Thailand. Each MOU lists the agricultural products of interest to the Thai companies for contract farming, which increased from eight products in 2005 to 25 in 2009. Contract farming follows the 2+3 model, with the Thai company providing seed and in some cases chemical fertiliser as credit in kind. In 2008, the contract farming arrangement was expanded to include Saravan and Sekong Provinces.

Farmers' initiative

Expansion of contract farming has also been driven by farmers as a source of income and livelihoods diversification, especially in the case of rubber in the North where villagers “have come to see rubber as a pathway to prosperity and wealth”.¹⁰⁵ Following the success of some early adopters of rubber, other villagers soon followed suit. This process

102 Shi (2009)

103 World Bank (2008)

104 Zola (2009)

105 Shi, 2008, p21

was also facilitated by long-standing social, ethnic and economic ties between Yunnan Province of China and Luang Namtha Province.

4.3 Multilateral cooperation

Economic cooperation between China and Lao PDR is greatly facilitated through the **ASEAN (Association of Southeast Asian Nations) – China Free Trade Area (ACFTA)** which is promoting progressive liberalisation of trade in goods and services and investment. Agricultural trade has become a focus of early liberalisation efforts between China and ASEAN countries. Under the ACFTA's Early Harvest Programme, tariffs on around 600 unprocessed agricultural products were already eliminated by January 2006 (although major cash crops such as rubber and sugar are not included) .

Infrastructure improvements under the **Greater Mekong Subregion (GMS) Economic Strategy** are also facilitating Lao exports to Thailand, China and Vietnam. The Asian Development Bank's (ADB) GMS Economic Corridors include a network of roads connecting all countries in the subregion spanning Vietnam, Cambodia, Laos, Thailand, Myanmar and Yunnan Province of China. Further connectivity is extended through an expanding regional power grid and planned railway links from Kunming to Singapore, funded in part through development assistance and investment from China. Also under the GMS initiative is the ADB's promotion of biofuels development. In 2009 the organisation released a report which aims to integrate biofuel and rural renewable energy products in agriculture for poverty reduction in the GMS. The report sets out a subregional strategy for biofuel development in the GMS which aims to move the region away from fossil fuel use and explore opportunities for alternative energy sources.

Moreover, as outlined in Section 4.1, Thailand and Lao PDR are cooperating on contract farming through the **Ayerwaddi – Chao Phraya – Mekong Economic Cooperation Strategy**.

5 Key actors in Lao PDR

There are numerous actors involved in agribusiness investments in Lao PDR. These range from Government ministries and administrations operating at national, provincial, and district levels, the Lao military and farmers. The following section outlines the key actors and their role in agribusiness investment approval or implementation in Lao PDR. In addition, an (incomplete) list of investor companies is provided in Annex 1.

5.1 Lao government

At the Lao government level, policy- and decision-making is divided between different ministries and between different levels (national, provincial, district) .

Domestic and foreign investors can obtain long-term state land leases or concession contracts, or enter into contract farming arrange-

Table 11 : Land size and levels of approval

Land Size	Authority
< 3 ha	District authorities
3 - 100 ha	Provincial authorities
100 - 10,000 ha	Central Government/ Prime Minister
> 10,000 ha	Approval by the National Assembly

Source: Schönweger and Üllenberg (2009)

ments (commonly 2+3 or 1+4). According to the 2009 Land Law different authorities are in charge depending on land size (see Table 11) .

The Ministry of Planning and Investment (MPI) is the first entry point for large-scale investors. MPI approves investments for concessions that are issued at the national level. While MPI has a clear mandate to ensure that investments meet environmental requirements, it does not have the capacity to meet its obligations¹⁰⁶ although a new initiative (Poverty and Environment Initiative) led by UNDP is working directly with MPI to mainstream environment into the Ministry's activities. For some investors such as those from Vietnam and China, MPI maintains a separate office for fast-tracking their investment proposals.

Proposals for investments are submitted to the Department for Promotion and Management of Domestic and Foreign Investment (DDF) . A One Stop Shop Unit within DDF was formed and following the **GoL policy on decentralization and deconcentration**, foreign investment regulations assign powers to the provinces to authorise foreign investments in certain sectors (e.g. Category 17 investments) provided that certain financial ceilings are observed. Some large provinces, (e.g. Champasak, Savannakhet, Vientiane Capital and Luang Prabang), may authorise investments up to \$5 million, whereas the remaining provinces can only approve investments up to \$3 million.¹⁰⁷

Foreign investors in a joint venture must contribute at least 30% of the venture's registered capital. Wholly foreign-owned companies may either be a new company or a branch office of an existing foreign company. Throughout the period of operation of a foreign investment enterprise, the assets of the enterprise must not be less than its registered capital. The screening process at DDFI reviews the financial and techni-

106 TKN (2009)

107 GOL (2005)

cal feasibility of the project, coordinates input from relevant line ministries, and determines whether the proposed project conflicts with government policy. Responses to projects, by MPI, depending on project type, are supposed to be sent within 15 – 45 working days.

The National Land Management Authority (NLMA) was established in 2007 and is attached directly to the Prime Minister's Office. The NLMA drafts regulations and laws on land management and, in cooperation with concerned agencies, investigates, registers and develop land use management plans and strategies. The NLMA is also mandated, in cooperation with concerned agencies, to issue land use certificates and is obligated to monitor, control and evaluate land use within the country.¹⁰⁸

There are various versions as to how contracts are made with foreign investors. Prior to the creation of the NLMA, investors could apply for land concessions directly with provincial authorities and district chiefs. Then the authorities coordinate with the Provincial Agriculture and Forest Offices (PAFO – under the Ministry of Agriculture and Forestry (MAF)), District Agriculture and Forestry Offices (DAFO – under MAF) and governors for land surveys to identify suitable plots of land (although it is unclear what criteria are used) and other relevant activities. Currently, investors' first contact is the NLMA (provincial or district level), which plays a coordination role. Suitable land for the investments is then identified by PAFO or DAFO, land is surveyed and District Chiefs and Provincial Governors approve the investors' business development proposal.¹⁰⁹ The role of DAFO in land surveying is to consult with villagers regarding land availability. The role of PAFO is to determine the status, suitability and capability of land identified.

108 TKN (2009)

109 Since there are no clear responsibilities between central and provincial levels and the inventory of state land has not been completed, investors often turn to provincial authorities to search for appropriate land. Very often the investors have to go to the district and village level to identify and negotiate land deal investments

In practice, this process is not always implemented. According to Shi (2008), the process is less defined and often the provincial contracts are made before full agreement and commitments are reached with villagers. This leads to village-level disputes and difficulties with implementation.

