

CHAPTER VI

CONCLUSION

6.1 Summary of finding

Regional economic developments of Savannakhet and Mukdaharn have been promoted under Lao and Thai's economic policy and the framework of the government's land-linked development strategy within the context of regional integration and globalization. The general objectives of economic development are to promote economic growth and reduce poverty, and thus entered into several regional trade and cooperation agreement such as ASEAN, Greater Mekong Sub-region and ACMEC.

The establishment of new investment businesses in Mukdaharn and Savannakhet over the past two decades are not very high compared to major economic area in the GMS region. Most of new investments are agriculture and mine in Savannakhet, while service sector such as logistic are fastly growing in Mukdaharn. For those who are employed, wages are generally low. For example, the current wage for preparing land in urban areas is USD 3 per day in urban area.

The research finds greater levels of economic activities along some part of Sanvannakhet and Mukdarharn provinces, the impact of the FDI and domestic investment tends to be much greater. At the village and household level of two provinces, living standards have reportedly risen over the past two decades. Clearly, there has been some impact of the regional economic development. Generally, there finds to have higher income and consumption levels. The direct benefits, however, appear to be mainly along the major communication arteries, operating through the labor market and the services sector (hotels, restaurant, guest houses).

However, the level of economic activity in the investment area in Savannakhet and Mukdaharn is quite low because most local people have little or no interest in investment activities. They have not yet developed the skills and traditions of

production. There is a concern that Savannakhet will not have the capacity to supply human resources (labor) for industrial work, because the local people are mostly untrained. This also represents a constraint on foreign and domestic investment, since it will be very costly to train a large number of unskilled employees. However, some believe that such concerns may not be a problem since another large industrial project in Savannakhet, gold mining, has not met with such difficulties since they use foreign labor as a source. The large area of Savannakhet still containing unexploded ordnance left from the war creates further hardship for local people and discourages foreign investment because of concern for safety. People living in the eastern part close to Vietnam border seems to experience more impact. The cost of bomb removal is very high, creating financial difficulties for Savannakhet and those responsible for this work.

For Savannakhet and Mukdaran, the transition from central planning to market-based operations driven by FDI and domestic investment is by no means an easy task. The process faces many challenges and entails painful adjustments. It is new ball-game not only for the bureaucracy, which has a lot to unlearn before it can effectively and efficiently handle the new policy environment, but also for the people, who are not used to making economic decisions. This problem is compounded by such deficiencies as infrastructural bottle-necks and shortage of skilled manpower. Legal framework is incomplete, especially with respect to property rights in the absence of which foreign and domestic sector initiatives cannot flourish.

The impact of regional economic development in Savannakhet and Mukdaharn will be examined in various ways. Assessments of welfare, work opportunities, poverty and other indicator will give a general picture of how the lives of household members have been influenced by FDI and domestic investment.

The finding of the study in the two selected areas indicate similarities such as rural people poverty circumstances and differences in terms of economic development level, socio-economic activities, impacts and the challenge/constraints faced. Savannakhet focuses on promotion of FDI in order push the overall growth of economic activities, while Mukdaharn focus on trade and tourism, the province has developed the logistic and service sectors to promote and distribute the products among GMS countries. Furthermore, Savannakhet has good potentials to promote economic growth

in the future since the province rich in natural resource and labor. Savannakhet is a middleman city for transferring goods to Vietnam and Thailand. While Mukdaharn is a gate way to Indochina which has a good infrastructure, new technologies, skilled human resource, both provinces have a good geographically located in Greater Sub-Mekong Region. Savannakhet and Mukdaharn considered these potentials as a good source to promote economic growth and moving toward the modernization and industrialization, the goal is to bring prosperity societies.

Agriculture is the most important economic activity in the study areas. Most agricultural households are small especially in Savannakhet and produce just enough to feed themselves. With little access to agricultural land, farmers need to rely on irrigation and use more fertilizers and pesticides to increase production. Farmer in Mukdaharn seems to operate their land more efficiently than farmers in Savannakhet. They also have better access to markets; partly through the system of contract farming that is in place there. Irrigation areas are relatively small, and use of fertilizers and pesticides is not very common in both areas. Increased agriculture production in the future will depend on whether or not farmers are willing to embark on more intensive agriculture. In interviews related to the most important means of improving living standards, owning more agricultural land was the measure most commonly mentioned, together with the employment opportunities.

