

# Proceedings

## “Asia-Pacific: World’s New Focal Point”

7-8 December 2017, Chiang Rai, Thailand



# **PROCEEDINGS**

**2nd Thammasat Annual Academics & Postgraduate  
International Conference**

**“Asia Pacific: World’s New Focal Point”**

**7-8 December, Chiang Rai, Thailand**

**Host by**

**Thammasat Institute of Area Studies,  
Thammasat University**

**In association with**

**Master of Arts in Asia-Pacific Studies Program**

**Copenhagen Business School**

**Graduate School of Asia-Pacific Studies, Waseda University**

**Meiji University**

**University of Canterbury**

**Faculty of Political Science, Thammasat University**

**Thai Credit Guarantee Cooperation**



## Foreword from the Conference Chair

Welcome to the 2<sup>nd</sup> Thammasat Annual Academic and Post Graduate International Conference on Asia Pacific Studies (TU CAPS 2017) Page | 1

Following the success of our 1<sup>st</sup> International Conference last year, this year we congregate again for the 2<sup>nd</sup> edition of TU CAPS 2017, here in Chiang Rai, North of Thailand. Last year, through our theme of ‘Integrating the Differences’, we successfully ‘integrate’ differences in Asia Pacific through multi-disciplinary approach as seen throughout the presentations of papers and findings in the Conference. The conference create a robust engagements and discussions related to Asia Pacific, which was immortalized in a proceedings produced in January this year.

As for this year, the conference once again put a similar emphasis on Asia Pacific, with focus on the rise of the region as a new ‘focal point’ in international arena. The theme this year, ‘Asia Pacific: World’s New Focal Point’ encapsulates both what the conference have achieved last year and build up from that point on. The importance of Asia Pacific can’t be denied, as it housed few major powerhouses and act as an important trade bloc as it is. This year will see a more diverse and interesting papers concerning contemporary issues of Asia Pacific from our renowned invited guests, academics, scholars and students of Asia Pacific Studies.

This conference can’t happen without the kind support from our esteemed affiliated networks namely Graduate School of Asia Pacific Studies (GSAPS), Waseda University, Meiji University, Copenhagen Business School and University of Canterbury. Strong partners from local institute and agencies such as College of Interdisciplinary Studies (CIS), Thammasat University, Faculty of Political Science, Thammasat University and Thai Credit Guarantee Cooperation; with their consistent support motivate us to do better for the benefit of all. To that end, I hope you have a good time during the 2<sup>nd</sup> Thammasat Annual Academic and Post Graduates International Conference (TU CAPS 2017) here at Dust Island Resort, Chiang Rai, Thailand.

**Suphat Suphachalasai, PhD.**  
Conference Chair



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| ➤ Retirement, Earning, and Labour Supply: Evidence from Thailand ( <i>Monthien Satimanon, PhD and Thasanee Satimanon, PhD</i> )                                       |    |
| ➤ The Influence of China on Philippine Foreign Policy: The Case of Duterte’s Independent Foreign Policy ( <i>Nathan Daniel V. Sison</i> )                             |    |
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| ➤ Impact of Obama Administration’s Ambiguity on Japan’s Self-Defense Restructure ( <i>Heng Sonya</i> )  |    |
| ➤ Inequality and Economic Development in the New Era after the 1986 Economic Reform in Lao PDR ( <i>Sinthavanh Chanthavong</i> )                                      |    |
| ➤ Effects of Agricultural Policies on Rice Industry in Myanmar ( <i>Nang Nu Nu Yee</i> )  |    |
| ➤ Vietnam’s FTA Strategy ( <i>Ta Sao Mai</i> )  |    |
| ➤ Economic Development Pattern under Military Regime: A Comparative Study between Park Chung Hee and Sarit Thanarat Administration ( <i>Merica Chanakitchinchon</i> ) |    |
| ➤ The Continuity of Thailand’s ‘Bamboo Bending with the Wind’ Foreign Policy: The Perception of National Independence ( <i>Kornchanok Nushkasem</i> )                 |    |
| ➤ Refugee Status Determination (RSD) Practices in Thailand ( <i>Yonradee Wangcharoenpaisan</i> )  |    |
| ➤ Factors Attracting Investors to Invest in Lao PDR: Case Study of Savan-Seno Special Economic Zone ( <i>Soulinda Thammavongxay</i> )                                 |    |
| ➤ Factor Affecting Foreign Direct Investment (FDI) Inflow to Lao PDR ( <i>Palamy Phetpaseuth</i> )  |    |
| ➤ Global Land Taking Compensation Schemes for Dam Project: A Lesson for Laos ( <i>Nousa Sayasam</i> )   |    |



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- Regional Distribution of Foreign Investment in Lao PDR (*Chanthida Ratanavong*)
- Women and Career Advancement in Brunei Darussalam: A Case Study of Women Working in Brunei Public Service (*Dayangku Nur Rabi'ah Pengiran Haji Abdul Rahman*)
- The Relevance of Gross National Happiness (GNH) on Environment Conservation (*Singay Wangmo*)
- Women Trafficking in Lao PDR: Conceptualizing the Reality of Government Policy & Intervention in Responding to Trafficking of Women in Lao PDR (*Thip Nouansyvong*)



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## Committee Board

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| <p>2. Assoc. Prof. Chanin Mephokee, PhD<br/>Advisor to the Director,<br/>Thammasat Institute of Area Studies<br/>Thammasat University</p> | <p>Committee &amp; Editor</p>                   |                 |
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| <p>4. Dr. Kosum Omphornuwat<br/>College of Interdisciplinary Studies,<br/>Thammasat University</p>  | <p>Committee &amp; Editor</p>                   |                 |
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| <p>7. Assistant Professor Wasan Luangprapat, PhD<br/>Faculty of Political Science,<br/>Thammasat University</p>                           | <p>Committee &amp; Editor</p>                   |                 |
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| <p>15. Professor Hitoshi Mitomo, PhD<br/>Director, Waseda Institute for Digital Society<br/>Graduate School of Asia-Pacific Studies (GSAPS)<br/>Waseda University</p> | <p>Committee &amp; Editor</p> |
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| First Secretary:  | Ms. Natthakanya Jarungsri             |
| Second Secretary: | Ms. Thanyawee Chuanchuen              |

## Coordinator of Event

1. Asst. Prof. Suphat Suphachalasai, PhD
2. Ms. Thanyawee Chuanchuen
3. Mr. Mohammad Zaidul Anwar Haji Mohamad Kasim

## Coordinator of Publication and Documentation

1. Ms. Thanyawee Chuanchuen
2. Mr. Mohammad Zaidul Anwar Haji Mohamad Kasim

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7. Ms. Palden
8. Mr. Thu Rein Htut Naing



## Lists of the Name

### Keynote Speech

Prof. William T. Tow, Professor, Department of International Relations, School of International, Political & Strategic Studies, Coral Bell School of Asia-Pacific Affairs, Australian National University

### Chairs

| No. | Name                                  | Designation  | Institute                      |
|-----|---------------------------------------|--|--------------------------------|
| 1.  | Asst. Prof. Suphat Suphachalasai, PhD | Director, Thammasat Institute of Area Studies              | Thammasat University           |
| 2.  | Prof. Hitoshi Mitomo, PhD             | Professor, Graduate School of Asia-Pacific Studies (GSAPS) | Waseda University              |
| 3.  | Asst.Prof. John W. Cheng, PhD         | Lecturer, School of Political Science and Economics        | Waseda University              |
| 4.  | Dr. Enze Han                          | Senior Lecturer  | SOAS, University of London, UK |
| 5.  | Asst. Prof. Wasan Luangprapat, PhD    | Faculty of Political Sciences                              | Thammasat University           |
| 6.  | Dr. Takashi Tsukamoto                 | Faculty of Political Sciences                              | Thammasat University           |
| 7.  | Asst. Prof. Jittpat Poonkham          | Faculty of Political Sciences                              | Thammasat University           |
| 8.  | Dr. Supruet Thavomyutikarn            | Director, India Studies Centre                             | Thammasat University           |
| 9.  | Assoc.Prof. Chanin Mephokee           | Faculty of Economics                                       | Thammasat University           |
| 10. | Asst.Prof. Pomthep Benyaapikul        | Faculty of Economics                                       | Thammasat University           |



## Commentators

| No. | Name                                  | Designation  | Institute                        |
|-----|---------------------------------------|--|----------------------------------|
| 1.  | Prof. William T. Tow, PhD             | Professor, Coral Bell School of Asia-Pacific Affairs | Australian National University   |
| 2.  | Dr. Enze Han                          | SOAS, University of London                           | University of London             |
| 3.  | Assoc.Prof. Duncan Wigan, PhD         | Department of Business and Politics                  | Copenhagen Business School       |
| 4.  | Asst.Prof. Maj Lervad Gasten, PhD     | Department of Business and Politics                  | Copenhagen Business School       |
| 5.  | Dr. Victor Sumsky                     | Director of ASEAN Center                             | MGIO University                  |
| 6.  | Mr. Masanori Kondo                    | Deputy Secretary General                             | Asia-Pacific Telecommunity (APT) |
| 7.  | Dr. Sobee Shinohara                   | Researcher   | KDDI Research, Inc.              |
| 8.  | Asst. Prof. Suphat Suphachalasai, PhD | Director, Thammasat Institute of Area Studies        | Thammasat University             |
| 9.  | Assoc. Prof. Chanin Mephokee, PhD     | Deputy Director, Thammasat Institute of Area Studies | Thammasat University             |
| 10. | Dr. Supruet Thavorniyutikarn          | Director, India Studies Centre                       | Thammasat University             |
| 11. | Asst. Prof. Pornthep Benyaapikul, PhD | Faculty of Economics                                 | Thammasat University             |
| 12. | Dr. Montien Satimanon                 | Faculty of Economics                                 | Thammasat University             |
| 13. | Dr. Takashi Tsukamoto                 | Faculty of Political Science                         | Thammasat University             |
| 14. | Asst.Prof. Sunida Aroonpipat, PhD     | Faculty of Political Science                         | Thammasat University             |
| 15. | Asst. Prof. Wasan Luangprapat, PhD    | Faculty of Political Science                         | Thammasat University             |
| 16. | Asst.Prof. Tavid Kamolvej, PhD        | Faculty of Political Science                         | Thammasat University             |
| 17. | Dr. Kosum Omphornuwat                 | College of Interdisciplinary Studies                 | Thammasat University             |
| 18. | Dr. Daniel MacFarlane                 | School of Global Studies                             | Thammasat University             |



## Presenters

| No. | Name                                     | Designation              | Institute                                      |
|-----|--|--------------------------|--|
| 1.  | Prof. Hisakuza Kato, Ph.D                | Professor                | Meiji University (Japan)                       |
| 2.  | Prof. Hitoshi Mitomo, Ph.D               | Professor                | Waseda University (Japan)                      |
| 3.  | Asst. Prof. John W. Cheng, Ph.D          | Lecturer                 | Waseda University (Japan)                      |
| 4.  | Dr. Victor Sumsy                         | Director of ASEAN Center | MGIMO University<br>(Russian Federation)       |
| 5.  | Dr. Enze Han                             | Senior Lecturer          | SOAS, University of London<br>(United Kingdom) |
| 6.  | Assoc.Prof. Duncan Wigan, Ph.D           | Lecturer                 | Copenhagen Business School<br>(Denmark)        |
| 7.  | Asst.Prof. Maj Lervad Gasten, PhD        | Lecturer                 | Copenhagen Business School<br>(Denmark)        |
| 8.  | Dr. Lindsay Te Ata Tu MacDonald          | Lecturer                 | University of Canterbury<br>(New Zealand)      |
| 9.  | Assoc.Prof. Chanin Mephokee, PhD         | Lecturer                 | Thammasat University<br>(Thailand)             |
| 10. | Dr. Supreut Thavornyutikarn              | Lecturer                 | Thammasat University<br>(Thailand)             |
| 11. | Dr. Takashi Tsukamoto                    | Lecturer                 | Thammasat University<br>(Thailand)             |
| 12. | Asst. Prof. Tavid Kamolvej, PhD          | Lecturer                 | Thammasat University<br>(Thailand)             |
| 13. | Asst.Prof. Jittipat Poonkham             | Lecturer                 | Thammasat University<br>(Thailand)             |
| 14. | Asst. Prof. Pornthep Benyaapikul,<br>PhD | Lecturer                 | Thammasat University<br>(Thailand)             |
| 15. | Mr. Pradit Chinudomsub                   | PhD Candidate            | University of Canterbury<br>(New Zealand)      |
| 16. | Ms. Tatcha Sudtasan                      | PhD Candidate            | Waseda University (Japan)                      |
| 17. | Mr. Masanori Kondo                       | Deputy Secretary General | Asia-Pacific Telecommunity<br>(APT)            |
| 18. | Dr. Sobee Shinohara                      | Researcher               | KDDI Research, Inc.                            |

## Postgraduate Students

| No. | Name                                    | Institute                             |
|-----|---|---------------------------------------|
| 1.  | Ms. Kornchanok Nushkasem                | MAPS Program, Thammasat University    |
| 2.  | Mr. Nathan Daniel V. Sison              | MAPS Program, Thammasat University    |
| 3.  | Ms. Febrianti Tentyana                  | MAPS Program, Thammasat University    |
| 4.  | Mr. Heng Sonya                          | MAPS Program, Thammasat University    |
| 5.  | Ms. Merica Chanakitchinon               | MAPS Program, Thammasat University    |
| 6.  | Ms. Nang Nu Nu Yee                      | MAPS Program, Thammasat University    |
| 7.  | Mr. Sinthavanh Chanthavong              | MAPS Program, Thammasat University    |
| 8.  | Ms. Dk Nur Rabi'Ah Pg Haji Abdul Rahman | MAPS Program, Thammasat University    |
| 9.  | Ms. Thip Nouansyvong                    | MAPS Program, Thammasat University    |
| 10. | Ms. Nousa Sayasarn                      | MAPS Program, Thammasat University    |
| 11. | Ms. Ta Sao Mai                          | MAPS Program, Thammasat University    |
| 12. | Ms. Soulinda Thammavongxay              | MAPS Program, Thammasat University    |
| 13. | Mr. Palamy Phetpaseuth                  | MAPS Program, Thammasat University    |
| 14. | Ms. Yonradee Wangcharoenpaisan          | MAPS Program, Thammasat University    |
| 15. | Ms. Singay Wangmo                       | MAPS Program, Thammasat University    |
| 16. | Ms. Chantida Ratanavong                 | MAPS Program, Thammasat University    |
| 17. | Mr. Papol Dhutikraikriang               | GSAPS, Waseda University              |
| 18. | Ms. Ornicha Boonpanya                   | GSAPS, Waseda University              |
| 19. | Mr. Arthawut Leepaisalsuwanna           | GSAPS, Waseda University              |
| 20. | Mr. Yudi Adhi Purnama                   | GSAPS, Waseda University              |
| 21. | Ms. Thanikun Chantra                    | University of Canterbury, New Zealand |

## List of Institutions

### International Institutions

1. Graduate School of Asia- Pacific Studies (GSAPS), Waseda University, Japan
2. Meiji University, Japan
3. Coral Bell School of Asia Pacific Affairs, ANU College of Asia & the Pacific, Australian National University, Australia
4. SOAS University of London, United Kingdom
5. Copenhagen Business School, Denmark
6. University of Canterbury, New Zealand
7. ASEAN Center, Moscow State Institute of International Relations (MGIMO University), Ministry of Foreign Affairs, Russia Federation
8. Asia-Pacific Telecommunity (APT)

### Thai Institutions

1. Thammasat Institute of Area-Studies (TIARA), Thammasat University
2. Master of Arts in Asia-Pacific Studies (MAPS) Program, Thammasat University
3. Faculty of Political Science, Thammasat University
4. College of Interdisciplinary Studies, Thammasat University
5. Mae Fah Luang University

## Conference Schedule

|  |   |
|--|---|
| <b>Wednesday, 6 December 2017</b><br>Venue: Island Cafe  |   |
| 18.00 -20.00   | Cocktail Reception at Island Cafe   |
| <b>Thursday, 7 December 2017</b><br>Venue: Doi Tong Room |   |
| 08.30 - 09.00  | Registration  |
| 09.00 - 09.10  | <b>Welcome &amp; Opening Speech by Asst. Prof. Dr. Suphat Suphachalasai</b> , Director of Thammasat Institute of Area Studies (TIARA) and Master of Arts in Asia-Pacific Studies Program  |
| 09.10 - 09.20  | Photo Session   |
| 09.20 - 10.10  | <b>Keynote Speech “Asia-Pacific Security: Adjusting to Historic Change” by Prof. William T. Tow</b> , Coral Bell School of Asia Pacific Affairs, ANU College of Asia & the Pacific, Australian National University  |
| 10.10 - 10.20  | Coffee Break (Serve inside the Conference Room)   |
| 10.20 – 12.30  | <b>Session I: Security Issues in the Asia-Pacific Region</b><br><br>(1) <i>“Russia – ASEAN towards A Strategic Partnership in A Changing Global Context”</i> by Dr. <b>Victor Sumsky</b> , Director, ASEAN Center, Moscow State Institute of International Relations (MGIMO University) of the Ministry of Foreign Affairs<br><br>(2) <i>“Russia’s Pivot to Asia: Visionary or Reactionary”</i> by Asst.Prof. <b>Jittipat Poonkham</b> , Faculty of Political Science, Thammasat University<br><br>(3) <i>“External Threats, Internal Challenges, and State Building in East Asia”</i> by Dr. <b>Enze Han</b> , SOAS, University of London<br><br>(4) <i>“Imagining an Unimaginable Dream: Disputes, Dialogue and Security Community Building in Southeast Asia”</i> by Dr. <b>Takashi Tsukamoto</b> , Faculty of Political Science, Thammasat University<br><br>(5) <i>“Rule of Law or Rule by Lawyers: Legal Ordering and Development”</i> by Asst. Prof. <b>Dr. Maj Lervad Gasten</b> , Department of Business and Politics, Copenhagen Business School, Denmark<br><br>Chair: Asst. Prof. Dr. Wasan Luangprapat, Faculty of Political Science, Thammasat University |
| 12.30 - 13.30  | Lunch at Island Cafe  |

| Parallel sessions | Asia-Pacific Studies<br>Venue: Doi Tong Room  | Telecommunication and ICT Development Policy in the Asia-Pacific Region<br>Venue: Doi Come Room  |
|-------------------|---|--|
| 13.30 – 15.00     | <p>Session II: Contemporary Issues in the Asia-Pacific I</p> <p>(1) <i>“Asian Countries Facing Deep Aging”</i> by Prof. Hisakuza Kato, School of Political Science and Economics, Meiji University</p> <p>(2) <i>“Labour Mobility in ASEAN”</i> by Assoc. Prof. Dr. Chanin Mephokee, Faculty of Economics, Thammasat University</p> <p>(3) <i>“Retirement, Earnings, and Labor Supply: Evidence from Thailand”</i> by Dr. Monthien Satimanon, Faculty of Economics, Thammasat University</p> <p>Chair: Asst. Prof. Dr. Suphat Suphachalasai, Director of Thammasat Institute of Area Studies and lecturer of Faculty of Economics, Thammasat University</p> | <p>Session I: Digital Society</p> <p>(1) <i>“Dominance in Data Platform Business: the Network Effect Theory Revisited”</i> by Prof. Hitoshi Mitomo, Graduate School of Asia-Pacific Studies (GSAPS), Waseda University, Japan</p> <p>(2) <i>“Institutional Analysis of Impact of ICT Policy”</i> by Mr. Masanori Kondo, Deputy Secretary General, Asia-Pacific Telecommunity (APT)</p> <p>(3) <i>“Economic Evaluation of 700 MHz of Thailand”</i> by Asst. Prof. Dr. Pornthep Benyaapikul, Faculty of Economics, Thammasat University</p> <p>Chair: Asst. Prof. John W. Cheng, School of Political Science and Economics, Waseda University, Japan</p> |
| 15.00 - 15.15     | Coffee Break  |  |
| 15.15 - 17.00     | <p>Session III: Contemporary Issues in the Asia-Pacific Region II</p> <p>(1) <i>“Global Wealth Chains: Asset Management in the World Economy”</i> by Assoc. Prof. Dr. Duncan Wigan, Department of Business and Politics, Copenhagen Business School, Denmark</p> <p>(2) <i>“Deliberative Process of Sendai Framework for Disaster Risk Reduction”</i> by Asst. Prof. Dr. Tavida</p>   | <p>Session II: Digital Society</p> <p>(1) <i>“Panel Data Analysis of the Factors of Mobile Broadband Adoption on OECD 34 Countries and Its Implication on Emerging Markets”</i> by Dr. Sobee Shinohara, KDDI Research, Inc.</p> <p>(2) <i>“Can Simultaneous Multi-screening Raise Audience’s Awareness of Social and Political Issue?”</i> by Asst. Prof. John W. Cheng, School of Political Science and Economics, Waseda University, Japan</p>   |

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|----------------------|---|--|
|                      | <p>Kamolvej, Faculty of Political Science, Thammasat University</p> <p>(3) <i>What Do Property Rights Mean to the People of Thailand? A Q-methodological Approach</i>” by Dr. Lindsey Te Ata Tu MacDonald and Mr. Pradit Chinudomsub, University of Canterbury, New Zealand</p> <p>(4) <i>“Corruption as Leverage against Colonialism: Bangkok-Korat Railway Revisited”</i> by Dr. Supreut Thavornyutikan, Faculty of Economics, Thammasat University</p> <p>Chair: Dr. Takashi Tsukamoto, Faculty of Political Science, Thammasat University</p> | <p>(3) <i>“Optical Fiber Broadband Market in Japan: An Outlook for Thailand”</i> by Tatcha Sudtasan, Graduate School of Asia-Pacific Studies, Waseda University, Japan</p> <p>Chair: Prof. Hitoshi Mitomo, Graduate School of Asia-Pacific Studies (GSAPS), Waseda University, Japan</p> |
| <p>18.45 - 20.30</p> | <p>Conference Dinner</p> <p>Venue: Rim Kok</p>  |  |



