

# CHAPTER IV

## ECONOMIC DEVELOPMENT AND POVERTY REDUCTION

### 4.1 Introduction

To remain economically competitive in the 21st century a nation must be able to secure resources beyond its borders and protect itself from other nations trying to do the same. While the situation has been shown to be more complex, the original assumption among world system researchers remains that multinational corporate penetration in the periphery can have negative effects on their prospects for economic development. But we now know that these negative effects upon long-term economic development can be prevented. The existence of a strong development state can be critical for this protection. In addition to supplying 'good governance' (as the World Bank now calls it), a strong development state can provide protection in the global economy so that multinational corporate penetration is benefit rather than harmful to less developed nations. But given the importance of a strong development state, it is surprising that little research has been directed to the question of how a nation acquires a development state and 'good governance.' To begin answering this question, this research focuses on the Lao PDR and Thailand. After examination of the wide contrast among the two countries with respect to economic development and poverty reduction, a comparative-economical analysis is employed to develop models which help explain these contrasts.

Of political and economic strength of the less developed nation like Lao PDR under the colonial rule, what was done or not done in the country by the colonial power, and how the colonial power left have the potential for disrupting or delaying a country's chances for strong economic development with poverty reduction.

The Government has recognized that regional economic development is integral to the development of the Lao PDR; meanwhile, poverty reduction became the main purpose of the Government's Long-Term Strategic Framework implementing the

poverty reduction strategy through annual poverty reduction efforts. The Government's Sixth Five-Year Plan focuses strongly on socio-economic development and substantial poverty reduction by the year 2010 in the country.

Laos hope to have fast- growing economy in the sub-region that can help reduce poverty by providing access to markets, extension services, income and employment opportunities, thus enhancing development potential.

The Government's poverty reduction strategy reaffirms that eradicating poverty and accelerating the pace of social development are the nation's most important long-term strategic goals. The poverty reduction strategy describes the Government's plans to help the country meet the Millennium Development Goals by 2015 and to graduate from least developed country status by 2020.

There are ample opportunities for investment and economic expansion in Mukdaharn and Savannakhet. The weaknesses of the country at the time of doing research were political instability in Thailand, while in Savannakhet a lack of clear and transparent administration, exchange rate instability and a lack of good international banking and financial systems, skilled labor and good infrastructure. It described the Savannakhet province as a area with ample natural resources. About two-third of its land has been utilized for agriculture. Its major constraints are different to those of Mukdaharn which have well developed in infrastructure and skilled labor power, and a good international banking system. Savannakhet has relied on imports such as construction materials, food, medicine, fuel, transportation and electronic goods.

The numbers of impacts of economic development on Mukdaharn were identified. For example, there is labor immigration from Savannakhet into Mukdaharn because of wage differentials. There is an increasing tendency for trade between Mukdaharn and Savannakhet because of different comparative advantages. The impact on Mukdaharn is the possibility of becoming a hub for processing raw materials and food processing, and a gateway for investment and trade in Savannakhet.

Mukdaharn and Savannakhet can be viewed as strategic gateways to the Mekong sub-region. But with the modern and well developed market compare to Savannakhet, and an important source of technology and knowledge, Mukdaharn is certainly

interested in greater market access for its exports, especially of processed goods. It is keenly interested in developing market clusters where neighboring markets are closely linked to its raw material, technology and investment. It is also aware of the increasing need to be able to shift sunset industries to cheaper or lower (labor) cost centers. Mukdaharn is also positioning itself to emerge as a regional economic hub, at the center of a dynamic region consisting of Myanmar, Laos and Vietnam. It has thus entered into several regional trade and cooperation agreement such as the Greater Mekong Sub-region...

Closer to home, Thailand changed its border policy towards Laos in the 1980s, when it introduced a policy of converting the Indo-Chinese ‘‘battleground into market.’’ This marked a sharp change in Thai policy toward its immediate neighbors, who were hitherto viewed primarily from the point of view of security risks and security threats, in the context of the aftermath of the Indo-Chinese wars, while border trade of a sort did exist even then, this was mainly related to highly exploitative relationships based on timber and forest product – activities that benefited a relatively few influential people on either side of the border.

Following the formal reopening of the Thai border in the late 1980s, Thailand signed agreement with Laos to set up Joint Committees on Cooperation in 2000, along with an agreement on investment promotion and protection. Thailand has an AISP agreement (ASEAN Integrated System of Preferences) with Laos. Under this agreement 152 items are eligible to be imported from Laos. The AISP facility has been an initiative to provide benefits to new members of ASEAN like Laos to speed up its integration with the original member. This involves the ASEAN-6 granting tariff-free imports for selected products from beneficiary countries.<sup>1</sup>

#### **4.2 The importance of rapid and sustained economic growth**

The principal importance of economic growth for poverty reduction in the LDC does not mean that inequality and exclusion can be ignored. Efficiency-expanding

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<sup>1</sup> K.A.S. Murshid, The Cross Border Economies of Cambodia, Laos, Thailand and Vietnam (Development Analysis Network, 2005), p. 5-6.

redistributions of assets and income are important for sustained economic growth and poverty reduction institutions of generalized poverty. The behavior of the small proportion of the population who are rich is also relevant. Sustained economic growth depends on them using their high incomes and wealth in ways such as reinvesting profits in domestic production, which support capital accumulation productivity growth and employment expansion. Respect for rights also matters.<sup>2</sup> But simple priority should be to double average household living standards.

#### **4.3 Rapid economic growth and social progress**

Laos and Thailand will continue to pursue the objective of achieving rapid economic growth, which is seen necessarily linked to its aspirations to promote equity and social progress. Many advisors, however, see these objectives as mutually contradictory, or as simply impossible to meet simultaneously. Savannakhet has a redundancy of labor and a shortage of capital compared to Mukdaharn. Therefore, to stimulate investment, it is often argued that high profitability must be offered to capital, while labor should be subjected to low wages, that is to say a large rich-poor polarization should be tolerated. Some advisors even conclude that widening social inequity is not only an outcome but also necessary condition or “cause” of rapid economic growth.

Other experts take a more moderate view. Economic growth should be given priority first, to be followed by social equity; we can only hope to realize social equity three or four decades later. In the first half of the transition period, the majority of people (especially the majority of the rural work force) are destined to experience dire poverty; but then, during the second phase of development, their living conditions may gradually catch up. However, there exist theories and practical experiences which show that some developing countries have managed to attain rapid economic growth at the same time that they are improving social equity.

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<sup>2</sup> United Nations Conference on Trade and Development, The Least Developed Countries Report 2002: Escaping the Poverty Trap (New York and Geneva: United Nation, 2002), p.7.

An examination of Laos' experience during the process of renovation, and with reference to some other-country theories and patterns of agricultural and rural development would seem to show:

It is possible and necessary to promote economic growth linked with social equity – that is to encourage people to get rich in a legal manner and, at the same time, to make the best efforts to eradicate hunger and alleviate poverty at each step during the entire process of industrialization and modernization. We cannot afford to wait until a high level of economic development has been reached to begin bringing about social equity, nor should we “sacrifice” social equity for the sake of merely promoting economic growth.<sup>3</sup>

In the process of shifting to a market economy with a socialist orientation, the pursuit of social equity should not only be based on regulation and redistribution of income among various strata of people. What is more important is to continue with institution reforms to ensure that all citizens, in both urban and rural areas, and particularly those who are disadvantaged or deprived, are able to gain access to some means of production, to benefit from basic education, health care, vocational guidance and training, and to receive assistance in difficult times so that they can fend for themselves and their families. In so doing, we can assist “the poor people to attain self-sufficiency, the self-sufficiency people to become well-off, and the well-off people to get better-off; everyone will know how to read and to write, and will practice unity and patriotism”. It should not, however, turn back to the pre-renovation infantile error of exercising social equity by means of egalitarianism or equal distribution of wealth, regardless of the quality, quantity and effectiveness of production, or from an arbitrary estimate of a person's “contribution to the community.”<sup>4</sup>

For each period plan of development, a rational “does” of balance (as in Hegel's perception) should be struck between promotion of economic growth and the realization of social progress and equity. We should not let these two spheres get in the way by countering or negating each other, but should find ways by which they can support and complement each other. Therefore, in the rural areas, the programs of hunger eradication and poverty alleviation should be interwoven with various other economic,

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<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

social, cultural development and environment protection programs. These include program for population and family planning, job creation, economic restructuring and efforts to achieve a more sustainable utilization and management of natural resources.<sup>5</sup>

In regard to policies directly related to hunger eradication and poverty alleviation in rural areas, attention should be focused on overcoming the causes of hunger and poverty, of which the two most important are shortage of capital, and a lack of knowledge and skills in production and business undertakings. To resolve these deficits successfully, it should bring into full play the appropriate roles of the state, the communities, and the citizens themselves. The state should focus on the renovation of mechanisms and policies, and on organizing their implementation. The communities should bring into play the tradition of “mutual care and assistance” and “let the leaf that is still whole shelter the leaf that is torn” which has deep roots in rural areas. The citizens should each energize their efforts with a view to better utilizing their labor potential, other resources, and their entrepreneurial talent in undertaking new production and business pursuits.

In short, the abovementioned issues of agricultural and rural development in the process of industrialization and modernization are centered on bringing into full play the nation’s human resource potential. This involves everybody (men and women, individuals as well as communities) simultaneously as the powerful motive force and the highest goal in striving rapid, efficient, and sustainable development in all its economic, social, cultural, and environmental dimension.<sup>6</sup>

#### **4.4 Economic Development and Social Policies**

The process of renovation in Laos (NEM) officially started in 1986, and since then expanded in all areas. The renovation process has reduced bureaucracy and the state-subsidy system, developed the multi-sector market-oriented economy, and

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<sup>5</sup> Peter Boothroyd and Pham Xuan Nam, Socioeconomic Renovation in Vietnam: The Origin, Evolution, and Impact of Doi Moi (Singapore: Institute of Southeast Asian Studies, 2002), p. 44-46.

<sup>6</sup> Seiji Finch Naya and Joseph L.H. Tan, Asian Transitional Economies: Challenges and Prospects for Reform and Transformation (Singapore: Institute of Southeast Asian Studies, 1995), p. 10.

initiated an open-door policy. This has resulted in many important achievements, but at the same time has created a number of social problems which need to be studied and solved in time.

For instance, market-oriented development has made the economy thrive; however, it has also caused the differentiation between rich and poor people. The acceptance of the capitalist private economy will allow this sector to expand production and business operations, creating more material wealth and commodities for society – but it could also lead to the exploitation of man by man. Following the abolishment of the stated-subsidy system, many state-run enterprises have encountered difficulties and even bankruptcy, making a large number of workers jobless and further heightening the already tense problem of unemployment. The emphasis on economic accounting has made production and business operations more efficient, and simultaneously resulted in the commercialization of aspects of education, public health, and especially arts and culture, causing serious deterioration in these areas.

The emphasis on market-based distribution of incomes and the abolishment of subsidies has, in both urban and rural areas, stimulated labor activity. However, the incomes of families who are “special policy” beneficiaries (families of war dead, or disabled soldiers), have been reduced, thus causing many difficulties for these families. The strengthening of external economic relations through the “open door” has on the one hand helped Laos attract more foreign investments and advanced technologies but, on the other hand, introduced lifestyles that are not in conformity with traditional customs and practices.

The above examples show that apart from its important achievements, the process of renovation has raised many problems that need to be considered and solved. First, the development of theory is necessary as the basis for planning concrete social policies that have significant impacts on the development of society.<sup>7</sup>

The renovation policy initiated in 1986 has brought about major changes in every aspect of Laos society, first and foremost in the economy. Laos was seriously

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<sup>7</sup> Peter Boothroyd and Pham Xuan Nam, Socioeconomic Renovation in Vietnam: The Origin, Evolution, and Impact of Doi Moi (Singapore: Institute of Southeast Asian Studies, 2002), p. 141.

destroyed by many years of war, ranking the poorest amongst the former socialist countries, and suffered from the US embargo. Now, the country has sustained a high-growth rate, has ended famine, reduced inflation – all of which has contributed to the maintenance of social ability. While being proud of these successes, we should also look carefully at problems that still need to be solved or are likely to emerge in the economic as well as social fields.