Overall, people in Savannakhet and Mukdaharn provinces have a positive perception of how their welfare has changed over the past two decades, with most feeling that there has been an improvement in their lives. The most significant improvements are in education, personal security, income, public health, food and transportation. Some people do have negative perceptions. For instance, they think that social problems have become worse. The number of people who see improvements in their living standards is higher than the number of people who think the opposite, with changes in laws and policies and changes in access to roads and other services seemingly tipping the balance

In addition, based on the capacity of the rural people, especially, in Savannakhet most of the poor do not have their own perception on the impact of economic

development; this is based on their low education and access to information as well as the opportunity to participate in the economy activities.

The reality is that benefits from economic development are often distributed unequally to different groups of people in society. But does this lead to difference in how people perceive their welfare situation? In Mukdaharn, almost all rural people felt that there had been improvements in education, personal security and income, while most urban people recognized improvement in education, public health and transportation. On the other hand, some rural people thought that public health, transportation and social security had been improved while in urban area, people considered income, food, public health and transportation as being better today. There are thus few differences between rural and urban areas in Mukdaharn. There are various reasons for these perceptions. People attributed improvements in their living standards to changes in laws and policies, changes in access to road and other services and the expansion of non-agricultural work.

Savannakhet and Mukdaharn are not very different in term of policy and vision which is all time aim to promote economic growth, reduce poverty by encouraging industrialization. However, both governments using difference approaches as a key boosting economic growth, Savannakhet prefers using FDI as a means and Mukdaharn opts for domestic investment. Nevertheless, the outcomes of these difference approaches are lead to the same result since it brings together positive and negative impact. Meanwhile, gap between urban and rural are still exist, poor are left behind the rapid economic growth, this is because of government and investor's policies tend to invest and focus in urban city. The governments have also long recognized that untrammled growth is not enough to address poverty and most have adopted various other strategies

The main limitation on the Lao side is not so much about policy but lack of investments, poor bargaining power and poor governance, while its twin city, Mukdaharn, faces with the political instability during the period of doing research creating negative effect to overall development policy.

6.2 The Role of FDI and domestic investment

Foreign direct and domestic investments have played a key role in speeding up economic growth and reduce poverty such as:

- Emergence of township and economic activities- new concrete houses, market, guesthouse and restaurants, trade and services activities such as petrol stations, auto mobile repair shops and other micro enterprises
- Expanded job opportunities and income generation –greater movement of labor and increased jobs from investment projects.
- Increased commercialized production – cross-border transfer of knowledge and cheap inputs resulting from better connectivity: complementarily between the EWEC and rural road access –cash crops, livestock, contract farming and export-oriented production.

In addition FDI and domestic investment make improvements in social indicators such as:

- On expenditures side –betterment in the living conditions through reduced costs of transport –better access to cheaper consumer goods and food stuff;
- Improvements in access to economic and social services for remote and border areas;
- Improvements in health care, reduced morbidity and mortality rates. Building of cluster hospital along the investment area;
- Increase access to education, increased enrollment rate, especially basic and secondary education for girls and ethnic minorities;
- Better control of HIV/AIDS and other transmitted diseases through cross-border and regional cooperation.

During 1990-2006, Mukdaharn and Savannakhet governments have implemented many development projects including mega projects such as Special Economic Zone in Savannakhet and Distribution Center in Mukdaharn, those project

using huge natural resource and budget in order to improve infrastructure and human resource, the goal is to reduce poverty. Both FDI and domestic investment activities have contribute and increasingly subsequent improvement of living standard of the people, local population can benefit from employment opportunity, offering some benefits to those working in the projects, as well as participating in certain facilities made available by the projects, etc. The serious indictment is that investment generates profits, but these profits largely remain unshared by the people and numbers of people living in poverty are still high. However, both Foreign direct investment and domestic investment appear not very successful on reduce poverty.

Savannakhet government began to appreciate the proven advantages and success of hosting FDI as seen in the decades of rapid growth and development. Foreign capitals have been harnessed to stimulate the development potentials rather than exploiting and draining the natural and human resources. The success brought by external economic reform and investment liberalization, particularly of Savannakhet's use of Special Economic Zones .This transitional economy has turned positively to the promises and ability of FDI to fruitfully serve their diverse purpose, namely: solving the problem of the lack of domestic investment resources and the need for foreign exchange to finance capital and technology imports as well as access to international markets.

