This dissertation aims to examine the impact of the inflows of FDI on Laotian economy. More specifically, the empirical inquiry of this dissertation covers the following three questions. First, how the FDI inflows into the natural resource sector has contributed to the economic growth in Laos. Second, how the linkage of the garment industry, which is the leading FDI driven manufacturing industry in Laos, with the global production network has affected firms’ performance. Third, how inequality in Laos has changed and its relationship with FDI inflows.

The analytical result substantiated that Laos has gained from the inflow of FDI through capital accumulation and economic growth. In addition, high inflation and real effective exchange rate appreciation have caused a negative effect on growth in Laos, implying the important role of macroeconomic stability. The case study of Laotian garment industry verified industry-level evidences of the role of FDI in Laotian economy. Although the competitiveness of garment industry has indeed declined, garment firms in Laos have been upgrading their technological capabilities to a certain extent. FDI is an important source of technology and human resource development supports for local subsidiaries whereas local firms rely on their foreign buyers and suppliers to provide the technological supports. However, participation in the global production network alone does not always come with technological transfer. Ownership type and regional linkage are not significant in explaining Laotian garment firms’ technological capabilities. Export intensities and the quality of host institutions are found to be important for firms’ technological improvement.

The empirical analysis on the change in inequality in Laos and the link between widening the disparity and increase in FDI has derived several important findings. First, based on many inequality indicators the study found that inequality in Laos has increased between 2007/08 and 2002/03 when there was a large inflow of FDI into the natural resource sector. Asset inequality increased at a more rapid pace
compared with the conventional consumption inequality. Second, inequality decomposition found that consumption inequality was largely contributed from within-growth disparity while the major sources of asset inequality is between-group inequality. These empirical evidences suggest that Laos requires different type of policy in order to respond to these different types of inequality. Third, urban-rural disparity become smaller in consumption expenditure but wider in asset. Using growth incidence curve analysis, the presence of urban poverty problem is found in Laos. Fourth, inequality has a negative impact on poverty in Laos. Finally, the rise in inequality in Laos was influenced by the inflow of FDI. The areas with higher FDI inflows are found to have higher inequality in consumption expenditure and in asset. This is due to the unevenness in the distribution of FDI across sectors and regions. Therefore, the gains from FDI are not distributed equally across regions and sectors.

The analytical results and related discussions in this study have several policy recommendations for the policy making community in Laos. Laos needs to diversify FDI inflows into non-resource sector and promotes more even distribution of FDI across regions. In the short-term, the policy should aim at minimizing the risk associated with natural-resource-sector-oriented economic growth while in the middle term, the Laotian government will have to put in place a policy framework that encompasses incentives for a higher level of employment generation and a viable strategy for industrial transformation to a higher value added and a higher technology-intensive, export-oriented manufacturing sector. In the long term, the policy should aim at transforming the Laotian economy from a natural-resource-based economy to a more sustainable one. In order to correct inequality in consumption expenditure, region-specific measures should be implemented to rectify inequality among people residing in the same area whereas broad-based policy measures are needed to rectify inequality in assets.

Photos

With my Japanese advisor on the graduation day

Taken with my friends at the Graduate School, Reitaku University