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Douglas Clayton on investing in Laos, one of the final frontiers

By Palash R. Ghosh | January 11, 2011 1:44 PM EST

Douglas Clayton, chief executive officer of investment fund manager Leopard Capital, is one of the premier investors of the frontier markets. Based in Phnom Penh, Cambodia, Clayton speaks to *IB Times* about the ramifications of Laos opening a stock exchange.

IBT: How far behind economically is Laos compared to its neighbors Vietnam and Cambodia?

CLAYTON: Laos is on par with Cambodia in development terms, but less advanced than Vietnam.

IBT: What advantages does Laos have? Is it primarily its rich natural resources? Does it have an educated workforce?

CLAYTON: Laos has attractive hydropower, mining, forestry, agricultural and tourism resources. But the country is landlocked, and its workforce is small and unskilled, so it is never going to become a manufacturing center.

Laos has the youngest population in Southeast Asia; the average age is just 20, so this society can evolve rapidly.

IBT: Who are Laos' biggest trade partners?

CLAYTON: Laos trades mostly with its neighbors Thailand, China and Vietnam.

IBT: How big is Laos economy compared with Cambodia and Vietnam?

CLAYTON: In GDP terms, Cambodia is almost twice as big as Laos, while Vietnam is 15 times larger than Laos.

IBT: The Laos regulators expect to raise $8-billion over the next five years? Do you think they can meet that target? If so, which foreign countries (companies) are most likely to invest in Laos?

CLAYTON: Thailand alone could easily provide $8 billion, which is only 3 percent of its own stock market's capitalization. But that target sounds ambitious, as in most countries it takes a lot longer for stock market capitalization to match the GDP size. Perhaps $1-$2 billion might be a better fundraising target for Laos.

The economies of Thailand and Laos will always be closely intertwined since Laos must use Thailand's ports to trade with the world. China sees Laos as a convenient resource supplier and a land bridge to ASEAN [The Association of Southeast Asian Nations], so China will invest in rail lines and highways to improve land transport across Laos.
These two countries will bankroll Laos' build-out, but not necessarily all through the stock exchange.

IBT: Laos is still a Communist country; what steps have they taken to make their country a more attractive place to invest?

CLAYTON: The foreign investment rules have been streamlined and liberalized. For example, they now let foreigners lease land for 99 years, and offer faster investment approvals and better tax breaks. Foreign investors can own 100 percent of an approved business.

IBT: What are the biggest drawbacks to investing in Laos?

CLAYTON: Laos moves at its own pace and some patience is required. Government-linked companies dominate the economy. The human resource pool is shallow. There are [also] the usual frontier market issues involving contract enforcement and corruption.

IBT: South Korea provided half of the financing to set up the Lao exchange. What is their angle in Laos?

CLAYTON: Korea aspires to become an Asian financial center and has helped develop both the Lao and Cambodia stock exchanges. Perhaps the Korean exchange hopes to attract some cross-listings of Laos companies in Korea, but this seems to me like a tough sell.

IBT: Has your firm participated in buying any Laotian shares?

CLAYTON: We picked up around $2.4 million of [Electricite du Laos] shares in the IPO. This [state-owned electricity supplier] company is one of the government's crown jewels and should deliver solid returns.

IBT: How many years do you think it will take for Laos to become a viable investment vehicle for foreign investors?

CLAYTON: It took the Vietnam market around 6-7 years to start to attract much foreign attention, and I wouldn't expect Laos to be any faster. But at least now Laos has started the long journey.

IBT: Have the recent market upheavals in Bangladesh made investors more skittish about the frontier markets?

CLAYTON: The Bangladesh market was so wildly overheated and speculative that few foreigners were still invested when it finally corrected. Thus Bangladesh shouldn't have any contagion effect on other markets.