Savannakhet and Mukdaharn, lists numerous incentive, in particular infrastructure improvement, in order to attract FDI and domestic investment to develop the investment area. However, the implementation of this policy is still not successful due to a lack of funds and an insufficient institutional framework. Great efforts need to be made to realize the objectives of this policy. Major work remains to be done on basic infrastructure construction (road networks, electricity, water supply, warehouses etc.), and the organization of technical, administrative and managerial staff. The economy is still not well developed because it emerged only in the late 1990s as a "new economic area."

6.3 Poverty reduction

Economic growth and poverty reduction are part of same package, and one cannot be achieved at the expense of the others. There are positive and negative impact of FDI and domestic investment on poverty reduction. In general, the living standards of people have risen over the past two decades; the most significant improvements are education, personal income, public health, food and transportation. However, direct benefits appear to be mainly along the major communication arteries and some investment areas, and are often distributed unequal to different groups of people in Savannakhet and Mukdaharn provinces. Inequality between urban and rural, rich and poor are still exist and become worsen.

Despite rapid economic growth, many regions in Savannakhet and Mukdaharn continue to confront the challenge of high levels of poverty (16.4% in Mukdaharn and 15% in Savannakhet). The governments have also long recognized that untrammelled growth is not enough to address poverty and most have adopted various other strategies.

The main difference between the two provinces is that those who consider themselves as very poor are more numerous in rural Savannakhet, for rural areas, few households believe they are rich. Possession of durable goods, the value of transportation and farm equipment and the consumption level reflect poverty. Rich households have more capital and durable goods than poor households. Access to land and the value of land are probably good indicators of the perception of poverty. Access to land can generate food for household and if large enough, can be an important source of income, in both provinces remain the large gap between rich and poor.

Savannakhet and Mukdaharn's case study of the poor in rural have thrown up multiple examples of how such mismanagement by investor and policy maker exacerbated poverty by introducing inappropriate technology, create new local "community" structure that have dispossessed the poor .

Main trends in investment projects with respect to poverty as observed so far are:

- Most of the projects involve infrastructure and many people say they are better off because of infrastructure (roads, schools, clinics, markets) that

allow access to the sale of goods and the purchase of new goods, and to health and education services.

- Agricultural production, however, has not improved and has often become worse, especially after village relocations, and is not sufficient for sustainable livelihoods.
- Livestock disease remains a major problem and has not been resolved.
- Roads are said by villagers to be “good” because they allow villagers to access markets for the sale of forest products which they rely upon for subsistence but which they say are consequently being depleted.
- Only a few individuals in each village have become wealthy and are benefiting in an unequal way from infrastructure projects.

Mukdaharn and Savannakhet have not very successfully consolidated its social foundations to promote sustainable development, so many people are unable to properly adjust to, and protect themselves against, rapid changes associated with globalization and the new economy. Some people, especially the poor and the underprivileged, lack access to the existing social security system. Urban and rural disparities have significantly increased, chiefly as a result of the segmented development approach used in the past, which separates urban from rural sectors. Urban growth, therefore, does not contribute to prosperity in the rural sector. Meanwhile, structural problems exist on a national scale, such as drugs, public insecurity, growing corruption, and the deterioration of the culture, which is affecting cohesion among the people. Natural resource and environmental degradation is accelerating, due to rehabilitation constraints. These problems drastically affect the quality of life and state of well-being of the people, and destabilize social foundations.¹

6.4 Recommendations

¹ National Economic and Social Development Board, Office of the Prime Minister, The Ninth National Economic and Social Development Plan 2002-2006 (Thailand: Kurusapa Press, 2002), p. 35.

There is an urgent need for the government to provide financial resources to develop basic infrastructure (land allocation, road and electricity networks and water supply) in the investment in remote areas in Savannakhet and Mukdaharn, which can facilitate private trade and investment.

Development policy must be long-term, given the far-reaching poverty and under-development characterizing many sections of the Corridor. Investment, economic development growth and poverty reduction are part of the same package, and one cannot be achieved at the expense of the others. Rather, a balance must be struck between investments that are needed to lay the foundation for sustainable long-term poverty reduction, and those investments that have an immediate impact on reducing poverty.