Friday, 8 December 2017

| Parallel sessions | Post Graduate Conference on Asia-Pacific Studies<br>Venue: Doi Tong Room   | Post Graduate Conference on Telecommunication and ICT Development Policy in the Asia-Pacific Region<br>Venue: Doi Come Room   |
|-------------------|--|---|
| 09.00 - 11.00     | <p>Session I: International Relations and Political Issues in the Asia-Pacific</p> <p>(1) <i>“The Influence of China on Philippines’ Foreign Policy: the Case of Duterte’s Independent Foreign Policy”</i> by Nathan Daniel V. Sison, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>• <b>Commentator: Prof. William T. Tow</b>, Coral Bell School of Asia Pacific Affairs, ANU College of Asia &amp; the Pacific, Australian National University</li> </ul> <p>(2) <i>“Joko Widodo’s Strategy in Applying ‘Free and Active Foreign Policy to Contain Tensions in South China Seas”</i> by Febrianti Tentyana, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>• <b>Commentator: Dr. Victor Sumsky</b>, Director, ASEAN Center, Moscow State Institute of International Relations (MGIMO University) of the Ministry of Foreign Affairs</li> </ul> <p>(3) <i>“The Impacts of Obama Administration’s Ambiguity on Japan’s Self-Defense Restructure”</i> by Heng Sonya, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>• <b>Commentator: Asst. Prof. Dr. Wasan Luangprapat</b>, Faculty of Political Science, Thammasat University</li> </ul> | <p>Session I: Digital Society</p> <p>(1) <i>“The Impact of ICT on International Trade: Digital Divide in ASEAN”</i> by Arthawut Leepaisalsuwanna, Graduate School of Asia-Pacific Studies, Waseda University, Japan</p> <ul style="list-style-type: none"> <li>• <b>Commentator: Dr. Daniel McFarlane</b>, School of Global Studies, Thammasat University</li> </ul> <p>(2) <i>“Fixed Broadband, Investment, Urbanization and Economic Growth in 9 ASEAN Member Countries: A Granger Causality Test Using Panel Data”</i> by Yudi Adhi Purnama, Graduate School of Asia-Pacific Studies, Waseda University, Japan</p> <ul style="list-style-type: none"> <li>• <b>Commentator: Mr. Masanori Kondo</b>, Deputy Secretary General, Asia-Pacific Telecommunity (APT)</li> </ul> <p>Chair: Assoc. Prof. Dr. Chanin Mephokee, Faculty of Economics, Thammasat University</p> |

| Friday, 8 December 2017 |  |   |
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| Parallel sessions       | <b>Post Graduate Conference on Asia-Pacific Studies</b><br><br>Venue: Doi Tong Room  | <b>Post Graduate Conference on Telecommunication and ICT Development Policy in the Asia-Pacific Region</b><br><br>Venue: Doi Come Room  |
|                         | Chair: Dr. Enze Han, SOAS, University of London  |   |
| 11.00 - 11.15           | Coffee Break   |   |
| 11.15 - 12.45           | <b>Session II: Economics &amp; Development</b><br><br>(1) <i>“Inequality and Economic Development in the New Era after the 1986 Economic Reform in Lao PDR”</i> by Sinthavanh Chanthavong, MAPS Thammasat University<br><ul style="list-style-type: none"> <li>● Commentator: Dr. Montien Satimanon, Faculty of Economics, Thammasat University</li> </ul> (2) <i>“Effects of Agricultural Policies on Rice Industry of Myanmar”</i> by Nang Nu Nu Yee, MAPS Thammasat University<br><ul style="list-style-type: none"> <li>● Commentator: Dr. Supreut Thavornytikan, Faculty of Economics, Thammasat University</li> </ul> (3) <i>“Vietnam’s FTA Strategy”</i> by Ta Sao Mai. MAPS Thammasat University<br><ul style="list-style-type: none"> <li>● Commentator: Assoc. Prof. Dr. Duncan Wigan, Department of Business and Politics, Copenhagen Business School, Denmark</li> </ul> (4) <i>“Economic Development Pattern under Military Regime: A Comparative Study between Park Chung Hee and Sarit Thanarat Administration”</i> by Merica | <b>Session II: Telecommunication and Broadcasting Development</b><br><br>(1) <i>“A Case Study of Thai Youth on the Incentive of Clicking “Like” on Friend’s Posts”</i> by Papol Dhutikraikriang, GSAPS, Waseda University, Japan<br><ul style="list-style-type: none"> <li>● Commentator: Dr. Daniel McFarlane. School of Global Studies, Thammasat University</li> </ul> (2) <i>“Impact of Image Formation from UGC on Tourist Decision to Go for Heritage Tourism”</i> by Ornicha Boonpanya, GSAPS, Waseda University, Japan<br><ul style="list-style-type: none"> <li>● Commentator: Dr. Sobee Shinohara, KDDI Research, Inc.</li> </ul> (3) <i>“The Adoption Factors of an Intelligent Chatbot as a tool for Japanese Language Education: A Case of Thai Users to Study Japanese”</i> by Artima Kamplean, Graduate School of Asia-Pacific Studies (GSAPS), Waseda University<br><ul style="list-style-type: none"> <li>● Commentator: Assoc. Prof. Dr. Chanin Mephokee, Faculty of Economics, Thammasat University</li> </ul> |



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| <p>Parallel sessions</p> | <p>Post Graduate Conference<br/>on Asia-Pacific Studies<br/><br/>Venue: Doi Tong Room</p>   | <p>Post Graduate Conference<br/>on Telecommunication and ICT<br/>Development Policy in the Asia-Pacific<br/>Region<br/><br/>Venue: Doi Come Room</p>   |
|                          | <p>Chanakitchinchon, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>• Commentator: Dr Supreut Thavornytikarn, Faculty of Economics, Thammasat University</li> </ul> <p>Chair: Asst. Prof. Jittipat Poonkham, Faculty of Political Science, Thammasat University</p>   | <p>Chair: Asst. Prof. Dr. Pornthep Benyaapikul, Faculty of Economics, Thammasat University</p> <p>Closing the Telecommunication Session by Prof. Hitoshi Mitomo, Graduate School of Asia-Pacific Studies (GSAPS), Waseda University</p>  |
| <p>12.45 - 13.45</p>     | <p>Lunch at Island Cafe</p>   |  |
| <p>13.45 - 15.45</p>     | <p>Session III: Area Studies: Thailand</p> <p>(1) <i>“The Continuity of Thailand’s Bamboo Bending with the Wind’s Foreign Policy: The Perception of National Independence”</i> by Kornchanok Nushkasem, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>• Commentator: Asst. Prof. Dr. Wasan Luangprapat, Faculty of Political Science, Thammasat University</li> </ul> <p>(2) <i>“Refugee Status Determination (RSD) Practices in Thailand”</i> by Yonradee Wangcharoenpaisan, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>• Commentator: Dr. Kosum Omphornuwat, College of Interdisciplinary Studies, Thammasat University</li> </ul> | <p>Session IV: Area Studies: Lao PDR</p> <p>(1) <i>“Factors Attracting Investors to Invest in Lao PDR: Case Study of Savan-Seno Special Economic Zone”</i> by Soulinda Thammavongxay, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>• Commentator: Asst. Prof. Dr. Sunida Aroonpipat, Faculty of Political Science, Thammasat University</li> </ul> <p>(2) <i>“Factor Affecting Foreign Direct Investment (FDI) Flow to Lao PDR”</i> by Palamy Phetpaseuth, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>• Commentator: Dr. Monthien Satimanon, Faculty of Economics, Thammasat University</li> </ul> |



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|                   | <p>(3) <i>“Bombs, Bullets, and Ballots: Examining Electoral Participation during Conflict in Southern Thailand”</i> by Ms. Thanikun Chantra, University of Canterbury</p> <ul style="list-style-type: none"> <li>• Commentator: Dr. Takashi Tsukamoto, Faculty of Political Science, Thammasat University</li> </ul> <p>Chair: Asst. Prof. Jittipat Poonkham, Faculty of Political Science, Thammasat University</p> | <p>(3) <i>“Global Land Taking Compensation Schemes for Dam Project: A Lesson for Laos”</i> by Nousa Sayasarn, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>• Commentator: Asst. Prof. Dr. Maj Lervad Gasten, Department of Business and Politics, Copenhagen Business School, Denmark</li> </ul> <p>(4) <i>“Regional distribution of Foreign investment in Lao PDR”</i> by Chantida Ratanavong, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>• Commentator: Assoc. Prof. Dr. Duncan Wigan, Department of Business and Politics, Copenhagen Business School, Denmark</li> </ul> <p>Chair: Dr Supreut Thavornyutikarn, Faculty of Economics, Thammasat University</p> |
| 15.45             | Coffee Break<br>(Serve inside the Conference Room)   | Coffee break  |
| 15.45 – 17.30     | <p>Session V: Socio- Economics Issues in the Asia-Pacific</p> <p>(1) <i>“Women and Career Advancement in Brunei Darussalam: A Case Study of Women Working in Brunei Government Sectors”</i> by Dk Nur Rabi’Ah Pg Haji</p>  |   |



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|-------------------|---|---|
|                   | <p>Abdul Rahman, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>● Commentator: Asst. Prof. Dr. Tavid Kamolvej, Faculty of Political Science, Thammasat University</li> </ul> <p>(2) <i>“The Relevance of Gross National Happiness (GNH) on Environment Conservation”</i> by Singay Wangmo, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>● Commentator: Asst. Prof. Dr. Sunida Aroonpipat, Faculty of Political Science, Thammasat University</li> </ul> <p>(3) <i>“Women Trafficking in Lao PDR: Conceptualizing the Reality of Government Policy and Intervention in Responding to Trafficking of Women in Lao PDR”</i> by Thip Nouansyvong, MAPS Thammasat University</p> <ul style="list-style-type: none"> <li>● Commentator: Asst. Prof. Dr. Tavid Kamolvej, Faculty of Political Science, Thammasat University</li> </ul> <p>Chair: Dr. Takashi Tsukamoto, Faculty of Political Science, Thammasat University</p> |   |
| 17.30 -17.45      | Closing by Asst. Prof. Dr. Suphat Suphachalasai, Director of Thammasat Institute of Area Studies (TIARA) and Master of Arts in Asia-Pacific Studies Program (MAPS)  |   |
| 18.30             | Dinner at Island Cafe   |   |

## Intraregional Labour Mobility in ASEAN

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### Abstract

The paper aims to investigate the labor mobility in ASEAN in three aspects. First is to investigate the current situation of labor migration in ASEAN. Second is to find the factors affecting the decision on cross-border migration. Finally, the paper investigates the impacts of labor migration. The paper finds that labor migration among ASEAN countries has been increasing continuously. The flows of skilled labor have been increasing, but they remain small comparing to the flows of unskilled labor. The ASEAN framework on labor movement that focuses on the free movement of skilled labor has little impacts on the total flows of labor migration that mainly are unskilled labor. The different level of economic development can be the main factors explaining the flow of unskilled labor in this region. The success of industrialization in some countries, such as, Malaysia, Singapore, and Thailand and the failure in agricultural sector in home countries, such as, Cambodia, Laos PDR, and Myanmar can be pull and push factors to the flow. The impacts of labor migration can be divided into the impacts on destination countries and the impacts on origin countries. For the impacts on the destination countries, the paper finds that the migration has impacts on GDP per Capita, on average wages, and on economic growth. However, the flows of unskilled labor may keep destination countries to continue labor-intensive industrialization and reduce likelihood of spending on R&D that improves productivity. Remittances is the most mentioned impacts on origin countries. The Philippines and Vietnam are countries that received most remittances in ASEAN, while Malaysia and Singapore are the countries sending most of remittances overseas. The paper suggests that undocumented unskilled labor migration may be the serious issue facing ASEAN today. Domestic structural reforms and closer regional cooperation are needed to handle this problem.

### 1. Introduction

With the establishment of the ASEAN Economic Community (AEC) in 2015, ASEAN is going to the achievement in political, economic, and cultural integration. According to the ASEAN Economic Blueprint in 2025, ASEAN has been working on the target to be a region with free movement of goods services investment skilled labor and free flow of capital. The strategic measures include (i) expanding deepen

commitments under the ASEAN Agreement on movement of natural persons where appropriate and (ii) reduce, if not standardize, documentation requirement. Currently, the success of ASEAN can be seen in several aspects, especially in trade and investment. However, the target on “free flow of labor” is still too far to be seen the success.

Table 1 International Migration in ASEAN

|                   | Population | International Migrant Stock | Stocks of Nationals Abroad | Where do migrants come from?                                   | Where do nationals go to?                                      |
|-------------------|------------|-----------------------------|----------------------------|--|--|
| ASEAN             | 617549000  | 9498000                     | 18836000                   | Myanmar (2151000)<br>Indonesia (1216000)<br>Malaysia (1050000) | USA (4328000)<br>Thailand (3579000)<br>Malaysia (1512000)      |
| Brunei Darussalam | 411000     | 206000                      | 51000                      | Japan (102000)<br>Thailand (25000)<br>NZ (25000)               | India (26000)<br>Malaysia (6000)<br>UK (5000)                  |
| Cambodia          | 15079000   | 76000                       | 1116000                    | Vietnam (37000)<br>Thailand (31000)<br>China (2000)            | Thailand (750000)<br>USA (173000)<br>France (64000)            |
| Indonesia         | 251268000  | 295000                      | 2993000                    | China (63000)<br>Korea (28000)<br>UK (27000)                   | Singapore (1051000)<br>Saudi (380000)<br>UAE (321000)          |
| Lao PDR           | 6580000    | 22000                       | 1293000                    | Vietnam (11000)<br>China (3000)<br>Thailand (2000)             | Thailand (926000)<br>USA (197000)                              |
| Malaysia          | 29465000   | 2469000                     | 1446000                    | Indonesia (1051000)<br>Bangladesh(352000)<br>Myanmar (248000)  | Singapore (1045000)<br>Australia (145000)<br>USA (65000)       |
| Myanmar           | 52964000   | 103000                      | 2648000                    | China (48000)<br>India (37000)<br>Pakistan (4000)              | Thailand (1892000)<br>Malaysia (248000)<br>Bangladesh (198000) |
| Philippines       | 97572000   | 213000                      | 5487000                    | China (36000)  | USA (1999000)  |

|           | Population | International Migrant Stock | Stocks of Nationals Abroad | Where do migrants come from?                               | Where do nationals go to?                               |
|-----------|------------|-----------------------------|----------------------------|--|---|
|           |            |                             |                            | USA (36000)<br>Japan (14000)                               | Saudi (1029000)<br>UAE (477000)                         |
| Singapore | 5405000    | 2323000                     | 304000                     | Malaysia (1045000)<br>China (381000)<br>Indonesia (153000) | Malaysia (78000)<br>Australia (63000)<br>UK (41000)     |
| Thailand  | 67541000   | 3722000                     | 894000                     | Myanmar (1892000)<br>Laos (926000)<br>Cambodia (750000)    | USA (268000)<br>Germany (71000)<br>Australia (57000)    |
| Vietnam   | 91379000   | 68000                       | 2605000                    | Libya (11000)<br>Myanmar (10000)<br>China (9000)           | USA (1381000)<br>Australia (1226000)<br>Canada (185000) |

Source: United Nations Department of Economic and Social Affairs (UNDESA), 2015

## 2. Situation of Labor Migration in ASEAN

Long before the establishment of AEC in 2015, labor mobility in ASEAN has played an important role in economic development in the region. Since the economic boom in this region in the 1980s, the industrialization emphasis on labor-intensive activities has attracted the growing of low-skilled labor from neighboring countries. The number of migrant labor has been increased rapidly from 1.5 million in 1990 to 6.5 million in 2013. ASEAN countries can be broadly divided into net sending and net receiving countries. Cambodia, Indonesia, Lao PDR, Myanmar, Philippines, and Vietnam are net senders, while Brunei Darussalam, Malaysia, Singapore, and Thailand are net receivers. Most of the migrant labors are low-skilled and low-educated, more important, many of them are illegal migrants without passport or Visa. The flows of skilled labor have been increasing recently, but they remained small comparing to the unskilled ones. The industrialization process in this region, Thailand for example, is based on the labor-intensive industries. Therefore, there are huge demand for low-skilled labors. The improvement on education in origin countries had no impacts on ASEAN labor migration flow structure.

Table 2 Labor Migration in ASEAN, 2010

| Rank | Origin Economy | Destination Economy | Migration Stocks |
|------|----------------|---------------------|------------------|
| 1    | Indonesia      | Malaysia            | 1,316,973        |
| 2    | Malaysia       | Singapore           | 842,899          |
| 3    | Myanmar        | Thailand            | 637,383          |
| 4    | Vietnam        | Cambodia            | 148,516          |



| Rank | Origin Economy | Destination Economy | Migration Stocks |
|------|----------------|---------------------|------------------|
| 5    | Thailand       | Cambodia            | 122,071          |
| 6    | Lao PDR        | Thailand            | 100,380          |
| 7    | Myanmar        | Malaysia            | 99,718           |
| 8    | Vietnam        | Malaysia            | 93,215           |
| 9    | Indonesia      | Singapore           | 81,324           |
| 10   | Singapore      | Malaysia            | 61,993           |

Source: Tuccio (2017)

### 3. Migration Decisions

There are demand and supply-sided factors to determine the migration decision of labors. The supply-sided factors are the factors that encourage labors to engage in cross-border movements, while the demand are the need of immigrants in host countries and immigration policies in host countries. The individual would choose to migrate if the expected utility of living abroad is greater than the payoff of staying in the home countries. For demand side, labor markets in different host countries provide different demand for migrant labors. Different kinds of works may require different gender of labors, for example, construction sector and fishery business may prefer male to female while domestic work and caring work may prefer female. Since the second half of the 20<sup>th</sup> century, there have been an increase in demand for female workers from Indonesia, the Philippines and Myanmar in Malaysia and Singapore market. In Singapore in 2000, there was one foreign maid in every eight households (Yeoh, Huang, and Gonzales, 1999). Recently, approximately half of emigrants from Cambodia and Indonesia are female (Tuccio, 2017). While industrialization in some host countries, such as Malaysia and Thailand, is the pull factor for female migration, the failure in agricultural sectors in home countries may be the push factor to the flows of female workers.

### 4. ASEAN Framework

Europe has been the first of promoting intraregional labor mobility since 1957. Unrestricted flow of workers within the region is one of the foundations on which the European Integration process is built when the treaty of community was signed in Rome. 58 years after that, ASEAN is set to flow the same pattern by introducing the free flow of labor under the AEC framework to create a common market in 2015. Although ASEAN has clearly stated its goal to promote skilled labor mobility, the lack of a cohesive regional framework, nationalism, protectionist policies and domestic political pressure impeded ASEAN skilled labor mobility. ASEAN employers may take advantage of this policy that facilitate the hiring of skilled labors in certain sectors to solve the skilled labor shortages in some ASEAN countries, but in reality, the implementation of this policies may have several burdens still. The provisions for skilled labor movement principally revolve around Mutual Recognition Agreements (MRAs) which allow for workers' skills, experience, and accreditation to be recognized across ASEAN. Currently, there are eight sectors in place within the MRAs, which are engineering, nursing, architecture, accountancy, medicine, dentistry, surveying,

and tourism. The standards imposed by each MRA vary by profession and too difficult to utilize. For example, under the ASEAN MRA on Engineering Services, an engineer must first hold a license issued by the regulatory body of his home country and must have at last seven years of work experience following graduation, two of which entail significant work. The applicant would submit the application to the ASEAN Chartered Professional Engineers Coordinating Committee for review. If successful, the applicant would be permitted to work in other ASEAN countries as a “Registered Foreign Professional Engineer”. Considering the case of the NAFTA, the agreement allows 63 areas of professionals to move among Canada, the United States, and Mexico with just a work contract. According to ASEAN Briefing ([www.aseanbriefing.com](http://www.aseanbriefing.com)), the existing MRAs represent only 1.5% of the regional workforce, while 87% of intra-ASEAN migrant workers are unskilled. Many of them are illegal workers and not under any kinds of governmental formal agreements. In Thailand, as February 2017, there are 908,625 illegal migrant workers and 432,002 migrant workers under MOU with neighboring countries. Obviously, most of them are unskilled workers.

## 5. Impacts of Labor Migration

### a. Impacts on destination countries

The patterns of labor migration in ASEAN are quite different from the OECD case. While in the OECD case, the labor migration mostly are permanent migration of skilled labor, while in ASEAN, most of migrants are unskilled and temporary migrants. The overflow of unskilled migrants has been impeding technological upgrading and escaping from the middle-income trap. Research from outside of ASEAN finds that the effects of immigration on GDP per capita and economics generally small in the short (Brunow, Nijkamp, and Poot, 2015) Moreover, the impact varies by immigrant skill level, higher-skill level has more positive impact on economic growth than lower-skill level. According to the World Bank Report in 2015, low skilled immigrants keep wages low, which in turn lowers domestic prices and production costs and increases export growth. By using computable general equilibrium (CGE) model, Ahsan et al., 2014 find that, in Malaysia, a 10 percent net increase in low-skilled immigrants workers increases real GDP by 1.1 percent. An increase in unskilled employment leads to an increase in investment and demand for Malaysian skilled workers who are complementary to the low-skilled migrants. An increase in salaries to skilled workers increases domestic demand. In Thailand where the labor markets are tight, Sanglaoid, Santipolvut and Phuwanich (2014) use CGE model to analyze the impact of policies that would increase the number of foreign workers. Each policy considered would result in an increase in GDP and the increase is higher for policies impacting low-skilled migrants (different from the study on the OECD case).

The low-skilled migrants may keep ASEAN countries to enjoy unskilled-labor-intensive industrialization and impede competitiveness, however, there is no strong evidence that low-skilled migrants have a negative impact on productivity. In Malaysia, Bachtiar, Fahmy, and Ismail (2015) find that unskilled immigrant workers having no impact on output growth in 5 manufacturing subsectors, while Ismail and Yuliyusman (2014) find the direct impact of unskilled migrant on sectoral output growth in manufacturing, services, and

construction sectors between 1990-2010. In Thailand, Pholphirul and Rukumnuaykit (2013) find that employing more unskilled workers does not affect participation in innovation activities but reduce the likelihood of spending on R&D.

The immigrant arrivals may generate more supply of unskilled workers in the destination countries and provide negative impacts on wages. Ozden and Wagner (2016) analyze the impact of immigrants on the wages of Malaysians and immigrant workers separately. The results show a small decrease in wages overall. A 10-percentage point increase in immigration results in a small increase in the wages of Malaysian workers but a large decrease in the wages of immigrant workers. In Thailand, Lathapipat (2014) find that with an double increase in number of immigrant workers in five immigration-intensive provinces, the wages of lower primary primary-educated workers drop by 0.03 percent and of those with upper primary education by 0.79 percent, whereas local workers with high school and college education benefit from wage increases of 0.56 and 0.57 percent, respectively.

Immigration is believed to have impact on crime and lead to an increase in social costs. However, there is no strong evidence to prove this believe. Ozden, Testaverde, and Wagner (2017) find that an increase in immigrations to Malaysia reduces the total number of crimes committed.