For the country to develop sustainably and with continuing social progress, it is essential that balanced, harmonious relations between economic and social factors, as well as between economic and social policy, be established. The goal of “rich people, strong nation, and equal, civilized society” requires as much. While NEM has been comprehensive, most attention has focused on the economy and the renovation of economic policies. It is now time to pay equal attention to social policies. The renewal of social policies should be based both on fundamental principles, and on the particular conditions and traditions of this country. To advance from a command, centrally planned, and state-subsidized economy to a market economy under control of the state, Laos has had to change a number of its economic policies. These include the diversification of forms of ownership, acceptance of private proprietorship, multi-lateralization of the external economy, and price liberalization. These changes have enabled people, and enterprises of all types to do business equally as per the law. Every economic entity is protected with the rights of ownership and legal income, and is free to contact, seek market, choose technology, and determine the scale, type, and form of business. These policy changes have produced an economy that is more vibrant than one could imagine before the renewal process.

People are more dynamic since Laos embarked on a market economy system. Waiting, relying on one's superior and the state is attributes that have almost disappeared. New policies and the market apparatus have stimulated innovation by executives, managers, and workers; effectiveness in production and business is now the major focus.

It is certain that in view of the economic open-door policy, the full membership of Laos in ASEAN in 1997, and the normalization of relations with the US, the process of renovation will create even bigger achievement. Nonetheless, it can already be



affirmed that the gains resulting from renewal of economic policies have made everyone believe in achieving the target of “rich people, strong country, equal and civilized society”.<sup>8</sup> The policies have also terminated the previous chronic crisis of a deficit economy, and created the material basis for the gradual renovation of social policies.

The economic achievements brought about by renovation are impressive, but the social influence is not so clear. Reforms in economic policies do not immediately lead to positive effects in the social field; on the contrary they are the source of evil at some times and in some places. The market economy is still in the initial stage in Laos, but it already reveals both positive and negative phenomena in a variety of social aspects. These need to be considered when making social policies.

Economic activities that are considered to be progressive must enhance the potential to satisfy the increasing material requirements of the population, and to raise their social living standards. Development of infrastructure and material welfare is not an end in itself, but is rather the basis for enabling each person to realize his or her full potential in all respects. In reality, social progress and economic development are not only inseparable but are supportive of each other as well. Economic growth and development are required for the realization of social objective. To successfully achieve economic aims it must establish the essential basis for obtaining social one. Conversely, it is impossible to sustainably achieve social objectives if they are beyond the society's economic capacity.

Although the settlement of social problems cannot be achieved without economic growth, it is wrong to think that if there is growth, social problems are automatically solved. Therefore, we cannot wait to develop a rich economy before starting to consider and resolve social problems. Ignoring social policies would have negative consequence and lead to disorder. In view of the strong impact of social policies on the economy, sound social policies would contribute, if effective, to economic development. Conversely, inappropriate social policies sometimes negate economic achievements or create obstacles to economic growth. These relationships

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<sup>8</sup> Ibid., p. 14.

reflect the dialectical integration of the economy and the society, particularly in the case of the market economy.

Although economic growth is a guaranty and promise for carrying out social policies, it is incorrect to think that if economic growth is high, there will not be any social problems. Eventually, economic growth in a market economy would likely result in many great positive outcomes, but on the other hand it can produce a lot of difficult social problems that must be solved in timely fashion through the means of adequate social policies. Unless regulated by the state, economic changes would lead to the excessive polarization of rich and poor. Geographically, it would deepen differentials between regions, first and foremost between urban and rural, among various areas on the plains, and among the plains, midlands, and mountainous zones. The flow of people into cities who are seeking employment would increase, with the result that social evils would also increase.

The move toward the market economy changes value systems and standards. It turns them upside-down compared to those in the centrally planned and subsidized economy, and erodes traditional value. In relation to nature, economic growth often leads to undue exploitation – improperly using, wasting, polluting, or destroying nature and natural resources. Every environmental consequence eventually impacts humans; thus, the state's interest in social policy requires it to prevent economic activity from causing environmental deterioration.<sup>9</sup>

Many policies introduced by the administration of former prime minister Thaksin Shinawatra such as crop price guarantees, an oil price subsidy and state-owned banks' easy credit were only good at temporarily improving the living conditions of the poor.

A comprehensive welfare system was increasingly necessary because the poor had been left out of the existing system. They were also vulnerable to unexpected events

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<sup>9</sup> Ibid., p. 149-151.

such as unemployment, illness, accidents and natural disasters causing them to lose opportunities in education and improved well-being.<sup>10</sup>

#### **4.5 Social stratification, hunger eradication, and poverty alleviation**

The principal elements leading to rich-poor polarization and social stratification are property, intellect, prestige, or power. These elements are in turn related to the process of labor division, and the splitting of lines and occupations, which are based on “forced production tendencies” in society. It may be added that the above causes of social stratification do not so readily operate in a natural, self-sufficiency economy; they become a dynamic for stratification of income and living standards only in a market economy. That is to say, they depend on the ability. In other words, property, intellect, prestige, or power must be turned into market capital.

In Laos, before renovation, the dogmatic cognizance of “class differentiation” which would necessarily take place in the countryside after land reform, precipitated a campaign for agricultural collectivization, accompanied by the imposition of a “centralized, bureaucratic managerial mechanism” and “an egalitarian distribution principle” on the cooperatives. All this stagnated production, and thus rendered social stratification in the countryside almost negligible. But, since Laos has shifted to market-oriented economy, rich and poor polarization and social stratification have become clearly prevalent in both urban and rural areas.

“Rich” and “poor” are relative concepts, indicating the difference in income and living standards between various strata of people in a country during a given period of time, and it is difficult to offer a uniform criteria of rich and poor to apply to all countries and to different periods of development. According to concepts used by the World Bank and the Environment and Social Commission for Asia and the Pacific (ESCAP) since the 1980s, the poverty line of the developing countries has been determined by the cost of foodstuffs essential to preserve life at an average level of calorie intake around 2. 100- 2. 300 calories per day, per person.

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<sup>10</sup> Bangkokpost, 11 Oct. 2007

Social stratification in term of both household incomes and living standards is an inevitable outcome of the process of shifting to a market economy. In Laos today, land is still regarded as being under “all-people ownership,” and the peasants enjoy the right to stable, long-term use of land (not exceeding the ceiling set for each region). Moreover, the market economy is still under state management and regulation, so that social stratification is basically not due to the “expropriation and pauperization of the majority” of poor people to concentrate wealth in the hands of a minority of rich people.<sup>11</sup>

#### **4.6 Consolidation of Mukdaharn and Savannakhet social foundations**

Mukdaharn and Savannakhet have not 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.<sup>12</sup>

The global economy is increasingly complex and interrelated; accordingly, Mukdaharn and Savannakhet cannot avoid changes resulting from rapidly changing patterns of trade, investment, and financial liberalization. Advances in science and technology, especially telecommunications and information technology, enhance

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<sup>11</sup> Peter Boothroyd and Pham Xuan Nam, Socioeconomic Renovation in Vietnam: The Origin, Evolution, and Impact of Doi Moi (Singapore: Institute of Southeast Asian Studies, 2002), p. 32-33.

<sup>12</sup> 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.

interrelationships and speed transmission of impacts of economic events. The depth and speed of such change affects economic stability and the ways of life of people. Past economic growth in both provinces were achieved through an increase in input usage primarily capital and labor while productivity continuously declined. The economy still depends on foreign capital and technology, but lack good economic and corporate management, and thus is ill prepared for the effects of trade and financial liberalization. The structure of the economy at present is still weak and vulnerable to outside force.<sup>13</sup>

The domestic economy remains affected by the global economic slowdown, current uncertainties in the international financial and trade environment, as well as pressures from increasing competition. Thus, development processes must aim to find opportunities in this rapidly changing and challenging environment to strengthen the economy and society. There is need to make the economy more resilient and self-reliant, building protection against the adverse affects of internal and external changes.<sup>14</sup> This requires better preparation for trade negotiations; increased coherence in domestic and international economic policy in order to reap the benefits and avoid negative affects of globalization, trade liberalization, and foreign investment; and advances in knowledge and technology such that Mukdaharn and Savannakhet people will gain the highest benefits from development processes.

#### **4.7 Poverty and Social Issues**

As is to be expected in an economy with a per capita income of only about \$350, a large rural sector, and weak infrastructure, poverty is widespread in the Lao PDR. According to the preliminary result of an extensive expenditure and consumption survey conducted in 1992 and 1993, roughly half the population lives in or near poverty, with a somewhat higher occurrence in the south than in the north, and with a much higher incidence in the rural sector than in urban centers. Given the limited resources available for improving social infrastructure, government spending on education and health has

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<sup>13</sup>Ibid., p. 69.

<sup>14</sup>Ibid., p. 72.

been very low in the past. Total per capita expenditure on education and health in the 1994/95 budget reached just \$15 and \$16, respectively, which is among the lowest in the region.<sup>15</sup>

In contrast to many other low-income provinces with estimated GDP per capital 17,000 bath/year for Savannakhet while that in Mukdaharn is 28,944 bath/year; since Mukdaharn advantage from modern technology, skilled labor, management experience and in term of capital. Savannakhet is well endowed with natural resources. It has untapped reserves of agricultural land, large forests, hydropower potential, and mineral resources that, when efficiently exploited, could contribute substantially to economic progress. However, the province also faces very serious disadvantages. Its landlocked position, rugged terrain, low population density, and widely dispersed settlements generate high transportation and communications cost and render broad, equitable improvements in social and economic infrastructure expensive. Furthermore, the province continues to suffer from the adverse impact of the war, including the loss of life and the exodus of a large number of laborers.<sup>16</sup> Therefore, the authorities face the difficult task of promoting economic development aimed at spreading benefits evenly throughout the province.

Table 4.1 showed public investment in Savannakhet during 2001-2005, the figure indicated that government spend largest budget for economic development (156,137.06 million kips), followed by social sector (25,679.18 million kips), 3,750.00 million kips for rural development and other investment account for 52, 728. 32 million kips

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<sup>15</sup> Ichiro Otani and Chi Do Pham, The Lao People's Democratic Republic: Systemic Transformation and Adjustment (Washington, D.C: International Monetary Fund, 1996), p. 5.

<sup>16</sup> Ibid., p 6-7.

**Table 4.1 Public Investment in Savannakhet, 2001- 2005**

Unit: million Kip

No.	Type	Number of Project	Total
<b>I</b>	<b>Economic</b>	<b>444</b>	<b>156,137.60</b>
1	Forestry	320	105,872.79
2	Industry	49	16,483.58
3	Transportation	117	33,214.46
4	Trade and Tourism	18	611,7
<b>II</b>	<b>Social</b>	<b>163</b>	<b>25,679.18</b>
1	Education	64	13,322.42
2	Public Health	54	7,429.76
3	Information	27	3,688.91
4	Labor and Social Welfare	18	1,238.09
<b>III</b>	<b>Rural Development</b>	<b>54</b>	<b>3,750.00</b>
<b>IV</b>	<b>Other</b>	<b>238</b>	<b>52,728.32</b>
	<b>Total</b>	<b>899</b>	<b>23,8295.10</b>

Source: Department for Planning and Investment of Savannakhet province

**4.8 Comparison of Economic Development in Mukdaharn and Savannakhet**

In Savannakhet – the thrust of official policy, the opportunities open to investors, and the ground rules for resource exploitation – will perhaps not be clear or open to understanding without some reference to its evolution.

The agriculture and forestry industry in Savannakhet and Mukdaharn and the manufacturing industry in both provinces had high backward and forward linkages. Foreign exports and consumption were found to have higher employment multipliers in Mukdaharn and Savannakhet, respectively. Mukdaharn was also found to have

higher net foreign exchange earnings, implying that the Thai province may be able to add greater value to its exports than the Lao PDR province.

The economy of Mukdaharn is smaller than that of Savannakhet in terms of the volume of economic activities. Its total available supply of goods and services in 2003 amounted to US\$601.9 million at current producers' prices, compared to Savannakhet's US\$811.5 million.