The NLMA is relatively new and is significantly under-resourced. GIZ is currently the only donor to support the NLMA following the end of the World Bank land project in mid-2009 (with AusAID and GIZ). The NLMA's broad mandate has created problems and confusion as to its role and that of the Ministry of Agriculture and Forestry. Currently, other agencies retain the main responsibility for land allocation and concessions as noted above.

The NLMA has been under significant pressure from the National Assembly to address land issues, revise the 2003 Land Law and adopt a new land policy. The revised law should also include provisions on land allocation which are currently covered by the investment law (which is not integrated with the Land Law). Most recently the NLMA and other government ministries have been discussing issues around 'turning land into capital' and hosted a conference on this topic in October 2010. In April 2011, the NLMA summoned high-ranking officials from all provinces to discuss the problems with this policy and the sustainable exploitation of natural resources. The NLMA is currently carrying out a project to allocate all land plots throughout the country by 2015 but wants to speed up this process to address the immediate land use issues.¹¹⁰

The Ministry of Agriculture and Forestry (MAF) is responsible for industrial plantations. The Ministry is charged with considering investment applications and providing agricultural business certificates allowing

110 VT (2011a)

companies to invest.¹¹¹ As indicated above, the MAF in collaboration with NLMA has a coordination network at provincial, district and village administration levels. While the MAF focuses on processing, approving, managing and controlling large-scale plantation projects in cooperation with concerned agencies at the same level, the local department or office for agriculture and forestry is responsible for small- and medium-sized projects with investment capital of less than \$3 million and production areas of less than 100 hectares. The MAF also participates actively in processing and approving plantation projects in cooperation with the MPI and other agencies and is mainly responsible for environmental inspection and evaluation of plantation projects.

The **Water Resources and Environment Administration (WREA)**¹¹² is also under the Prime Minister's Office and is responsible for reviewing environmental impact assessments (EIA) and initial environmental examination (IEE) reports which result in an environmental compliance certificates (ECC) for the investment project. The environmental compliance certificate is an important part of the approval process. Without this certificate, no investment project is legally approved in accordance with regulations and laws of the Lao PDR. WREA also maintains a database on agricultural investments. Over the last two years, WREA has been in the process of addressing its human resource capacity constraints, which are largely attributed to budgetary constraints (esp. at the provincial level), loss of significant staff who were integrated into the Science and Technology Agency¹¹³, and few graduates in the environmental field from National University of Laos.

111 TKN (2009)

112 In mid-2011, the National Assembly approved new Minister's and a new Ministry on Natural Resources and Environment. WREA and parts of the National Land Management Authority and parts of the Ministry of Agriculture and Forestry will form this new ministry.

113 WREA was formally the Science, Technology and Environment Agency (STEA)

Another less publicly visible is the **State Enterprise for Food and Crop Promotion**. The SEFCP was reinstated following the 1997 Asian financial crisis as part of the government's effort to control part of the food commodity market.¹¹⁴ The SEFCP fixed prices (at times below production costs) for certain commodities (including paddy, rice and meat) and in some provinces held a virtual monopoly on trade between provinces.

The National Assembly is Lao PDR's parliamentary body which is responsible for voting on key policy, constitutional and legal decisions as well as overseeing the performance of the government, the prosecutor's office and the people's court. As the legislative body, its rights and functions are to approve new and amended laws as well as to put an end to inappropriate laws. In April 2011, the National Assembly is carrying out an election to form the seventh assembly since the founding of Lao PDR in 1975. The seventh assembly is expected to have 132 members elected from 190 shortlisted candidates, who are nominated by the National Election Committee.¹¹⁵

The **National Assembly** maintains a national hotline during each of its sessions in which citizens can call in to raise concern about various issues. Land is the number one issue raised through this hotline, pushing the National Assembly to find ways to address their concerns. The National Assembly has also been behind the push to finalise the National Master Plan for Agriculture which serves as a guideline for land surveying and allocation. The National Assembly has also recommended that "before turning land into capital we need to survey and allocate the land to identify what can be developed and what we need to preserve."¹¹⁶

114 Bestari et al. (2006)

115 VT (2011b)

116 VT (2010a)

5.2 Lao provincial, district and village authorities

Much of the power in approving land concessions lies with the **provincial and district authorities**.¹¹⁷ Concessions are typically granted by provincial authorities with little involvement and monitoring at the Central Government level. Only few foreign investors and land concessionaires receive their authorisation for operating from Central Government authorities, while most deal directly with local level officials.

Whilst District Chiefs can (officially) only approve concessions up to 3 ha¹¹⁸, this can be carried out in multiple amounts. The Chiefs are often empowered by provincial authorities to allocate up to 100 ha, again in multiple amounts. Moreover, in reality many bigger concession areas than 3 ha were given out by district authorities and also larger areas than 100 ha were granted by the Provincial Governors.¹¹⁹ The trend towards decentralisation, which has given provincial authorities significant autonomy and greater financial incentives to offer concessions and sign contracts directly with foreign investors, has led to an unclear division of responsibilities between national and provincial authorities and a disregard for the results of land-use planning processes at the local level. Investors may take advantage of this situation, bypassing the national level and dealing with provincial or district level officials who may be easier to influence.

Village heads also play a role in decision-making. Some village headmen, for example, have reportedly been bribed by rubber companies to sign off on land deals that are not in the best interests of their

117 Schönweger and Üllenberg (2009)

118 See Table 7 for official levels of approval for concessions.

119 Schönweger and Üllenberg (2009)

communities.¹²⁰ The opportunities for corruption are high because local Agricultural and Forestry officials and Provincial Land Management Authority (PLMA) officials frequently inform only the village headman or a few powerful members of the community about the plans to develop land in a village, rather than informing the whole village administration.¹²¹ Furthermore, consultative meetings often involve promotion of the project rather than clearly identifying key aspects and potential impacts. This often leaves villagers with few options other than to cooperate with the company and no recourse should issues arise. The villagers frequently do not know what they are agreeing to or the severity of the implications of their involvement.

5.3 Lao military

The **Lao Military** is an important stakeholder in approving land concession deals in the provinces, which at times conflict with contracts approved by DPI.¹²² For example, in Luang Namtha, at least three different Chinese companies have entered into contracts with the provincial army to plant rubber. In theory, these plantations only use the defence land, which belongs to the Department of Defence. However, the domain of this land has never been defined clearly. This has often led to bitter disputes with villagers, whose understanding (and formal proof) of land entitlement is often non-existent. One issue is that concessions by the army appear to operate relatively independently from the established foreign investment approval process. The contract also had some additional features added on to it, such as giving away mining rights and other types of resource claims within the concession range (typically if additional resources are discovered, the excavation rights remain with the Lao government). The company is also exempt from all fees, including the typical \$6/ha/year concession charge.