## **b. Impacts on origin countries**

According to the World Bank, the wage levels in high-income countries are around five times those in the low-income countries for similar occupations. The ability of workers to move to different locations would ease the over-supply of unskilled labors in low-income countries and increase supply of unskilled labors in high-income countries. This provides the income convergence in low-income countries. Those migrants usually send money back home and increases the household income of the poor families. This amount can stimulate consumption in home countries. Various studies found that the remittance sent by overseas workers to their home countries are the windfall to their country of origin. The Work Bank notes that remittance help to reduce the incidence of poverty in home countries by direct increase the income of the recipients, increase savings and investments in education, entrepreneurship, and health. Jampaklay and Kittisuksathit (2009) note that each Cambodian worker working in Thailand has sent 295\$ back home each year, each Laotian worker has sent 385\$ back home each year, while a Myanmar worker has sent 440\$ back to his family. Remittances represent significant financial inflows in several ASEAN countries. About US\$62 billion in remittances were sent to ASEAN countries in 2015, US\$9 billion among ASEAN countries. IN 2015, total remittances were 10 percent of GDP in the Philippines, 7 percent in Vietnam, 5 percent in Myanmar, and 3 percent in Cambodia. More than half of all remittances in Myanmar and Cambodia originated in other ASEAN countries. More than 90 percent of total remittances to the Philippines and Vietnam are came from outside of ASEAN. Households in Indonesia received the most remittances in U.S. dollar terms from other ASEAN countries.

Several ASEAN countries are also significant sources of remittances, 78 percent of remittances sent from Malaysia were sent within ASEAN, primary to Indonesia and the Philippines. China is the primary recipient of remittances from Indonesia, Myanmar, the Philippines, Singapore, and Vietnam, which all send most of their remittances to outside ASEAN.

There are several studies concerning impacts of remittances in ASEAN. Adams and Cuecuecha (2014) find that recipients of remittances in Indonesia increase their marginal expenditures on food by almost 6 percent. Cuong and Mont (2012) find that, from 2006 and 2008, the most of Vietnamese households received international recipient spend more on housing and land and on debt repayment and saving, but impact less on consumption. In the Philippines, the migrant households spend 90 percent more on expenditure on housing and 60 percent more on education and health care expenditures.

The AEC framework may pave the easier way for skilled workers to migrate and create the brain drain problem for the originated ASEAN countries. Recently the migration rates of high-skilled workers have been high in several ASEAN countries. The emigration rates of high-educated workers to higher developed ASEAN countries, such as Malaysia and Singapore, have been high in several less-developed ASEAN countries. Fifteen percent of tertiary-educated individuals emigrated from Cambodia and Lao PDR in 2010 and 11 percent from Vietnam. In Indonesia and Thailand, where high-skilled emigration rates are relatively low, high-skilled emigration is found to have increased the share of high-skilled workers. Student migration is also a significant factor for several ASEAN countries. In 2014, 80,000 Malaysian and Vietnamese students studied in the OECD countries. Many of them are unwilling to return home and looking for jobs once they graduated.

Table 3.1 Remittances received in ASEAN countries, 2015

(Millions of US\$)

| Recipient         | From ASEAN | From Non-ASEAN | Total | % ASEAN | % of GDP |
|-------------------|------------|----------------|-------|---------|----------|
| Brunei Darussalam |            |                |       |         |          |
| Cambodia          | 330        | 213            | 542   | 61      | 3        |
| Indonesia         | 2,712      | 6,910          | 9,631 | 28      | 1        |
| Lao PDR           | 63         | 30             | 93    | 68      | 1        |
| Malaysia          | 1,068      | 575            | 1,643 | 65      | 1        |
| Myanmar           | 1,832      | 1,405          | 3,236 | 57      | 5        |
| Philippines       | 1,852      | 26,631         | 28,48 | 7       | 10       |
| Singapore         |            |                |       |         |          |

| Recipient | From ASEAN | From Non-ASEAN | Total  | % ASEAN | % of GDP |
|-----------|------------|----------------|--------|---------|----------|
| Thailand  | 927        | 4,291          | 5,218  | 18      | 1        |
| Vietnam   | 348        | 12,652         | 13,000 | 3       | 7        |

Source; World Bank Report

Table 3.2 Remittances sent from ASEAN countries, 2015

(Millions of US\$)

| Sender            | To ASEAN | To Non-ASEAN | Total | % ASEAN |
|-------------------|----------|--------------|-------|---------|
| Brunei Darussalam | 148      | 512          | 660   | 22      |
| Cambodia          | 264      | 15           | 279   | 95      |
| Indonesia         | 103      | 731          | 834   | 12      |
| Lao PDR           | 45       | 17           | 62    | 73      |
| Malaysia          | 4,631    | 1,324        | 5,955 | 78      |
| Myanmar           | 0        | 408          | 408   | 0       |
| Philippines       | 10       | 510          | 520   | 2       |
| Singapore         | 1,643    | 4,578        | 6,220 | 26      |
| Thailand          | 2,268    | 2,210        | 4,478 | 51      |
| Vietnam           | 26       | 82           | 107   | 24      |

Source: World Bank Report

## 6. Conclusion

The pattern of labor mobility in ASEAN is quite different from another region. The migration system in ASEAN countries are designed to accept temporary migrants. This implies that the host countries concern more on the impacts of undocumented migration. When ASEAN has concentrated on the free movement of skilled labor, labor migration across ASEAN countries occurs largely in informal sectors and focuses on low- and medium- skilled employment groups. The differences in structural factors across ASEAN countries such as population aging, growth in labor force, stages of economic development and political stability affect labor migration. The migrant labors from Cambodia, Malaysia, Myanmar, and the Lao PDR tend to go to other ASEAN countries while migrants from the Philippines and Vietnam prefer to move outside this region. Thailand attracts migrant labor mostly from other ASEAN countries, while more than 80% of migrant workers working in Brunei Darussalam come from outside the region. According to this fact, the ASEAN framework that limits themselves to the free flow of temporary skilled labor may not solve the problem of labor shortage and not stimulate technology improvement. Moreover, MRAs are in place for eight professional categories that cover less than 2% of total ASEAN employment, while its implementation is very difficult, due to several domestic laws and regulations that impede the free flow, such as the criteria of nationality,

and the wide range of requirements across countries. Like Thailand, the government is facing the pressure from Thai firms that badly need low-skilled cheap immigrant labors and the pressure from international to regulate the immigrant labor. Therefore, it is unlikely that ASEAN could in the foreseeable future consider EU-style free flows of labor movements.

By reviewing the impacts that migrants have on both host and destination countries, it finds that migrants can fill labor shortages and generate economic growth in destination countries. For origin countries, remittances sent back home have been an important factor to promote economic growth and reduce poverty.

For ASEAN countries to further benefit from labor movement and ensure distribution of gains from integration across the region, they need domestic structural reforms and closer regional cooperation initiatives. They need strong institutions to support the free flow, improve labor protection, transparency, and reduce mobility costs. Eventually, ASEAN leaders should expand the AEC beyond skilled labors to include proper management of unskilled labor movement. Creating the free flow of labor in some sectors on the temporary schemes that need low- and medium- skilled labors, such that construction, fishery, electronics, and plantations could be the next logical step.

The nationality provisions in area where MRAs have been negotiated should be removed. In general, any individuals meeting MRA standards in any profession should have the right to work in any other ASEAN countries in that sector. Market access could be conditioned on the holder having a legitimate job offer and could initially be made temporary

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# Retirement, Earnings, and Labor Supply: Evidence from Thailand

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## Abstract

The paper aims to study the relationship between retirement, earning and elderly labor supply by employing descriptive statistics and regression, and using longitudinal panel data from Health, Ageing, and Retirement in Thailand (HART) project. A model of labor force earning, and labor supply of annual hours and weeks of work is estimated by adopting the Mincerian equation. The preliminary findings show that the key factors that affect earning are education, age, and sex. Other significant variables, that are related to earnings and working hours of elderly workers, are place of living (rural or municipal area), self-evaluation of future financial status, annual income from business, debt, and the self-evaluation of their health status. Furthermore, earnings function varies across different regions. Lastly, income received from government welfare and elderly physical problems affect both labor supply and earning.

Keywords: *Elderly labor, Mincerian equation, Earning.*

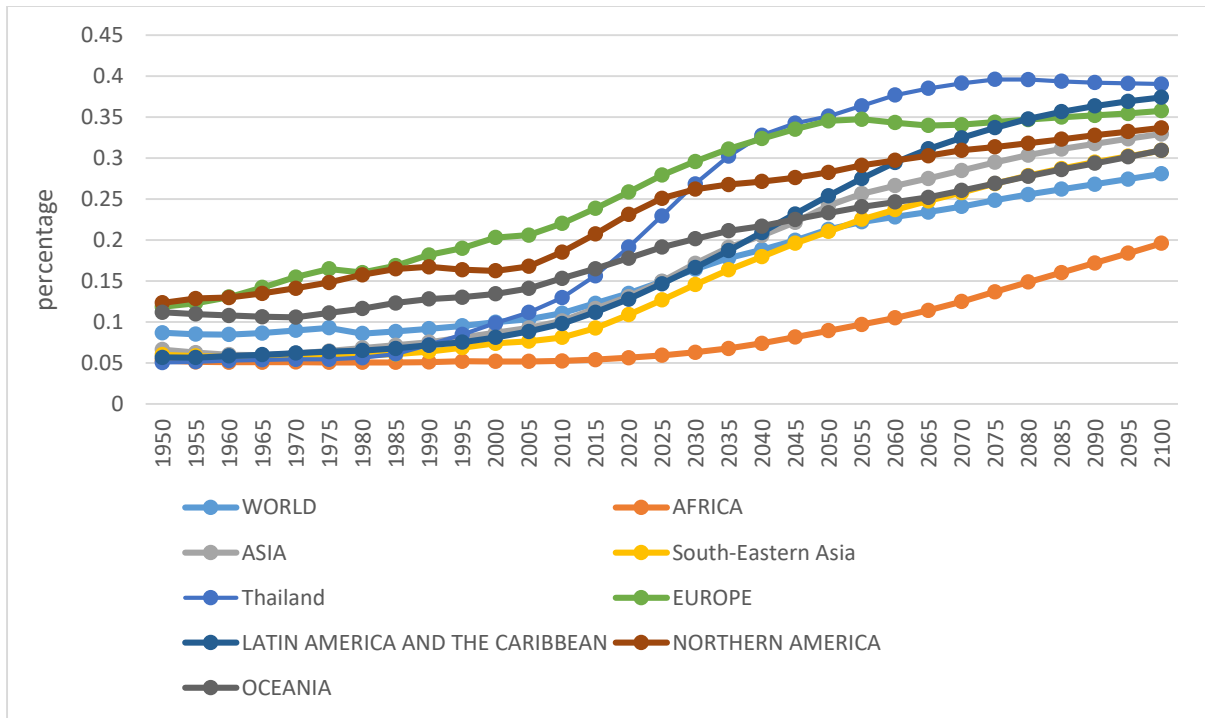
## 1. Introduction

Population ageing is global phenomenon (United Nations, Department of Economic and Social Affairs, Population Division, 2017). Proportion of elderly population (defined as aged 60 and over) has been increased from 8.67% in 1950 to 12.27% in 2015 and is projected to reach 28.08% in 2100 (United Nations, 2017). Following and leading global trend, Thailand has been aging faster than the global aging trend since 2001, and might be one of the most aging countries in the world in 2035, as shown in figure 1. In addition, in the global scale, more countries have fertility rates that are lower than their replacement rate, the fertility rate of Thailand has been lower than global rate since 1978, as shown in figure 2. In addition, a greater life expectancy has become common trend in both Thailand and other developed and the world, and Thailand life expectancy has been higher than the global life expectancy as seen in figure 3. The global life expectancy at birth has improved from 52.59 in 1960 to 71.89 in 2015 (World Bank, 2017b).

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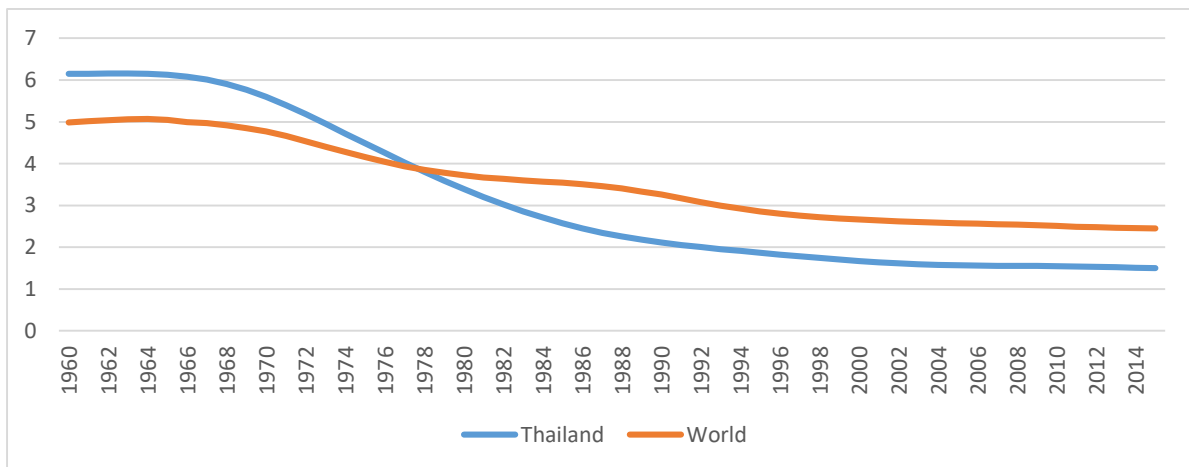
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Figure 1 Proportion of elderly people (percentage of the population aged 60 years or over): estimates, 1950 – 2015, and median-variant projection, 2015 -2010



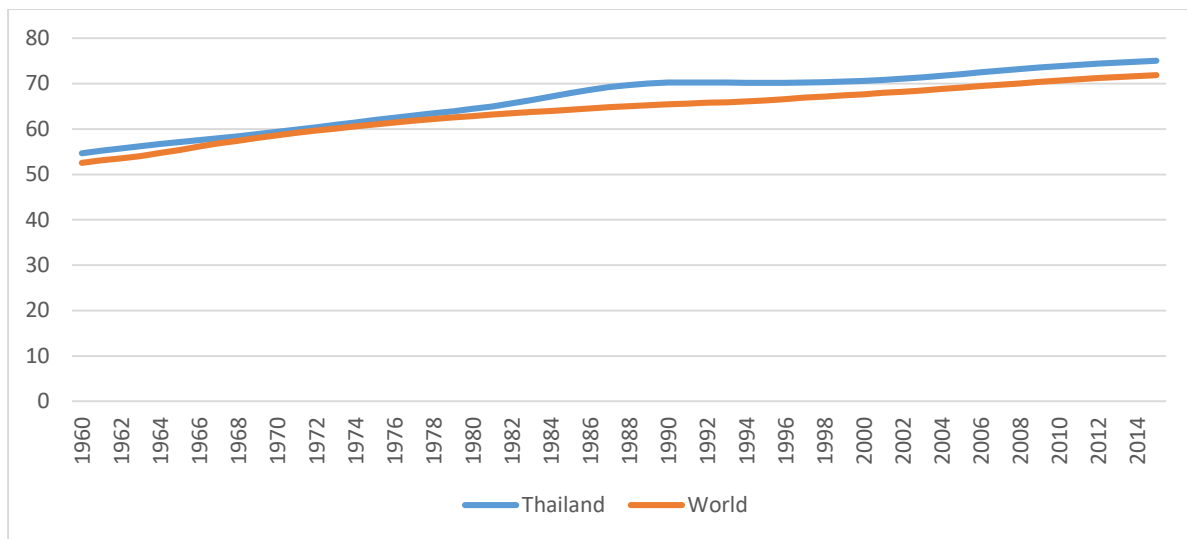
Source: United Nations (2017)

Figure 2 Total Fertility Rate (births per woman)



Source: World Bank (2017a)

Figure 3 Life expectancy at birth (years)



Source: World Bank (2017b)

Thailand has turned to an ageing society in 2005; that is, there is more than ten percent of its population was older than 60. In 2015, 15.63% of Thai population (or 10.73 million people) are 60 years or older, compared to 5.05% in 1950 and it is expected to be 39.04% in 2010 (United Nations, 2017). The main reason for aging has been the rapid decline in fertility rates, which fell from 6.15 in 1960 to 1.50 in 2015 (World Bank, 2017a). On demand side, the better development of economic along with personal income and higher female education attainment have led to lower desirability of having a kid. On the supply side, the success of National Family Planning Program launched in 1970 (World Bank, 2016) had provided the incentives for having less kids. Furthermore, the life expectancy of Thai people has increased from 54.70 in 1960 to 75.07 in 2015 (World Bank, 2017b). Consequently, working-age population, defined as those aged 15 to 64 (OECD, 2017b), has been projected to shrink by 18% between 2015 and 2100. That is, there is a reduction from 49.05 million working labors to only 25.40 working labors. This will lead to the concern of labor shortage and the lower level of GDP in the near future. In addition, given that Thailand is still a developing country in the upper income category and it has been stuck in the income trap since 1997 (Jitsuchon, 2012), Thailand would encounter the situation where its aging population would be poorer and have less than sufficient income in the future. Thus, its population has to keep on working even after retirement age. Therefore, understanding the aging worker decision to work, as well as, what determine the aging population income would shed some light on the issues. This paper consists of five section. They are introduction, review of literature, method of study and data, empirical results, and conclusion.

## 2. Review of Literature

### 2.1 Factors that affect elderly labor supply

In the past most of studies of elderly worker's labor supply were in the developed countries, they focused on the factors that influenced labor force participation of elderly workers; however, most of the studies

focus only on either one of the three important categories. Those are demographics, financial status, and health status and treating elderly worker's labor supply to be unnecessary since developed countries have different circumstance and institutions from developing countries, especially Thailand.

In addition, in recent year there is recent development of prospective age. (Sanderson & Scherbov, 2008) introduced the concept of prospective age of retirement that is different from chronological age of retirement. Prospective age derives from matching remaining life expectancies in two different eras. For example, Thai people who were 40 years old in 1960 had a remaining life expectancy of fifteen years. So, they could work until 50 year of age and retire at the age of 50. These fifteen years are the same remaining life expectancy of Thai people who is 60 years old in 2015. Thus, such labor might be capable of working ten more years and retire at the age of 70. This, prospective age along with better health condition prompts the employment of capable elderly people.

Therefore, it is necessary for this study to incorporate all of the three factors that affect elderly decision to work that are demographics, financial status, and health status.

### *Demographic variables*

Demographic variables compose of age, gender, area of living, marital status, education, and number of children who still be alive. Past studies found that the elderly person who has higher age will decide to work less (Campolieti, 2002; Falzone, 2016; Larsen & Pedersen, 2013; Maestas, 2010; Peracchi & Welch, 1994). Second, female is traditionally expected to work less than male (Larsen & Pedersen, 2013; Maestas, 2010; Peracchi & Welch, 1994; Vodopivec & Arunatilake, 2008), especially in Asian countries and Thailand where female has to take care of housework and children. Third, elderly people will work more when they stay in municipal area with higher population density since higher wage. These will attract more elderly workers to work (Falzone, 2016; Peracchi & Welch, 1994; Vodopivec & Arunatilake, 2008).

Forth, (Blau & Goodstein ,2010), (Falzone, 2016), (Larsen & Pedersen ,2013), (Maestas ,2010), Peracchi & Welch (1994), and Vodopivec & Arunatilake (2008) used marital status in their studies of labor participation of elderly workers. Falzone (2016) explained that marriage responsibilities increase the demand for money, and the retiring decision was assumed to be jointly made within the context of the family.

Fifth, most of the studies pointed out the important influence of level of education on labor force participation of elderly workers (Blau & Goodstein, 2010; Campolieti, 2002; Falzone, 2016; Larsen & Pedersen, 2013; Maestas, 2010; Peracchi & Welch, 1994; Trevisan & Zantomio, 2016; Vodopivec & Arunatilake, 2008). (Falzone, 2016) described that education represents an investment in human capital which increases not only lifetime earnings but also affects the quality of work. Higher education will certainly lead to an increase in wage and increase the opportunity cost of retiring and the cost of leisure. Thus, it

will induce the individual to retire at the older age and keep on working if such substitution effect is higher than income effect.

Sixth, it is assumed that the higher numbers of children, who are still alive, leads to less number of work hours of an elderly person (Peracchi & Welch, 1994; Trevisan & Zantomio, 2016). The reason is that with more numbers of children, there are more chance that they will take care of their parents and allow the elderly person to work less.

### *Financial variables*

The financial status variables compose of self-evaluation of the future financial status and satisfaction (Weckerle & Shultz, 1999), debt, saving, and welfare received from government (Blau & Goodstein, 2010; Falzone, 2016; Larsen & Pedersen, 2013; Leonesio, Bridges, Gesumaria, & Del, 2012; Maestas, 2010; Vodopivec & Arunatilake, 2008), The main hypothesis is that the factors related to cash or money outflow would have a positive effect on elderly person decides to work while cash or money inflow would reduce the probability of going to work.

### *Health variable*

Health status relates to work-force participation in the sense that healthy elderly worker might have higher chance to choose to work and be employed in the labor market (Blau & Goodstein, 2010; Campolieti, 2002; Falzone, 2016; Vodopivec & Arunatilake, 2008). The variables in this group are self-evaluation of physical and mental health (Maestas, 2010; Trevisan & Zantomio, 2016) by an elderly person. Though self-evaluation on health is subjective measures that are subject to several types of biases since respondents have either economic or psychological incentives to alter their answer in the developed countries (Campolieti, 2002). Cai (2010), it still has the power to explain working decision since that employment or long working hours requires individuals' healthy condition.

## ***2.2 Factors that affect elderly income***

This study follows conventional analysis of human capital theory and relation between income, wage, and education as in and (Becker, 1964) and (Mincer, 1974). The key determination of variables in this study will be the similar to the case of labor supply equation. That is, income is a function of demographics variable such as age, sex, place of living, marital status, and education level (Card & Krueger, 1992), (Card, 1999), and (Card, 2001). In addition, in order to avoid the problem of endogeneity and improper use of instrumental variables, this study employs the panel data estimation techniques similar to the previous study of return to education in Thailand by (Hawley, 2004) and (Warunsiri and Mcnown, 2010)

In most of study, econometric models have been used to estimate the relationship between labor supply and these factors. For example, (Falzone, 2016) and Larsen and Pedersen (2013) and Campolieti (2002) employed Probit model to study the probability that an elderly person participates in labor market in the

U.S., Denmark, and Canada, respectively. Maestas (2010), Vodopivec and Arunatilake (2008), and Peracchi and Welch (1994) used Multinomial Logit model to study the choices of work (full time, part time, or retire) of elderly people. This study adopts Tobit model to surveyed Thai data. The data and method of study will be discussed in the next section.

### 3. Method of Study and Data

This study employs the panel data that were collected in 2015 (wave 1) and 2017 (wave 2) under Health, Aging, and Retirement in Thailand (HART) project. The project was funded by the National Research Council of Thailand. The number of samples is equal to 4,299 for each wave. The survey had been conducted in 13 Thai provinces that are Chaing Mai, Phetchabun, Uttaradit, Singburi, Chanthaburi, Khon Kaen, Surin, Songkhla, Krabi, Bangkok, Nonthaburi, Pathum Thani, and Samut Prakan. These provinces can be separated into 4 regions as seen in Figure 4. In addition, the circled area represents the fifth region, Bangkok and its metropolitan area. This area are the most populated provinces in Thailand.