In Mukdaharn, local production accounted for 77.1% of total supply, slightly lower than Savannakhet's 80.7%. Mukdaharn's economy is therefore more dependent on imports than Savannakhet, with imports comprises 22.9% of its total supply, against 19.3% in the case of Savannakhet's. Both economies are also highly dependent on imports, while Savannakhet is relatively slightly more dependent on Mukdaharn for its supply requirements. Compared to Savannakhet, local (domestic) demand accounted for a lower proportion of total demand in Mukdaharn. One significant finding is the higher share of investment in total demand in Savannakhet (15.0%) than in Mukdaharn (10.4%). As can be observed below, this could be due to the higher concentration of manufacturing industries owned by foreign companies in the economy of Savannakhet. Both provinces appear to have different patterns of production. In 2003, a large share of economic activities in Mukdaharn was concentrated in the services sector (47% of its total output), versus only 20.8% in Savannakhet. On the other hand, the industry sector in Savannakhet contributed proportionally more to output than its counterpart in Mukdaharn. Specifically, the manufacturing industry in Savannakhet had a share of 34.0% in Savannakhet's output, which was much higher than the corresponding share of 23.9% in Mukdaharn. The agriculture and forestry sector in Mukdaharn contributed 17.4% to total output, which was much lower than the corresponding share of 26.6% in Savannakhet. In 2003, approximately 39% of the total supply of goods and services in both provinces was consumed by the production sectors, while the remaining 61% was absorbed by final local demand and external demand.<sup>17</sup>

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<sup>17</sup> Benson Sim, Francisco Secretario, and Eric Suan, Occasional Statistical Paper Series No.1. Developing an Interregional Input-Output Table for Cross-border Economies: An Application to Lao People's Democratic Republic and Thailand (Asian Development Bank, July 2000)



However, fairly significant differences can be observed in the structure of demand of the various sectors. For instance, slightly over half of Mukdaharn's supply of agriculture and forestry products was consumed by intermediate demand in 2003. In contrast, a hefty 72.6% of Savannakhet's supply of agriculture and forestry products was absorbed by the intermediate sectors. This could be attributed to the fact that in Savannakhet, a large proportion of the supply of agriculture and forestry products, notably paddy, livestock, and poultry, was used as intermediate inputs by the food manufacturing sector, while in Mukdaharn, a large share of its supply of agricultural crops was exported.

Comparing the structure of final demand by expenditure component and by sector for the year 2003. Savannakhet had a higher investment rate (24.5%) than Mukdaharn (16.9%) in 2003. This could be due to the more significant role played by the manufacturing industries in the economy of the former. In contrast, Mukdaharn appears to be more export-oriented than Savannakhet. Exports took up 26.4% of the final demand of Mukdaharn, versus 15.9% in the case of Savannakhet.<sup>18</sup>

The distribution of the components of final local demand by origin for 2003, in both areas, the bulk of final consumption demand was sourced locally. Interregional flows of goods for final use were not as significant as imports.

The income and employment multipliers for the agriculture and fishery, wholesale and retail trade, and public administration industries in both provinces were generally higher than those of most other industries. This can be attributed to the highly labor-intensive nature of these industries. Interestingly, the electricity and water supply industries in both provinces had one of the lowest employment multipliers but fairly high income multipliers among all the industries.

The industry structure of Mukdaharn province is similar to the Northeast province, most of industries are agriculture processing industry, 50% of 366 factories in the province are rice mill factories with low registered capital (5.71%) of total capital.

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<sup>18</sup> Ibid.

Through the province there are some industries with the high registered capital such as the sugar factory with 14.08 of total registered capital.

In Mukdaharn 58.47 % of total industry are located in Mueang Mukdaharn follow by Khamcha-I and Dongloun, with proportion 10.93 % and 8.74 % of total factories, respectively.

**Table 4.2 The proportion of industry in Mukdaharn**

District	Number of factory	Per cent of factory	Capital (Bath)	Per cent of capital
Mueang Mukdaharn	214	58.47	661,265,619.00	93.13
Khamcha-i	40	10.93	4,471,000.00	0.63
Nikhom Kham Soi	29	7.92	29,222,500.00	4.12
Don Tan	8	2.19%	9,146,000.00	1.29
Dong Luang	32	8.74	1,849,500.00	0.26
Wan Yai	23	6.28	2,308,000.00	0.33
Nong Sung	20	5.46	1,791,200.00	0.25
<b>Total</b>	<b>336</b>	<b>100.00</b>	<b>710.053,819.00</b>	<b>100.00</b>

Source: Industry Department of Mukdaharn

#### 4.8.1 Comparing the development potential

- With the exception of certain resources-rich areas and labor, Savannakhet and Mukdaharn are not suitable for large-scale industrial development because its regional economies and domestic markets are small in scale. The product for export still very low because of weak infrastructure and lack of new technology, for Mukdaharn has to use the raw materials from

other major cities such as Bangkok or Khonekean which has high cost for transportation.

- Compared with Savannakhet, Mukdaharn has fewer exploitable natural resource (except those offered by the Mekong), as well as smaller land and populations.
- Both provinces' economies centered on agriculture (which here includes forestry in Savannakhet).
- In addition, Savannakhet is landlocked and has no direct access to the ocean. Surface routed must pass through Thailand, Vietnam, Cambodia or Myanmar.

#### **4.9 Economic or development: creating or ameliorating poverty?**

While there may be satisfaction in some quarters at the national economic picture-reflected in the World Bank's rather glib take on progress in Lao quoted above-and a real sense of 'no going back', this is more than counterbalanced by growing concern at how economic growth is being translated into 'development' at the local level. The NEM, as it is often discussed in government documents and other reports, becomes a disembedded and disembodied reform strategy. Disembedded in the sense that the way these policies intrude into geographical space is only cursorily considered, and disembodied to the degree that the human impacts are rarely addressed. We have, therefore, a vision of the economics of modernization, but not the progress of development.

The tendency, though, is to read-off 'success' from the aggregate statistics of sustained economic growth and falling poverty: sine 1990 growth has been achieved, poverty has fallen, and indicators of human well-being have been on an upward trend. This has tended to disguise, however, the underside and side-effects of economic expansion. Compared with neighboring Thailand where there has been a long and sustained critical take on the fast-track industrialization strategy pursued by successive

governments. However, the picture from both countries is, on the whole, one-dimensional, lacking in both alternative narratives and nuance.

Laos faces the problems and opportunities inherent in its relatively high birth rate, which in 1998 stood at an average of 5.48 live births for each woman of childbearing age. In 1999 alone, the country's population grew by 2.44%, which meant that its real economic growth, at 5% of GDP, was equivalent to growth per capita at less than 2.5%.<sup>19</sup>

To begin with, the ultimate goal of the economic development and poverty reduction process has to be clear, the ultimate focus in on people. The goal is nothing more or less than the poverty reduction and sustainable improvement to the quality of life of the population. The goal is not about the sectors of production, not about locational development, not about environmental improvement, and not about political development, rather these are the means through which poverty reduction and sustainable improvement to the quality of life of the people can be attained. The reason, of course, is that there are intimate links between what exists in the present and the future. Disparities in the present may prevent achieving the economic development, poverty reduction, and especially sustainable development of the future.

#### **4.10 The relationship between economic growth and poverty reduction**

If there is a sustained increase in average levels of private consumption in the Savannakhet and Mukdaharn provinces, the incidence of poverty will normally fall sharply.

In situations of generalized poverty, in contrast, since the majority of the population fall below the poverty line, growth and poverty reduction are necessarily linked. Redistributive transfers can play a direct role in alleviating the worst aspect of poverty. However, generalized poverty, as we understand it, is a situation where the available resources in the economy, even when more equally distributed, are barely

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<sup>19</sup> Patrick Heenan and Monique Lamontagne, Regional Handbooks of Economic Development: The Southeast Asia Handbook (USA: Fitzroy Dearborn, 2001), p. 152-153.

sufficient to provide for the basic needs of the population on a sustainable basis. In these circumstances, poverty reduction can be achieved on a major scale only through economic growth. What is possible is indicated by the dramatic effects of rapid and sustained economic growth on the incidence of poverty in those low-income regions which, beginning from a situation of generalized poverty, have managed to achieve sustained growth.

As the average levels of income and private consumption of the population as a whole rise, there is a high probability that certain regions and social groups will be left behind. This will be more likely to happen to the extent that discrimination on the basis of gender, ethnicity, race or social status prevents people from enjoying the potential benefits of assets and skills, or denies them the opportunity to acquire those assets and skills. The danger of certain groups being left behind can be lessened through policies that are undertaken to reduce their marginalization. Also, particular attention should be paid to gender relations and the special needs of economically dependent groups such as the disabled, children and old people.<sup>20</sup>

Savannakhet government considers them appropriate planning and investment coordination entities to maximize the use of their potential, to priorities foreign investment, and, in doing so, to eradicate basic poverty everywhere. Though there may be differences in development levels among the provinces forming a region, each region faces a set of particular challenges that make it an appropriate reference point from which to plan development and eradicate basic poverty.

Savannakhet is increasingly promoting regional development planning and investment in order to efficiently enhance appropriate poverty monitoring and an improved livelihoods for the multi-ethnic population, while at the same time addressing each region's particular set of issues and identifying solutions. This highlights the Lao PDR's determined commitment to regional integration, to the Greater Mekong Sub-region, and to ASEAN in general.<sup>21</sup> The government encourages all regional initiatives

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<sup>20</sup> United Nations Conference on Trade and Development, The Least Developed Countries Report 2002: Escaping the poverty Trap (New York and Geneva: United Nation, 2002), p. 75-77.

<sup>21</sup> Lao PDR, National Poverty Eradication Program: Background Document (Vientiane, September, 2003), p. 95-95.

that lead to increased economic activities and thus to sustainable growth and development and increased revenue flows to the budget.

#### **4.11 Impact of Regional Economic Development**

The regional economic developments provide an overlook at the opportunity to bring together the opportunity and challenge on human and economic development in Savannakhet and Mukdaharn.

East-West Economic Corridor is an important program to serve the economic growth in the Mekong region; in contrast, along the road No.9, smuggling across Savannakhet and Mukdaharn borders is the concern challenge of Laos and Thai government. At the moment, the scope and magnitude of the smuggling activities are not only a serious threat to regional economic development, but it has the potential for developing distrust among those who share borders, armed conflict and other illicit activities along borders that could affect regional security.

The second problem is associated with drugs trafficking, Savannakhet and Mukdaharn provinces consider this problem as a serious threat to regional development because two sides have been known for its illicit drug production and trafficking, the phenomenon can observe from the daily Thai and Laos medias showing the number of drug traffickers have been increased in this region.

Migration issue in Savannakhet is one of the impacts of the social-economic factors, Thailand's economy is in need of cheap labor in industries such as fishing, fruit-growing, entertainment and manufacturing, while on the other, Savannakhet offers few job opportunities other than subsistence farming to young people for whom schooling often does not constitute a long-term alternative.

Mukdaharn which is the hub of the migrant from Laos, the issue of labor movements in the two provinces have increased substantially in recent years, from the "poor" areas to their relatively "rich" one. Mukdaharn and Savannakhet political leaders and government officials have expressed their concern about this issue, that it may

affect regional economic development since they have challenge lack of local labor to serve the growing investment activities. However, the problem is that they are uncontrolled and undocumented. Like in other provinces in both countries, a number of illegal migrant workers have been responsible for serious crimes and authorities often found it difficult to trace them.

Prostitution and AIDS are phenomena that reveal best the two faces of the links that tie the "sister cities". The opening of frontiers and development of commercial trade between the two countries appear to have led to an increase in the number of Lao women prostitutes and AIDS in Savannakhet. A number of Thai men now increasingly pursue commercial sex across the border in Savannakhet.

The situation which is associated to the environmental degradation as one of the key problems that connects with economic development implications is deforestation. The deforestations have caused soil erosion and fertility loses and unfortunately floods. Thailand is an outstanding example of this. According to Mukdaharn's report in 1997, there are 1,001,785 rai of forest area and number of deforestation is 156,407 rai (40,000 rais per year). Savannakhet government adopted measures to preserve their forest land by partial or full prohibition of domestic logging. This environment degradation has created deforestation and other consequences including armed conflicts along the border between government officials and illegal poachers or between poachers themselves.

One of the challenges is the increasing disparity in political development. Mukdaharn is perhaps more advanced in democratic government though remaining doubtful, while Savannakhet still vulnerable in many respects, especially in politics. However, for both provinces, the possibility for political instability remains high.<sup>22</sup>

Thailand's cultural and economic ascendancy over Laos generates ambiguous and deviating effects, oscillating between attraction and repulsion. Thailand is what Laos should never become for some Lao, including the Lao authorities.