120 Shi (2008)

121 Baird (2010)

122 Shi (2008)

5.4 Lao farmers

The farmer plays an important role in contract farming arrangement and in some cases is not involved in the negotiation process of the contract which commonly involves also the village heads, district officials, small traders, large investors, banks or other sources of credit and staff of development projects.¹²³ In other cases, the village head and company are the only parties involved (see above). The case study of sugarcane farming in Phongsaly province found that there was no organisation of the sugarcane producers at the village level and the farmers and villagers had no knowledge of the nature of the contract that the company had made with the district.¹²⁴ In some cases, village-based farmer marketing groups and farming associations (see Section 6.2 for more information) have formed to assist in the regulation and negotiation of contract farming. These groups provide support and negotiation principles to assist the farmer.

Given the weak institutional capacity of the Lao banking, finance, and credit systems, **local banks** currently play only a minor role in contract farming in Lao PDR.¹²⁵ Therefore the availability of affordable credit is not accessible to local farmers and interest rates are very high at around 15%–20% a year. The shortage of available credit leaves the farmer at risk of falling into debt and reduces the chances of expansion.¹²⁶ This also results in farmers relying solely on agribusiness companies to provide them with the necessary inputs.

123 Fullbrook (2007)

124 CCL (2011)

125 World Bank (2008)

126 Fullbrook (2008)

6 Impact of foreign agribusiness investment on poverty alleviation in Laos

The following section outlines a number of opportunities and risks that foreign-invested land concessions and contract farming pose for poverty alleviation in Lao PDR and evaluates to what extent these have already materialised. The analysis focuses mainly on impacts on poor communities at the local level, but also touches on risks and benefits for the wider Lao economy.

To summarise, the analysis suggests that agribusiness investments have provided direct employment and income opportunities for some farmers in Lao PDR. Anecdotal evidence also points to indirect benefits, such as the growth of supporting businesses or increased agricultural productivity through access to seeds and infrastructure improvements, but the extent of these benefits is unclear. Not all have benefited equally. Poor farmers have less capacity to capitalise on these opportunities, are more affected by associated loss of access to communal land and the food, feed and firewood it provides, and do not have sufficient bargaining power vis-à-vis the large investors or state authorities to negotiate fair deals. The jobs generated tend to be insecure and badly paid. Conversion of subsistence agriculture to cash-cropping has also brought negative environmental impacts such as biodiversity loss and

pollution, and is changing social structures in local communities. While the investments have provided government income, revenue generation remains below the potential due to low fee rates, tax exemptions and failure to collect fees and taxes.

6.1 Opportunities

Income generation and employment

People living in rural areas are increasingly forced to look for alternative livelihoods sources given low productivity of rice production, the gradual elimination of shifting agriculture and the need for cash to obtain basic services.¹²⁷ In 2008, it was estimated that about 70%–80% of farming areas in the Northern Uplands are in transition from swidden cultivation to sedentary cultivation of cash crops and livestock.¹²⁸ Official agricultural income is low at just \$6/ha/year compared to \$20/ha/year in Vietnam and as much as \$50/ha/year in China.¹²⁹

Contract farming

Contract farming can provide reliable markets and stable income through guaranteed prices for agricultural commodities, thus reducing market risks for the farmers. These risks are high for Lao farmers. Due to poor physical infrastructure, they often lack access to markets. Transport costs in Lao PDR as estimated to be between two and four times higher than in Thailand depending in the condition of the roads.¹³⁰ Marketing facilities are also lacking which would allow farmers to display their agricultural produce or engage in wholesale trading.

127 Schönweger and Üllenberg (2009)

128 World Bank (2008)

129 Wright (2009)

130 MAF (2006)

In addition, the markets in Lao PDR are highly distorted. They are often dominated by a few traders that largely control prices, and farmers usually rely on the middlemen for price information. In part due to lack of market information, farmers are often reluctant to diversify into other commodities, concerned that they may not be able to sell their produce. Their flexibility to sell to different buyers is also restricted by regionally confined markets, which (in addition to infrastructure constraints) is a result of formal and informal regulations that prevent free movement of goods, prohibitive fees and administrative costs, and interregional transport fees and controls in Lao PDR.¹³¹

International trading is also restricted by cumbersome administrative requirements. Decentralisation efforts since 1986 have also led to decentralisation of trade authority, resulting in overlapping and confusing responsibilities of national and provincial authorities.¹³² Moreover, provincial and border authorities also often lack the knowledge of requirements under the various regional and multilateral agreements that Lao PDR is a member of, thus leading to further uncertainties.¹³³ Corruption at borders also hinders international trade flows. Much of the trade across the Thai border, for instance, is thought to be conducted informally and illegally to avoid illicit payment demands at the border crossings.¹³⁴

Contract farming can help to overcome some of these challenges where the buyer facilitates transportation of the agricultural goods and commits to purchasing the produce at a fair price. The Chinese Lee Sing Ko Company, for instance, has constructed a market access road to its rubber plantation in a remote part of Nalae District in Oudomxay Province.¹³⁵ Mitr Lao has invested around \$4.3 million in infrastructure,

131 MAF (2006)

132 Zola (2009)

133 Zola (2009)

134 Bestari et al. (2006)

135 World Bank (2008)

such as roads and irrigation systems.¹³⁶

Initial findings from three case studies conducted by the ADB in 2010 (still in draft) concluded that overall contract farming has had beneficial outcomes for Lao farmers growing cabbage, maize and sugarcane.¹³⁷ Whilst the extent of benefits varies according to different contract farming arrangements, the findings show that the majority of contract farming farmers in different categories are making profits, although in approximately 10% of cases farmers reported that contract farming had left them worse off than before. The possible risks of contract farming are discussed below.

Concessions

Agribusiness investments can also create employment on the concession plantations and processing facilities. Foreign investors are required to give priority to Lao citizens; according to the Lao Labour Law, only 10% of workers in an investment project can be foreign (20% in management positions), although investors can request permissions to import additional foreign labour if the domestic supply is insufficient. The basic requirements such as holidays, working hours and social security, are set out in the 2007 Labour Law while a supplementary decree establishes the minimum wage. In some cases, working on concessions has improved labourers' living conditions where the company provides them with clean water, electricity and permanent houses.¹³⁸

Case examples show that the use of local labour differs between different investors, although it is unclear to what extent this is representative for their investments across the country. Thai tree concessions in

¹³⁶ NERI (2011a)

¹³⁷ ADB (2010) – draft only

¹³⁸ ERI (2011b). According to authorities in Hatsan village (Attapeu Province), workers who stay in houses built by the Vietnamese HAGL company will own the house after working for the company for six years (although this commitment has not been documented in writing).