Figure 4 Map of Thailand



This study uses part of HART survey that is related to elderly employment. The responses for work status are “Work now”, “Homemaker”, “Unemployed and looking for work”, “Temporarily laid off”, “Disable”, “Retired”, and “Refuse (to answer)”. Elderly people who answered “Work now” provides their work hours per week.

The following figures compare the proportion of elderly people who answered “Work now” from two-round surveys. Figure 5 shows that the people reported less proportion of “Work now” in both waves when

they become older. Figure 6 presents that female-elderly people participated in labor market at a lower rate than male-elderly counterpart.

From the first-round survey, the regions that elderly people reported the highest proportion for employment to the lowest proportion were northeastern, central, southern, Bangkok and metropolitan, and northern regions, respectively. However, in the second-round of survey, elderly people in the northeastern region reported the lowest proportion of working as shown in figure 7. Elderly people in Bangkok and metropolitan reported the highest proportion of working followed by people from northern, central, and southern regions, respectively. In both rounds of the survey, respondents with secondary school education had the highest rate of employment; whereas, elderly people with no formal education reported the lowest proportion of working as shown in figure 8.

Figure 5 Work status of respondents by age groups (percentage of people who reported “Work now” over total number of people)

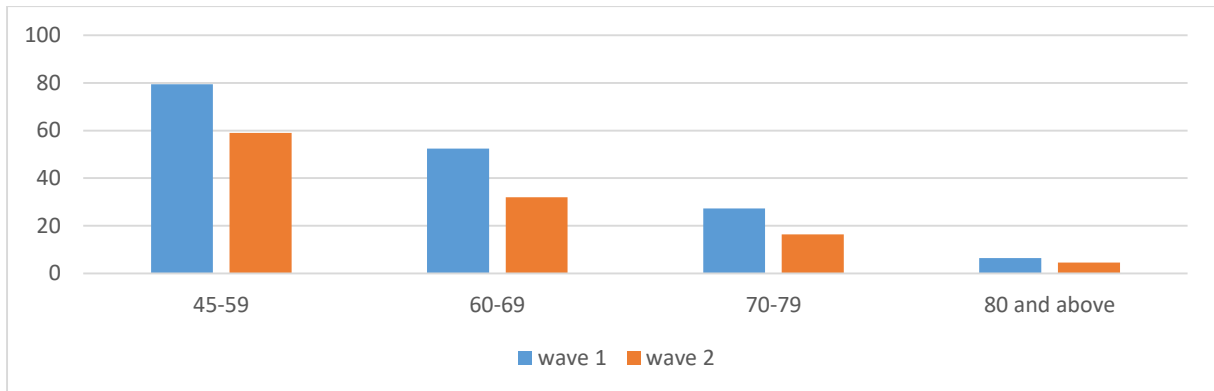


Figure 6 Work status of respondents by genders (percentage of people who reported “Work now” over total number of people)

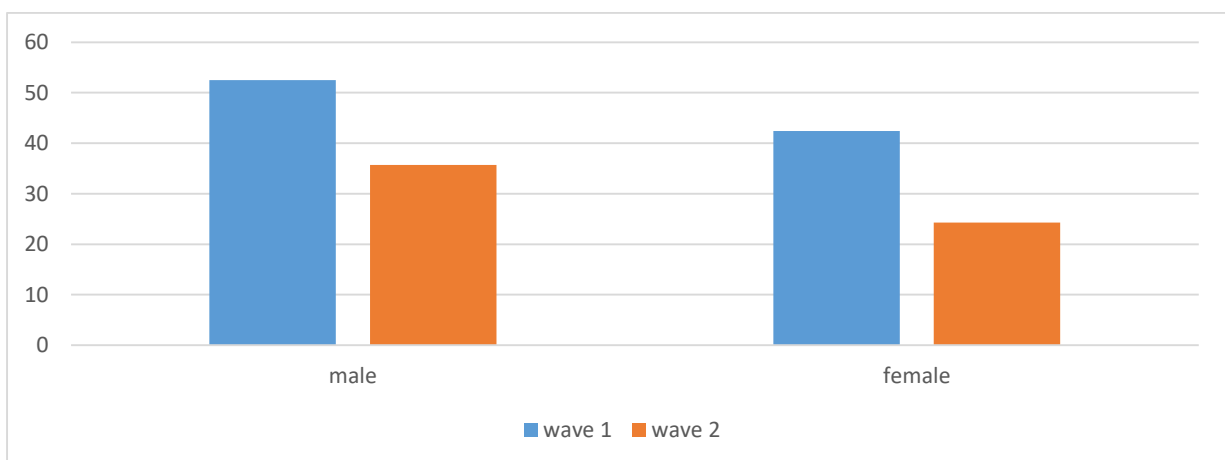


Figure 7 Work status of respondents by regions (percentage of people who reported “Work now” over total number of people)

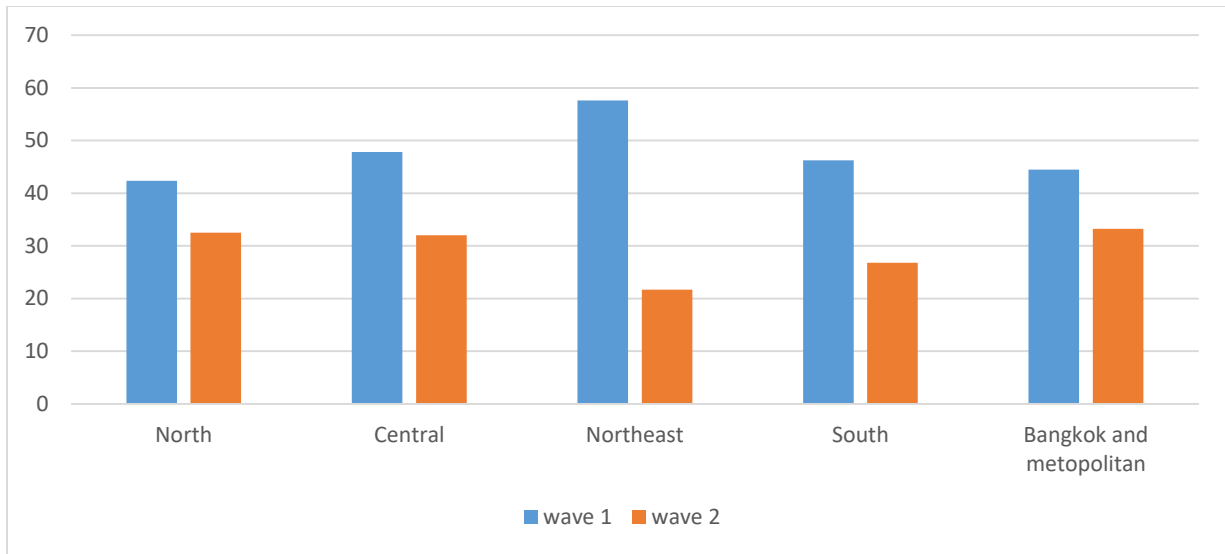
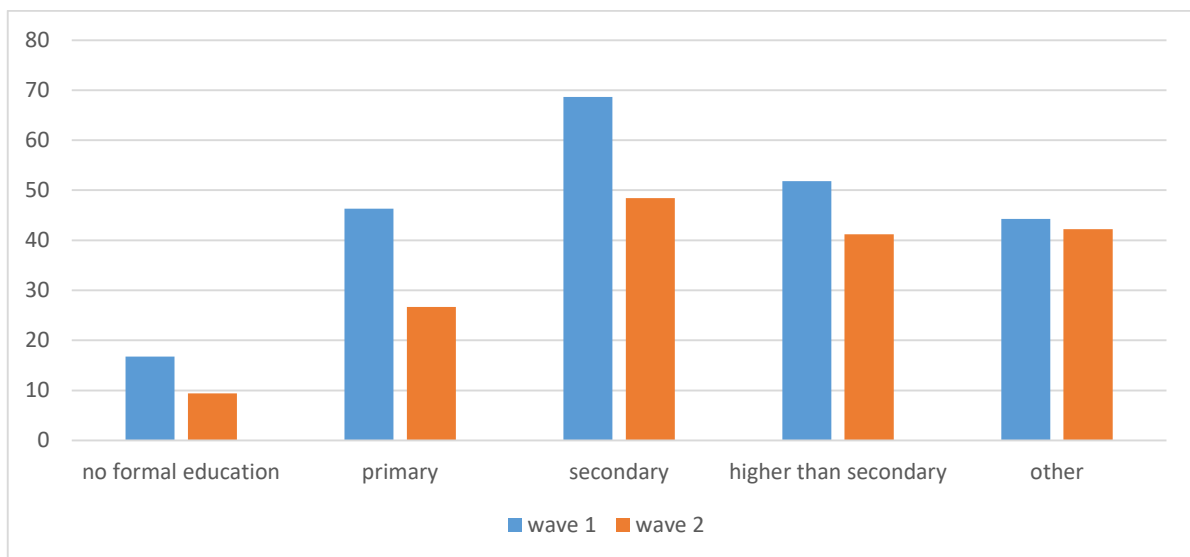


Figure 8 Work status of respondents by education levels (percentage of people who reported “Work now” over total number of people)



Given that both hour of work and income have been truncated at zero. This study employs the Tobit model with zero lower bound. Tobit model considers the additional work hours per week (*hour*) as well as income per year (*income*) of the elderly given explanatory variables. Tobit model is appropriate since the data includes work hours and income of elderly respondents that take on large of proportion of zero value. The econometric model of hour and income are shown as in the following equations.



$$\begin{aligned}
 \text{hour} = & \beta_0 + \beta_1 \text{age} + \beta_2 \text{female} + \beta_3 \text{municipal} + \\
 & \beta_4 \text{north} + \beta_5 \text{bkk} + \beta_6 \text{central} + \beta_7 \text{south} + \\
 & \beta_8 \text{married} + \beta_9 \text{partnered} + \beta_{10} \text{separated} + \beta_{11} \text{divorced} + \beta_{12} \text{widowed} + \\
 & \beta_{13} \text{primary} + \beta_{14} \text{secondary} + \beta_{15} \text{uppersecondary} + \beta_{16} \text{other} + \\
 & \beta_{17} \text{child\_alive\_all} + \beta_{18} \text{fin\_status} + \beta_{19} \text{welfare} + \beta_{20} \text{saving} \\
 & \beta_{21} \text{debt} + \beta_{22} \text{business} + \beta_{23} \text{physical\_diag} + \varepsilon
 \end{aligned} \tag{1}$$

$$\begin{aligned}
 \text{income} = & \beta_0 + \beta_1 \text{age} + \beta_2 \text{female} + \beta_3 \text{municipal} + \\
 & \beta_4 \text{north} + \beta_5 \text{bkk} + \beta_6 \text{central} + \beta_7 \text{south} + \\
 & \beta_8 \text{married} + \beta_9 \text{partnered} + \beta_{10} \text{separated} + \beta_{11} \text{divorced} + \beta_{12} \text{widowed} + \\
 & \beta_{13} \text{primary} + \beta_{14} \text{secondary} + \beta_{15} \text{uppersecondary} + \beta_{16} \text{other} + \\
 & \beta_{17} \text{child\_alive\_all} + \beta_{18} \text{worknow} + \beta_{19} \text{health} + \varepsilon
 \end{aligned} \tag{2}$$

From literature review, the independent variables are separated into three groups: demographics, financial status, and health status. The demographic variables are *age*, *female*, *municipal*, *north*, *bkk*, *central*, *south*, *married*, *partnered*, *separated*, *divorced*, *widowed*, *primary*, *secondary*, *uppersecondary*, *other*, and *child\_alive\_all*. *age* is a variable representing age of respondents, and *female* is a dummy variable which equals to 1 if respondents are female and 0 if respondents are male. *municipal* will be 1 if respondents live in municipal area and 0 otherwise. *north*, *bkk*, *central*, and *south* are dummy variables representing respondents' living regions, and *northeastern* region is considered as a base variable.

The variables that explain the marital status of respondents are *married*, *partnered*, *separated*, *divorced*, and *widowed* and single status is a base variable of this group. The levels of education are *primary*, *secondary*, *uppersecondary*, and *others* with no formal education as a base group. In addition, *child\_alive\_all* refers to number of respondent's alive children.

The financial status variables are *fin\_status*, *welfare*, *business*, *saving*, and *debt*. The opinion of respondents to their own financial status in the future is represented by *fin\_status* which range from 0 to 100. *welfare*, *debt* represents amount of outstanding debt in million baht. Moreover, *saving* is respondents' outstanding saving in the unit of million baht.

The health status variable is *health* that respondents' self-evaluation of health and mental conditions. The data description and summary statistics are shown in table A.1 in the appendix.

### 3. Empirical Results

The estimated results of the study are presented in table 1 and table 2. The first table represents the working hour equation while the second table represents the income equation. The first column of each

table shows the estimated results from ordinary least squares while second and third columns show coefficients and standard errors (numbers in parentheses) from standard fixed effect and random effect panel data model. The last column of both table reflects the need and better estimated results by employing the panel Tobit data model.

Table 1. Estimated hour equation result

| Hours     | (1)                   | (2)                  | (3)                   | (4)                  |
|-----------|-----------------------|----------------------|-----------------------|----------------------|
| VARIABLES | reghour               | fehour               | rehour                | tobithour            |
| age       | -0.571***<br>(0.0361) | -0.782***<br>(0.219) | -0.673***<br>(0.0303) | -2.293***<br>(0.138) |
| female    | -4.295***<br>(0.728)  |                      | -3.698***<br>(0.649)  | -15.70***<br>(2.306) |
| muni      | 1.388*<br>(0.802)     |                      | 1.142<br>(0.707)      | 5.751**<br>(2.543)   |
| north     | 6.877***<br>(1.012)   |                      | 6.296***<br>(0.877)   | 24.14***<br>(3.444)  |
| bkk       | 5.566***<br>(1.378)   |                      | 8.889***<br>(1.153)   | 19.94***<br>(4.227)  |
| middle    | 4.495***<br>(1.160)   |                      | 4.851***<br>(1.017)   | 18.34***<br>(3.847)  |
| south     | 0.337<br>(1.029)      |                      | 0.401<br>(0.904)      | 2.841<br>(4.033)     |
| single    | -0.682<br>(1.716)     | 0.174<br>(4.570)     | 0.375<br>(1.566)      | -3.635<br>(4.882)    |
| partnered | -0.676<br>(2.181)     | -3.583<br>(3.251)    | -1.334<br>(2.180)     | -0.883<br>(5.473)    |
| separated | -3.297<br>(2.661)     | -3.355<br>(3.442)    | -1.715<br>(2.295)     | -6.351<br>(8.418)    |
| divorced  | -0.132<br>(2.167)     | -9.206**<br>(3.959)  | -2.231<br>(1.883)     | -0.722<br>(6.072)    |
| widowed   | -0.121<br>(0.857)     | 0.0523<br>(1.774)    | -0.376<br>(0.664)     | -4.549<br>(3.260)    |
| e_primary | -0.792                | 2.388                | -0.286                | 4.185                |



| Hours            | (1)       | (2)        | (3)       | (4)       |
|------------------|-----------|------------|-----------|-----------|
| VARIABLES        | reghour   | fehour     | rehour    | tobithour |
|                  | (0.966)   | (1.668)    | (0.827)   | (6.102)   |
| e_second         | 0.388     | 5.375*     | 0.736     | 5.831     |
|                  | (1.517)   | (3.059)    | (1.315)   | (6.624)   |
| e_usecond        | -5.018**  | 3.904      | -1.255    | -6.187    |
|                  | (2.085)   | (3.651)    | (1.639)   | (8.616)   |
| e_other          | 2.773     | 1.899      | 0.233     | 6.227     |
|                  | (2.974)   | (3.727)    | (2.285)   | (8.990)   |
| child_alive_alln | -0.0463   | -0.283     | -0.0310   | -1.522*   |
|                  | (0.167)   | (0.325)    | (0.143)   | (0.842)   |
| financial        | 0.0210*   | -0.0525*** | -0.00723  | 0.157***  |
|                  | (0.0118)  | (0.0171)   | (0.0104)  | (0.0456)  |
| 1.welfare        | -1.397*   |            |           | -9.110*** |
|                  | (0.794)   |            |           | (3.303)   |
| 2.welfare        | -1.760    |            |           | -0.679    |
|                  | (2.256)   |            |           | (8.204)   |
| 3.welfare        | -1.915*   |            |           | -4.889    |
|                  | (1.019)   |            |           | (4.193)   |
| savingn_nn       | 1.262     | -9.215**   | -2.176    | 7.203     |
|                  | (2.200)   | (4.669)    | (1.895)   | (9.859)   |
| debttn           | 1.624     | 0.135      | 3.339**   | 1.153     |
|                  | (2.235)   | (2.446)    | (1.598)   | (3.909)   |
| business2        | 0.334***  | 0.220*     | 0.289***  | 0.678***  |
|                  | (0.119)   | (0.113)    | (0.103)   | (0.134)   |
| physical_diag    | -2.896*** | -0.339     | -3.773*** | -14.58*** |
|                  | (0.892)   | (1.252)    | (0.779)   | (4.822)   |
| welfare2         |           | 3.272***   | 1.922***  |           |
|                  |           | (0.868)    | (0.545)   |           |

Note: \* Significant at 10% or less.  
 \*\* Significant at 5% or less.  
 \*\*\* Significant at 1% or less.

From estimated work hour equation, most of the demographic variables shows the expected sign and significant level similar to previous studies. First, with higher age, Thai elderly would work less on average by 2.9 hour per week as seen in column (4). Secondly, being female, on average, would work less than male by 15.7 hours per week. In addition, elderly living in municipal area tends to work more hours than in the rural area while in almost all of the region, elderly labor works more hours than the elderly worker in the northeastern region. However, despite the expected hypothesis that marital status would affect work hours, this study finds out that all of the marital status is not statistically significant from zero. They imply that the working hours are not related to joint family decision making. For the number of alive children, as expected, the more number of the children that the elderly have, they might work less; however, on average one more children only lead to reduction of work hours by 1.9 hours per week.

In addition, all of the education level variables are not statistically significant, too. Also, by looking at the income of the elderly, regardless of their education attainment, the elderly workers, if capable, will still have to keep on working since their income might not be sufficiently enough for actual retirement. In addition, this insignificant signs are consistent with the estimated result of financial status that is positive and significant. It means that no matter how good the elderly worker perceives of their financial well-being; they still keep on working. This is similar to the case of whether they receive the income from conducting their own business. From this study, if the elderly worker earns more income from doing business, they will still keep on working. Thus, the substitution effects by far exceeds the income effect. Moreover, the debt and saving have no significant relationship with the work hour of the elderly in this study.

Lastly, as expected the elderly who received the welfare from the government will have lower average work hours compared to the elderly who does not receive such welfare by 9.1 hours per week. However, the cause of working less is not similar to the developed countries. In developed countries studies, welfare will increase income; thus, the income effect will exceed substitution effect, and the elderly will work less. In Thailand, the elderly who receives welfare and work less can be explained by the fact that most of them or their couples might have physical problems that make them not suitable for work. In addition, the income effect of welfare is relatively low since government only provide the elderly welfare of 600 baht per month that is less than 20 U.S. dollars. Hence, in order to understand income wellbeing of the elderly, the estimated income equation is needed. The result from estimated equation (2) is in Table 2.

Table 2. Estimated Income Equation of the Elderly

| Income    | (5)                     | (6)                     | (7)                     | (8)                     |
|-----------|-------------------------|-------------------------|-------------------------|-------------------------|
| VARIABLES | xtreg                   | xtfe                    | xtre                    | xttobit                 |
| age       | -11,082***<br>(3,392)   | -4,395<br>(53,856)      | -11,082***<br>(3,389)   | 9,634<br>(7,085)        |
| agesq     | 69.52***<br>(22.77)     | -120.0<br>(448.9)       | 69.52***<br>(22.75)     | -121.0**<br>(55.43)     |
| female    | -8,336<br>(9,723)       |                         | -8,336<br>(9,765)       | -19,384<br>(13,665)     |
| muni      | -12,362<br>(9,427)      |                         | -12,362<br>(9,431)      | -38,144**<br>(15,184)   |
| north     | -5,845<br>(8,568)       |                         | -5,845<br>(8,628)       | -21,153<br>(19,384)     |
| bkk       | -3,055<br>(9,893)       |                         | -3,055<br>(9,941)       | -60,597**<br>(24,170)   |
| middle    | 28,743<br>(19,213)      |                         | 28,743<br>(19,329)      | 44,369**<br>(21,677)    |
| south     | 27,148**<br>(12,124)    |                         | 27,148**<br>(12,055)    | 24,892<br>(21,655)      |
| single    | -36,654*<br>(19,071)    | -105,598<br>(90,389)    | -36,654*<br>(18,951)    | -53,630*<br>(29,656)    |
| partnered | -102,073***<br>(16,348) | -101,763***<br>(39,303) | -102,073***<br>(16,241) | -169,981***<br>(57,336) |
| separated | -47,686***<br>(11,442)  | -82,609**<br>(36,815)   | -47,686***<br>(11,413)  | -57,030<br>(49,668)     |
| divorced  | -40,979***<br>(12,581)  | -62,318*<br>(33,775)    | -40,979***<br>(11,817)  | -47,224<br>(38,970)     |
| widowed   | -21,724**<br>(10,186)   | -73,524**<br>(37,041)   | -21,724**<br>(10,219)   | -48,106***<br>(18,445)  |
| e_primary | 14,878***<br>(5,554)    | 102,824<br>(76,956)     | 14,878***<br>(5,509)    | 91,412**<br>(40,862)    |
| e_second  | 26,781**<br>(13,532)    | 130,781<br>(83,010)     | 26,781**<br>(13,273)    | 108,394**<br>(43,895)   |
| e_usecond | 121,280***              | 199,431**               | 121,280***              | 255,955***              |

| Income           | (5)        | (6)       | (7)        | (8)        |
|------------------|------------|-----------|------------|------------|
| VARIABLES        | xtreg      | xtfe      | xtre       | xttobit    |
|                  | (23,953)   | (97,699)  | (23,960)   | (49,504)   |
| e_other          | 59,766***  | 179,246** | 59,766***  | 165,517*** |
|                  | (22,768)   | (84,187)  | (22,564)   | (59,028)   |
| child_alive_alln | -740.2     | 9,391     | -740.2     | -2,914     |
|                  | (1,878)    | (32,596)  | (1,872)    | (5,098)    |
| worknow          | 104,460*** | 65,174*** | 104,460*** | 475,349*** |
|                  | (10,688)   | (21,175)  | (10,664)   | (18,442)   |
| health           | 88.51      | -924.6    | 88.51      | 748.5*     |
|                  | (284.1)    | (1,016)   | (284.0)    | (426.8)    |

Note: \* Significant at 10% or less.  
 \*\* Significant at 5% or less.  
 \*\*\* Significant at 1% or less.