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<sup>22</sup> Sharon Siddique and Sree Kumar, The 2<sup>nd</sup> ASEAN READER (Singapore: Institute of Southeast Asian Studies, 2003), p. 123-125.

In spite of their cultural, linguistic and geographical proximity, the two peoples on the opposite banks of the Mekong retain this peculiar combination of closeness and strangeness toward one another, as if the relationships between the two countries were mediated through a distorting glass. “The Lao and the Thai peoples share similar culture and tradition, but Laos has managed to preserve her culture”, in a comment one frequently hears from Thai tourists returning from urban regions of Laos (their favorite destinations in Laos), upholding an image of Laos imbued with nostalgia and bemoaning thereafter the ‘lost authenticity’ of their own country. In the eyes of these Thais, Lao society and culture thus appear like the Thailand in the past (the “genuine” Thailand), that is, before the double effects of modernization and globalization.<sup>23</sup>

From a sense of shared ethnic origins to forming one community of identity would not be, however, an accurate description of the relations between the peoples of Savannakhet and Mukdaharn. The sharing of cultural, religious and family ties does not erase economic inequality and dissimilar social realities, nor does it obliterate people’s sense of national belonging.<sup>24</sup>

In both study areas, social problems seem as the main negative effect of regional economic development. These social problems include crime, drugs, prostitution and outside cultural influences. These problems not only persist in these areas but are also among the most worrying social problems associated with the opening up country.

The impact of 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 opening FDI and domestic investment.

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

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<sup>23</sup> Maria Serena I. Diokno and Nguyen Van Chinh, *The Mekong Arrange & Rearranged*, (Thailand: Mekong Press, 2006), p. 58-59.

<sup>24</sup> *Ibid.*, p. 59-60.



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, be an important source of income, in both provinces remain the large gap between rich and poor, urban and rural.

When examining changes in the trend of living standards of households since 1990s, the conclusion is clear.

The reasons for improved living standards appear to vary between urban and rural households in Savannakhet and Mukdaharn. Urban households think that better living standards have arisen from the fact that more members in the household have been able to work and generate income. Increased agricultural land and more job opportunities at the investment area in both provinces are important. The fact that more household members are able to work may be related to the opening up of more employment opportunities in the investment area. Improvements in household living standards thus appear to be related to investment activities.

Improvements reported in Savannakhet and Mukdaharn are definitively not in terms of employment opportunities, since there is only one case in which a household member has obtained work as a result of investment activities. The survey further reveals that improvements in the living standards of urban households are a result of the households owning a larger area of agricultural land than before and more family members generating income for the household. Rural households have a somewhat different opinion. Most rural households see that their living standards have improved because they now own more agricultural land and the yield have increased. In addition, some households think that the improvement in their living standards is of increased work opportunities at the investment area and along the main road. These major reasons may not be directly linked with the opening investment. But it may be indirectly linked, for instance, the fact that rural households have a higher agricultural yield may result from better access to information, seeds and fertilizers, which are normally more advanced in Mukdaharn.

The most visible benefits of investment activities could be the increased supply of goods and opening up of more employment activities in the investment areas. This conclusion is confirmed by the overwhelming support for the opening up of the investment by households in the area and the better living standards many households have experienced. Especially in Savannakhet, households that do not cross the border may benefit from the fact that Vietnamese, Chinese and local trader bring in various products to their distant villages. 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.

#### **4.12 Modernity and the culture of national crisis**

For many people, ideas of economic development are linked to concepts of modernity. 'Modernity' in its broadest sense means the condition of being modern, new or up-to-date, so 'the idea of "modernity" situates people in time'. Because of social, economic, political and cultural dynamism, what is 'modern' will change over time and also spatially. What is 'modern' in one place may be 'old-fashioned' elsewhere.

However, more specifically, 'modernity' has been used as a term to describe particular forms of economy and society based on the experience of Western Europe. In economic term, 'modernity' encompasses industrialization, urbanization and the increased use of technology within all sectors of the economy. This application of technology and scientific principles is also reflected within social and culture spheres. For some, this diffusion of modernity is interpreted as 'development' and 'progress',

while for others it is associated with the eradication of cultural practices, the destruction of natural environments and a decline in the quality of life.<sup>25</sup>

The relationship between trans-nationalization and state power is obviously more diffuse than what the proponents of globalization would have us believe. Speaking of Southeast Asia, the most tenable conclusion is that globalization has overdetermined both the state's consolidation of power and its structural and cultural vulnerability. Transnationalization and regionalization remain a crucial consideration simply because they have been the major features of state economic policies which saw a significant change from import-substitution to export-orientation.

On the issue of cultural impact, it is important to highlight a singular fact, which is that, besides seeking a greater role in global capitalism in the international division of labor, the state is also concerned with the need to find its places in the modern world. The need is primarily about satisfying a social and cultural desire for the aura – and symbolic capital – of capitalist modernity. In late nineteenth and early twentieth century Europe, capitalist modernity constituted a maelstrom of fervent and yet ambivalent experiences, traceable to a myriad of factors, including:

the industrialization of production, which transforms scientific knowledge into technology, creating new human environments and destroys old ones, speeds up the whole tempo of life, generated new form of corporate power...; systems of mass communication, dynamic in their development, enveloping and binding together the more diverse people and societies; increasingly powerful nation states, bureaucratically structured and operated, constantly striving to expand their powers; ... finally, bearing and driving all these institutions along an ever expanding, drastically fluctuating capitalist world market.<sup>26</sup>

Clearly, there has been something of this whirlwind of changes in Southeast Asia over recent decade, particularly since the 1980s. Like the Berman's rendering of the life of European modernity, what took place at the height of the "Asian economic miracle" can be similarly described in terms of general experience, a pervasive cultural

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<sup>25</sup> Katie Willis, *Theories and Practices of Development* (Routledge, 2005), p. 12-14.

<sup>26</sup> Berman Marshall, *All that is Solid melts in to air: the Experience of Modernity*. New York: Penguin Books, 1988, p. 16.

mood of confidence and progressivism which infected most people, especially the professional middle classes.

If the reward of economic development remain unevenly distributed among the poor and disenfranchised, the culture of Asian modernity is dramatically resolute in other realms: in the architectural of the Special Economic Zone in Savannakhet (including the huge casino) currently under Prime Minister Office or Distribution Market Center Plan at Mukdaharn... projects like this exude a magic of high modernity so dramatically described by Berman, yet going much beyond. What they express is a mixture of narcissistic “Nation pride/region pride” and an anxious desire to “match” Western achievements; thus the sheer speed, density, and dramatic spectral quality of these urban construction and industrial projects.

However, for Berman, the experience of Western modernity propelled by industrial capitalism has not been all optimism and progressivism. In the dramatic changes where nothing seems to stand still and even the most profoundly sacred and traditional “melts into air”, the culture of modernity simply “loses its capacity to organize and give meaning to people’s lives”.<sup>27</sup>

Such an objective has meant the provision of economic and labor policies which facilitate capital’s pursuit of low cost of production, mass market, and investment returns. It is, in short, the active courting of transnational capital and its rewards which explains many state practices. Nevertheless, the serving of global capital is not to suggest a surrender of national interests and cultural agendas. Indeed what has emerged, particularly in rapidly developing Thailand and Laos, is the (re)drawing of local and regional agendas on the wider canvas of globalization.

Modernity is always an ambiguous mixture of local needs and global ambitions, national/communal aspirations a desire for their transcendence. Complex and varied discursive efforts have gone into the making of such modernity. What such an enterprise suggests is the attempt by the state – and some sections of civil society – to

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<sup>27</sup>Yao Souchou, *House of Glass: Culture, Modernity, and the State in Southeast Asia* (Singapore: Institute of Southeast Asian Studies, 2001), p. 9-11.

maintain the social and moral integrity of communities while they actively seek the fruits of global capitalism and find a place in the modern world. For the nation-state, the pursuit of modernity thus implies several things: economic development, the consumption of Western goods and services with a cosmopolitan aura, and seeking a greater profile on the international stage among others. However, this modernity too will carry its own betrayal. For what nation-states in Southeast Asia have been made to realize is the fact that the fruits of global capitalism will always have their social, cultural, and financial costs. It is near impossible to execute the agile double move of harvesting the benefit while selectively shutting our culturally and politically undesirable influence, against such a complex background, what we witness in many Southeast Asian states has been the evocation of another round of "anti-West cultural imperialism" rhetoric, the common ideological diet of the Third World in the 1960s. The new "anti-West" discourse highlights the moral dangers of a range of "Western" product and value, from Playboy magazine to the Internet, individualism to consumerism, urban crime to sexual promiscuity. These are invested with an awesome power of corruption which, if not effectively controlled, would bring Asian communities to their knees.<sup>28</sup>

The response of Southeast Asian to Western modernity is thus immensely subtle. The need for economic development has meant an open courting of the benefits of modernity: Western education, technology, and foreign capital (not to mention nationalism and parliamentary democracy). At the same time, governments also attempt to seal off their societies from what they see as undesirable imports for the West, of things ranging from foreign newspapers and journals to girlie magazines and occasionally rock music and Hollywood films. Such a closure has not proved to be easy in the condition of globalization. With the rapid flow of goods, capital, people, information, ideas, and culture across nations and societies, globalization simply means the opening up of societies whose values and traditions are now subject to external influences and scrutiny.<sup>29</sup>

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<sup>28</sup> Ibid., p. 15-16.

<sup>29</sup> Ibid., p. 59-60.

#### 4.13 Shifting from Agriculture to Modern Industry

Savannakhet and Mukdaharn's development path is also one of the most interesting as it negotiates the transition from subsistence to dependence, from command to market and, in the longer term the government hopes, from poverty to prosperity. A node of poverty lying at the geographical core of the world's most dynamic region, the two provinces are being progressively drawn into the wider Greater Mekong Sub-region. The spatial, market and mental integration of the population of provinces are advancing as boundaries become more permeable, mobility rises and, more generally, as people are drawn into the mainstream.

By most measures Savannakhet and Mukdaharn remains one of the world's poorest and least developed regions, while the bulk of population may live meager lives, this should not be equated to the grinding poverty associated with some other 'least developed' provinces. The challenge for Savannakhet and Mukdaharn is not how to deal with famine or ultra poverty on a wide scale, but how to ensure that modernization does not undermine and fragment the livelihood systems that are in place. This does not mean that Savannakhet and Mukdaharn should reject the neo-liberal modernization/development project that is central to the National Economic Development Plan. There is little doubt, the 'ordinary' rural Lao and Thai harbor a vision of the future framed in terms of the modernization project: better health, more education, closer links with the market, higher incomes, more consumer goods, better services and so on. It is also the case that existing, traditional livelihood systems are coming under pressure and, in more than a few places, are beginning to fragment. Where Laos, perhaps, is different is that despite its membership of the club of Least Developed Countries, it has more latitude and a less pressing need to end up the present in pursuit of the future. There is both time and space to be moderate and pragmatic.

The danger is that in setting in place the structures and mechanisms to achieve the modernist ends of the development project, something important will be lost. For many this may not be significant-Out with the old! In with the new! But a line of evidence presented in this research proposes that in uncritical embracing the new, real damage can be done, whether in terms of livelihoods, the environment, or sustainability

more broadly. In embracing pro-poor growth, the international development agencies have acknowledged the need to refine the former 'growth at all cost' policies.

Thailand reveals either the tragedy of the modernization project or the paucity of tradition. Modernization is necessary and has been very broadly positive in the Thai case. But the risks are all too clear. In promoting physical integration there is the danger of social disjuncture. In accelerating transition there is the treat of differentiation. And promoting modern there is the peril that it may undermine sustainability.

#### **4.14 Alternative Approaches to Economic Restructuring**

##### **4.14.1 The Rural Approach**

As compare to Thailand, Laos' reform is long-term and developmental rather than radical and rapid. In this context, Laos' development and restricting programs was in general set out in a multi year forward plan prepared at the central government level. This positive thinking is an outcome of socialist idea which always focuses at the poor and labor class. Planned objectives are for the most part development: to expand jobs, crease agricultural production and exports, develop industry, and replace import with domestic output.

Priority attention is to be placed on promoting economic activities at the grassroots level to stimulate economic recovery and alleviate poverty in both rural and urban areas of the country.