Savannakhet and Mukdaharn governments should implement complementary policies to counter negative distributional impacts of market-oriented, such as social protection mechanism and skills and training programs. It should also stress the need for a partnership between the public and private sector to develop new economic activities and industries that generate new employment opportunities that do not bypass the poor.

It is necessary to take measures to put the decree on the Special Economic Zone in Savannakhet and establishment of Center Market for Distribution in Mukdaharn into effect in order to provide incentives to attract domestic investment and FDI. In the case of the investment zone, there can be an incentive policy to attract and promote local investor and those from provinces to open handicraft shops and other store selling various Lao and Thais products such as handicraft, coffee, tea etc. In addition there could be campaigns that encourage tourist who may wish to transit this area to travel to Vietnam as well as nearby provinces that have well-known tourist attractions. These activities will prolong the stay of tourist in Savannakhet and Mukdaharn and increase earnings.

Savannakhet and Mukdaharn governments should develop a clearer framework outlining the ways in which economic activities can lead to poverty reduction and a set of methods for assessing whether economy have been, or is likely to be, poverty reducing. In addition, it is necessary to have indications for further research which will

generate recommendations for policy-makers seeking to increase the extent to which economy program reduces poverty. Savannakhet government needs to focus on improving education and business skills in order to create their own value, instead of relying on foreign investment, if the economic gains are to be sustained over the long term.

As a next step, it is necessary to develop urban infrastructure (financial, social, transportation, security, hospital, tourism, hotels and restaurant services). In order that local people in the investment areas to gain maximum benefits, they should be offered priority for employment. Necessary steps to facilitate this include the provision of appropriate education and training, in particular in services, construction, food processing, engineering etc. the administrative committee of the planning and investment must encourage local people to get involved in economic activities.

However, the poverty situation and social impacts of investment activities are still major subjects of concern and have some implications for policy formulation. The government or the relevant authorities have to find ways to boost economic activities and employment opportunities in the investment areas so that households will receive more benefits than at present. Household should be encouraged to become involved in investment activities either by producing something to sell in the market or by providing services to people who are working in the investment area. Only with much more effort can the benefits of investment activities be maximized.

Policymakers should focus on radically improving the quality of basic health care and education available to region's disadvantaged.

To improve the welfare of the poor along with the economic growth, Savannakhet and Mukdaharn governances should addressed four aims (1) Empowering the poor; (2) Improving the capacity of the poor by improving basic services; (3) Providing economic opportunities by increasing access to markets; and (4) Providing security from economic shocks and from corruption, crime, and violence. It is hoped

that through these program, the goal of lasting poverty reduction and improved governance in Savannakhet and Mukdaharn can be finally achieved.²

Good governance is a necessary prerequisite for poverty reduction, because of the following: (1) without good governance, the scarce resources available are not generally put to their best use in combating poverty. This is often due to a lack of transparency, out of control corruption, and an uncertain legal system which hinders the economic growth that could help pull the poor out of poverty; (2) Good governance is necessary if all aspects of poverty are to be reduced, not just through an increase in income, but also through empowerment and increasing the economic, political and social opportunity for the poor.

It is expected that improved governance will create an economic and political climate that will increase economic growth and eventually draw the poor populace out of poverty. A lack of economic opportunities is often significantly associated with a higher intensity of political violence.

The impacts during the course of economic development can be lessened by strengthening capacity building and transparent collaboration between investors and governments, particularly local authorities and communities.

Ultimately, there should be approximate balance between the various dimensions and sub-dimensions of development; economic, political, social, cultural, and ecological.

People and authorities in Savannakhet and Mukdaharn should learn from each other experience, as well as Savannakhet is now still lack of experience and capacity, so they can learn from the experience of how Thais and neighboring countries work and organize their investment and institutions and how investors and local and central authorities cooperate. However, in order to boost economic development in the area, local authorities need to develop their capacity in economic organization and

² Yasutami Shimomura, The Role of Governance in Asia (Singapore: Institute of Southeast Asian Studies, 2003), p. 30-32.

management as well as experience among GMS and ASEAN countries could be of great value in such process.