



## Role and Opportunities for Foreign Investment and Its Risks for Rural Development in Laos

**SATOMI KIMIJIMA\***

*School of Engineering and Technology, Asian Institute of Technology, Thailand  
Email: kimijimasatomi@hotmail.com*

**MASAHICO NAGAI**

*Geoinformatics Center, Asian Institute of Technology, Thailand*

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**Abstract** Recently, foreign investment has grown significantly in the Greater Mekong Sub-region (GMS) hence its macro-economic impact has been the subject of numerous research studies. However, there is a lack of studies assessing the micro-economic impact of foreign investment in the rural areas of GMS countries. This paper (a) assesses the change in rural non-farm wage employment as a result of foreign investment and its socio-economic impact on rural people in Laos, (b) highlights the participation of women in a plantation project initiated by a Japanese company, and (c) analyze the effect of foreign investment on people's mobility patterns, the change on their interactions at local level and the risks for rural development. Data has been collected using purposive sampling methods with a total of 80 respondents from two villages and were selected randomly at a household survey in 2009. The respondents comprised 50% of men and also 50% of women in each village. Questionnaire survey, focus-group discussion and field observation were conducted. The results showed a significant change of income for rural people employed by the project, particularly for women. Improved women's participation had provided opportunities for their empowerment and changed their mobility patterns. This, in turn, facilitated women's networking with people with diverse status and experiences outside their village. This resulted in a slight change in women's active participation in community meetings at the local level as well as their relations with men, challenging existing socio-cultural norms. It was concluded that foreign investment can contribute to rural development by creating a non-farm rural employment opportunities. However, it is also cautious to become excessively dependent on foreign investment for rural employment opportunities since foreign investment have a high risk of changing condition in the global market.

**Keywords** employment creation, foreign investment, Laos, mobility, women's empowerment

## INTRODUCTION

Socio-economic change at the community level is one of the factors influencing gender roles and status of women. Rapid socio-economic change has been observed in many developing countries involved in Foreign Direct Investment (FDI). FDI is defined as "an investment involving a long term relationship and reflecting a lasting interest and control of a resident entity in the source country (foreign direct investor or parent firm) in the host country" (Razin and Sadka, 2007). It is argued that through FDI, the host country can be provided with more employment and increase local production growth. However, there is little information regarding the contribution of FDI to socio-economic levels in developing countries especially in Greater Mekong sub-region countries.

FDI has grown significantly with the increasing globalization of the economy since the 1960s that was operated by multi-national companies. This affected third world countries by creating a New International Division of Labor (NIDL), which is the relocation of export-oriented industrial-

zation from developed countries to developing countries. The NIDL has enabled developing countries to export not only primary products, but also competitive products to developed countries thereby shifting the areas of manufacture. This is because of the availability of cheap and obedient labor force such as women engaged in reproductive sectors. Thus, giving rise to feminization of labor. FDI paradigm is believed to be more stable associated with technology and skill transfer.

Southeast Asian countries initiated the Greater Mekong Subregion (GMS) Economic Cooperation Program in 1992 (Ngampramuan, 2008) with the aim to promote socio-economic development within countries sharing the Mekong River through strengthened intra-regional economic cooperation. Such initiatives, in fact, facilitated economic liberalization and deregulation leading to free market policies (ibid) and encouraged various foreign investments in the GMS countries. Several studies regarding GMS regional economic corporation pointed out positive socio-economic impacts at macro level, specifically with the increase in foreign investment (ADB, 2006). However, the dynamic impact of foreign investment at the micro-level in rural areas of the GMS countries is documented only in a few studies.

In Laos, the New Economic Mechanism introduced in 1986 enabled the expansion of foreign direct investment in the country, facilitating the transition from subsistence to a market economy (Mwankusye, 2002). Furthermore, GMS Economic Cooperation systematized the way towards foreign investment (ADB, 2006). Investment in rural Laos is quite significant in the sectors of agriculture, industry, trade/service, hydropower and mining (ADB, 2005). As a result, various types of employment opportunities have been created by foreign investment in Laos.

In 2005, a Japanese company took over a foreign-owned tree plantation, a joint venture company that was set up in 1996. The Japanese investor implemented 112 plantation projects in 150 villages, employing workers in tree nursery, grooming, planting, weeding and fertilizing activities. In Nongboua Noy village of Laos, many villagers are employed in a tree plantation nursery center near the village.

This paper (a) assesses the change in rural non-farm wage employment as a result of such investment and its socio-economic impact on rural people in Laos, (b) highlights participation of women in a plantation project initiated by a Japanese company, and (c) analyzes the effect of such investment on people's mobility patterns and the resulting change in interactions at local level and analyzes risks of such investment for rural development.