Development of grassroots economies will hinge on empowering communities and building on cultural and local wisdom potentials. The creation of livable cities and communities to upgrade the quality of life should also be emphasized. The establishment of area-function-participation mechanisms should be accelerated to enhance production clustering and area based development. Economic development, based on clusters and area-based development, will lead to economic efficiencies and

the distribution of development opportunities between the rural and urban areas in a complementary manner.<sup>30</sup>

During the last two decades, Savannakhet and Mukdaharn have experienced a rapid transition from a rural to an urban society. The area-based administration system, however, has separated rural from urban development, resulting in the lack of systematic linked between urban and rural areas in policy and implementation. The centralized administrative policy enabled Lao and Thailand's urban economy to develop closer links to the global economy. But without proper participation of people and local administrations, gaps between urban and rural areas have continued to widen, particularly in terms of the distribution of income, economic activities, and social services. Urban growth has failed to adequately enhance growth and prosperity in rural areas, leading to unbalanced development, poor natural resource and environmental conservation, and diminished self-reliance.

In the interviews with rural community residents, a consistent pattern emerged. Politicians come during the campaign, give speeches, make promises, buy votes, and disappear until the next election. It is unusual for the poor to receive assistance from their representatives. Mukdaharn is no exception. As we have seen, their representative promised to do everything possible to eliminate the poverty. Once in parliament, the promoted policies that serve their wealthy constituents, often at the expense of the poor. In fact, one can easily argue that the lower classes understand parliamentary rule all too well. What the middle classes perceive as "corruption" can be seen as one small benefit that parliamentary rule has brought to the poor.<sup>31</sup>

This situation led to uneven growth, poverty, and backward conditions in rural areas. The rural communities have been left behind economically, lacking linkages to the urban system and the outside world. Key production bases, i.e. the agricultural sector and natural resources, have seriously deteriorated, and are now in need of

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<sup>30</sup> 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. 22.

<sup>31</sup> Interview, Informant No. 12, 9 January, 2008.



systematic conservation.<sup>32</sup> Rural inhabitants have continued to migrate to urban areas, attracted by higher paying employment opportunities available in the non-agricultural sector. As a result, agricultural property has been increasingly abandoned. At the same time, weak city planning systems and ineffective land use controls have led to uncontrolled growth in urban areas, which has resulted in the deterioration of the environment and quality of life of both urban and rural people.<sup>33</sup>

#### **4.14.2 The importance of initiative and innovation in the rural economy**

During the revolution, and the wars of resistance, liberation, and national defense, the contributions of agriculture, peasants, and support from the countryside were highly appreciated. However, when the country entered the stage of peacetime economic construction, many policymakers and scholars were inclined to be critical of rural stagnation, agricultural backwardness, and the conservatism attributed to small-production peasants. These factors were seen as obstacles on the road to socialism which required the transformation of agriculture and rural society according to the ideals of promoting large-scale socialist production and building a new rurality.

But, as realities have shown, it was from the countryside, and from the peasants who had inherited and maintained the precious experience of the traditional water-rice agriculture, that the appropriate response came. It was the adaptive skills and creative abilities arising from their village culture (mainly its family values, mutual self-help spirit, and a realistic mind-set), along with a desire to enhance their daily lives, searching for and experimenting with new models of production (surreptitiously, at times) that proved to be more efficient than the model of centralized, bureaucratic cooperatives and its forced egalitarian distribution.<sup>34</sup>

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<sup>32</sup> Yao Souchou, House of Glass: Culture, Modernity, and the State in Southeast Asia (Singapore: Institute of Southeast Asian Studies, 2001), p.319-320.

<sup>33</sup> National Economic and Social Development Board, Office of the Prime Minister, The Ninth National Economic and Social Development Plan: 2002-2006 (Thailand: Kurusapa Press, Bangkok, 2002, p 47.

<sup>34</sup> Peter Boothroyd and Pham Xuan Nam, Socioeconomic Renovation in Vietnam: The Origin, Evolution, and Impact of Doi Moi (Singapore: Institute of Southeast Asian Studies, 2002), p. 37.

Laos enjoys a significant advantage from FDI, since Laos is not the first to make this journey, it can analyse the diverse routes taken by predecessor countries, notably in Asia, and decide which features best suit its circumstances and objectives.

The divergent paths to market-based reform and restructuring taken by Asian nations reflect a variety of country-specific economic, cultural, social, historical, and political facts and circumstances. Overarching such country differences is a range of regional distinctions, particularly in terms of the environment and rationale for economic reform and transition.<sup>35</sup>

#### 4.15 Decentralization

Lao PDR is a highly decentralized country. Historically, the provinces have always enjoyed a great deal of autonomy and power, culminating in 1986 with the decision by the Fourth Party Congress to make local governments completely self-sufficient. From an administrative perspective, the responsibility for planning, management, and allocation of their resources has been transferred from the centre to the local authorities, with exception of projects financed from external sources, which remain under the control of the central government, and subjects which are considered to be of national interest (security, defense, national roads, etc.).

Infrastructure is sometimes done better by local governments when they are given adequate funds and technical support – than by central agencies, which cannot easily monitor deterioration or breakdowns.

In sum, decentralization is expected to lead to improved economic management, and contribute to optimal administrative and financial efficiency.

Five years after its introduction the policy is encountering serious problems. Rather than leading to increase government revenues, it has resulted in weakened control

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<sup>35</sup> Seiji Finch Naya and Joseph L.H. Tan, Asian Transitional Economies: Challenges and Prospects for Reform and Transformation (Singapore: Institute of Southeast Asian Studies, 1995), p. 9.

of the central government over its finances. Few provinces are self-sufficient, the others having to rely on central government resources to subsidize their deficit. Regional disparities are accentuated. Inter-governmental relations are deteriorating. The quality of services rendered to the population is deteriorating and regional investment decisions are not made in the context of a well-defined national and regional development strategy.

With regard to decentralization of power as serving part of the reform program, this is concerned with decentralization of the decision-making process of Thai government. This is to allow the people in the region or the villages to have an opportunity to make their own judgments and decisions in accordance with the needs of the individual locale. This would correspond to the principles of the local government system. However, in reality the local government units have been tightly controlled by the central government resulting in stifling of the developmental capacity of these local government units, making it impossible for them to mature, despite the impressive form and multi-policy of models. Freedom in administration and revenue earning are limited. The Ministry of Interior is still not willing to let go its control, while the Ministry of Finance still maintains the power of the purse, leaving the local government units a limited amount of income to run their activities.

Apart from attempts to decentralize power by the introduction of the various local government units as already discussed, rural development is another approach which can be taken as a form of decentralization of developmental administration for remote rural areas.

The emphasis on economic growth led to the absence of rural development program in the first, second, and third national development plans (1961-1976). As Fourth plan (1977-1981), rural development policy was to rectify the problems resulting from development policy of the past including those related to the issues of poverty, unequal income distribution and stability. However, all these objectives are separately pursued by the various government agencies with no integration, which results in duplication of projects. The decision-making process is still directed from the centre and still lacks popular participation.

#### 4.16 Central –Local Relations

There is a strong connection between poverty and remoteness. Poverty results from inadequate opportunities and is greatly affected by accessibility, affordability and equity of public services. Much of this is related to weak communications and transport infrastructure and inappropriate allocation of government resources between the central and local administrations. Poor access to services is also exacerbated by widespread lack of knowledge of rights and information about how the Government works and contributes to exclusion from decision-making. These prevent adequate community participation and contributes to gaps between government policy and implementation.

Lao and Thai Governments are committed to ensuring that their people are closely consulted in all areas of decision-making and that they are able to participate fully in all areas of the socio-economic development of the country. This participation includes not only the economic life of the country, in order to ensure that individuals are able to find their own means to sustain their livelihoods, but also the political, cultural and sporting life of the country.<sup>36</sup> This responsibility includes providing basic facilities in the fields of health care, education, security and public infrastructure (roads, electricity, communication, etc).

In the process of delegating further responsibilities to the local level the Government will priority the following issues:

- Improving communication within the administration and with the population, especially in the remote areas.
- Improving policy, legal and regulatory frameworks which clarify divisions of responsibility between different levels of the central and local authorities and ensure wider and more active participation of all layers of the multi-ethnic population in the governance process.
- Improving people's capacity for the participatory planning and implementation of development activities at the local level.

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<sup>36</sup> National Poverty Eradication Program: Background Document, (Lao PDR, September, 2003), p. 83.

- Improving the monitoring capacity of the central government with a view to securing a more equitable and efficient distribution of scarce resources.

These issues are particularly significant in increasing the participation of local authorities from the village level upwards in the national planning and budgeting process. This will ensure that the needs of the poorest sectors are incorporated into planning at the national level.<sup>37</sup>

#### 4.17 Disparities and Balance

It should neither worry nor do surprise investors in Savannakhet that they should seek to encourage the multinationals into more positive contributions to regional growth and development. Profits made in the province must be reasonably based on value given, and the negotiating position of their people with foreign companies must be reasonably equal.

Even in economically advanced province, the persistence of significant hard-core poverty for large minorities in the midst of growing affluence for the majority has contributed to serious social tensions and political conflict. Public concern over income inequality has been heightened by both Marxian and contemporary radical stress on forces in capitalist societies that tend to increase the concentration of wealth and income and by more orthodox studies of conflicts between distributional justice and economic efficiency.

For income distribution, the principle of dynamic balance implies that a dynamic is needed. As Savannakhet and Mukdaharn possesses the worse of both; large disparities in income, and very low mobility from the bottom group. The situation appears to be close to a critical threshold of balance. Unless the situation is reversed soon, harmonious development in Mukdaharn and Savannakhet over the medium-term appears unlikely.

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<sup>37</sup> Ibid., p. 84

Developing a satisfactory conceptual framework to make sense of economy development process and the various disparities is certainly not an easy task. Different individuals will inevitably have their own world-view of things. However, rather than avoid the issue, it will be attempted here as it may lead to some new useful approaches to the achievement of so-call ‘‘ more balanced’’ development for Thailand and Laos in the future.

#### **4.18 Failure of Development and Its National Setting**

In recent years two big defects have been widely visible in the development process – unemployment and inequality. Indeed such clues as scholars have suggested that both these problems are growing more acute. Unemployment is one of the main roofs of inequality, both directly (because, in a society with only limited social security systems, most of the unemployed live at the margin of subsistence) and indirectly (because the existence of unemployment often prevents the poorer workers forcing up wages or peasants leaving smallholding). But conversely inequality promotes unemployment, because of the tendency of the rich and of town dwellers to spend their income on luxuries which are imported or which incorporate a high import content, thus pre-empting the use of foreign exchange for capital equipment and there by reducing the potential long run growth of output and employment. Unemployment and inequality have, between them, meant the persistence of poverty and of related evils such as causes of unemployment and inequality.<sup>38</sup>

Uneven development was also evident in income distribution. The proportion of incomes accruing to the richest 20% of the population rose from 49% to 57.5% between the mid-1970s and 1994, while the incomes of the poorest 20% dropped from 6% of the total to just under 4%; the richer 40% improved their position from roughly 70% of national income to 77% over the same period, while the proportion accruing to the poorer 60% dropped form 30% to 23%.

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<sup>38</sup> Gustav Ranis, The Gap Between Rich and Poor Nations: Proceedings of a Conference held by the International Economic Association at Bled, Yugoslavia (London and Basingstoke: The Macmillan, 1972), p. 369-370.

The figures reflect the fact that Thailand has a dual economy, sharply divided between industrial and modern services sector, on the one hand, and the underdeveloped agricultural sector on the other. There have been few linkages between the new export-oriented industries and the livelihoods of most people in the countryside, so that, while something like an industrial revolution has occurred in Thailand, it has occurred in decidedly insulated areas. Peter Bell has argued that it may therefore be better to think of Thailand's experience as one of "mal-development": the country has undergone a systematic process of growth that has produced structural inequalities and cultural fragmentation, and has had a negative impact on the environment and on the position of women. Political disempowerment made it difficult to forge effective resistance to mal-development, so that growth has been accompanied by the seemingly uncontrollable spread of AIDS, the destruction of forests and wildlife, the implicit state support of sex industry as a source of earnings, and the indirect suppression of labor unions.