The first significant and negative variable is age and squared of age, this implies that as elderly become older, their income will decrease at the decreasing rate. From calculating the inflection point of relationship between age and income, such relationship starts at the average age of 40 years old. For regional variables, the elderly who lives in the municipal area has lower average income by thirty-eight thousand baht per year as seen in column (8). Moreover, elderly from the middle region of Thailand has the highest average income.

Though, the marital status has no significant effect on work hours; however, it is certainly related to the income. From column (8), income of single, widowed, separated, and divorced elderly, on average, is lower than the married couple by at least forty-five thousand baht. In addition, if the relationship is only partnered, the income of such elderly is lower by the married elderly by one hundred and seventy thousand baht per year. Though, the education has no significant effect on the work hours, it clearly links to the income of elderly. For example, from column (8), the income of elderly with more than secondary education is higher than the base case of elderly without education by almost two hundred sixty thousand baht per year. In addition, the health status has a very low effect on income while the numbers of children alive has no significant relationship with the income at all.

Finally, the key determining factor that lead to significant and higher income of the elderly is the working status. In column (5) to (7), with linear estimation, the average income of working elderly is higher than the non-working elderly in the amount that can exceed hundred thousand baht per year. In addition, if estimating such relationship with Tobit regression and take into account the limited dependent variable as income, the affect can be as high as four hundred thousand baht per year. This results clearly indicate the

necessary path for aging society in Thailand. If Thailand wants to maintain the income wellbeing of the older population, promoting the chance of working might be the key achieve such goal.

## 5. Conclusion

This study aims to estimate the relation between work hours of elderly as a function of demographic, financial, and variables. By using the data from HART project, Thailand. The estimated workhours are positively related to business earnings, good financial perception, and living in the regions that offers more job opportunity. The factors that are negatively related to the workhours are age of elderly, being female, receiving welfare, and self-assessment of physical condition. These significant factors 'signs are similar to the previous study. However, education has no effect on the work hours of the elderly because it might be possible that Thai elderly, from the sample, does not have sufficient income to sustain their livelihood and the welfare provided by the government might not be enough. Thus, the elderly has to keep on working even after the retirement age. This implies that the new prospective age of Thai elderly should be beyond the age of sixty.

The second objective of the study is to determine the income or earning of the elderly. Given, that working past their retirement age is necessary, the study would examine what determines the income of the elderly person. The positive and significant factors that lead to higher income of the elderly are education level and working now status. That is, the elderly who works will earn more money in the amount more than one hundred thousand a year compared to the non-working elderly. Highly educated elderly will earn positive and significant income compared to the elderly without education. Lastly, choosing to live in the middle part of Thailand, provides the highest average income compared to the other regions. For the negative and significant factors, the key important factor is age, the study finds that income of Thai elderly started to reduce at an increasing rate after the age of forty. In addition, on average, maintain a married relationship yields the higher income compared to both being alone and only partnered.

Thus, in order to reduce the adverse effect of ageing society, the factor that positively relates to work status and education should be promoted and enhanced. While it is possible for the government to provide subsidy and job opportunity for the elderly, the study suggests the supplementation of life-time learning and extended employment beyond the chronological retirement age along with welfare since elderly with good health can still keep on working and earn significant amount of income while welfare does not discourage more workhours. In addition, this would make Thailand not enter the phase being poor and old country.

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## Appendix

Table A.1 Descriptive statistics and definition of variables

| Variables                             | Description  | Number of Observations | Mean     | Minimum Value | Maximum Value |
|---------------------------------------|--|------------------------|----------|---------------|---------------|
| <b>Dependent Variables</b>            |  |                        |          |               |               |
| <i>hour</i>                           | Numbers of working hours per week (hours)  | 6,069                  | 10.30911 | 0             | 140           |
| <i>income</i>                         | Income in that particular year   | 4,631                  | 92636.98 | 267535.9      | 0             |
| <b>Independent Variables</b>          |  |                        |          |               |               |
| <b>Demographics</b>                   |  |                        |          |               |               |
| <i>age</i>                            | Age of respondents (years)   | 7,152                  | 67.50713 | 45            | 116           |
| <i>female</i>                         | <i>female</i> equals to 1 if a respondent is female and 0 if a respondent is male                                  | 7,152                  | 0.542506 | 0             | 1             |
| <i>municipal</i>                      | <i>municipal</i> equals to 1 if a respondent stays in municipal areas and 0 otherwise                              | 7,152                  | 0.343121 | 0             | 1             |
| <i>Northeast</i><br>(a base variable) | <i>northeast</i> equals to 1 if a respondent stays in north eastern region and 0 otherwise                         | 7,152                  | 0.176734 | 0             | 1             |
| <i>north</i>                          | <i>north</i> equals to 1 if a respondent stays in northern region and 0 otherwise                                  | 7,152                  | 0.306488 | 0             | 1             |
| <i>bkk</i>                            | <i>bkk</i> equals to 1 if a respondent stays in Bangkok and metropolitan region and 0 otherwise                    | 7,152                  | 0.1566   | 0             | 1             |
| <i>central</i>                        | <i>central</i> equals to 1 if a respondent stays in central region and 0 otherwise                                 | 7,152                  | 0.166107 | 0             | 1             |
| <i>south</i>                          | <i>south</i> equals to 1 if a respondent stays in southern region and 0 otherwise                                  | 7,152                  | 0.194072 | 0             | 1             |
| <i>single</i><br>(a base variable)    | <i>single</i> equals to 1 if a respondent is single and 0 otherwise  | 7,152                  | 0.053831 | 0             | 1             |
| <i>married</i>                        | <i>married</i> equals to 1 if a respondent is married and 0 otherwise  | 7,152                  | 0.584312 | 0             | 1             |
| <i>partnered</i>                      | <i>partnered</i> equals to 1 if a respondent answers that he/she has a marital status as partnered and 0 otherwise | 7,152                  | 0.017757 | 0             | 1             |
| <i>separated</i>                      | <i>separated</i> equals to 1 if a respondent answers that he/she has a marital status as separated and 0 otherwise | 7,152                  | 0.016359 | 0             | 1             |
| <i>divorced</i>                       | <i>divorced</i> equals to 1 if a respondent is divorced and 0 otherwise  | 7,152                  | 0.026426 | 0             | 1             |
| <i>widowed</i>                        | <i>widowed</i> equals to 1 if a respondent is widowed and 0 otherwise  | 7,152                  | 0.292925 | 0             | 1             |



|  |  |       |          |   |     |
|--|--|-------|----------|---|-----|
| <i>lowerprimary</i><br>(a base variable) | <i>lowerprimary</i> equals to 1 if a respondent has no formal education and 0 otherwise                                      | 7,152 | 0.065296 | 0 | 1   |
| <i>primary</i>                           | <i>primary</i> equals to 1 if a respondent graduated from primary school and 0 otherwise                                     | 7,152 | 0.748043 | 0 | 1   |
| <i>secondary</i>                         | <i>secondary</i> equals to 1 if a respondent graduated from secondary school and 0 otherwise                                 | 7,152 | 0.125699 | 0 | 1   |
| <i>uppersecondary</i>                    | <i>uppersecondary</i> equals to 1 if a respondent graduated at a higher level than secondary school and 0 otherwise          | 7,152 | 0.039849 | 0 | 1   |
| <i>other</i>                             | <i>other</i> equals to 1 if a respondent graduated from other level and 0 otherwise  | 7,152 | 0.021113 | 0 | 1   |
| <i>child_alive_all</i>                   | Total number of children who are still alive   | 7,152 | 2.700923 | 0 | 13  |
| <b>Financial Status</b>                  |  |       |          |   |     |
| <i>fin_status</i>                        | Points for the chance that respondents' financial status will be worse (100 for certainly worse and 0 for impossible)        | 6,018 | 41.69242 | 0 | 100 |
| <i>welfare</i>                           | Dummy variable of whether receiving the state welfare in the household or not. (1 if receive, 0 if not receive in that year) | 7,416 | .6771845 | 0 | 1   |
| <i>business</i>                          | Amount of annual income from business (10,000 baht per year)   | 7,117 | 0.658962 | 0 | 200 |
| <i>saving</i>                            | Amount of saving (million baht)  | 7,095 | 2.944311 | 0 | 100 |
| <i>debt</i>                              | Amount of debt excluding mortgage loan (million baht)  | 7,143 | 0.049945 | 0 | 6   |
| <b>Health Status</b>                     |  |       |          |   |     |
| <i>health</i>                            | Points from self-evaluate on physical health (0 is very poor health, and 100 is very healthy)                                | 6,918 | 71.57126 | 0 | 100 |
| <b>Work Status</b>                       |  |       |          |   |     |
| <i>worknow</i>                           | Dummy variable of whether working or not. (1 if work, 0 if not working in that year)   | 7,152 | .3826902 | 0 | 1   |

# The Influence of China on Philippine Foreign Policy: The Case of Duterte's Independent Foreign Policy

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## Abstract

Since the start of his administration, President Rodrigo Roa Duterte has pursued a foreign policy which has been in contrast with the containment policy of the Aquino administration towards China. The new leader immediately pushed forward for a true practice of independent foreign policy which denotes that the country will seek closer relations with China and Russia as it distances itself from its traditional ally, the US. The policy shift of this administration is also understood as a “Pivot to China,” which explicitly demonstrate a change in the normal pattern of the country’s strategic diplomacy with aims of diversifying options and improving relations with other countries. However, Duterte’s desire to move closer with China while downplaying the South China Sea dispute attracted disapprovals and was immediately dubbed as a “national tragedy” by former Philippine foreign secretary Albert del Rosario.

This research seeks to identify and analyze the reasons behind the shift in foreign policy by looking at China as the main factor. The study employs Gideon Rose’s neoclassical realism as a lens of foreign policy analysis. With that, this study offers as systematic explanation of the action taken by the new administration by examining the series of events in the revitalizing Philippine- Sino relationship. Moreover, this research also provides insights on the positive and negative implications of it. It delves into the perceptions of the Philippine foreign policy decision-makers, particularly of President Duterte towards China’s intentions and its chosen foreign-policy response as engaged by his administration. This thesis argues that China’s support and compatibility to Duterte’s national priorities feeds in Duterte’s perception of perceiving it as the best partner for its government among the different state actors in the international system, thus ushering the shift in Philippine foreign policy.

*Keywords: foreign policy, Duterte, China, realism, South China Sea*

## 1. Introduction

Foreign Policy is defined as the totality of a country's policies toward and interactions with the environment beyond its borders (Breuning, 2007). Specifically, in the context of realism, it is what a particular country tries to achieve in international relations in order to forward its self-interests both domestically for its own government and internationally for the state itself. It could be argued that one's foreign policy could make or break one's presidential term depending on its outcomes and trade-offs. Hence, foreign policy directions and decisions, especially those of a new government has to be studied.

The Philippines is a unitary state governed by a Presidential system. With that, the President, being the head of state, has a huge influence on the country's foreign policy choices and decisions (Jacobini, 1961). In the context of Philippine foreign policy decision-making process, the Philippine President plays a huge role as he is considered as the chief architect of foreign relations. This means that any Filipino President can certainly redefine the country's priorities, set policy directions, postures, and, personally, dictate his or her country's diplomatic course towards other countries. This makes the foreign policy path of every new elected President controversial especially when there's a shift in how diplomatic relations are conducted. This paper evaluates the shift in Philippine foreign policy from Aquino's "contain-China" policy to Duterte's more independent foreign policy which privileges the People's Republic of China (PRC) as the central factor.

Based on a neoclassical realist perspective, This thesis argues that the shift in Philippine foreign policy is influenced by the Philippine foreign policy-decision makers', specifically the President's perception of the international system and its relative power towards China. The Duterte administration views China as a viable partner for its economic and political aspirations, intentionally overlooking it as a threat which was perceived by the previous administration resulting to an "underbalancing" effect. It is argued that because the South China Sea dispute has been downplayed by the Duterte administration, this in turn has allowed China to militarize the area, posing a future long-term threat to the security of the Philippines and the region.

## 2. The Philippine Foreign Policy of the Aquino Administration

During Duterte's predecessor's term, the Philippines' foreign policy was focused on protecting the nation's territory from an aggressive China which entailed the necessity to modernize the Armed Forces of the Philippines (AFP) and further strengthen the Philippine-US security relations (Sonsri, 2015). This is what scholars call containment or balancing China approach which aims to contain China's maritime expansion (De Castro, 2016). In 2011, just a year in office, former President Aquino asserted in his State of the Nation Address (SONA) that the country will no longer keep silent in regards to the West Philippine Sea (South China Sea). It was at this moment where he pursued the possibility of bringing this disputed case with China to the United Nations tribunal for the Law of the Sea (*GMA News Online* 25 July 2011). Aquino proudly uttered in his speech, "*Ang sa Pilipinas, ay sa Pilipinas,*" (What belongs to the Philippines, belongs to the Philippines) pertaining to the country's stance under his administration (AP Archive, 2015).

The Philippines at that time wanted to resolve this issue through a Rule-of-Law approach (Sonsri, 2015). The Aquino administration kept its promise made during his 2011 SONA wherein he uttered, “*Ang sa Pilipinas, ay sa Pilipinas,*” (What belongs to the Philippines, belongs to the Philippines) pertaining to the country’s stance with regards to the Spratlys under his administration (AP Archive, 2015). The Aquino administration was successful in its desire to protect the country’s national territory against China resulting to a major and notable outcome of his foreign policy: standing up against Chinese hegemonic behavior by bringing the disputed case to the Permanent Court of Arbitration (PCA) in The Hague, Netherlands in 2013. This subsequently resulted in a favorable outcome discrediting China’s Nine-Dash line claim. This victory sent a message to the region that a relatively less powerful country in terms of economy and power can resort to a rules-based approach and existing international law in solving disputes.

### 3. The Philippine Foreign Policy of the Duterte Administration

Despite the bold move which the Aquino administration has conducted, the Philippines continues to receive much attention worldwide through its dramatic shift of foreign policy from that of containing (Aquino’s foreign policy) to being open and closer to China (Duterte’s foreign policy). Upon assuming the Presidency, he immediately pushed forward relatively for more independent foreign policy which featured Manila seeking closer relations with China and Russia and distancing itself from its traditional ally, the United States (Merez, 2017). This shift by the new administration explicitly demonstrates a change in the normal pattern of the country’s strategic diplomacy with aims of diversifying options and improving relations with other countries (Kraft, 2017). The Duterte government apparently chose to repair the dented Philippine-China relationship endured by the preceding administration which immediately earned the name “Pivot to China,” a part of his so-called independent foreign policy. The policy was instantly dubbed as “national tragedy” by former Philippine foreign secretary Albert del Rosario who served in the Aquino administration (Esmaque II, 2016). National tragedy pertains to the notion that despite capitalizing on the efforts of his predecessor in protecting national territory on the South China Sea, by strengthening US security relations and further asserting the Philippine rights in its territory (West Philippine Sea), the new leader, instead, took an opposite approach, embracing China as it dropped the US as an ally (Heydarian, 2016).

### 4. Statement of the Problem

The new Philippine policy direction raised concerns not only at the executive level of the Philippines’ government, business and academia but also in the general public. In fact, most observers and analysts initially viewed Duterte’s move with much skepticism given the potential risks of playing two major powers against each other (Huang, 2016). Nonetheless, such moves were expected from the new leader since during his presidential campaign, Duterte had been very vocal about being pro-China. The new leader openly expressed his desire to change the direction of the country’s diplomatic strategy and even stated that if China was willing to help his administration in its transportation and commercial infrastructure development plan, then he would “shut up” in regard to the territorial dispute (Robles, 2017). A Western Historian, Alfred McCoy (2017), observed that Duterte was playing a very dangerous game with this move, asserting that it will only benefit China as it uses the Philippines to undermine US hegemony (McCoy, 2017 in Robles, 2017). This policy direction maneuver could be viewed as confirming the classic potential risk of

falling into a Thucydides trap. This theory speculates that war will most likely to emerge in a situation where a great or rising power threatens to displace a current world hegemon (Allison, 2017). Hence, undermining American power posits future problems for the region’s security and stability which requires a comprehensive understanding and attention.

If a foreign policy shift caused by an individual like Duterte has the potential of creating a massive problem and concern for his own country and the region, then it is necessary to understand and identify the reasons behind it. This research presents a different take on power transition theory which was discussed by Organski wherein he argued,

*“even distribution of political, economic, and military capabilities between contending groups of states is likely to increase the probability of war; peace is preserved best when there is an imbalance of national capabilities between disadvantaged and advantaged nations; the aggressor will come from a small group of dissatisfied strong countries; and it is the weaker, rather than the stronger power that is most likely to be the aggressor.”*

(Organski, 1980, pg. 19)

In this study, it can be observed that the Philippines as a middle power is the aggressor in which it position itself to play off two superpower states, China and the US. Thus, peace in the international system is disturbed in this case due to the asymmetry of relations between the Philippines and the US wherein its foreign policy redirects to bandwagon with another superpower country like China.

With that, this study aspires to provide an explanation which is aimed at explaining the shift of foreign policy from Aquino’s contain-China policy to Duterte’s independent foreign policy which involves the so-called Pivot to China by looking at China as the central factor that precipitated this shift. This study offers an opportunity to apply neoclassical realism theory to a specific case: the shift in Philippine foreign policy under Duterte.

## 5. Theory of the Study

Neoclassical realism emerged as a theory introduced by scholar Gideon Rose in 1998. It specifically caters to studies incorporating foreign policy analysis. Neorealist patriots and their critics who both dominated recent debates about international politics, were perceived by Rose as insufficient and their views needed further development. Rose argued that, foreign policy outcomes vary per state. Hence, he suggested was that it would be better to treat the study of foreign policy by applying specific cases rather than comparing a foreign policy outcome with other states or looking at systematically repeating patterns which what neorealists usually do.

The neoclassical realism developed as the fourth school of thought which incorporated three former theories: Innenpolitik, Offensive realism, and Defensive realism. The Innenpolitik theory gives importance on the influence of domestic factors on foreign policy. Offensive realism, on the other hand, focuses more on systemic factors having the utmost influence on foreign policy and state behavior. Defensive realism shares the notion of Offensive realism,

its assertion is in a lighter scale as it only argues that only some of the systemic factors drive the behavior of state and not all. With that, Rose determined the strengths and weaknesses of these theories and found out that they were too one-sided. Thus, he began developing a systemized framework for foreign policy analysis.

Rose argued that foreign policy is fundamentally an outcome of leaders' perceptions. However, these perceptions are also shaped by the international system. Hence, neoclassical realism theory delves into two factors, the cognitive variable which is the leader's perception and systemic factors which are influenced by the state's external environment. The former making up the internal and the latter the external factor. Rose's theory argues that foreign policy is an outcome of leaders' perceptions. However, these perceptions are also shaped by the international system. Hence, neoclassical realism theory delves into two factors, the cognitive or internal variable is represented by leader's perception and systemic factors which are influenced by the state's external environment. The former comprises the internal dimension and the latter the external factor.

## 6. Hypothesis

It can be realized in this study that the perceived national interest priorities of the Duterte administration are "internally" driven: economic development and the imperative for conducting an effective war against illegal drugs. These two domestic agendas feed Duterte's of China as a potentially viable partner for achieving his administration's national priorities.

## 7. Methodology

This study adopts a qualitative methodology in which triangulation is applied to explain the policy shifts Duterte has pursued. It gathers data from various sources such as written records, news reports or articles, autobiographies, and personal interviews, in order to build compelling explanation for this policy shift (Pierce, 2008). Specifically, this study used the triangulation of data which includes document analysis, online content analysis, and interview. The specific triangulation technique that was employed in this study is the triangulation of sources. Triangulation of sources allowed the study to verify the consistency of findings generated through the different data sources used (Patton, 2002). This method is deemed the most efficient in order to establish an empirical evidence that would explain the shift. The data of the thesis included the televised speeches and interview of President Duterte in order to gauge his perception which is an important aspect of the study. Moreover, supporting his rhetoric would include the analysis of the events that had actually transpired throughout his first year in office as pure rhetoric without actual actions would not be able to provide empirical findings. Finally, the third set of data sources came from an interview fieldwork involving the Philippine foreign affairs officer, Foreign Service Institute researchers, Philippine political and international relations professors and an appointee of President Duterte concerning the proliferation of the illegal drugs in the country. In fact, the author had the privilege to conduct a personal interview in the Philippines with the Philippine Department of Foreign Affairs (DFA) officer and researchers, as well as the Chair of



the Dangerous Drugs Board who also served as the Chief of the Armed Forces of the Philippines (AFP) last July of 2017. Having various sources involved in the study is helpful in analyzing the factors present and strengthening the assumption of the research.

## 8. Discussion and Analysis

### 8.1 Establishing the Perception of President Duterte

Duterte has expressed in a televised interview that the Philippines would overall be in a better position if we mend our relation and continue to work with China. In his own words, he uttered, *“We’re better off making friends with China. Anyway, America is also the best friend of China. We will adopt a neutral policy there,”* (R. Duterte, television interview, October 28, 2015). Furthermore, the tough-talking leader acknowledges the fact that the Philippines is no match with China in terms of waging war, hence dealing with the Chinese diplomatically is the best way forward. Moreover, this sentiment is also shared and supported by the wider spectrum of the Duterte government, especially by some of his appointees such as the newly appointed chairman of the Dangerous Drugs Board (DDB) and former Armed Forces of the Philippines (AFP) chief Dionisio Santiago who was personally interviewed by the author of this study. General Santiago had echoed the nature of Duterte’s foreign policy direction by stating,

*“...the best balance is to be friends to everybody. What is wrong with being friends with everybody? They are our neighbors. China is very close and everybody is going to China for business, why disallow the Philippines to be friend with the Chinese and take advantage?”*

(D. Santiago, personal interview, July 16, 2017).

This notion is very interesting given that the President and some of his appointees such as General Santiago assumes China as a practicable ally for the country. This paper argues that this perception formed at the executive level concerns the administration’s desire for economic benefits in order to pursue one of its national policy; Dutertenomics. China is observed to conduct somewhat that imitates America’s linkage policy in the region with the aspiration to win the hearts of the leaders in various countries particularly that of America’s ally like the Philippines through the giving of aids, business dealings and infrastructure projects. However, it is known in the prism of realism that states are always after their own interests and benefits, therefore the trade-off in this economic transaction with China should be taken into consideration by the administration.

At first, the responses of Duterte were perceived as pure words with no corresponding actions, especially during the pre-Presidential elections. It was thought that this was only a campaign tactic conducted in order to portray him as a totally different type of Presidential candidate from that of his opponents who most prefer to retain and continue Aquino’s foreign policy. As another Senior Foreign Affairs Research Specialist from the FSI, Louie Merced puts it,

*“Well I think, initially people thought it was all campaign bluster and will not follow to what he said. But to what we have been seeing, he is really trying to redirect our foreign policy and especially even in the West Philippine Sea issue,*

(L. Merced, personal interview, July 18, 2017).