## **METHODOLOGY**

This paper discussed the changes in socio-economic status of local people after their employment in the plantation project managed by Japanese company in rural Laos. The study areas are located in Hinboune district, Khammouane province, Lao PDR. The study purposively selected the villages named Nongboua Noy and Hath Yai. Nongboua Noy village was selected as many villagers have been employed at a nursery center established nearby. Furthermore, Hath Yai was selected as there was no significant employment creation in the village. The purpose of selecting these two villages was to compare the socio-economic impact by foreign investment.

A total of 80 individual respondents from the two villages were randomly selected for a household survey through pre-tested questionnaires in 2009. The respondents comprised 50% male and 50% female in each village. The study also employed formal and informal interview to retrieve information from key informants such as the Laos' branch manager and village heads using check lists and from Focus Group Discussions (FGDs). Male and female participants were grouped separately during the discussion on FGDs. Data collection also involved direct field observation. Local language was used as the means of communication with local people assisted by a translator particularly during the interview.

Both qualitative and quantitative types of data were collected. Primary data was collected in order to analyze how the Japanese plantation project affects the socio-economic condition of rural people, influences mobility patterns and household community relations in rural Lao. Secondary data from Asian Development Bank, Japan External Trade Organization, the Japanese Paper Company, and their Laos branch were also collected in order to find out the historical background of the

plantation project. Furthermore, data from the Lao National Statistics Centre were gathered in order to compute gender compositions and to find out the changes in socio-economic conditions after employment at the Japanese company. Quantitative data regarding the gender composition was analyzed using cross tabulation in SPSS version 16. Qualitative analysis was done with extensive review of secondary data and primary information from the FGDs and informal interviews with villagers.

## RESULTS AND DISCUSSION

### Changes in rural non-farm wage employment and socio-economic conditions

Rural industries hold high potential of employment contribution, especially for women, who are categorized as subgroups of the population. The plantation project has employed more than 3000 daily wage workers throughout Laos, of which men and women have been employed in similar numbers. Approximately 50 daily wage workers have been employed in Nongboua Noy village with a high participation of women. A comparison of household income revealed that non-farm employment contributes to increase the annual household income (Table 1).

**Table 1 Comparison of annual household income by villages before-after the establishment of the project**

Annual Household Income (Kip)	Nongboua Noy Village		Hath Yai Village	
	2005	2009	2005	2009
<2,000,000	30 (75.0)	0 (0)	18 (45.0)	16 (40.0)
2,000,001 - 4,000,000	8 (20.0)	23 (57.5)	10 (25.0)	8 (20.0)
4,000,001 - 10,000,000	2 (5.0)	15 (37.5)	12 (30.0)	16 (40.0)
>10,000,001	0 (0)	2 (5.0)	0 (0)	0 (0)

Source: Field Survey 2009

Note: - Percentage in the figures (inside brackets) denotes the distribution of the respondents within the column

- Kip: Laos currency (1US \$= 8,338.30 Kip in July 2009)

Households in Nonboua Noy village were benefited relatively more in comparison to households in Hath Yai village in terms of annual household income. The increase in annual household income in Nongboua Noy village was noted to be five times higher compared to the period before the establishment of foreign investment. The respondents' active participation in the project was found to be a significant key factor contributing to the increase of annual household income which is not noted in Hath Yai village. Benfica *et al.*, (2002) pointed out that plantation projects and agricultural industry play a significant role in rural employment creation and reduce poverty through an increase in wages. Plantation industries are also found to contribute to socio-economic development of rural households.

### Participation of women in a plantation project initiated by a Japanese company

Women's contribution to household cash income was minimal before the project. However, there were significant changes after the project started. The survey showed higher percentages of contribution to annual household incomes among male and female respondents in Nongboua Noy village (Table 2). Nevertheless, women's contribution to the annual household income in Nongboua Noy village was much higher than in Hath Yai village. The analysis of Hath Yai village is not presented since there was no significant change in women's economic contribution. An increase in women's contribution to household income is widely observed particularly in the lower to medium annual income from - 2,000,001 to 4,000,000 kip and from 4,000,001 to 10,000,000 kip.

**Table 2 Individual contribution to household annual income by sex in Nongboua Noy village**

Respondents	Contribution to Annual Household Income (%)				
	<10	11-30	31-50	51-80	>81
Female	1 (5.0)	4 (20.0)	11 (55.0)	0 (0)	4 (20.0)
Male	0 (0)	0 (0)	5 (25.0)	6 (30.0)	9 (45.0)
Total	1 (2.5)	4 (10.0)	16 (40.0)	6 (15.0)	13 (32.5)