Saravan Province were found to use mainly local labour.¹³⁹ Similarly, the Thai Mitr Lao plantation employed about 7,000 unskilled local workers during harvest season and about 4,000 people during maintaining season in 2010. In contrast, Vietnamese concessions in the province are thought to employ mainly informal and undocumented Vietnamese labourers.¹⁴⁰ Chinese investors use local low-skilled labour in Saravan Province¹⁴¹, while in the northern rubber plantations they also brought workers from their home country where Lao labour to collect the latex is not available.¹⁴²

In general, employment opportunities in many concession areas exceed labour supply. Unlike other countries in the region, Lao PDR faces labour shortages in labour-intensive industries. Moreover, Lao farmers are often reluctant to engage in the regulated, low-paid and difficult work on the concessions. Intra-Lao PDR labour migration is limited and mainly focused on Vientiane while people from the South migrate to Thailand for work where wages are higher.

Several investors are also setting up processing factories which could provide additional employment opportunities, including the Thai Mitr Lao sugar processing factory in Saravan Province, Vietnamese rubber processing in the South, and Chinese rubber and Thai maize processing in the North. However, to date, Lao nationals do not seem to have been able to capitalise on these opportunities. Anecdotal evidence suggests that employment in the factories is dominated largely by foreign nationals due to a lack of required skills among local workers. The Mitr Lao factory, for instance, employs just over 100 Thai experts, but no Lao staff.¹⁴³

139 NERI (2011c) . Experts and some administration staffs employed on the concessions are Chinese.

140 NERI (2011c)

141 NERI (2011c)

142 World Bank (2008)

143 NERI (2011a)

Increased agricultural productivity

Agricultural productivity in Lao PDR remains very low. In 2009, average annual productivity (measures as agricultural GDP/agricultural population) was \$252 per worker, compared to \$315 in China and \$487 in Thailand.¹⁴⁴ These figures vary considerably at provincial level, ranging from \$0.09 per hour worked in Saravan to \$0.26 in Sayaboury and Bokeo, with a national average productivity (measured in terms of gross revenue from agriculture) is \$0.14 per hour worked (in 2002/2003).¹⁴⁵

The Ministry of Agriculture and Forestry attributes the low intensity and low productivity of Lao agriculture to:

- risk aversion strategies of producer households,
- limited number of input suppliers,
- the lack of information on input use due to the absence of viable extension mechanisms (both public and private sector) throughout the country, and
- lack of adequate working capital and access to credit.¹⁴⁶

Access to credit remains a particular challenge for farmers, especially where they lack an official land title that would allow them to use their land as collateral. Banks are generally reluctant to lend to farmers (or even groups of farmers) and interest rates are high at around 15%–20% per year.¹⁴⁷ The interest rate for credit provided by traders can be even higher.

In addition, farmers can lose a significant share of their produce after harvest due to poor storage facilities and inadequate packaging and

144 FAO (2010). Productivity was even lower in Cambodia and Vietnam at \$201 and \$191 respectively.

145 NSC (2004), cited in Setboonsarng et al. (2008)

146 MAF (2006)

147 Fullbrook (2007)

consequent damage to goods during handling and transportation. Moreover, produce is not graded, but rather sold in bulk with mixed qualities which limits farmers' ability to assure standard quality and obtain higher prices for their higher quality outputs. Government support for local smallholder farmers is very limited.

Contract farming could help improve productivity through transfer of knowledge and technology, provision of agricultural extension services, and access to improved seeds, farming inputs, packaging and credit. Indeed, Setboonsarng et al. (2008, p2) suggest that the “comparatively high productivity in Sayaboury and Bokeo can be attributed to the prevalence of contract farming and crossborder exports in those provinces” .

Actual data on productivity of contract farmers is very limited. The case study of sugarcane farming for the Mitr Lao factory found that productivity of contract farmers was lower than that of the concession, although not by a considerable amount (43 tonnes/ha compared to 46 tonnes/ha) .¹⁴⁸It also appears, however, that Mitr Lao is struggling to meet its contract farming target and is now trying to shift the ratio more towards concession farming.¹⁴⁹

Spillover effect for local communities

Agribusiness investments can also bring additional benefits for the wider economy, for instance where they include the building of roads or electricity connections. While examples of such investment-related infrastructure development exists, it is unclear to what extent these have benefited the local communities. While not referring specifically to FDI-related infrastructure, Chamberlain (2007) notes that even where roads are improving, it is often the wealthier households that are able to benefit since the poor villagers do not produce sufficient surplus for marketing along the roads.

148 NERI (2011a)

149 World Bank, pers. comm.

The investments may also help stimulate the emergence of supporting businesses and provide an incentive for further education. As a result of the rubber expansion in Luang Namtha, for instance, local producers have started to grow and sell seedlings to local villagers, some Chinese companies and across the border.¹⁵⁰ Shi (2008, p53) predicts that “one can expect Sing to continue booming as a seedling production hub in the coming years.” Another survey carried out in Luang Namtha also found that the boom in Chinese trade in northern Laos has inspired local people to enter higher education because they believe there will be more opportunities to either work with Chinese people or in Chinese firms.¹⁵¹

Some foreign companies are also funding community projects. Mitr Lao, for instance, contributed an estimated \$100,000 for community development, including donations to the Poverty Reduction Fund and the provision of healthcare and scholarships to local people. The company has. The infrastructure serves mainly business activities of the company. However, local people can share the benefits. The HAGL Company granted \$30 million to Attapeu Province for building a hospital, some bridges and more than 1,000 houses for the poor in Phuvong District.¹⁵² The Chinese Golden Van Enterprise Ltd contributed \$100,000 for building a primary school in Saravan City.

Generate government revenue

In terms of potential benefits for the Lao economy, the agribusiness investments generate government revenues through tax payments and concession fees. Foreign companies are subject to a range of taxes, but may qualify for tax exemptions depending on the zone in which they invest and the type of investment project.¹⁵³ Concession fees amount to

150 Shi (2008) . The larger Chinese rubber companies continue to run their own seedling nurseries in Laos.

151 NERI (2006)

152 NERI (2011b)

153 DFDL Mekong (2010)

about \$3–9 per hectare per year.¹⁵⁴ For instance, the accumulated contribution of the Mitr Lao Sugar Factory is estimated to be about \$1.5 million between 2007 and 2009, of which about \$180,000 (or 12%) came from concession fees.¹⁵⁵ The total amount of government revenue generated through agribusiness investment projects is not known, but is thought to be low.