## 8.2 The Duterte administration's Economic Agenda

On the night of October 18, 2016, President Duterte arrived at Beijing's Capital International Airport for his four-day state visit. His delegation was composed mostly of his cabinet members including Senator Alan Peter Cayetano who was the chair of Senate committee on foreign affairs at that time and now the Secretary the Department of Foreign Affairs since May of 2017 (Ranada, 2016). A day before his flight to Beijing, Duterte has expressed in an interview with Xinhua news agency that he believed China was the only country that could help the Philippines (*Xinhua News*, 17 October 2016). In this visit, Duterte sought to revitalize relations with China which had soured during the Aquino administration. He mainly aspired to enhance economic trade and economic cooperation with the PRC. General Santiago has also mentioned that *"There is this big neighbor who is willing to do business with us and support us economically,"* pertaining to the Chinese (D. Santiago, personal interview, July 16, 2017). This shift in economic dependency seemed reasonable given China's continuous economic rise, placing itself as the second largest economy in the world (The World Bank, 2017). However, as the economic partnership reemerged in this new administration, China would also take this opportunity to also forward its self-interest, particularly in the issue of the South China Sea.

*The Chinese were very clear. You know, the joke in the Philippines is that the Chinese ambassador in the Philippines is called the whisperer because he is always whispering something to the President. He meets the President more than other foreign envoy and diplomat. And the Chinese ambassador did a very good job at saying, "if you try to use this arbitration award to embarrass us and if you welcome more American military presence in the Philippines, in the South China Sea we are going to make life hell for you." With that, they deployed various nuclear bombers close to the Scarborough Shoal and they conducted joint military exercises with Russia. They did all the kind of signaling. But at the same time, they said, "If you play nice and not raise the award and kind of downgrade some aspects of relationship with the US then we will make life quite heaven for you and offer you all the economic incentives that your ASEAN buddies like Malaysia and Vietnam are getting."*

(R. Heydarian, CSIS Forum, November 13, 2017)

As the first Mindanaoan President of his country, Duterte vowed to develop the southern region economically in which he seek for an inclusive development. A decentralized economic strategy was one of the approaches that was extensively discussed for the Duterte government's socioeconomic agenda during the two-day business sector assembly in Davao City, Mindanao June of last year. According to the CEO of the Magsaysay Maritime Corp., one of the attendees of the meeting,

*"Decentralization is key to inclusive growth. Manila has always been the central business hub of the Philippines, leaving a lot of people in the regions excluded from the enjoyment of economic opportunities and a better quality of life,"*

(Joven & Rodriguez, 2016).

In order to pursue his economic agenda, a viable economic partner is necessary in which for this administration is the PRC. Also known as *"Dutertenomics,"* accompanying the socioeconomic agenda is the willingness of the

government to enormously invest on big infrastructure projects which was also named as the “build build build” project. This has been dubbed as the “golden age of infrastructure” in the Philippines which includes mostly the expansion of airports and construction of major roads, bridges, railway transportation system. Through this economic agenda, public spending on infrastructure projects is estimated to reach 8- 9 trillion pesos in the next five-year (Morallo, 2017).

In just a year in office, the President was able to successfully accumulate approximately 1 trillion pesos in ODA which was an unprecedented feat in the history of modern Philippine governance. Aside from Japan which pledged 1 trillion yen (424 billion pesos) for the infrastructure projects of the country, China is undisputedly seen as the biggest ODA source of the Duterte administration with \$9 billion in total value apart from the \$15 billion worth of private commercial deals (ABS-CBN News, 15 January 2017).

### 8.3 The Duterte administration’s War on Drugs

Another national agenda put forward by the administration is the war against illegal drugs. During the Philippine Presidential elections, Duterte has instituted his campaign to solve and alleviate drug problem in the country noting that the country has become a “narcotic state”<sup>2</sup>. He even gained massive support from the public when he kept on promising to fulfill this in just the span of 6-months. This domestic policy campaign would not be an easy task and would surely require aggressive efforts from both the government and other concerned domestic bureaucracies such as the Philippine National Police (PNP). Immediately upon winning the elections, the strongman has kept his words true to his campaign promise and in just a month in office, around a thousand alleged drug dealers had been killed and while over 600,000 drug-related individuals turned themselves into authorities. Moreover, some drug syndicates, both big and small, were brought to jail (Robins-Early, 2015). President Duterte’s war on drugs has received both support and criticism. Nonetheless, despite the opposing views, what is certain is the fact that this controversial campaign was truly felt not only in the country but throughout the entire world.

In fact, former US President Barack Obama criticized Duterte for his war on drugs. On September 2016, the US government took the opportunity during the ASEAN Summit in Laos to urge the Duterte government to conduct the war on drugs the right way, which basically means to be in accordance with the rule of law (Placido, 2016). When asked by the press in Vientiane about his comment on the Philippines’ war on drugs, Obama has expressed that,

*“We’re not going to back off on our position that if we’re working with a country, whether it’s on anti-terrorism, whether it’s ongoing after drug traffickers, as despicable as these networks may be, as much as damage as they do, it is important from our perspective to make sure that we do it the right way. Because the consequences when you do it the wrong way, innocent people get hurt. And you have a whole bunch of unintended consequences that don’t solve the problem,”*

(B. Obama, news conference, September 8, 2016).

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<sup>2</sup> Duterte said in a speech addressing law enforces in Ozamis City on August 17, 2017 from GMA News Online.

After a year of conducting the war on drugs, the Philippine Drug Enforcement Agency (PDEA) claimed that the Duterte government was successful justifying that it had a positive impact, especially in alleviating the use of narcotics in the country. PDEA Director General Isidro Lapeña stated that during Duterte’s term, 86,984 drug suspects have been arrested, including 302 government workers while nine drug laboratories were and 152 suspected drug dens were closed down dwarfing the anti-drugs operations of the past administrations (Placido, 2017). The Duterte government has mentioned that the war on drugs will continue until the end of his term which will be until the year 2022. Interestingly, this perceived success of the government’s drug war was also attributed to the strong support of its newfound ally, China. In fact, the Chinese government provided the country a grant of \$15 million which will be used for drug rehabilitation and law enforcement (Santos, 2017).

Unlike the United States under the Obama administration and other countries in the West, particularly the European Union, who criticized Duterte’s war on drugs, China has been seen to be very supportive. In fact, aside from the Chinese government, private Chinese citizens had partnered with the Duterte government. A Chinese businessman Huang Rulun funded the Mega Drug Abuse Treatment and Rehabilitation Center in Nueva Ecija in which the phase 1 of the project was completed in November 2016. The center is expected to accommodate and handle 10, 000 patients which is of big help for the government’s anti-drug policy. The President had labeled the Chinese tycoon as a “Good Samaritan,” (Ranada, 2016). Moreover, the Chinese government had also been consistent in showing support to the Duterte government since his election. On September 29, 2016, the country has finally released an official statement through its Chinese Foreign Ministry spokesperson Geng Shuang, who said that *“Under the leadership of President Duterte, the new Philippine government enacted policies that prioritize combating drug-related crimes. China understands and supports that,”* (Viray, 2016).

Moreover, during the Universal Periodic Review (UPR) undertaken by the UN Human Rights Council in May 2017, China was the only country which stood by the Philippine side. In reality, out of 47 members of the council, 45 had urged the Philippines to end extrajudicial killings and withdraw its plan to revive the death penalty except for China. During the press conference, Chinese spokesperson Shuang once again delivered a stance in favor to the Duterte government,

*“Drugs are the common enemy for all human beings, bringing pain to many developing countries, including China. China supports President Duterte and the Philippine government in combating drug-related crimes in accordance with the law. We hope the international community can respect the judicial sovereignty of the Philippines and support its efforts in fighting drug-related crimes through cooperation,”*

(Flores, 2017).

Mr. Merced of the FSI has also reaffirmed this notion during the interview stating,

*“While everybody is criticizing him on the way he approach the drugs campaign, China was very open arms and was willing to help Duterte and I think that also played a big factor on why he is so open to dealing with China right now. They don’t even care about the human rights issue because it is the same with them. In that regard, they have a commonality, and Duterte finds peace with that,”*

(L. Merced, personal interview, July 18, 2017).

## 9. Conclusion

The shift in Philippine foreign policy under the Duterte administration is primarily caused by the change in the national interest priorities of the new government which are economic development and the war on drugs, different from the Aquino administration which is on protecting the national sovereignty in the South China Sea. Hence, it can be seen that China's support and compatibility to Duterte's national priorities feeds into Duterte's perception of perceiving that country as the best partner for its government among the different state actors in the international system, thus ushering the shift in Philippine foreign policy. Given that President Duterte acknowledges that the Philippines is unparalleled with China in terms of economic and military power, the foreign policy redirected to having a favorable stance towards it. Moreover, China's support and compatibility towards the Duterte administration's national interest priorities feeds in his perception of having a favorable inclination towards it. With that, this thesis would like to assert that Duterte's perception is an important factor in understanding why the country shifted its foreign policy. Moreover, the author would like to argue that the perception reflects the liking and preference of the foreign policy decision-maker in relation to their prioritized national agenda despite of the consequences it may entail.

Aside from its national interest priorities set by the administration that makes China as the compatible partner to carry out its domestic agendas, the factor of an ambiguous US contributes to Duterte's perception of establishing an unreliable US. Hence, it can be concluded that Duterte's shift towards China is pragmatic in a sense that America is uncertain in terms of responding for the protection of the country. Furthermore, China will not abide by international law anyway which only feeds in Duterte's perception that the country is better off in redirecting its foreign policy towards Beijing in order to achieve its domestic goals which are the need of funding for big infrastructure projects and to sustain the administration's war against drugs.

This study also concludes that the Philippine foreign policy is vulnerable to changes depending on who the leader is. Moreover, their perception is necessary to understand as different leaders may have perceived the country's threats and opportunities similarly, however their foreign policy response may be different. Therefore, the Filipino public should take into serious account the foreign policies that aspiring Filipino leaders wish to push forward during elections. Its implications on Philippine politics is that power in the domestic sphere is important to analyze given that if one wants to analyze and go deeper into understanding the country's chosen foreign policy, it is necessary to determine whether the national agendas set by the leaders are for their self-interest or pragmatic benefit of the country.

For this study, it can be that the trade-off in this shift in foreign policy is the South China Sea. However, the author argues that more than the support and compatibility of the national interest priorities of the administration with China, the Duterte administration was left with no choice but to be subservient to China due to immediate benefits it could achieved despite long-term threats to the country's national security. Moreover, Duterte was able to

consolidate power among the majority of the Filipinos in which supports his domestic agendas. In conclusion, the President is provoked to maintain his domestic stability in which can only be done through continuing on with his policies and making it materialize in which China is of big influence in carrying out those domestic goals.

In the context of international relations, the shift in Philippine foreign policy will affect both its relationship with China and the United States. Hence, this development has a substantial effect on regional politics and security that the author would like to reflect on. President Duterte, through his foreign policy choice, was able to disrupt the Philippine-US relations. Thus, it can be expected that the country's relations with America will have complications in which threatens the existing Philippine-US security alliance. Nonetheless, this disturbance in the relationship is not entirely dependent on Duterte alone. Therefore, it is also interesting to take into account for future researches about the actions of the Trump administration in this situation. When such alliance gets disrupted, the power and influence of US economically and militarily in the region may weaken, allowing China to have the opportunity of dominating the region in these aspects. However, it is interesting to ponder that this notion is not certain as this view is complex given that as the Duterte government seeks to diversify military relations with China and Russia, the Philippine military still remains US-centric. Nonetheless, the idea of a continuous infiltration of China and Russia in the Philippine military institute may have significant influence in the long-run which may polarize the institute in the future. Likewise, the emergence of Donald Trump also adds up to the complexity of the issue given that the new US government through his government finally supports the administration's war against illegal drugs which pleased President Duterte. With that, it may be possible in the future that President Duterte's perception towards the US may change and so as its foreign policy. For now, this thesis argues that the Philippines shift towards China weakens American hegemony in the region. With that, this may impede US' balancing strategy in maintaining peace and stability in the region.

Moreover, this thesis also concludes that understanding the case study presented above denotes the importance of the neoclassical realism theory as it reinforces the importance of the perception of President Duterte in redirecting Philippine foreign policy. It can be seen, that regardless of the state power of the Philippine, be it a medium or a small power, the country's behavior is hugely influence by the current President. Therefore, this thesis presents the notion of the Philippines as a country being vulnerable to foreign policy changes. Hence, this study argues that the country may be deemed as unreliable, especially for its allies and partners in the international system. This is due to the country having to pursue different policies that best suits not particularly the nation but the current government at a certain period of time.

For the Philippine-China relations, the country under a Duterte presidency will further cause a continuous strengthening of their relations. With that, the Duterte government may be able to fulfill both of its national interest priorities. Hence, the country will see the actual development of big infrastructure projects under this administration. Given this notion, it is possible that President Duterte may maintain a high popularity among the majority in the country courtesy of this particular domestic policy as big projects denotes tangible materials that the Filipino society

can actually see. Moreover, there is a high possibility of a huge influx of Chinese Foreign Direct Investment to the country which also denotes a huge number of Chinese workers and companies entering the country.

However, there will also be a continuation of the country's infamous war on illegal drugs. Currently, the country has seen various killings of innocent people which have enraged a substantial amount of population in the Philippine society. Particularly, this situation may provide an opportunity for the opposition party to criticize the government in which the idea of ousting President Duterte may be ushered in. However, this thesis argues that this possibility is less likely to happen as there is currently no clear leader of the opposition to go against the Duterte administration. Most importantly, the strengthening of Philippine-China relations has resulted to the downplaying of the arbitral tribunal ruling. With that, it can be concluded that as the Duterte administration views China as a viable partner for its economic and political aspirations, it intentionally overlooks it as a threat which was perceived by the previous administration resulting to an "underbalancing" effect. Thus, this may permit China to militarize the area through the construction of artificial islands which will be transformed into military bases, thus eventually resulting in a future long-term threat to the security of the Philippines and the region. Hence, this thesis argues that the Duterte administration's independent foreign policy is only beneficial for temporary peace which means achieving only short-term goals such as economic benefit to secure one of his administration's national agenda priority. In fact, the foreign relation redirection by the Duterte administration constitute a more problematic situation given the less utilization of the tribunal ruling which indirectly allows China to illegally take control of some parts of the South China Sea. Hence, this is problematic as it would rather be more difficult to protect the country's sovereignty once China has already finished establishing its artificial islands within the Philippine territory.

With that, this thesis finally concludes that the problem offered in this study provides an interesting situation to look forward to in the future of international relations. The succeeding Philippine president after Duterte should be ready to resolve the dilemma in the South China Sea that would definitely concern the country in the future. Hence, there is a high chance for the Philippine foreign policy direction to change course again in which definitely time can only tell.

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# Joko Widodo's Strategy in Applying "Free and Active" Foreign Policy to Contain Tensions in South China Sea

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## Abstract

When Joko Widodo first came into power, there were some signals of the alteration of Indonesian foreign policy. In response to tensions in Natuna Islands in the beginning of his administration, Jokowi was ambivalent in carrying his maritime ambition, Global Maritime Fulcrum (GMF). The maritime vision has successfully gained international statement and attention, especially from superpowers. Drawing on government official documents and qualitative interviews, this paper analyzes Indonesian Strategic Culture under Jokowi's administration to attain national interest under GMF framework. Throughout his administration, the level of sovereignty protection is escalating, whilst national interest was intensified by building tighter economic ties with China. In this regard, complexity relies on his personal approach to articulate national interest to the outside world without harming national sovereignty.

*Keywords: Global Maritime Fulcrum, Strategic Culture, National Interest, New International Affairs Paradigm, New Developmentalism, Indonesia-China Relations.*

## 1. Introduction

Contemporary global and regional politics has been an unpredictable situation that leads states to formulate a policy aimed to secure their national interests. The complex situation is timely for states to react in order to take any potential advantage and reduce possible risk. Politics in Asia-Pacific has been stirred with the longstanding territorial dispute, the South China Sea and the dominance of regional hegemon, United States (U.S.) and China. The contested water is highly significant for all claimants or globally to the rest of the world. The South China Sea contains the major international trading sea lanes wherein abundant resources lies.

Indonesia has been the middle power in benevolently trying to survive in the complex security situation in the region. Even though Indonesia has never been the claimant of the contested water, its role is moderately for peaceful means settlement. Given that Indonesia is one of the founding father of ASEAN and the initiator of Non-Aligned Movement, Jakarta has always been the one to mitigate any potential harm. Besides, Indonesia also must have determined national interest at a stake. In order to deal with the tensions in Natuna Islands, it is relevant to say that Indonesian latest maritime strategy has salient approach and implementation.

The end of 2014 marked the beginning of Joko “Jokowi” Widodo’s administration. He came into the position along with several shifts and a new paradigm. Maritime affairs is an output taken into account generating Global Maritime Fulcrum (GMF) as a supreme maritime strategy. It covers five major affairs including maritime culture, security, resource protection, infrastructure, and diplomacy. The vision is aimed to engage the internal and external affairs to be more closely related to maritime, which is known as Indonesian major identity and power. Laid in more than 14,000 islands, the country holds its identity as an archipelagic state.

Even though there is no claim on the South China Sea, escalating tensions triggered the two countries in reacting to illegal fishing cases. However, it would not appear that Indonesia is also building an even more significant partnership with China due to infrastructure realization as the main agenda. Whilst, earlier in the first few months of his administration, Jokowi did his first visit to the U.S. and succeeded a deal with Obama, particularly in maritime security matters. Indonesia had built the strong cooperation with the U.S., whilst currently, the relation has tightened through the strategic partnership.

Those are Jokowi’s approach in expanding Indonesia’s appointment in foreign affairs and articulating national interest. The maritime vision has brought a complex mixture of economics, political, and security concern to the inclusive sphere. The maritime-based approach tries to balance every aspect of shared opportunities among states and global peace given that Indonesia is the non-bloc state. This study will mainly concern how neutrality has been taken into account in the implementation of GMF. Since the “Free and Active” remains the singular manifestation of Indonesian foreign policy, therefore, question to explore in this research would be: “How non-alignment foreign policy has helps to contain the tensions between Indonesia and China over the South China Sea disputes under President Jokowi’s administration?”

The Author would examine on how Indonesia, through Jokowi’s maritime vision could guarantee the reflection of national interest without neglecting Indonesian Free and Active doctrine. The data will support the analysis are following; Jokowi’s approach in interstate cooperation to regional hegemon, his persona, and continuation of Indonesia-China economic relation.

## 2. Theoretical Framework

### 2.1 Strategic Culture

Earlier findings, analysis, and studies in constructed ideas and identity are useful in describing states’ behavior in international affairs. The assumption started from the basic principle of the preserving national identity as neutral state and peace contributor. Weatherbee (2002) generally and Aplianta (2015) specifically in the South China Sea disputes mention the development of Indonesian foreign policy. Weatherbee began with the idea of nonaligned stance as the projection of struggle for Indonesian freedom and independence as stated by Vice President Hatta

in 1948. Moreover, the nonaligned is significant to its neutrality actions, also condition whereas the great power presence would be decreased while Indonesian regional role could rise (Weatherbee, 2002, p. 205). Specifically, Aplianta began with Indonesian leaders to respond to South China Sea disputes while, for example, Suharto was more focused on the domestic economy, and regional reputation in ASEAN (Aplianta, 2015, pp. 1-21). Those perceptions of Indonesian Foreign Policy are palpable to Indonesian tradition and culture in the persistence of national image both internally and externally. Indonesia would like to express its concern toward peace and stability, and cautious in engaging international challenges.

In concept, states behave on behalf of inward-looking values. Withholding national image, values, culture, and tradition are more initial rather than balancing power efforts. In spite of seeing the world as an anarchic realm, states are built from constructed ideas and values within its complexity. Moreover, Acharya succeeds to contribute a clear and meaningful analysis in comparing Realism, Liberalism, and Constructivism in Asian International Relations on the merits of “analytical eclecticism”. The relevance of this study is that states, transnational knowledge communities, and moral entrepreneurs are the main actors. Whilst, global and regional security communities forged through shared norms and collective identity and its socialization through principles and institutions (Acharya, 2014, p. 105). One obvious illustration is the establishment of ASEAN and Non-Aligned Movement (NAM) in carrying the collective values of non-interference and put peaceful means above all. The “ASEAN Way” has been a long-lasting adopted manner to remain salient to put aside the power competition among its members.

Indonesia, one of the founders of those two organizations, has always been playing a key role. Meanwhile, as a sovereign state, national interest is compulsory to be able to thrive in the middle of the unpredictable world. National strategy and behavior matter to meet the equilibrium. Given that “Free and Active” foreign policy is mandatory for Indonesia; it is relevant to call it as a national doctrine that each leader needs to adapt. Democracy is a determinant factor in interpreting “Free and Active”.

In that regard, it is significant to apply strategic culture in measuring Jokowi’s GMF doctrine. Consistently, as a new strategy, the study would focus on how its implementation could linear to main “Free and Active”. Strategic culture is a new method to explain national security that it has become fashionable in the international relation during the post-Cold War. Snyder (1977), emphasizes that strategic culture is “The sum total of ideas, conditioned emotional responses, and patterns of habitual behavior that members of the national strategic community have acquired through instruction or imitation and share with each other with regard to nuclear strategy”. Booth (1990) further described strategic culture in more specific meaning as “A nation’s traditions, values, attitudes, patterns of behavior, habits, symbols, achievement and particular ways of adapting to the environment and solving problems with respect to the threat or use of force” which outlast but major changes are possible regarding military technology, domestic arrangement or the international environment (Sondhaus, 2006, pp. 124-125).

Strategic Culture lies on patterned ideas and traditions into national approach in Indonesian scholar Yohanes Sulaiman added that Indonesia's national security inherent three important themes; the unity of different ethnic groups and an illustrious history as the successor state of the ancient kingdoms of Srivijaya and Majapahit covering the identity of 'Wawasan Nusantara' or Archipelagic Insight; narrative the struggle for independence; and 'free and active' narrative shape Indonesian foreign policy meaning the independent from any military pacts or alignment with great powers (Sulaiman, 2016). Furthermore, the newest exploration of indicates strategic culture as a significant grand strategy and state behavior (Lantis, 2002).

In characterizing each variable, this study will adopt the Lantis's categorization on Strategic Culture shaping the country's political-military culture; sources and keepers (Lantis, Strategic Culture and Security Policies in the Asia-Pacific , 2014, pp. 172-175). The first source is the understanding of geographical context which in Indonesia's archipelagic landscape is vulnerable to outside threats. Another source is political culture as the nature of governance. This is critical to democratic transformation in Indonesia with the following history of its civil-military relations. Post-Suharto regime, military has become a non-political institutions. Last, myths and symbols are also considered as part of important expression of a state idea and culture lantis classified that myths are representing fascinating blend of fact and fiction. In Indonesia's case, official seal of Republic Indonesia articulates the independence date also the unity in diversity. Meanwhile, symbols act as 'socially recognized objects of more or less common understanding' and 'provide a cultural community with stable points of reference for strategic thought and action' (Lantis, Strategic Culture and Security Policies in the Asia-Pacific , 2014, p. 173). In the most obvious example is slogan used in Sukarno's administration "*Jalesveva Jayamahe*" meaning "Victorious in the Sea".