The question that now confronts progressive forces in Thailand is how best to address these problems. There are several influential lines of argument here. The first, which may be called the elite developmental model, attempts to address the problems of uneven development and to further the integration of the Thai economy into the global marketplace. In order to achieve these twin goals, it is argued, the growth strategy should be continued, in the hope that its "trickle down" effect can be complemented with well-placed infrastructure developments, as well as the decentralization of investment and production. Such a program would also entail further commodification of agriculture, with the consequence that there would be a substantial decline in the proportion of the population that can earn most or some of their livelihood from agriculture. This would require a type of industrialization that could absorb the displace population, although so far industrialization has failed to do this.

Ideas such as these, however, need political and organizational means of expression. As yet, Thailand's power structure remains firmly in the hand of large-scale capitalists and powerful bureaucrats bent on implementing the mainstream neoliberal strategy for growth. Their determination to continue as before did not wane even in the first few months after the crisis of mid-1997. Many rich Thais began to appear in magazines, speaking of their failings, their greed, and their will to start afresh. Yet for

such people and for others in the middle classes, rural poverty and the lifestyle of the farmers continue to represent little more than a theme park.<sup>39</sup>

The main problem in Thai economic development is not economics but politics and institutional constraints to sustain development with equity. Thailand has been quoted by the World Bank as one of the most rapidly growing economies in the world; yet about 25 per cent of Thais live below the poverty line, showing that there is still much to achieve for Thailand.<sup>40</sup>

Another major problem for Savannakhet and Mukdaharn in the near future will be that of education. Most of the population in both provinces does not see much need for extensive schooling especially the remote parts of both provinces, because it does not seem to bring commiserate material rewards. Rural households see no need for higher education. This will have an adverse delayed effect in the coming decades as a human resource bottleneck which can harm the growing economic activities in both areas. Some economists have warned that successive government's failure to improve education could close the door to migration and job changes that have helped many Thais and Laotian to escape poverty. A good work force is a real indicator of economic development.

#### 4.19 What Poverty Is?

In the eradication of poverty scheme, the government will guarantee every family an income that is equivalent to the poverty line income. Shortfalls from the poverty line income will be given to the families by the government. The target group for this scheme is people under the poverty line. It is not about sectors of production, not about location of households. To be able to do so effectively, however, they need to be free from the constant and over-riding struggle to meet basic needs. Only then can

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<sup>39</sup> Patrick Heenan and Monique Lamontagne, Regional Handbooks of Economic Development: The Southeast Asia Handbook (USA: Fitzoy Dearborn, 2001), p. 49-50.

<sup>40</sup> Mason C. Hoadley and Christer Gunnarsson, The Village Concept in the Transformation of Rural Southeast Asia: Studies from Indonesia, Malaysia and Thailand. (Great Britain: Curzon Press Ltd, 1996), p.112-113.



they use their resourcefulness effectively, be able to invest in themselves, in their children, so that they can sustainably move up out of the poverty zone. Other “safety net” schemes to supplement the eradication of poverty scheme are also needed, and also for the non-poor, such as health insurance schemes. However, many safety net type programs will have to be redefined, as the income guarantee nature of the eradication of poverty scheme means that this feature of other schemes can be eliminated.

It was found that the poor people are primarily ethnic minority swidden cultivators. While poverty occurs throughout the country, it is less severe in urban areas than elsewhere. However, the poor people do not view themselves as being in an endemic state of poverty. Villages were subsisting in relatively stable agro-ecosystem, the outside perception of endemic poverty has been created by reliance on a numerical definition of poverty. In minds of villagers, poverty is an issue of livelihood; as long as the villages are able to meet their consumption needs, they do not consider themselves poor. When agro-systems are disrupted or upheavals occur, poverty may follow.

The main indicator of poverty – as determined by the poor themselves is the degree of rice sufficiency. Thus, commonly cited causes of poverty include insufficient amounts of land for cultivation, and natural disasters, such as flooding or drought. As is to be expected, there are regional variations in the importance of these various causes of poverty. Land allocation and soil depletion problems appear to be especially important to Savannakhet and Mukdaharn, while natural disasters are a major concern. Lack of roads and pests and livestock are problems common to both regions.

In 2005, 16.4% or 53,646 households of 326,984 households in Mukdaharn living with poverty line which ranged No. 9 of Northeastern provinces.<sup>41</sup>

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<sup>41</sup> Community Development Agency of Mukdaharn

**Table 4.3 Poverty data in Mukdaharn province compared between 2004 and 2005**

District	Year 2004			Year 2005		
	Number of research household	Number of poor household	Percent	Number research of household	Number of poor household	Percent
Mueang Mukdahan	110,537	24,290	21.97	117,488	13,230	11.26
Khamcha-i	47,640	21,186	44.47	48,060	2,862	5.96
Nikhom Kham Soi	35,826	18,468	51.55	37,062	5,646	15.23
Don Tan	38,460	19,182	49.88	39,960	12,900	32.28
Dong Luang	38,076	15,966	41.93	39,942	13,734	34.38
Wan Yai	19,014	2,370	12.46	20,286	846	4.17
Nong Sung	22,914	8,568	37.39	24,186	4,428	18.31
<b>Total</b>	<b>312,467</b>	<b>110,030</b>	<b>35.21</b>	<b>326,984</b>	<b>53,646</b>	<b>16.41</b>

Source: [http://www.mukpoc.com/mukdahan\\_poc/report/sar/report/report.php?id=sm](http://www.mukpoc.com/mukdahan_poc/report/sar/report/report.php?id=sm)

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There are 128,130 households in Savannakhet, with 24,408 households are considered as poor household (19.05%). There are 15 districts and 1,543 villages in Savannakhet (year 2004), with 415 poor villages (26.88%).\* The center government has considered 4 districts in Savannakhet as the poor district consist of Nong, Sepone, Vilabouly and Phin, while Sanvannkhet province has considered 7 districts as the poor district consist of Thapangthong, Sonbouly and Atsaphangthong.<sup>42</sup>

<sup>42</sup> Department for Planning and Investment of Savannakhet,

\* See more poverty data in Savannakhet on Appendix B and C, p. 167 – 170

Poverty as a concept, as something to be measured, and as something for government to address and a meliorate, has a very short history in Laos. The official term for poverty is *thuk nyak* (suffering + difficult). This term was only formally adopted by the government in 2002. In embracing *thuk nyak* the government was saying something, about its view of poverty and about the politics of poverty. *Thuk* is the Buddhist term form suffering and is closer to mental than to physical suffering – ‘all life is suffering’. Significantly, the Lao authorities decided to pair *thuk* with *nyak*, and in so doing avoided using the most likely alternative pairing, *thuk + Chon*. *Chon*, or *yaak chon*, is popular Thai word for poverty and is closer to meaning ‘destitute’ than the less extreme and grinding ‘difficult’.<sup>43</sup>

#### 4.19.1 Cause of poverty

Basic aspects of poverty in rural Savannakhet and Mukdaharn is lack of rice, while the indicator of wealth is livestock and agriculture tools.

- The main problems (relate to degree of rice sufficiency) include the reduction of land available for slash and burn cultivation, livestock disease, ill-health, hiring out labor, lack of necessary technical knowledge, lack of access to road, lack of clothing, and poor housing.
- The main causes of poverty are (in order of importance): (i) problems associated with land; (ii) livestock loss because of lack of veterinary services; (iii) lack of cash investment to make livelihood improvements; (iv) natural disasters; (v) environmental problems; and (vi) lack of water for agriculture.

Other causes are: un-explosion ordnance and lack of local leadership are a major concern in Savannakhet; relocation; lack of health services; too many children; lack of

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<sup>43</sup> Jonathan Rigg, *Living with Transition In Laos: Market integration in Southeast Asia*. (London and New York: Routledge, 2005), p. 72-73.

knowledge of the market; lack of government services; low agricultural prices, addiction to drug and low education.

#### **4.20 Envisioning ‘old’ poverty and ‘new’ poverty**

##### **4.20.1 Old poverty: depicting dearth and creating the space for intervention**

Old poverty is centered on a characterization of lives and livelihoods that regards people living simple and meager lives as necessarily poor. In the most part of these communities, often comprising ethnic minorities are to be found in the more remote areas of Savannakhet and Mukdaharn uplands, separated physically and mentally from the mainstream. Their engagement with the market is limited and their livelihoods are subsistence-oriented. These characteristics, whether explicitly stated or implied, are regarded as problematic from a development standpoint. In other word, they are a ‘problem’ requiring development intervention. This problem has various facets, including: the ‘problem’ of shifting cultivation; the ‘problem’ of lack of market access; the ‘problem’ of an absence of government services and amenities; the ‘problem’ of low incomes; the ‘problem’ of high infant mortality rates; and the ‘problem’ of adult illiteracy. In this way, very different issues are conflated into single development ‘problem’, to be rectified. Some –such as high infant mortality rate - would be regarded as problematic but most, if not all, other ‘problems’ – such as high levels of shifting cultivation or lack of market access – are not so easily categorized.

Characterization of poverty, and the key policy prescriptions to deal with poverty in Savannakhet and Mukdaharn, invariably entails a call for market integration and state engagement. This is on of the core logics enshrined in the Savannakhet government’s ‘poverty-focused agricultural development plan’. Regarding the uplands, areas are often remote and dominated by more fragile ecological conditions that demand more intensive management of natural resources and, in the context of Savannakhet and Mukdaharn, a reduction of shifting cultivation: both of which are required if poverty is to be reduced’. This is the wider view from Vientiane or Bangkok (central), but it is restated in various forms in documentation related to individual projects and programs. The ten main causes of poverty:

- Low agricultural productivity
- Unstable agricultural production due to environmental factor
- Limited access to physical resources for production (land and water)
- Limited access to information to improve farming methods
- Vulnerability of organizations
- Limited access to credit
- Limited job opportunities (low off-farm income)
- Low education levels
- Poor health facilities
- Poor social infrastructure

The narrative of this finding is one of dearth: lack of knowledge, lack of technical support, lack of assets, lack of credit, lack of market access, lack of income earning opportunities, and lack of agricultural inputs. In such a manner, a context is created from which certain development interventions are justified and given legitimacy.

Savannakhet and Mukdaharn provinces-level perspectives are mirrored at national level in the Lao and Thai governments' 'strategic vision for the agricultural sector'. In a section entitled 'The link between rural poverty and rural infrastructure', 'infrastructure is strongly related to the development of off-farm employment, farmers' integration into the market economy and increased agricultural productivity'. The Lao government has invested in this strategy since the mid-1980s and has focused on integration marginal communities through investment in physical infrastructure. Between 1991 and 1995, 51 per cent of total public investment was in physical infrastructure, and in 1998 it rose to a peak of 62 per cent. The public investment plan for 2001 to 2003 projected a lower level of spending on physical infrastructure but it still represented, as an average over the three years, of 35 per cent of total investment. This is a huge and sustained government commitment of scarce resources to one area of

development intervention in the belief that it plays a pivotal role in the achievement of economic expansion and poverty reduction.

Even with this investment, there is no doubt that physical access is limited in many parts of Savannakhet, and the Integrated Rural Accessibility Planning project has, as its central objective, the reduction of poverty through alleviation of poor access on the basis, this is an underlying cause of poverty.

The meaning of the analysis in this section has been implicitly critical of some of the leaps of logic involved in the construction of old poverty. Be that as it may, the very low levels of human development in Savannakhet are not conjured, constructed or imagined into existence by the development industry and the discourse of development: they are real. More than half of Lao Theung (ethnic population living at mountainous areas) in Savannakhet can not read and write, and among the Hmong-Yao minority group this fall to fewer than one in ten.

Disturbing trends are apparent in a number of health indicators.... Maternal mortality rates are high, child health is poor, and the gap between service demand and availability is significant. Basic hygiene and sanitation are serious concerns in many rural and remote villages.

Village survey provide and even more convincing case to support the position that subsistence affluence is a rhetorical device which disguises very real and corrosive levels of underdevelopment. However, the Savannakhet government and the foreign investors may justify the interventions they recommend and promote, there is no question that there is more here than mere 'discourse'.

#### **4.20.2 New poverty: creating the poor through development**

It is perhaps warranted to assume that in the majority of cases, those groups who are living more or less traditional existence based on subsistence agriculture have ample nourishment and lead normal lives by their own standards...it may likewise be assumed that those who are diagnosed as extremely poor or starving have been victims of man

made social or environmental upheaval, not infrequently in the name of regional economic development.