Some companies are also providing in-kind contributions to the government. In 2008, The HAGL Company, for instance, funded the construction of a \$19 million athletes' village for the Southeast Asia Games, which critics claim was mainly meant to help the company obtain rubber concessions in Attapeu Province.¹⁵⁶ As noted above, various companies are also investing in infrastructure, such as roads, electricity and irrigation.

6.2 Risks

While agribusiness investments may have benefited some farmers, many have not been able to capitalise on potential opportunities or have suffered significant negative impacts. Some of these challenges have been publicly acknowledged at the national level, in particular through the (former) Prime Minister, the NLMA and the National Assembly.

Loss of access to land and associated goods and services

Many villagers rely on communal land to gather food and firewood and graze their livestock. Many rural villagers also gather and sell non-timber forest products which can generate as much as a third of their income.¹⁵⁷ In a survey carried out in 2006, villagers identified limited ac-

¹⁵⁴ Schönweger and Üllenberg (2009)

¹⁵⁵ NERI (2011a). According to investment contract, the Mitr Lao Sugar Factory is obligated to pay concession fee of \$6 per hectare per year in the first 10 years of its production. After that, the concession fee will increase \$1 per year in each 10 year.

¹⁵⁶ E.g. Kenney–Lazar (2010), Baird (2010) (among others)

¹⁵⁷ Wright (2009)

cess to cultivation land as the main cause of poverty.¹⁵⁸ They highlighted in particular poor implementation of the Land and Forest Allocation (LFA) Program, which has restricted access to land through zoning of village land into agricultural and forest land. Village consolidation under the Village Cluster Development Program is adding to land pressures, in particular where villagers are relocated to areas where much of the arable land is already occupied.¹⁵⁹

Land concessions have further restricted villagers' access to land. A study of Vietnamese rubber plantations in Champassak Province found that as a result of losing access to concession land, women had to spend considerably more time to gather firewood or buy charcoal.¹⁶⁰ Many farmers had to reduce their livestock after the animals were no longer allowed to enter the plantation area, thus losing one of their most important sources of wealth. A survey of villagers who lost access to community forests after the land that was given to the HAGL Company said that non-timber forest products had accounted for 80% of village total income (or around 692 million kip annually).¹⁶¹

Concessions are often granted without detailed knowledge of current uses and (formal or customary) ownership of the land.¹⁶² These information gaps, along with lack of coordination among government officials, have led to the issuing of overlapping concessions.¹⁶³ At times, vil-

158 Chamberlain (2007)

159 Wright (2009)

160 Baird (2010)

161 NERI (2011b)

162 Schönweger and Üllenberg (2009)

163 Problems associated with confusion over land concessions have also been highlighted by investor companies. According to the KSL company, which operates the sugarcane plantation and mill in Savannakhet province, the risk their enterprise is facing directly involves the land concession policy whereby local peoples land and boundaries of the land under concession are not clearly defined (KSL, 2011). Apparently negotiations between the company and the villagers are underway but as they take time, there are significant risks to the companies projected outputs.

lage or swidden fallow lands have been zoned as “degraded forest” for plantation use without the participation of local communities in the decision-making process. Land seizures by government officials have also been reported. In some cases, disagreements over land allocations had caused villagers to stop companies from clearing or using the concession land.¹⁶⁴

Under government regulations, villagers are supposed to receive compensation if they are affected by development projects.¹⁶⁵ Evidence from various studies of rubber plantations¹⁶⁶ concluded that compensation, where it is provided, is generally low. In one case, villagers received around 1 million kip (\$120) for a hectare of swidden land and 500 kip (\$0.06) for each lost coffee tree or pineapple plant. In another instance, villagers were paid 500,000 kip (\$62.5) per hectare for coffee plantations that generated over 2 million kip (\$250) of revenue a year. What is compensated also varies, with some companies paying for harvest losses only, others for harvest and land and yet others only for land. Cases were also reported where farmers did not receive compensation because their land titles were not officially registered prior to the investment, even though the area had been under the LFA Programme.

Disadvantage poor farmers and landless people

Poor villagers are often not able to participate in contract farming arrangements due to the quality, size and location of their land (if they own any at all).¹⁶⁷ Experiences from other countries also shows that companies tend to prefer working with larger farmers to reduce transaction costs and in the hope of higher outputs.¹⁶⁸ Instead, poor villagers

164 Schönweger and Üllenberg (2009)

165 Regulations for Implementing Decree 192/PM on Compensation and Resettlement of People Affected by Development Projects. No. 2432/STEA,

166 Reviewed in Baird (2010) .

167 Schönweger and Üllenberg (2009)

168 Fullbrook (2007)

tend to work as wage labourers on other plots. This situation is likely to lead to further marginalisation of the poor and landless in rural areas which are already seeing their traditional livelihoods eroded without viable alternatives.

Insecure jobs and low wages

While concessions provide employment in rural areas, the work is not necessarily stable. Most labourers are hired on a daily rather than permanent basis to account for seasonal variations in labour needs on the plantations. According to a village survey, only about 2% of labourers on the Golden Van Enterprise concessions in Saravan Province have permanent contracts.¹⁶⁹ Employment on the Mitr Lao sugar concession (almost entirely daily labour) drops from 7,000 during harvest time to 4,000 in the maintenance period.¹⁷⁰ These fluctuations are particularly challenging for labourers that migrate from further away without a guarantee of regular work. Workers on the rubber plantation of the Vietnamese HAGL Company, for instance, only worked for the first three months after moving there to live in company housing.¹⁷¹ Labour demand may also change over the course of the investment project, in particular rubber. Some expect the initial labour demand for preparing land and planting rubber seedlings (400–500 days/hectare/year) to decline to 150–200 days/hectare/year once tapping starts.¹⁷²

Wages also tend to be below standards for what is perceived to be very hard work. According to Lao labour regulations¹⁷³, the minimum wage is set at 348,000 kip plus 221 000 kip in benefits, totalling a minimum salary of 569,000 kip per month (or around 22,000 kip per day for a 6–day work week). However, current average daily wages for con-

169 NERI (2011c)

170 NERI (2011a)

171 NERI (2011b)

172 Baird (2010), NERI (2011a)

173 Ministerial Instruction 1450/MLSW (April 30, 2005)

cessions workers are estimated to amount to just 15,000 to 20,000 kip.¹⁷⁴ Labourers complain that they are not always paid the full amount, with the remainder either kept by the company to ensure that the workers do not leave without notice or by the supervisors or agents in charge of handing out wages.¹⁷⁵ In the case of Mitr Lao, for instance, the company managers claim that they pay villagers no less than 100 Thai Baht per day corresponding to about 25,000 kip, rather than the 20,000 kip reported by the villagers. Payments are made through agents who pick up and drive villagers to work on the field and who may retain part of the wages.¹⁷⁶

In addition, the working conditions can be poor. In some cases, labourers are exposed to herbicides and other chemicals without information on the dangers of the chemicals, the necessary training or protective gear.¹⁷⁷ Villagers working on the Mitr Lao sugarcane plantations reported headaches, dizziness and pains after spraying pesticides. Labourers have limited opportunities to submit complaints if the foreign investor does not comply with labour standards or the minimum wage requirements.