Major actors and institutions are recognized as the server and keeper of nation's culture. First, political leaders in whose engage in historical interpretation and development of the foreign policy path. For instance, Indonesian leaders in referring the Free and Active foreign policy. Second keeper is elites which Berger recognized the fact that strategic culture is best characterized as a "negotiated reality" among elites (Lantis, Strategic Culture and Security Policies in the Asia-Pacific , 2014, p. 174). During the candidacy, Megawati had a crucial role in supporting Joko Widodo. Besides, she is happened to be President Sukarno's daughter, this made it possible to conclude that there is some Sukarno's influences in Global Maritime Fulcrum. Lastly, political institutions including political parties and domestic coalitions are also affecting foreign policy behavior. In the case of Indonesia's parliament, the strong coalition is essential to establish resilient government.

Drawing upon the relationship between Global Maritime Fulcrum and "Free and Active" foreign policy, the strategic culture will examine how the current administration pursues to maintain the internal and external complexities. The author will concentrate on Indonesia's reflection of national interest throughout Global Maritime Fulcrum.

### 3. Methodology and Data

The form of this research would be comprehensive descriptive analytic. Hence, two most substantial principles meet focus in this study are the struggle for independence as the sovereignty protection and free and active narrative stressed in the entire Indonesia's foreign policy. In order to gather comprehensive finding and to be able to generate deep analyzes, the study will cover domestic and international behavioral aspects.

The following time frame of the study will start from the beginning of Jokowi's administration until a recent period. There are two main resources to gain the data in this studies. First, secondary data from the government drafts, official websites, statements, articles, and news articles. To measure the hypotheses, the data such as position paper, keynote speech, presidential, ministerial, and diplomatic speeches will be primary to find a conclusion in the study. Second, primary data or interview from the foreign policy, South China Sea, and defense experts and government officers as supportive data by describing the empirical information in the field.

### 4. National Interest Reflection

#### 4.1 New International Affairs Paradigm

Jokowi's determination in foreign policy is rather distinctive compared to any previous administrations. This finding will pinpoint that the new international approach is relevant to "Flexible engagement and strong fencing". Indonesia pledged to engage deeper interstate cooperation with regional superpower, in this matter, China, United States, Japan, and Australia. On the other side, as stated by the Minister of Foreign Affairs, Retno Marsudi, that Indonesia will concentrate in settling border issues with neighboring countries in a diplomatic way. She also emphasized in the annual press statement that Indonesia will never back down if there is a threat to Indonesian sovereignty. Beside territorial issue, foreign policy concerns in migrant workers protections. At this point, Indonesia built a interstate cooperations with the gulf states by Gulf Cooperation Countries (Ministry of Foreign Affairs of Republic of Indonesia, 2017).

Additionally, there is a shift from the previous administration. Compared to his predecessor, President Yudhoyono, by carrying out "Thousands friends, zero enemy", Jokowi has more flexible way. Agusman mentioned, Widodo's way is rather flexible but strict when it comes to Indonesian sovereignty. The mindset of "*we are all friends, as long as there is no disturbance to our (Indonesia) sovereignty*" contains of a firm sense in national sovereignty protection. In sum, there is a major alteration in interpreting Indonesia's foreign policy. These efforts are strongly integrated with the attainment of national interests.

#### 4.2 New Develop-mentalism

Joko Widodo was adapting new complexity for Indonesian economic development plan. Author finding in this section will discuss on Indonesian new develop-mentalism led by Jokowi in three economic tiers; fostering connectivity, securing national assets, and shifting from consumption to production. Starting his career as businessman, Joko is trying to understand the problem-roots of Indonesian economic problem. Lies in more than

14,000 islands, Indonesia still lack of infrastructure. He realized that the factor that hinder Foreign Direct Investment inflow to Indonesia is poor infrastructure.

Based on the latest budget statement of 2018, Jokowi revealed the infrastructure project in the following year. There is 40% of total national strategic projects planned which 9% had been completed, 5% were in transaction stage, and 37% were still in planning stage. In term of numbers, there are 225 projects nationwide; highway, non-toll roads, railway lines, urban trains, airport revitalization and airport development, port construction and three phases of the One-Million-Homes program (Sundaryani, 2017).

Besides, Jokowi’s economic push is complex in a sense that Indonesia should be more efficient to discover national ‘leaks’ and/or ‘hidden’ assets. The country is home to almost 260 million inhabitants while only 10% has been registered as taxpayers, it leads to the immense deficit which burdens the development of infrastructure (Varagur, 2017). It is eminent that Jokowi pledged economic reforms through his contentious power in the representative; protectionism and nationalism. Warburton stated that Jokowi has brought the ‘new develop-mentalism’ into an account throughout narrow pragmatic economy programs which full clarity especially in building infrastructure, deregulation, and de-bureaucratization (Warburton, 2016, p. 298).

The main concern of Jokowi’s administration is an economic sector which reflected the economic diplomacy. During the 24<sup>th</sup> World Economic Forum on East Asia, Jokowi stated that

*“Today, we must shift from consumption back to production...to investment in our infrastructure, investment in our industry, but most importantly, investment in our human capital, the most precious resource of the 21st century.”*

(Tay, 2016, p. 1).

In sum, it is important to look at the complexity of GMF and its relevance with economic development. Economic Diplomacy is relied in the current foreign policy framework. In order to carry this out, he pledged more open and easy market in order to attract Foreign Direct Investment inflow. Accordingly, he also improve robust infrastructure development to facilitate economic boost.

### 4.3 Personal Business Attitude

As one of the diplomacy products, Global Maritime Fulcrum is a complex combination of geopolitics, geo-economics, geo-cultures, and historical. This platform is used to interpret Indonesia’s movement in both internal and external. In its application is not surprising to assume that Jokowi tends to be more pragmatic than his predecessors. He has lack of politics and diplomacy experiences although his successful business track may be more straightforward in interpreting national interests. Jokowi’s persona is full of simplicity but straight to the point of how he could carry out national interest.



First, Jokowi's approach is rather pragmatic than normative compared to his predecessors. Syailendra also classified that there are three characteristics in Jokowi's foreign affairs; i) rely on a lot of individual in his cabinet to connect and in charge of international affairs; ii) more focused on economic policy and courting investment; iii) less concern about 'big ideas' such as Korean issues (Syailendra, 2017).

Second, Jokowi's pragmatic way also expressed in any diplomatic, ministerial, and presidential visits. In the interview, Agusman stated that Jokowi always make use of good relations to achieve national interest. Similar to Syailendra, he emphasized that Jokowi is not into being an international statesman to be international 'hero'. Foreign Minister Retno, in accordance, always carry the 'down to earth' diplomacy pattern particularly in echoing economic diplomacy (Agusman, 2017).

Leader's persona and approach is important to look at in understanding Strategic Culture. Leaders are national agents holding substantial role in shaping nation's interest. Even though, there won't be change of "Free and Active" foreign policy, but it does not mean that the application will not evolve through period. Jokowi's personal simplicity and friendliness is a sign of national interest reflection, it is reliable in building further and deeper interstate cooperation.

#### **4.4 Indonesia-China Relation**

Indonesia-China relation has been facing ups and downs since the normalization. Even though the current condition is conducive, the Natuna tensions had shaken it, engagement is likely more significant. Jakarta seems to seek China's involvement to maximize the national gain. A timely moment from American influence withdrawal in Asia has given China to be more nimble to expand its rise in Asia. In economic term, Indonesia has two initiatives intersects with China's mainly in infrastructure drive.

First, Asian Infrastructure Investment Bank (AIIB) which particular to Jokowi infrastructure priority. Until 2017 AIIB has approved to finance three Indonesian projects; Dam Operational Improvement and Safety Project Phase II; Regional Infrastructure Development Fund Project; National Slum Upgrading Project (AIIB, 2017). Second, China's One Belt One Road (OBOR) is aimed to connect Asia, Europe and Africa in term of economic which inspired from the Silk Road Spirit of 'peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit' Ocean (The State Council of The People's Republic of China, 2015). Until May 2017 there are six projects signed into OBOR; Commercial Office, Hotel and Shopping Mall covers Hospitality & Tourism, Property Development, Infrastructure Project covers Ports, Oil and Gas Block Project covers Oil & Gas sector, Jet Engine Power Generator covers power plant sector, Clean Eco Fuel covers CleanTech sector, and Waste Treatment Improving Carbon Efficiency covers CleanTech and Waste Treatment sector (Belt and Road, 2017).

Tensions in northern Natuna Islands are not disruptive to Indonesia-China relations. It is presumably modest for Indonesia to leave out strains and just 'jump to what's important'. In this case, economic engagement, which is

more beneficial for Indonesian economic gain. However, the cooperation condition remains under the Jokowi's foreign affairs approach; "as long as no disruption or threat to Indonesian territory".

## 5. Conclusion

The main intention of this study is to examine the implementation of GMF strategy to express national interest. Given the constructive ideas of preserving national ideas, images, and identity, Jokowi has been adapting his personal approach in engaging international political realm. This study found three crucial tiers in expressing national interests to the outside world. First, in order to guarantee the neutrality that has been endured through time, Indonesia's role in international arena is to become an intermediary roles. This indicator is closely related to Indonesia and other state in building stronger relation without reliance to one particular country. Second, Joko Widodo is trying to sum up the national interest aspects with his flexible and friendly approach aimed to gain the timely advantages from the recent global order. His persona carries more pragmatic sense rather than normative. Last, in general meaning, Joko Widodo is utilizing Free and Active foreign policy in a nimble movement towards GMF realization.

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# Impacts of Obama Administration's Ambiguity on Japan's Self-Defense Restructure

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## Abstract

The paper aims to seek the impacts of Obama administration's ambiguity on Japan's Self-Defense restructure. The significance of the study lies on the fact that most studies focused mainly on the nature of the US ambiguity and rationales behind that, yet few of them touched on its impacts on broader regional security context. Also, Japan's Self-Defense restructure has been mostly linked to North Korean threat and China's assertiveness. Instead, this paper will provide a groundbreaking linkage between Obama's ambiguity and the Self-Defense restructure of Japan. To reach that, the paper identifies the existence of Obama's ambiguity in the form of simultaneous "weak deterrence" and "strong deterrence" against China with regards to Japan's security. Based on the author's designed framework and data accumulation, finally, the paper argues that Obama's ambiguity with regards to Japan's security did exist, and it affected Japan's Self-Defense restructure in two ways in the form of "dilemma of deterrence". On the one hand, the "weak deterrence" unintentionally pushed Japan to unilaterally restructure its Self-Defense policies, while on the other hand, the "strong deterrence" intentionally upgrades Japan's Self-Defense capacities through bilateral cooperation under the military aspect of the US pivot to Asia.

*Keywords: Ambiguity, Japan Self-Defense Force, Security Policy, "China Engagement" diplomacy, "China Containment" diplomacy, Dilemma of Deterrence.*

## 1. Introduction

The end of the Cold War resulted in the rise of the US as the victor, who has maintained a strong leadership position in the world. In terms of economy, it shares the largest GDP and establishes many economic deals with various nations (Chang, 2017). Militarily, it possesses the most powerful army supported by the most military bases around the world (Project, 2015) (Vine, 2015). Thus, despite the rise of many super powers and the newly constructed multipolar world, the US remains a global hegemon critical to the world peace and stability (Webb & Krasner, 1989, pp. 183-198).

Guided by that notion, it is interesting to examine how the US engagement in particular region of the world could impact on the security of that region per se. One way the US engagement could be affecting the regional security would be its ambiguity in the commitment to the security of that particular region. One region that is of great

relevance to this issue would be East Asia, where the US long-lived allies—South Korea and Japan—are located, and where the security issues are of worldly concern.

## 2. Problem Statement:

Most of the literature and theories have touched upon the rationales and nature of the US ambiguity and its historical context in East Asia. However, there have been scarcely any discussion on the impacts of the US ambiguity on the broader context of regional security.

In this context, Japan would be an interesting sample to investigate due to the fact that there remains loophole in the literature concerning the role of the US ambiguity behind the change in Japan's security policy, which is critically influential in shaping the tension and security environment in the region—most works attributed the restructure to China's assertiveness and North Korean threats. Moreover, Japan is chosen because the Obama administration appeared to be quite ambiguous in its diplomatic maneuver with China with respect to Japan's security, while it had been relatively resolute in dealing with the Korean peninsula issue.

Hence, the findings would yield both theoretical contribution to the existing "Hegemonic Stability Theory"—by adding the impacts of the ambiguous hegemon—and empirical significance to assess the influence of the US engagement in the security policy of Japan, who is one of the key players in the regional security affairs.

### 2.1 Research Objectives:

The objectives of this study, therefore, are to:

- 1) identify the existence of the US ambiguity in the Obama administration with regards to Japan's security, and how such ambiguity, if any, was constructed.
- 2) assess the impacts of such ambiguity on Japan's security policy, particularly the policy that shapes the development of Japanese Self-Defense Force (JSDF).

### 2.2 Research Questions:

#### a) Main Research Question:

- 1) How did the Obama administration's ambiguity impact on Japan's Security Policy?

#### b) Sub Research Questions:

- 1) What were the signals of the Obama administration's "China Engagement" diplomacy with regards to Japan's security?
- 2) What were the impacts of the Obama administration's "China Engagement" diplomacy on Japan's security policy?
- 3) What were the signals of the Obama administration's "China Containment" diplomacy with regards to Japan's security?

- 4) What were the impacts of the Obama administration's "China Containment" diplomacy on Japan's security policy?

### 2.3 Hypothesis:

The author would hypothesize that the Obama administration's ambiguity might have existed in the form of simultaneous "China Engagement" and "China Containment" diplomacy in the context of Japan's security. Such ambiguity would inevitably have impacted on Japan's revised security policy that would guide JSDF capacity to move in increasing manner both unilaterally and bilaterally with the US.

### 3. Literature Review:

The author has reviewed a great number of literature concerning this topic and categorized the ideas into 5 themes, namely the brief historical evolvement of JSDF, the role of recent different Japanese domestic administrations in the security policies, the US hegemony in Asia, the US ambiguity in general, and the US ambiguity in East Asia, in particular on Japan.

Firstly, it should be noted that Japan's security has been the main responsibility of JSDF, which is the unified military force of Japan established in 1954 in charge of defending the nation. In light of the 1960 Mutual Security Treaty that obliges the US to assist Japan in case of military attack, the role of JSDF has been largely defensive in nature (M. o. F. A. o. Japan, 1996).

Historically, the development and evolvement of JSDF had been closely intertwined with the US assistance as guided by the 1960 Mutual Security Treaty per se, its 1997 amendment, and the 2005 redefined version (M. o. F. A. o. Japan, 1996) (Rice, Rumsfeld, Machimura, & Ohno, 2005). By then, however, JSDF still adhered closely to the principle of non-existence of collective self-defense (Cossa & Glosserman, 2005, p. 14).

Secondly, it is worth examining the role that the recent different Japanese administrations played in the security policies of Japan. There has been a mainstream view that the Liberal Democratic Party (LDP), led by Shinzo Abe from 2012, was relatively more military transformative or revolutionary than the previous Democratic Party of Japan (DPJ) (2009-2012). However, (Liff, 2015) made a thought provoking observation that the Abe administration did not really transform but instead only continue the long term trend of Japan's defense policy measures by the previous administrations, either LDP or DPJ. That implies that the change in domestic administrations does not play a decisive role in the change in Japan's security policy at all. That would pave the way for the study of external factors that could play complimentary role with the domestic factor in shaping security policy of Japan, one of which is the impact of the US ambiguity.

Thirdly, with regards to the US hegemony in Asia, there are two distinct academic views as to whether the US hegemony is indispensable for the regional security. Mearsheimer (2014, p. 03), pointed towards the existence of the US regional hegemony and off-shore balancer in Asia. Then, a group of scholars including Ikenberry (2004, pp.

353-367), Goh (2005), (Wang, 2013, pp. 01-34), Mearsheimer (2014, p. 01), and Chiang (2015, pp. 01-13), among others, acknowledged the indispensability of the US hegemony or intervention in the region to insure peace and stability as well as to counter-balance China's rise.

Meanwhile, there are also few scholars who insisted on going against that view, by instead, arguing against the need of the US hegemony in the region. For example, Cartalucci (2016) accused the US as the opportunist, who had tried to benefit strategically from regional instability, while Beeson (2006, pp. 541-560) even moved further to assert that the region would even be more peaceful without the US intervention, as Asian nations would have found it more compelling to cooperate collectively.

Fourthly, the US ambiguity in general should not be deemed as a new phenomenon as it existed since the Cold War, which could partly be responsible for the rise of China. The ambiguity then lingered across the turn of the century (O'Donnell, 2013, p. iii). Particularly, Kausikan (2016, p. 09) claimed that the ambiguity continued till the Obama administration, which was quite fluctuating in its two terms—the second term was less focusing in Asia, by instead shifting to the Middle East.

Christensen (2006, pp. 81-126) explained the existence of the US ambiguity since its inception as the policy to benefit from regional intervention in Asia. On the one hand, the US tries to counter China to reassure its allies, while on the other hand, it also needs to appease China to avoid unnecessary turbulent confrontation, which could affect mutual interest cooperation. Therefore, maintaining hedging strategy—countering and cooperative in nature—with China would be the optimum option. However, according to Rachman (2014), such US ambiguity “had only been sufficient to antagonize China but not sufficient to reassure its allies.”

Lastly, the existence of the US ambiguity could also be perceived in East Asia, in particular, where some of the key US allies—South Korea and Japan—are situated. In Japan context, Klare (2014) asserted that the US had not been sufficiently absolute in its commitment to protect Japan's sovereignty over the Senkaku/Diaoyu dispute with China since it still opted for neutrality and refrained from taking side over the question of ultimate sovereignty. Moreover, in other issues between Japan and China such as the Yasukuni issue, the US did not support Japan's position to visit the shrine at all, as it could draw dissenting reactions from China (Nishiyama, 2013).

Singh (2014) viewed such moves as the US ambiguity in its foreign policy towards Japan, which is based on carefully calculated intention to maintain good relations with both Japan and China. Rachman (2014) also added that the Obama administration was not only ambiguous in its rhetoric against China with regards to Japan's security, but also in terms of action, as in the case of its unsubstantial action against China's ADIZ on the disputed Senkaku/Diaoyu islands between Japan and China.



#### 4. Methodology

This study is qualitative and retrospective in nature by accumulating primary data from the government documents and publications of the US and Japan as well as international news; and secondary data from academic journals and articles. The author would assess the impacts of the US ambiguity on Japan’s security policy by comparing the tones and wordings of the official defense policy documents or guidelines of Japan in different versions plus interpretation and discourse-analyses of the data.

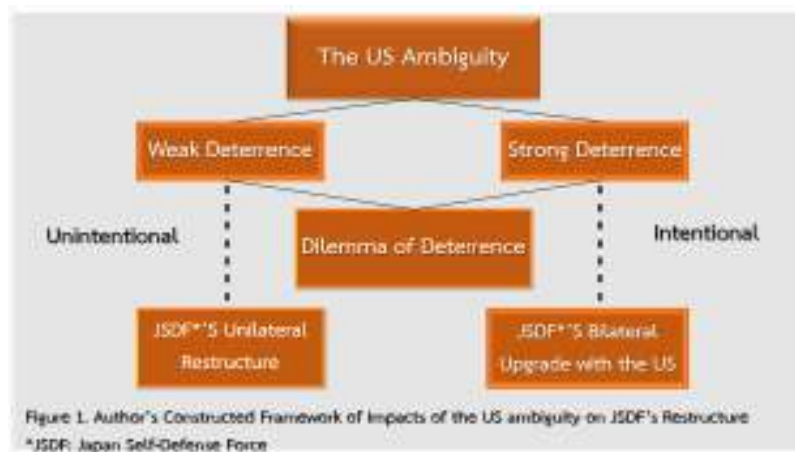
The study will be guided by certain concepts and their conceptual meanings as well as theoretical framework as following. With regards to the concepts, firstly, “ambiguity” is defined as the fluctuating foreign policies of the Obama administration towards Japan security through “China Engagement” diplomacy” and “China Containment” diplomacy, simultaneously.

“China Engagement” diplomacy” refers to any moves of the US towards China, including weak reactions towards China’s assertiveness and proactive friendly moves towards China, that could have deliberately compromised Japan’s security. “China Containment” diplomacy refers to the move of the US to upgrade US-Japan alliance that could enhance Japan’s security interest against China—in this case, the US Rebalance or Pivot to Asia.

Secondly, the impact on “security policy” is indicated by the change in Japan’s self-defense force posture as guided or initiated by official policies. In this regard, JSDF would be examined as the key sample variable.

Regarding the theoretical framework (see Figure 1, below), the author adopts the notion of “dilemma of deterrence” under the lens of “defensive realism” of “neo-realism” theory. In that sense, the author hypothesizes that the US ambiguity, under the form of simultaneous “China Engagement” diplomacy” and “China Containment” diplomacy could be equated with “weak deterrence” and “strong deterrence” against China. That, according to “dilemma of deterrence”, would end up in producing inevitable impacts on Japan’s security policy, both unintentionally unilaterally, and intentionally bilaterally, which would have inevitable implications on regional security.

Figure 1. Theoretical Framework



## 5. Obama Administration's Ambiguity on Japan's Security

The Obama administration's ambiguity, as mentioned, is constituted by both "China Engagement" diplomacy and "China Containment" diplomacy in the context of Japan's security. The author has identified and categorized the instances of "China Engagement" diplomacy into two themes.

The first theme, which is "the US weak reaction towards China's assertiveness" contains the US weakness in "gray zone disputes" (disputes below conventional military scale) between China and Japan in Senkaku/Diaoyu issue and the US unsubstantial reaction towards China's Air Defense Identification Zone (ADIZ) over Senkaku/Diaoyu islands. The second theme, which is "the US proactive friendly moves towards China", is composed of the US respect of China's "Core Interests" in 2009 and the US respect of China's "New Model of Great Power Relations" in 2013. Meanwhile, the author has regarded the US "Rebalance or Pivot to Asia" as the instance of "China Containment" diplomacy.

Regarding the Obama administration's "China Containment" diplomacy in the context of Japan's security, the author employed the "US Rebalance/Pivot" to Asia in 2011 as the indicator. Even though the US had been constraining Japan's military capacity since the end of World War II, part of the US pivot was to update its allies, including Japan, militarily. There are two main reasons that the US needed to upgrade Japan's military capacity in the pivot. The first reason was to elevate Japan's decreased geo-strategic importance for the US due to the emerging strategic importance of other US allies and the development of China's Anti Access/ Anti Denial (A2AD) strategy (Daniel Katz, 2010) (Dian, 2013, p. 06). The second reason was the fact that Japan could not solely upgrade its own military capacity without the US assistance due to the restricted defense expenditure and limited defense production.