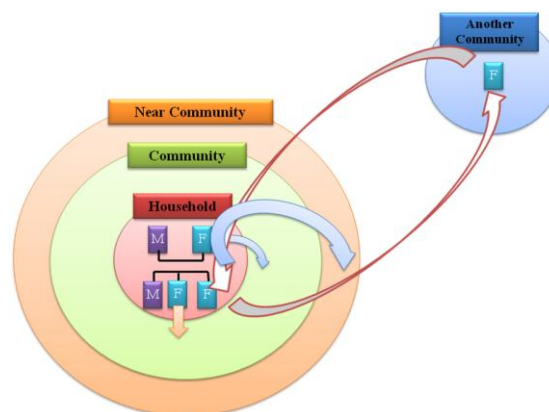
Source: Field Survey 2009

Note: - Percentage in the figures (inside brackets) denotes the distribution of the respondents within the row

A study conducted in India found that wage structure in a plantation industry is biased since women workers could not access the same wage as men even though women's work load was more than that of men (Reddock and Jain, 1998). However, in the case of Laos, the study showed positive results as the plantation project positively involved women with the same daily wage of men. The wage differentials and occupational segregation as reported from India was not observed in Laos. Labour market regulation has been considered to play an important role in reconciling the goals of efficiency and equality (Elson, 1999). Such positive economic contribution to household income developed women's self-confidence. According to the respondents, that women's self-confidence had increased with their contribution to household income. The study also found out that a positive correlation between women's household income contribution and their positive attitude at the community level. Thus, through women's development on self-confidence has influenced them to practice actively in community-based activities.

### Change in women's mobility patterns and their empowerment

Improved women's participation provided opportunities for their empowerment and changed their mobility patterns. Equal opportunity of women's mobility is not being practiced especially in rural areas, with women, especially having less mobility than men (Jennifer and Mandel, 2004). However, the study found an increase in mobility for women within and outside the village such as traveling to markets, health centers and attending meetings at plantation project. Respondents indicated that there is a positive correlation between mobility development and contribution to household income. Thus, large mobility developments are observed among women contributing to the household income. The change in mobility can be summarized as from household to community, household to near community, household to another community and another community to household (Fig. 1).



**Fig. 1 Change in mobility pattern in Nongboua Noy village**

Source: Field Survey 2009

Furthermore, development of mobility facilitates women's networking with people with diverse status and experiences outside their village. Such interactions provided women with alternative sources of knowledge and developed household strategies regarding women's relations with men in the village. Indeed, women further developed self-confidence through such experiences. The qualitative information showed positive relations between mobility development and an active approach to decision making at the community level. In contrast, in Hath Yai village, there were no positive changes. Thus, the economic development has not only empowered women economically but also developed their interaction toward different people. Economic development also means mobility and network development for women and specifically provides them with opportunities to obtain and develop knowledge and strategies to deal with men. This finding is consistent with the findings of Carr, *et al.*, (1996), that economic empowerment is a significant factor in the empowerment of women with increased levels of awareness, understanding, unity, mobility and confidence to handle problems outside of the family.

### **Risks of foreign investment to rural development**

While FDI in the plantation sector has led to positive results in terms of increased household income, mobility development and women's empowerment at the local level, it is also important to consider the risks inherent in foreign investment. For example, the global financial crisis in 2008 caused a decline in paper consumption in the United States but the demand for paper in newly industrializing countries like China grew (Paper News, 2010). This became an opportunity for foreign investors to seek and develop new sources of raw material for paper production such as tree plantations in GMS countries. Indeed, the Japanese plantation company in Laos has shifted its target from the world market to East and Southeast Asia, and is planning other plantation projects and new factories in Southeast Asia.

At the same time, the new Foreign Investment Law in Laos aims to attract more foreign investment (ASEAN-JAPAN CENTRE, 2009). An excessive inflow of foreign capital aiming to exploit the subregion's rich human and natural resources would lead to overuse of depleting natural resources. In addition, continuous establishment of foreign investments and industries threaten the local traditional lifestyles through rapid structural changes transforming the subsistence economy to a market economy. Furthermore, this will create over-reliance on foreign investment which is vulnerable to international market conditions.

### **CONCLUSION**

Women's active participation was limited before the establishment of the project due to lack of income and prevalent socio-cultural constraints on women. The socio-economic condition of women, including household income and mobility improved after their engagement in the plantation project and alternative mobility pattern and community relations were slightly restructured. Thus, the plantation project contributed to the overall socio-economic development and women's empowerment in rural Laos. The findings in this paper agree with those in the Benfica, Tschirley and Sambo's study (2002); additionally, this paper shows that increased rural household income also increased women's mobility and their active participation in the community.

Foreign investment can contribute to rural development by creating non-farm rural employment opportunities and economically empower vulnerable social groups such as women, especially in developing countries. This is considerably important in the GMS region. However, it is also prone to become excessively dependent on foreign investment for rural employment opportunities since foreign investment have a high risk of changing according to the conditions in the global market.

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