The 'new' poor are being created both mentally and instrumentally. On the one hand, the culture of modernity propelled not only by government policies but also by investors and television and radio is creating a mental context where the products of modernization become valued and sought after. Even in the absence of the economic development 'discourse' – the effects of market integration are far more powerful and pervasive – a sense of insufficiency, paucity and dearth is being created both mentally and experientially. It takes only a short step and a small leap of the imagination for those suffering from insufficiency to regard themselves as poor. The way in which a particular vision of poverty and the poor can insinuate itself into the mental landscape is seen in the UNDP's definition of poverty, a definition that resonates with much mainstream work: 'Poverty is a lack of ability to participate in national life, most especially in the economic sphere'. Such a view of poverty immediately categorizes subsistence farmers as poor, irrespective of the conditions in which they live.

At the present, Savannakhet local authorities are very active implementing the degree No. 9 of the Central Politburo Committee, the poor are being instrumentally created through the unintended outcome of Party and Government policies and, in particular, through the operation of area-based or resettlement development programs. This has restricted some ethnic people's access to their traditional swidden fields, drawing them down to the valleys or closer to the national highway where the most productive land is already claimed. From a situation of land abundance and sustainability, many hill people find themselves struggling to meet their subsistence needs with declining rotation cycles and falling yields. More widely, the inequality widening effects of market integration is pushing some people into poverty just as it assists in permitting others to accumulate wealth.

For some radical scholars of development, poverty has been conjured into existence by the development project. Deficiencies are identified, lines are drawn, the poor are counted and, in so doing, the spaces for development intervention are created. The view taken here is that while there is no doubt that 'poverty' is constructed through various policies and programs and through particular ways of thinking about well-being

and deprivation, it is not possible from this to impute that poverty and the poor do not exist in Laos and Thailand. However, it does serve to highlight the partial and contingent way in which debates, policies, world views, opinion and positions create a mental context where poverty is defined, demarcated and delineated in a particular manner. At one level poverty is real and corrosive – a blight to be erased. At another, the poor are socially constructed. There is an objective poverty and, research methodologies, and in the documentation produced by multilateral agencies and in the reports of researchers. It also, though – and this is crucial – lies in the minds of local people. The fact that poverty is socially constructed, in short, does not mean that poverty is not real.<sup>44</sup>

#### **4.21 Poverty Assessment in Savannakhet and Mukdaharn**

Poverty in Savannakhet and Mukdaharn is complex and can be viewed from many perspectives. This is natural given the high degree of biophysical and human diversity that characterizes the region. From the point of view of the Government, poverty is a complex concept and one that cannot be approached as if it were an independent discipline. Human needs vary considerably and there are a great variety of cultures and communities that make up Savannakhet and Mukdaharn multi-ethnic population. Therefore, poverty analysis should proceed cautiously and view broadly the parameters of economics, society and culture. The same is true of “measurements of poverty” which take many forms, as does the specification of indicators, whether in quantitative or in qualitative analysis.

In Savannakhet and Mukdaharn people do not normally starve (unless struck by sudden temporary natural calamities) and ‘urban slums’ and other manifestations of mass poverty are unknown. Thus it is essential when speaking about poverty that there is a basic understanding of the historical, political, cultural, social, economic, geographic and topographical realities of the region and an understanding of how “poverty” is perceived.

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<sup>44</sup> Ibid., p. 24-29.



The notion of poverty, in all the various Savannakhet and Mukdaharn multi-ethnic cultures, has a particular meaning and refers to those families that have been stricken by misfortune and/or are the least well-off in a given community, in Savannakhet for instance, in the Prime Minister' Instruction regarding "decentralization" villages are encouraged, before formulating a village development plan, to collect data and to observe the living conditions of each family, ranking them accordingly into wealthy, self-sufficient and poor families. The poverty concept' applies in principle to this last group of households. That is why household poverty is an important criteria for poverty assessment at the district level. In the Lao PDR, the concept of "poverty" has a relatively precise operational meaning and translated, at the village level, the solidarity network that characterizes all areas of Lao society. Villages provide a measure of welfare, a natural safety net to compensate for shortcomings in livelihood within the village.

The specific understanding of 'poverty' in Lao culture is an important factor from improving the conditions of those who are considered poor according to the people' own criteria. A basic understanding of poverty is also a requirement for the definition of any sector program addressing the best way to eradicate basic poverty.<sup>45</sup>

There is a considerable difference between the two areas in terms of various poverty indicators. Both urban and rural areas in Savannakhet and are much worse off, especially with regard to rice security, access to housing health and education expenditure. The difference in term of rice security seems particularly large, with less than 13% of rural households reporting inadequate rice consumption in Mukdaharn, compared to almost 35% in Savannakhet.

In mid 2001, the Lao government was developing a reporting system on poverty levels within the county following The Prime Minister's Directive No. 10, date 25 June 2001, in the "Development of Poverty Eradication Programs" the definition of poverty was: "Poverty is the lack of ability to fulfill basic human needs, such as not having enough food [i.e. less than 2,100 calories per day/capital], lack of adequate clothing, not

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<sup>45</sup> National Poverty Eradication Program: Background Document, (Lao PDR: September, 2003), p. 16.

having permanent housing, not capable of meeting expense for health care, not capable meeting educational expense for one's self and other family members, and lack of access to transport routes. "This directive introduced specific criteria for defining poverty at household, village, district and provincial levels.

Household considered as poor are households with an income (or the equivalent in kind) of less than 9.7 dollars\* (11.4 dollars for urban and 9.3 dollars for rural) per person per month (at 2001 prices). This sum allows the purchase of about 16 kilograms of milled rice per person per month; the balance is insufficient to cover other necessities, such as clothing, shelter, schooling and medical cost.<sup>46</sup>

Villages considered as poor villages are:

- Villages where at least 51% of the total households are poor households
- Villages without school within the village or schools in nearby and accessible villages
- Villages without dispensaries, traditional medicinal practitioner or requiring over 6 hours of travel to reach a hospital
- Villages without safe water supply
- Villages without access road (at least trails accessible by car during the dry season)

At district level:

- District where over 51% of the villages are poor
- District where over 40% of the villages do not have local or nearby schools
- District where over 40% of the villages do not have a dispensary or pharmacy
- District where over 60% of the villages without access road, which can be used by car
- District where over 40% of the villages do not have safe water

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\*Exchange rate at 9 May, 2008 (1USD= 8,740 kips)

<sup>46</sup> K.A.S. Murshid, The Cross Border Economies of Cambodia, Laos, Thailand and Vietnam (Development Analysis Network, 2005), p. 114.

The measurement of poverty at provincial and national level is the compilation of poverty at district level and combined with poverty analysis based on the household consumption and expenditure survey performed by the National Statistic Centre.

As reference for sectors and local authorities, the Government has adopted an initial definition and indicators of poverty (to be applied until further changes). Such indicators are average indicators to be used as reference in each province, district and village in surveying and assessing poverty at the household, village and district levels, for the purpose of planning gradual poverty eradication in their areas of responsibility.

#### **4.22 Social change and Poverty**

In Mukdaharn, where over a third of the rural population of the province lives, the transformation of rural society brought about by inclusion in the market economy has been, for the most part, less profound than in other part of the country.

Despite the fact that the vast majority of the small landholders in Mukdaharn own farms whose size would seem to make their owners the envy of most of the rural peoples of Northeast.

Conditions of poverty prevail throughout much of Mukdaharn because the natural ecology of the region, particularly its rainfall patterns and soil characteristics, does not lend itself well to the production of commodities for sale and because there has been only limited technological change that would enable farmers to overcome these natural constraints. Mukdaharn farmers still produce rice primarily for home consumption and generate cash income only through the sale of surplus rice and a few other commodities such as cassava, and maize... while sugar is major agricultural product to feed up the sugar factory at the province.

Probably the major export from Mukdaharn is labor. There is a well-developed pattern throughout the region of villager, both men and women, going to Bangkok and other industrial centers to find work temporarily or even permanently. In the early

1980s, Mudaharn men (although few women) were also migrating in significant numbers to the Middle East to take up temporary employment there.

Change in social differentiation in rural Mukdaharn society since 1990s have not been as great as those found in much of central Thailand or in parts of the north. Mukdaharn villagers still tend to see themselves as united both as villagers (*chao ban*) and as Lao with reference to the central Thai government and its locally appoint officials, whom they fell have done little to alleviate the poverty of the region.<sup>47</sup> Although wary of officials, some Mukdaharn villagers have developed firm contacts with middlemen and others in the business sector, in part because economic development, in so far as it has occurred in the region, has come about primarily as a result of communication through the marketing system rather than as a consequence of government assistance. Not only have some Mukdaharn villagers built up relationships with locally based merchants and middlemen, but many have gone to Bangkok and found employment there in firms that have been willing to give them on-the-job training.

#### 4.23 National Poverty Eradication Program

National Poverty Eradication Program (NPEP) is a resulted of the preparation of the poverty eradication strategy that started in 1996 when the 6<sup>th</sup> Party Congress defined the long-term development objectives as freeing the country form the status of least-developed country (LDC) by 2020. The NPEP documentation (*A Comprehensive Approach to Growth and Development*) was presented at the 8<sup>th</sup> Roundtable Meeting held in Vientiane, Lao PDR in September 2003. The NPEP is designed to accelerate the positive trend in reducing poverty in Lao PDR.

In 2003-2004, the government plan to invest 59.7 per cent of public investment program expenditure in the economic sector, 29.7 per cent in the social sector, 12 per cent in education, 9.5 per cent in health and 10.6 per cent in other investment.

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<sup>47</sup> Charles F. Keyes, *Thailand Buddhist Kingdom as Modern Nation-State*. (Thailand: D.K Printing House, 1989), p. 166-167.

According to the 8<sup>th</sup> Roundtable Meeting, the government plan to give 40 billion kip to the 47 poorest districts in a bid to prioritize areas in the implementation of NPEP (Lao has total of 142 districts countrywide, 47 districts were defied poor and another 70 districts were identified as not poor)

According to the NPEP report, Rural Development is central to the Government's poverty eradication efforts as rural poverty is of prime concern and a community-based approach to its eradication is essential. To ensure that economic growth and modernization benefits the poor, 47 districts have been selected for priority investments over the period to 2005. The Government intends to encourage "development funds" for the poorest district, particularly village and district fund, which will provide support to households and villages to enable them to engage in income generating activities. Income generation empowers people to undertake initiatives and to expand their range of choices to improve their livelihoods. In such a way, through the village and district funds, the present lack of capital, which has been indentified as a major cause of poverty, will be addressed.<sup>48</sup>

The Government's and people's efforts led to a reduction in the national poverty level from about 45 per cent (Lao Expenditure and Consumption Survey I – 1992-93) to about 38 per cent (Lao Expenditure and Consumption Survey II – 1997-98). According to first estimated from Lao Expenditure and Consumption Survey III – 2002-2003, and the revisiting, in 2002, of the 2000 PPA, the poverty level in the Lao PDR further fallen to about 30 per cent, while disparities seem to have increased.

The task of eradicating poverty, however, is far from finished. The Government relies on the successful implementation of the NPEP to achieve further breakthroughs in the fight against poverty. The NPEP is an operational action program embedded in a long-term comprehensive growth and development frame work, and focuses on the period 2003-2005 to reach the 2005 and 2010 targets which are major steps to the achievement of the 2020 goal in terms of poverty eradication. The Lao PDR, as a

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<sup>48</sup> Poverty Reduction Fund Annual Report 2003, (Lao PDR: Committee for Planning and Cooperation, 2004), p 14-16.

signatory to the Millennium Development Goal (MDG), considers the NPEP as its contribution to the global effort to halve world-wide poverty by 2015.<sup>49</sup>

The NPEP emphasizes the promotion of rapid and sustainable growth, coupled with continuous social progress and equity, as the main objectives for improving the material conditions and quality of life for the Lao multi-ethnic population, thus reducing and finally eradicating basic poverty in the Lao PDR.

If economic growth is to be achieved, it is the view of the Government that it has to be anchored in an ecologically sound approach to resource management and enhanced social and cultural development. Likewise, social and cultural development has to be backed up by solid economic growth, while appropriate resource management is, in itself, a potent way to improve living standards.

All three pillars – economic growth, social/cultural development and ecologically sound resource management – have to be mutually reinforcing to achieve sustainability in the poverty eradication. The Government of the Lao PDR thus favors a balanced approach to poverty reduction.