Due to these reasons, the case studies undertaken for this study all found that the villagers did not like working on the plantations and only do so after rice harvesting or if there is no alternative work available.¹⁷⁸

Uneven bargaining power and risk of unfair contracts

The 2006 Participatory Poverty Assessment (PPA) notes that villagers cited “marketing and how to manage financial aspects of business transactions” as the major obstacles to cash cropping, rather than

174 Schönweger and Üllenberg (2009)

175 Baird (2010) , Kenney–Lazar (2010)

176 NERI (2011a)

177 Baird (2010)

178 e.g. NERI (2011a) , Baird (2010) , Kenney–Lazar (2010)

lack of agricultural know-how identified as the major constraint in the 2000 PPA. Farmers often lack the legal knowledge to understand the implications of the contract they are signing or the market information to judge whether the prices offered are fair. Some are able to obtain price information from other countries by telephone, but not all trust the information they receive.¹⁷⁹ Moreover, due to limited alternative outlets for their produce (as discussed above), farmers may have little choice but to enter into contract. Farmers also run the risk of becoming indebted to the investors who provide them with credit for farm inputs, finance land clearing or provide workers with radios or televisions that need to be repaid from workers' wages (see also Box 2).¹⁸⁰

Box 2: Debt among contract farmers for the Mitr Lao Sugar Factory

A survey of several villages in Savannakhet Province (Dong Phung, Keng Head, Nadieng and Kachu villages) involved in contract farming with Mitr Lao found that almost all the farmers were in debt, with an average standing debt of 43.2 million kip or about \$5,400 per farmer at the time of the survey.¹⁸¹ The high debt can in part be explained by the low prices the farmers receive for their sugarcane. Mitr Lao pays just 600 Thai Bath or about \$20 per ton while the sugarcane price in Muddahane of Thailand (a neighbouring province with Savannakhet) was 1,000 Thai Bath and in Phongsaly (a northern province of Lao PDR) was about \$30 per ton during the same period.

Overall, the farmer received about 25,920 THB or about \$864 per hectare on average while their total production cost is estimated to be 73,910 Thai Bath or \$2,463, including clearing, land preparation cost and planting of the first crop (see Table 7). After each harvest, the debt instalment is automatically deducted from the revenue

179 Fullbrook (2007)

180 NERI (2011a, b and c)

181 NERI (2011a)

and only the rest is paid out. Should the revenue not be sufficient to cover the debt instalment, the farmer is nevertheless required to pay it back within 30 days. If the farmer is unable to do so, the company will charge an interest rate, which according to the contract is up to the company to determine in line with a framework set by the Central Bank of Lao PDR. Thus, the farmers are left with no flexibility to re-schedule their debt repayments.

A projection of fixed and variable costs over two years, taking into account interest payments and the cost of purchasing fertilisers to make up for declining productivity, suggests that the costs will continue to exceed total revenue, thus providing little chance for farmers to move out of debt.

Source: NERI (2011a)

Some contracts fix prices upfront, which on the one hand assures a predictable income, but at the same time limits the farmers' flexibility to take advantage of price increases following the signing of the contract. This can be particularly problematic in the case of rubber trees which take between 7–8 years to mature (though not all contracts require the villagers to sell their share of rubber to the investor¹⁸²). At times, buyers fail to purchase the agreed quantity at the specified price, in some cases even though the investor had provided seed and small quantities of chemical fertilizer on credit, leaving the farmers with perishable good they are unable to sell.¹⁸³ Examples from Oudomxay and Luang Namtha were also reported where buyers ended up paying lower prices than originally agreed.¹⁸⁴ It is important to note, however, that contract arrangements also often fail because the farmers do not hold up their end of the bargain, but end up selling their produce to other buyers.¹⁸⁵

182 Shi (2008)

183 MAF (2006) , World Bank (2008)

184 Chamberlain (2007)

185 MAF (2006)

Neither the investor nor the farmers have many possibilities to enforce their legal right, given that “contract farming agreements are virtually unenforceable in the present legal environment”.¹⁸⁶ The obstacles are even higher for farmers who often do not know how to file a law suit or do not have the time or money to travel to court and pay a lawyer.¹⁸⁷ Thus, disputes tend to be taken to district or provincial administrative officials and party officers.

Some local initiatives have attempted to better regulate and negotiate contract farming arrangements¹⁸⁸:

- In Houaphan and Champassak Provinces, for instance, local Lao investors have formed *provincial contract farming associations* to organise the contract farming for a particular crop (e.g. organic vegetables and *Jatropha* in Houaphan) and secure the right to purchase and market the crop in the province. The associations have agreed on “principles and regulations that define the terms and conditions of contract farming, roles and responsibilities of each party, and the penalties to be imposed in case of evasion of terms”.¹⁸⁹
- In some areas, *village-based farmer marketing groups* have been organised to facilitate contract farming negotiations and purchasing operations with Lao and foreign enterprises. Some groups have been initiated by the foreign companies themselves, such as marketing groups for maize production in Khammouane Province launched by Thai investors with the support of the agriculture and cooperatives office in the neighbouring Nakhon Phanom Province, Thailand.

To what extent these initiatives have been beneficial to villagers is unclear and would warrant further study.

¹⁸⁶ MAF (2006) , p24

¹⁸⁷ Fullbrook (2007)

¹⁸⁸ World Bank (2008)

¹⁸⁹ World Bank (2008) , p29

Table 12: Risks and potential impacts depending on the type of commercial farming

	Main Shocks	Concession farmers (wage labourers)	Contract and Smallholder farming (2 +3) (high ownership)	Contract farming 1 +4 (minimal ownership)
Natural disasters	Loss of labour for landless agricul- tural labourers. Result is loss of income.	Loss of income from lost crop. The severity of damage varies depending on the crops under cultivation.	Loss of labour and potentially loss of rent which is paid as propor- tion of harvest.	Major shock to farming that like- ly leads to lost production and rice deficits.
Rising food prices	Highly exposed to rising food prices because they de- pend mostly on income generation and purchasing their food.	Though house- holds usually con- tinue to plant sub- sistence crop, they are more ex- posed to potential rising food prices.	Though house- holds usually con- tinue to plant sub- sistence crop, households are more exposed to potential rising food prices.	Vulnerable to ris- ing food prices in times of pro- duction deficits requiring food purchase. Most pronounced in rice deficit prov- inces with poor market access.
Declin- ing access to nat- ural re- sources	Loss of important supplementary food and income source. Vulnera- bility depends on market access of other foods.	Loss of important supplementary food and income source. Vulnera- bility depends on market access of other foods.	Loss of important supplementary food and income source. Vulnera- bility depends on market access of other foods.	Loss of impor- tant supplement- ary food and in- come source. Vulnerability de- pends on market access of other foods.
Market volatili- ty	N/A	Highest market risk because of high ownership in production. Con- founding market risk is a poor reg- ulatory environ- ment.	Limited market risk because small ownership in production.	N/A
Fluctu- ating labour de- mand	This is the primary risk. It results in a loss of primary in- come.	N/A	N/A	May matter in a- vailability of la- bour as coping strategy.
Re- duced power	Likely to find themselves with reduced PP and purchases at the lower end of social hierarchies.	Likely to benefit from commercial- ization, positioned at upper end of social hierar- chies.	May benefit from commercialization ; depending on the success of their venture and their level of own- ership.	Likely to find themselves with reduced PP and at the lower end of social hierar- chies

Source: Wright (2009)

Exposure to risks of and competition in commodity markets

Cash cropping not only exposes farmers to the opportunities but also the risks of international commodity markets, and changes the nature and extent of farmers' vulnerability to external shocks, such as natural disasters, price and market volatility or fluctuating labour demand. Wright (2009) provides an overview of the possible impacts of different shocks on farmers depending on the farming system, i.e. concession, contract or subsistence farming (Table 12) .

The risks vary with different crops.¹⁹⁰ Perennial tree crops, including rubber, often take many years to cultivate and losses due to severe weather events, fire or price decline can pose serious risks to this long-term investment. Moreover, farmers are required to find alternative income sources while they are waiting for the tree crops to mature.¹⁹¹ Annual crops, on the other hand, tend to be less resilient to weather events, such as maize which is highly sensitive to drought. Prices can be volatile, even within a season.

Engaging in contract farming also exposes farmers to price volatilities in commodity markets. While they should in theory be able to benefit from global price increases, these increases are rarely passed on to the farmers, in particular if prices are already set in the contracts. Even if prices are not fixed, farmers may nevertheless end up accepting what is offered by the contractor due to limited market information or lack of alternative outlets. At the same time, contract farmers who switch from subsistence to cash crop agriculture may be negatively affected by rising prices for food commodities that they no longer cultivate themselves but have to purchase from elsewhere.

190 Wright (2009)

191 Farmers have sometimes been allowed to grow annual crops between the rubber seedlings for the first three years of operation (Obein, 2007) .

In addition, Lao farmers have to compete with other producers in the international market. In case of oversupply or price decline, Lao farmers risk quotas, tariffs or border closures imposed by investor governments to protect domestic industries. In Thailand, for instance, the government placed a 2-month ban on maize imports from Lao PDR, Myanmar and Cambodia at the end of the 2008 growing season in response to protests from domestic farmers over falling prices which they attributed to competition from cheap imports.¹⁹²

Environmental impacts

Large-scale conversion of land for plantation use will inevitably bring significant environmental changes. Primary or healthy secondary forest has been cleared to make way for land concessions, in part due to lack of information on prior uses of the land and poor mapping data.¹⁹³ Some companies were also found to have cleared more land than they had been allocated. Such activities often go undetected in the absence of an effective monitoring mechanism for investment activities. Deforestation can lead to significant losses in habitat and biodiversity, as well as fragmentation of habitats and destruction of migratory corridors.

Conversion to monoculture cash crops can also lead to soil degradation and erosion. Local farmers are often unfamiliar with the cultivation practices needed to protect soil fertility, such as the necessary regeneration periods and fertilizers.¹⁹⁴ Maize yields, for instance, decline rapidly without proper management, such as supplemental fertilizer application or crop rotation with legumes.¹⁹⁵ In addition, some crops, notably sugarcane and eucalypts, require significant amounts of water that may need to be diverted from other areas.

192 OHK Thailand case study

193 Schönweger and Üllenberg (2009)

194 Wright (2009)

195 World Bank (2008)

There are also reports of water pollution from herbicides and pesticides used in rubber plantations which has led to a decline in fish, crabs, shrimp, shellfish, turtles and stream bank vegetation.¹⁹⁶ Rubber trees were found to have been planted adjacent to water bodies without the legally required buffer zones. Labourers had not received sufficient training on how to apply pesticides and spraying equipment has been washed in streams. It was also found that the pesticides Paraquat and Atrazine, which are banned in many European countries, are being used extensively in maize production areas of Southern Sayaboury.¹⁹⁷

Changes in social structures

The proliferation of agribusiness investments has also brought many social changes to rural areas. Where households' livelihoods transitioned from self-sufficiency to wage labour, food security became dependent on income security, often from a single income source. In the assessment of rubber plantations, villagers said that they now had to buy almost all of their food which had not been necessary before. However, as elaborated above, work at the concessions is rarely permanent and incomes are generally low. Labourers have also struggled to get used to regulated working hours rather than being able to manage their own time.¹⁹⁸

Some areas have seen the arrival of migrant labour which can lead to social tensions with the locals. In Luang Namtha, for instance, Chinese labourers have come to work on rubber plantations in the North to make up for labour shortages, but also because Chinese investors prefer the "stronger work ethic, higher skills, and easier management" of their countrymen.¹⁹⁹ The investments have also brought along other Chinese small-scale businesses selling agricultural, electronic and other

196 Baird (2010)

197 World Bank (2008)

198 NERI (2011b) .

199 Shi (2008) p56

goods in local markets. While their arrival has likely improved villagers' access to more diverse and cheaper goods, it may also have displaced local traders or producers. The actual extent and impacts would benefit from further research.

Social tensions may also arise where the concession allocation results in local communities to be resettled to areas with existing villages. Moreover, traditional communities tend to have a close relationship with their land and associated spiritual places.

Government revenue that does not reflect the value of the resource

While the expansion of agribusiness investments has helped to generate government revenue (although how much is unclear), the income potential has not been fulfilled. The concession fees of \$3–9 per hectare per year are the lowest rates in the region.²⁰⁰ In comparison, Vietnam reportedly charges around \$20/ha/year while China receives up to \$50.²⁰¹ At times, the fees are not even collected.²⁰² Given the high demand for land in the region, Lao PDR seems to be in a good position to raise their fees. A tiered pricing system is being considered for Lao PDR that could go up to \$100/ha, but no changes have to date been made.