This approach has much in common with the *thammasat way of development*,<sup>50</sup> where the local solutions are to be found respecting the natural context, productive forces, technology, values and traditions on which to build the country's future. At the same time, all aspects dealing with macro-economic management and the rule of law are strengthened.<sup>51</sup>

To address the continuing need for promoting rapid and sustainable economic growth and implementing the political objective of eradicating poverty in the country by 2020, the Government has developed a 20-year Socio-Economic Development Framework (2001-2020) within which 5-year plans detail the particular targets to be achieved in leading to the achievement to the 2020 goal.

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<sup>49</sup> The Thammasat Way of Development – A Lao-Japan Study on development alternatives in the Lao PDR, NERI, 2002.

<sup>50</sup> National Poverty Eradication Program: Background Document (Lao PDR, September 2003), p. 3- 4.

<sup>51</sup> *Ibid.*, p. 16.

The Socio-Economic Development Plan for the period 2001-2005, the Strategic Approach to Poverty Fighting as elaborated in the Government Document for the 7<sup>th</sup> Roundtable Meeting (Fighting Poverty through Human Development, Rural Development and People's Participation), as well as particular long-term sector strategies and programs, are embodied in the NPEP action plan for realizing economic growth and poverty reduction.<sup>52</sup>

The plan which has been implemented since 2000 was considered ineffectively implemented and is scheduled to continue to work until 2010.

Currently, Lao government concentrated and considered the next five year plan on rural development and poverty reduction. Government highlighted a number of points, both good and weak, and on a number of constraints that several localities and remote areas faced during the past few years. Numbers of localities and remote areas have not had access to roads, the living condition of people there are still not improved, trade and production are not strongly promoted, the extension of educational opportunity has been limited, and dispensary and the supply of clean water have not been sufficiently provided. The present situation of the development level between urban and rural areas are still different due to the investment for regional development and the GDP of the people in the respective regions are still not equal.

The Lao populations of 80% are still living in the remote areas and used agricultural production as their main work. The government needs to enhance its policy and the mechanisms to support technical assistance and fund resources for rural development.

The government has committed by 2010, poverty will have been alleviated in all poor districts, grouping small villages into larger villages. "The majority of village groups will be developed into small towns, focusing on rural areas where there are still various social problems that need to be completely resolved, as well as rural areas.

In order to address the poverty problem, the government has established the poverty reduction fund in 2003 which use US\$ 20 million of loan from the World Bank

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<sup>52</sup> Ibid., p. 15.

to solve the poverty problem in 47 poorest districts. Today, 1,250 agricultural production projects to reduce poverty have been implemented in 21 districts of 5 provinces including Savannakhet.<sup>53</sup>

One of the most important policies of Savannakhet province is to attract labour-intensive agro-industries and activities. Toward this purpose, the Lao government is approaching bilateral assistance agencies and foreign government grants to assist in building vocational schools and agricultural schools in Savannakhet province.

Thailand, the urgently needed strategy for the rehabilitation of economic and social conditions during the early part of the Ninth Plan period, there is also a need to accelerate efforts to solve the poverty problem, which has been building up over a long period of time. To this end, a key priority is to increase and make widely available opportunities for the poor to gain access to various governments economic and social services and resources. Social security will be enhanced, and the grassroots economies will be developed to provide a strong foundation for the poor to make their livelihood and increase their self-reliance. Structural adjustments will also be undertaken to create enabling environments for the empowerment of the poor through improvements to government, rule and regulations.<sup>54</sup>

Thailand development vision for the next 20 year focuses on the alleviation of poverty and the upgrading of the quality of life for the Thai people, so that ‘sustainable development as well-being for all can be achieved’.<sup>55</sup>

Based on the review of past development efforts, the analysis of changing socio-economic conditions that will affect future national development directions. The core purpose of the vision is to seek to alleviation of poverty and elevate the quality of life of the majority of Thai people in order to bring about the achievement of “Sustainable development and well-being of all Thai”. The Government’s development vision and strategies will continue to be refined through broad-

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<sup>53</sup> Lao News Agency

<sup>54</sup> The Ninth National Economic and Social Development Plan, 2002-2006, (Thailand: National Economic and Social Development Board: Office of the Prime Minister: Kurusapa Press, 2002), p. 20.

<sup>55</sup> *Ibid.*, p. 3.



based participation and refinement of short and medium-term plans by sector ministries and agencies. Training and capacity building will be strengthened at all levels, in order to deepen understanding of the policy issues and to better ensure that development plans and programs are adapted to local conditions and needs. The main objective is to enhance human resource development through: improved and extended education, training and health systems; create a favourable environment for all Thai people to adapt to and manage the country in a global context: and improve the quality of life and increase community participation in the national development process. Major emphasis shall be placed on holistic people-centered development and economically, socially, politically and environmentally “balanced” development, so that people in the society can be happy, self-reliant, and kept abreast of the changing global situation while maintaining and preserving Thai cultural identity.

#### **4.24 Alleviation of rural and urban poverty through the process of popular participation**

In the Ninth National Economic and Social Development Plan (2002-2006) addressed:

Poverty alleviation efforts should be holistic in approach, not just focused on income. To this end, empowerment of the poor should be a priority. Legal and regulatory reform is needed to provide the poor with access to government services, as well as to give them opportunity to sustainably utilize natural resources for their livelihood.<sup>56</sup>

In this development plan, Thai government also maintained the significant of establishment of linkages between rural and urban development in order to distribute economic and social opportunities equitably, grassroots economies should be strengthened to provide sustainable incomes to rural people.<sup>57</sup> Economic clusters linking rural and urban areas should be established. Cluster based economic development

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<sup>56</sup> Ibid., p. 9.

<sup>57</sup> Ibid.

should be consistent with the economic potential, preferences, and functions of each area.

#### **4.25 National policy framework for poverty reduction and growth**

The Ninth National Economic and Social Development Plan sets out Thailand's development priorities for 2002-2006. Rooted in a "people-centered" approach to development, pursues the move from a central and compartmentalized planning approach to a more decentralized and holistic one that was initiated in the Eighth Plan (1997-2001), and emphasizes the need for collaborative effort and participation among all stakeholders, including the poor.<sup>58</sup>

The Participatory Rural Appraisal that middle and high-income households have greater access to available technology and resources, and that technology transfer activities supported by government organizations and NGOs tend to miss the poor. Poorer household, which usually depend on day labor to generate an income, normally cannot spare the time to participate in village meeting or training, which would represent a loss of earnings. Nor can they afford to take the risk associated with the trail of new technologies.<sup>59</sup>

#### **4.26 Conclusion**

The analysis of the economies of both provinces revealed that Mukdaharn had a higher per capital Gross Province Product (GPP) than Savannakhet in 2003. Gross Value added (GVA) in Savannakhet was found to be split quite evenly across the agricultural and fishery, industry, and services sectors, while GVA in Mukdaharn was found to be dominated by the services sector. One reason for the difference could be the different stages of economic development of the two provinces.

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<sup>58</sup> FAO, Gender Responsive Technology for Poverty Alleviation in Thailand (Thailand: UNDP, 2003), p. 17.

<sup>59</sup> *Ibid.*, p. 12.

The analysis of the economic relationship between the two provinces found that the value of trade of these provinces was much higher than the trade between them. This suggests that proximity of the two provinces to each other has not resulted in a high level of economic interdependency between them. Rather, each province appears to depend relatively more on the rest of the world to satisfy its demand requirements. Consequently, the estimated interregional spillover and feedback effects were found to be rather negligible.

The results also showed that the agriculture and forestry industry in Savannakhet and the manufacturing industries in both provinces had high forward and backward linkages. Such industries not only tend to use intermediate inputs from the other sectors of an economy quite heavily, but also have a great influence in supplying inputs to the other sectors. This suggests that, on the basis of the estimated linkage results, these industries can be given higher priority when developing policies to enhance the economies of both provinces.

The impact found that consumption in both provinces had the highest GVA and lowest imports multipliers. One likely reason for these results could be their relatively low dependence on imports. Foreign exports and consumption were also found to have highest employment multipliers in Mukdaharn and Savannakhet, respectively. This could be due to the relatively large share of the output of highly labor-intensive industries in these final demand components. Mukdaharn was also found to have higher net foreign exchange earnings than Savannakhet. This suggests that the Thailand province may be able to add greater value to its exports than the Lao PDR province.

Domestic investment has played a major part of Mukdaharn economy since year 1990 and the flow has increases. Such long exposure to domestic capital accustomed to its role in economic development and led to assume that it would keep pace with internal development.

Mukdaharn and Savannakhet provinces are each at a different stage of development. Mukdaharn can be considered to be in a category of its own with a sophisticated physical, social and financial infrastructure and a well-diversified economy that is well integrated with regional markets, with low poverty levels and a

high per capita income compare to Savannakhet. Savannakhet province is much less developed in term of infrastructure, administration management, living standard and income, with high poverty rates and low levels of human development. It is also during the time of “transitional” in nature, trying to transform its economies from centrally planned ones into market-driven system, with varying degrees of success. All however, appear to be committed to regional focus, and is keenly aware of the need to construct efficient, competitive market economies on the basis of dynamic comparative advantage.<sup>60</sup>

To achieve the eradication poverty strategy, and in order to create viable delivery mechanism Savannakhet and Mukdaharn governments must commit, to, especially for human resource development. To enhance the prospects of both provinces, human resource developments, even though is not a luxury but a necessity. Otherwise the plans for regional social and economic integration cannot become reality.

The economic development of Savannakhet and Mukdaharn still lags behind the worldwide movement in information and communication technology (ICT), both provinces face similar challenges in making education the building block for creating economic development.

Thus, for Savannakhet and Mukdaharn, empowering people in many aspects would enable them the make informed decisions in the process of market development. Moreover, it would enable them to participate in the market system, and provide all participants “fair and equal opportunities” to access the market economy. Secondly, the ethnic minorities are important because they often form the majority in parts of the regions especially in Savannakhet, even if not in the province as a whole.<sup>61</sup> If there are tensions and problems, these would only delay progress, and add to the social cost of development, this is one of the priority concern issues for Savannakhet government. The success of regional economic development depends on the role and capacity of the people to support the system. Clearly, capacity is essential as the availability of skilled

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<sup>60</sup> K.A.S. Murshid, The Cross Border Economies of Cambodia, Laos, Thailand and Vietnam (Development Analysis Network, 2005), p. 3.

<sup>61</sup> Sharon Siddique and Sree Kumar, The 2<sup>nd</sup> ASEAN READER (Singapore: Institute of Southeast Asian Studies, 2003), P. 117-121.

labor would boost investor confidence. The Savannakhet's economies have been FDI-driven, and it is important that capacity enhancement should be a priority in the development agenda. The region's human resource development is inadequate because of the lack of education and access to market information for creating knowledge-based workers. Education is important for capacity-building, and the utility that can be derived from innovation depends on the prevailing level of education is to empower people by giving them the tools and capacities to engage in globalization, such as taking advantage of the increasingly important role of information technology and market information.<sup>62</sup>

The issues related closing income and economic development gaps between Savannakhet and Mukdaharn provinces are manifold including those relevant economic issues include the allocation of foreign direct investment, the availability of commercial and government credit to businesses, the transfer of skills, the transfer of technology, and the laws regarding investment and tariffs.<sup>63</sup>

Transforming natural resource wealth into human resource wealth in Savannakhet and Mukdaharn with weak human resources should be a priority.

The regional economic development plans in both provinces must focus on poverty eradication and reduce the gap in economic development, both provinces advantaged from the East -West economic Corridor areas; to enhance economic liberation and facilitation of cultural interaction, and to strengthen economic integration.<sup>64</sup>

The development of Savannakhet and Mukdaharn and the appropriate focus on human development and economic liberalization emphasis is being given to infrastructure and "hardware" development in four main areas: (1) transport; (2) energy; (3) telecommunication; and (4) tourism. Those hardware had significant to the both regions such as transportation is a key connects people and also serves economic interest, by facilitating the flow of goods, capital, and people, especially is will link the

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<sup>62</sup> Ibid.

<sup>63</sup> Ibid.

<sup>64</sup> Ibid.

two provinces to the increasingly important market in East-West Economic Corridor, particularly it can enlarge the bilateral trade in goods, as well as enhance tourism.