The government is also losing tax revenue as a result of tax exemptions granted to foreign investors. Experiences from other countries suggest that such incentives are unlikely to play a deciding role in investment decisions, in particular in countries with weak investments environments as found in Lao PDR.²⁰³ Studies in Vietnam, Indonesia and the Philippines, for instance, showed that between 70% and 80% of investment incentives were redundant, i.e. the investors would have invested anyway even in the absence of incentives.

200 Schönweger and Üllenberg (2009)

201 Hanssen (2007)

202 Chanthasay et al. (2005)

203 Baumüller (2009)

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Annex 1 : Foreign agribusiness investors in Lao PDR

There are numerous agribusiness investors operating in Lao PDR and the table below is not an exhaustive list but gives an indication of the breadth and depth of investors.

Name of Company	Country	Crop Planted
<i>Bokeo Province</i>		
Bokeo Rubber Leling Yang	China	Rubber
Bokeo Rubber Chin Xeng Limited	China	Rubber
Lao – China Bio – Technological Development Ly Hang	China	Rubber
ChingSeng Rubber Limited	China	Rubber
Bokeo Development Cha Phong Limited	China	Rubber
Yunnan Rubber Limited	China	Rubber
Bokeo Joint Venture Rubber Company Ltd	China	Rubber
Rubber Paosing Limited	China	Rubber
Bokeo Agriculture Development TeXane Ltd	China	Rubber
Lao – HuaXay Ni Hong Kiew Limited	China	Rubber
<i>Savannakhet Province</i>		
XongXieng Lao Rubber Development	China	Rubber
FEI – Industry and Agriculture Development Ltd	Korea	Agriculture and Livestock Production
Xan Paper Holding Company Ltd	China	Kathina Long Tree
Lao Oji Plantation Company Ltd	Japan	Industrial crop
Lao KhouangXa – Xyruco Company	Vietnam	Rubber
Mitr Lao Sugar Factory	Thailand	Sugarcane
Berla Lao	India	Rubber
Lao Thai Hua Company	Thailand/China	Rubber
Kuang Da	China	
Lao Che Tao Company	China	
Lao Phara Joint Stock Thai Hua Company	Thai/Lao/China	Rubber
Chine Duang Te Vane Company	China	
Savannakhet Sugar Corporation	Thailand	Sugarcane

<i>Khammuane Province</i>		
Best Tam Company	China	Cassava
YinValy Rubber Company	Vietnam	Rubber
Thai Jua Rubber	Thailand	Rubber
Xyong Sin Rubber Company	China	Rubber
<i>Vientiane Province</i>		
Asia Tobacco Export – Import	Lao/China	Tobacco
Xin Min Agriculture Development Company	Lao/China	Livestock Prod – uction, Rubber
Yong Phone Industrial Crop Plantation	Taiwan	Rubber
Chang Ku Yang Agriculture Rubber Promotion and Export Ltd	China	Rubber
Lao International Tobacco Ltd	China	Tobacco
Lao Yanag Yang Company Ltd	Taiwan/Thai	Maize, Jobstears, Rice
<i>Saravan Province</i>		
Golden Van Enterprise	China	Eucalyptus, Acacia
Chanachai Company	Thailand	Industrial trees
Kapa Lao –Switzerland Company Ltd	Japan	Jatropha
Lao Thai Hua Rubber Plantation Company	Thailand	Rubber
Sayo AA Company	Thailand	
CausuDakLak Company	Vietnam	
Hu Fu Ko S Company	Vietnam	Cassava
COECCO Company	Vietnam	
Codenone Company	China	
Mingdao Company	Vietnam	
Sumula Company	Japan	
Asian Agro –Corporation Company	Thailand	Cassava
Asia –Pacific Eucalyptus Plantation Company	Thailand	Eucalyptus
Lao Oji Plantation Company Ltd	Japan	Industrial Crops
Yao Tieng Company	Vietnam	

DakLuk Rubber Company	Vietnam	Rubber, Coffee, Cashew Nuts
Luang Prabang Province		
Luang Prabang Chong Le Rubber Ltd	China	Rubber
Sino –Lao Chilan Development Ltd	China	Rubber
Yunnan Rubber Investment Company	China	Rubber
Luang Prabang Biological Development Company	China	Cassava and Rubber
Luang Prabang Biofuel Company Ltd	China	Cassava and Sugarcane
Di Xine Company	China	Jobstears
Yunnan Lilieng Bio Development Company	China	Cassava, Sugg – arcane, Rubber
Luang Prabang KB Limited	China	Jobstears
Luang Prabang Pho ChingYengKiew Ltd	China	Jobstears
Lao Yang Yang Ltd	China	Jobstears, Maize, Rice
<i>Phongsaly Province</i>		
Chong Yun Muang La Sugar Factory	China	Sugarcane
XisongPhanna Pay Ko Natural Food Company	China	
Chiangsen Sugar Company	China	Sugarcane
<i>Luang Namtha Province</i>		
Mengpeng Sugar Manufacturing Company Ltd	China	Sugarcane
Lao –Yunnan Power Biological Products Co. Ltd	China	Cassava
Sino –Lao Rubber Company	China	Rubber
Yunnan Natural Rubber Company	China	Rubber
Cheungling Rubber Company	China	Rubber
Ruifeng	China	Rubber
Tongly –Jinggu	China	Rubber
Zenhua	China	Rubber
Jiachuang	China	Rubber

Thayjiang Company	China	Rubber
Diyuan Company	China	Rubber
Shengli	China	Rubber
Champassak Province		
Viet – Lao Rubber Company	Vietnam	Rubber
Asia Tech Company	Thailand	Industrial Trees
DauTieng (Yao Tieng) Company	Vietnam	Rubber
DakLak Rubber Company	Vietnam	Rubber, Coffee, Cashew Nuts
Attapeu Province		
Hoang AnhGia Lai (HAGL)	Vietnam	Rubber
Guaming Company	Vietnam	Rubber
DakLak Rubber Company	Vietnam	Rubber
Oudomxay Province		
Lee Sing Ko Company	China	Rubber
Jiangfong Company	China	Rubber
Sino – Laos Company	China	Rubber
Laos China Company	China	Rubber
Jongxay Company	China	Rubber
Chiantaly Company	China	Rubber
Bokeo Province		
Sino – Lao Company	China	Rubber
Jinsy Rubber Company	China	Rubber
Lihang Biological Technology Development Company	China	Rubber
Lialing Company	China	Rubber

Sources: Data from NERI; NLMA et al. (2009); Baird (2010); Shi (2008)