The evidence of the occurrence of both "China Engagement" diplomacy and "China Containment" diplomacy of the Obama administration with regards to Japan's security could serve as, according to the author's framework, the proof of the existence of the Obama administration's "ambiguity" on Japan's security.

Accordingly, the next section will assess the impacts of the "China Engagement" and "China Containment" diplomacy of the US on Japan's Security Policy.

## 6. Impacts of Obama's "China Engagement" Diplomacy

### 6.1. The Cases of the US Weak Reactions towards China's Assertiveness

#### 6.1.1. The US Weakness in 'Gray-Zone' Disputes and Impact on Japan's 2010 National Defense Program Guidelines (NDPG)

This section explains how the US weak reactions towards China's assertiveness in the Senkaku/Diaoyu disputes between China and Japan could impact on Japan Self-Defense Force (JSDF)'s restructure. The first instance of the weak reaction towards China's assertiveness is the US weakness in the "gray zone" disputes between China and

Japan. “Gray-zone disputes” are disputes in the form of confrontations over territory, sovereignty and economic interests that were not potential to escalate to wars (Berkofsky, 2010, p. 36). The author argues that such weakness had a strong impact on the formulation of the 2010 NDPG of Japan. Below are the analysis that explains the link between that weakness and its impacts.

The main rationale behind the adoption of the 2010 NDPG was to enhance the defense capability of JSDF in responses to the growing threats towards Japan’s security, particularly the assertiveness of China in the maritime disputes with Japan. In particular, the guidelines did point out to the need to strengthen deterrence in the regional security environment around Japan by upgrading from “Basic Defense Force Posture” to “Dynamic Defense Force Posture” (t. S. C. a. t. Cabinet, 2010, pp. 06-07). Instead of altering basic values Japan adheres to, the NDPG’s main aim is to upgrade its ability to protect itself amidst China’s assertiveness in the islands in the “gray-zone” disputes (Berkofsky, 2010, p. 36). Meanwhile, the US was weak in areas of the disputes, because the disputes are not covered by the US-Japan security treaty, which covers only the military attack against Japan (Xu, 2014).

Regarding China’s assertiveness, the 2010 NDPG mentioned “China” repeatedly and highlighted China’s assertiveness, including its aggression in the Senkaku/Diaoyu disputes and military modernization (Berkofsky, 2010, p. 33) (t. S. C. a. t. Cabinet, 2010, pp. 03-04). Interestingly, compared to the preceding NDPGs in 1976, 1995, and 2004, which had been designed based on the Cold War, Post-Cold War, and fight of terrorism theme, respectively, the 2010 NDPG was formulated by considering the increasing intensity of security environment surrounding Japan, principally, the threats from China (Ministry of Defense, 2014, pp. 139-140). Moreover, comparatively, the 2010 NDPG was the first of its kind to upgrade JSDF from “basic defense” to “dynamic defense” force posture (Ministry of Defense, 2014, p. 141).

Actually, the 2010 NDPG also stressed the importance of the US-Japan alliance; however, given the US irrelevance in the “Gray Zone” disputes, which occurred frequently between China and Japan in the Senkaku/Diaoyu area, the 2010 NDPG’s focus was more on Japan’s aim of self-restructure of its own defense capacity. Indeed, Japan’s adoption of the 2010 NDPG presented a strong signal that the Obama administration’s deterrence against China in the Senkaku/Diaoyu issue was not sufficient, and that Japan needed to restructure its self-defense. The impact, as a consequence, is the Guidelines that historically shifted JSDF from the “basic defense force” to “dynamic defense force”.

#### **6.1.2. The US Unsubstantial Reaction towards China’s ADIZ and Impact on Japan’s 2013 National Security Strategy**

The US unsubstantial reaction towards China’s unilateral establishment of ADIZ was indicated by the inconsistent expressions between the US Defense Department, who expressed denial against the ADIZ and the US State Department, who advised all the US airlines and aircrafts to comply with the ADIZ (Drifte, 2014) (Aoki, 2013; Drifte, 2014) . Such incomplete or unassured reaction had a strong link with the formulation of Japan’s 2013 National Security Strategy. The policy document has cited one of the main threats explicitly from China by claiming that

China has been rapidly advancing its military capabilities by increasing its military budget and has taken coercive actions including in the East China Sea (t. S. C. a. t. Cabinet, 2013, pp. 12-13).

The Most important intrusion, according to the document, was the China’s unilateral establishment of ADIZ in 2013 over the disputed area that, according to Japan, appears to unduly infringe the freedom of overflight above the high seas (t. S. C. a. t. Cabinet, 2013, pp. 12-13). The document also emphasized the urge for Japan to elevate the US-Japan security arrangements, which is vital for the security of Japan (t. S. C. a. t. Cabinet, 2013, pp. 21-22). That could be implied as Japan’s move in response to the assertiveness of China over the dispute and the US unsubstantial reaction.

The impacts of the National Security Strategy on JSDF restructure are also prominent. First, it laid down the initiatives to increase the dynamism of the alliance including “Further Strengthening of Japan-U.S. Security and Defense Cooperation in a Wide Range of Areas” and “Ensuring a Stable Presence of the U.S. Forces in Japan” (t. S. C. a. t. Cabinet, 2013, pp. 21-22). Moreover, the document also highlights the objective to strengthen JSDF’s internal capabilities as well as including the “Renewal of Arms Export Ban”, which was important in developing the military industry and production (t. S. C. a. t. Cabinet, 2013, pp. 12-13) (Council, 2014).

## 6.2. The Cases of the US Proactive Friendly Moves towards China

### 6.2.1. Japan’s Reinterpretation of Its Constitution (2014)

The US proactive friendly moves towards China, particularly Obama’s respect of China’s “Core Interests” and China’s “New Model of Great Power Relations”, couple with the inactive moves towards China’s assertiveness, to some extent, could have impacted on Japan’s attempt to reinterpret its pacific constitution in 2014, which was enacted in 2015.

Firstly, the reinterpretation presented clearly the aim of increasing the dynamism and proactivity of JSDF (Smith, 2014). Secondly, among the six changes or threats pushing Japan to reinterpret the constitution, two changes are remarkably relevant to the US “China Engagement” diplomacy. First, the panel highlighted the China’s military modernization, and coercive territorial expansion in East China Sea, including Senkaku/Diaoyu islands (Security, 2014, p. 13). Second, the panel expressed the concern for the alliance with the US. The report of the panel acknowledged Japan’s need of the US for the sake of Japan’s security. However, the report also mentioned that Japan could no longer unilaterally depend solely on the US. Instead, the panel had the urge to allow Japan to undertake a more active role and capability of its SDF (Security, 2014, p. 14).

As a consequence, the reinterpretation would be potential in presenting the impacts on the reform of JSDF. The core of the reinterpretation of Japan’s postwar constitution is the aim to allow JSDF to be legally able to use force alongside other national militaries, a right that JSDF had always been refused for half a century. The reinterpretation called for comprehensive review of the limitations on the JSDF, argued to renounce the use of minimal

necessary amount of force in its effort to defend Japan, and stressed the need for JSDF to be able to use its weapons when operating with others (Security, 2014).

## **7. Impacts of Obama’s “China Containment” Diplomacy: The US Rebalance to Asia (2011)**

The author regards the US update of Japan’s military capacity per se, in the form of the US Rebalance or Pivot to Asia (2011), as the direct impacts on the restructure of Japan’s security policy, specifically on the implementation of the 2010 NDPG, the formulation of the 2013 NDPG, and the formulation of the 2015 Revised Defense Guidelines for Japan-US Cooperation.

### **7.1. Implementation of 2010 NDPG**

The US pivot had strong impacts on the implementation of the 2010 NDPG to achieve the “dynamic defense force” through Dynamic Defense Cooperation (DDC); Intelligence, Surveillance, and Reconnaissance Planning (ISR), joint military exercise, and increased access to the common use of each other’s facilities (Ishihara, 2012). Interestingly, the 2010 NDPG was the first of its kind to have been assisted by the US, as part of the Pivot to Asia.

Mainly, the 2010 NDPG set forth a ground breaking direction from its predecessors—1976, 1995, and 2004 versions—from ‘Basic Defense Force Concept’ to ‘Dynamic Defense Force’(t. S. C. a. t. Cabinet, 2010). As a result, the US pivot had been proved to be very critically significant to the implementation of the dynamic defense posture direction of the 2010 NDPG, which was very relevant to the US strategic interests, such as in terms of Air-Sea battle tactics against A2/AD strategy of China (Yamaguchi, 2013) (Dian, 2013, p. 04).

### **7.2. Formulation of 2013 NDPG**

The US pivot, to a great extent, also led to the revision of the 2010 NDPG, which is the formulation of the 2013 NDPG. The link between the pivot and the 2013 NDPG is that the only difference between the 2013 NDPG and its 1976, 1995, 2004, and 2010 predecessors is the explicit notion of the ‘US Rebalance to Asia’ as the main rationale of the 2013 NDPG (S. C. a. t. Cabinet, 2013a, p. 04).

The impacts the US pivot had on the 2013 NDPG that could shape JSDF restructure are the plan to enhance the US-Japan alliance to strengthen JSDF capability, including in the ‘gray zone’ dispute; to expand cooperation in a broad range of fields; and to improve measures of stationing of US forces in Japan (S. C. a. t. Cabinet, 2013b, pp. 08-10). Compared to the 2010 NDPG, the 2013 revised version was expanded in more depth and details, while the most significant difference in impacts between them is the addition of the Pivot contribution to the US-Japan alliance update or JSDF capabilities (S. C. a. t. Cabinet, 2010, pp. 07-08).

### 7.3. Formulation of 2015 Revised Defense Guidelines for Japan-US Cooperation:

Last but not least, the US pivot also impacted on the formulation of the 2015 Revised Defense Guidelines on Japan-US Cooperation. There are three evidences to suggest the link between the US pivot and the Guidelines. Firstly, the 2015 Guidelines is the first of its kind to include “seamless, robust, flexible, and effective” bilateral responses in the military cooperation between Japan and the US (Ministry of Defense, 2015, p. 01). Secondly, the 2015 Guidelines expanded the cooperation between the US and Japan to cover the domains of space and cyber, which were not covered in the 1978 and 1997 Defense Guidelines (Ministry of Defense, 2015, pp. 21-22). Thirdly, the 2015 Guidelines is the only one among its predecessors to include the cooperation in defense equipment and technology between the US and Japan (M. o. D. o. Japan, 2015, pp. 22-23). These three aspects are essentially parts of the US Pivot’s alliance update.

The impacts of the 2015 Guidelines on JSDF restructure are the fact that first, it allows the JSDF to operate through seamless, robust, flexible, and effective bilateral responses due to the bilateral security and defense cooperation between the US and JSDF. Alliance Coordination Mechanism, Enhanced Operational Coordination, and Bilateral Planning were all included (M. o. D. o. Japan, 2015, pp. 01-04). Second, the 2015 Guidelines also touches upon how the US and Japan should handle the gray zone incidents with China (M. o. D. o. Japan, 2015, p. 04). Third, the 2015 Guidelines lists down how the US and JSDF could improve their capability in Cooperative Measures from Peacetime (M. o. D. o. Japan, 2015, pp. 05-15).

## 8. Conclusion

To sum up, there are two main findings reached with the guidance of the research question. The first finding is that the Obama administration’s ambiguity in the context of Japan’s security did exist, and it had been constructed in the form of simultaneous “China Engagement” diplomacy” and “China Containment” diplomacy in the context of Japan’s security.

“China Engagement” diplomacy” is indicated by two main themes. The first theme, in the case study of Senkaku/Diaoyu islands, is the US’s weak reactions towards China’s assertiveness against Japan. The instances of such weak reactions are the US weakness in the “gray-zone” disputes between China and Japan in the Senkaku/Diaoyu islands (2008-2010), and the US unsubstantial reaction towards China’s ADIZ over the Senkaku/Diaoyu disputed zone in 2013. The former instance impacted on the formulation of Japan’s 2010 NDPG, while the latter impacted on the formulation of Japan’s 2013 National Security Strategy, both of which could boost the internal capacity building of the JSDF.

The second theme is the US’s proactive friendly moves towards China. The instances of such moves are the US respect of China’s “Core Interest” in 2009 and of China’s “New Model of Great Power Relations” in 2013. Both

instances, coupled with the first theme, could have impacted on the subsequent reinterpretation of Japan's constitution in 2014.

Meanwhile, "China Containment" diplomacy is evident by the US Rebalance to Asia, or shortly the US pivot. Regarding Japan's security policy, the US pivot is found to be impactful on the implementation of Japan's 2010 NDPG, the formulation of the 2013 NDPG, and the formulation of the 2015 Revised Defense Guidelines for Japan-US cooperation. All of them are found to be critically significant in upgrading JSDF's capacity.

Those guidelines, security policy, and reinterpretation of constitution issued by the cabinet and advisory panel, then, had been well incorporated in concrete policy and framework of action by the 2015 New Security Bills, specifically Legislation for Peace and Security, that cover a broad range of areas including Peace Keeping Operation, gray zone scenarios and collective self-defense. The New Security Bills explicitly express Japan's policy to be more active in collective self-defense globally and to carry more responsibility in the US-Japan alliance (Borah, 2015) (Ministry of Defense, 2016). That would serve as a response to mend the ambiguous alliance to strengthen the deterrence against external threat, including China.

Superficially, it seems that "China Engagement" diplomacy was transformed to "China Containment" diplomacy, with the introduction of the "US Rebalance to Asia". However, it is not valid to claim that because "China Engagement" diplomacy still lingered even after the implementation of the pivot. Instead, it would be more justifiable to assert that the overall nature of the two types of diplomacy had been "simultaneous" rather than "transformative". That is what makes the diplomacy "ambiguous".

Moreover, it should be noted that the ambiguity existed, or in other words, the US employed both types of deterrence with clear intention, guided by the notion of "off-shore balancing" (Mearsheimer, 2014, p. 04). "China Containment" diplomacy was launched to mitigate the possibility of China becoming the regional hegemon and to maintain the alliance with Japan, while "China Engagement" diplomacy was constructed to ensure close collaboration with China in global issues of mutual interests. Meanwhile, the impacts of each type of deterrence are intentional and unintentional, respectively, as simply explained in the second finding below.

The second finding postulates that both "China Engagement" diplomacy and "China Containment" diplomacy had impacts on the restructure of Japan security policy by making it move in upgrading manner, in the form of "dilemma of deterrence". In other words, on the one hand, Obama's "China Engagement" diplomacy had rendered Japan less confident, thus "unintentionally" pushing it to "unilaterally" attempt to upgrade its defense policies. On the other hand, Obama's "China Containment" diplomacy, launched in the form of the US Pivot to Asia, "intentionally" led to the direct upgrade of Japan's self-defense policy through bilateral military assistance in various forms. Either way would have inevitable implications on regional security.

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# Inequality and Economic Development in the New Era after the 1986 Economic Reform in Lao PDR

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## Abstract

Lao PDR has experienced a high rate of economic growth over decades after undergoing economic reform toward a market-oriented economy in 1986. Meanwhile, inequality has been varying in the similar trend as the growth resulting some development concerns to be addressed. This study is an attempt to review the pattern of and to identify the determinants of inequality in Lao PDR by estimating a longitudinal cross-sectional econometric model based on 17 x 3 samples in Lao provinces in three years. In the model, dependent variable, inequality, is represented by Gini coefficient, and independent variables are organized into two main sets. The first set includes the value of household expenditure, government expenditure, the rate of population growth and so forth. The value of the Foreign Direct Investment inflow is the only variable of the second set. Both sets represent internal development model and globalization model respectively. As a result, both of internal development model and globalization model were found to be statistically significantly related to the rising disparity, especially the household expenditure. The Kuznets's inverted U-curve relationship between inequality and economic could not be found due to the short panel dataset.

*Keywords: determinants of inequality, income distribution, GINI Index, economic reform, economic development, globalization, pooled OLS, panel data*

## 1. Introduction

Since the 1986 economic reform, inequality in Lao PDR has been increasing over time despite rapid rate of economic growth and notable poverty reduction. Inequality has become a new challenge for Laotian social and economic development, in particular, the areas of inclusive growth and shared prosperity. According to some points of view, inequality is considered as an obstructer to development mainly through hindering the efficiency of resource allocations (Deyshappriya, 2017). In case of Lao PDR, Warr et al. (2015) noted that rising inequality had played a role in delaying poverty reduction. In particular, If the inequality had not increased, the poverty incident would have been reduced faster than it was. Accordingly, it is important to deal with the issue of inequality.

Recently, there are just a few academic works conducted in the context of Lao PDR. Epprecht et al. (2008) examine the determinants of poverty and inequality in Lao PDR by utilizing a “small area estimation” to estimate various measures of poverty and inequality for the provinces, districts, and villages in Laos. As a result, it is found that better

economic opportunities were not associated with higher inequality. Moreover, NOLINTHA (2015) examined the relationship between inequality between FDI and consumption inequality by using Lao district data. He found that FDI inflows positively influenced inequality. Similarly, unequal distribution of FDI and government investment also affected provincial disparity.

Due to the lack of empirical literature on inequality in Lao PDR, this study aims to fill the gap of literature on the determinants of inequality by identifying the determinant of inequality, in particular, to answer the question of “what are core factors driving inequality in Lao PDR over decades.” This study employed pooled OLS regression technic with cross-provincial data over three periods (2002/03, 2007/08, and 2012/13) to identify the determinants. Essentially, the potential determinants, drawn from existing literature, consist of social and economic development indicators. Such as economic growth, FDI inflow, education enrolment, and so forth. Revealing these determinants *will implicate a useful direction* for policy makers particularly to deal with the inequality issue.

## 2. A Short Introduction to Trend of Inequality and Economic Development in Lao PDR

Inequality in Lao PDR has been Over two decades, a remarkable progress of Laotian social and economic development could be seen in the continuous increase of GDP per capita and decline of the poverty rate. As it is illustrated in table 1, GDP per capita increased from 250 in 1992 to 1588 \$US in 2013. Likewise, the absolute poverty rate decreased from 46 percent to 23.2 percent in the same period. In contrast, the growth seems to be unevenly distributed among nationals. As it is noticed, Gini coefficient increased from 0.31 in 1992 to 0.38 in 2012. Also, as it shows in table 2, inequality in Laos is quite low compared to the situation in the neighbors except for Cambodia, but the inequality in Laos has momentarily increased from 2002 to 2012 while the inequality in the neighbor has progressively declined except Vietnam. In overall, it is evident that inequality in Laos has risen over time.

**Table 1: Gini Coefficient and Poverty in Lao PDR**

|                               | 1992/93 | 1997/98 | 2002/03 | 2007/08 | 2012/13 |
|-------------------------------|---------|---------|---------|---------|---------|
| Gini Coefficient              | 0.31    | 0.38    | 0.35    | 0.36    | 0.38    |
| Poverty Headcount Ratio       | 46      | 39.1    | 33.5    | 27.6    | 23.2    |
| GDP per capita (Current \$US) | 250     | 345     | 362     | 709     | 1588    |

Source: World Development Indicators, <https://data.worldbank.org/data-catalog/world-development-indicators>, (accessed 10 December 2017)

Note: Poverty Headcount ratio was based on national poverty lines

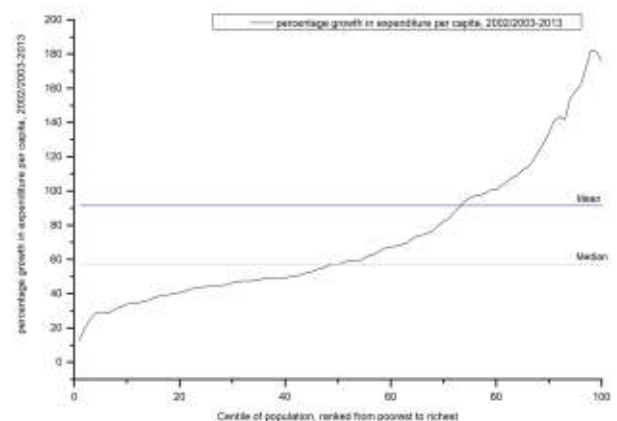
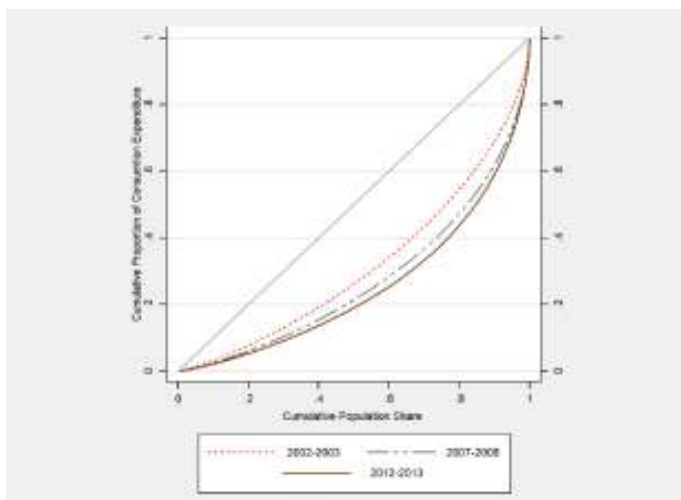
Table 2: Gini coefficient Laos and countries in the region

| Country     | Gini Index   | Year        | Gini Index   | Year        | Change      | Percentage Change |
|-------------|--------------|-------------|--------------|-------------|-------------|-------------------|
| Cambodia    | 35.46        | 2004        | 30.76        | 2012        | -4.7        | -13.25            |
| China       | 45.06        | 2002        | 42.16        | 2012        | -2.9        | -6.43             |
| <b>Laos</b> | <b>32.66</b> | <b>2002</b> | <b>37.89</b> | <b>2012</b> | <b>5.23</b> | <b>16.01</b>      |
| Thailand    | 41.94        | 2002        | 39.26        | 2012        | -2.68       | -6.39             |
| Vietnam     | 37.32        | 2002        | 38.7         | 2012        | 1.38        | 3.69              |

Source: World Development Indicators, <https://data.worldbank.org/data-catalog/world-development-indicators>, (accessed 10 December 2017)

Furthermore, to have a more precise look on changing of inequality in Laos, The Lorenz curves over 2002/03, 2007/08, and 2012/13 (Figure 1) on consumption expenditure indicates that inequality has slightly increased and the higher cumulative population has taken more the cumulative share in total consumption expenditure over time. Besides, the expenditure growth rates of each percentile from 2002/03 to 2012/13 is also unequal. As it is illustrated in Figure (2), the growth of the lowest percentile was just 20 percent while of the richest was almost 190 percent. In sum, the higher class enjoyed a higher rate of consumption expenditure growth.

Figure 1 & 2: Lorenz Curve and Growth Incident Curve of Lao Households's Expenditure on Consumption in 2002/03, 2007/08, and 2012/13.



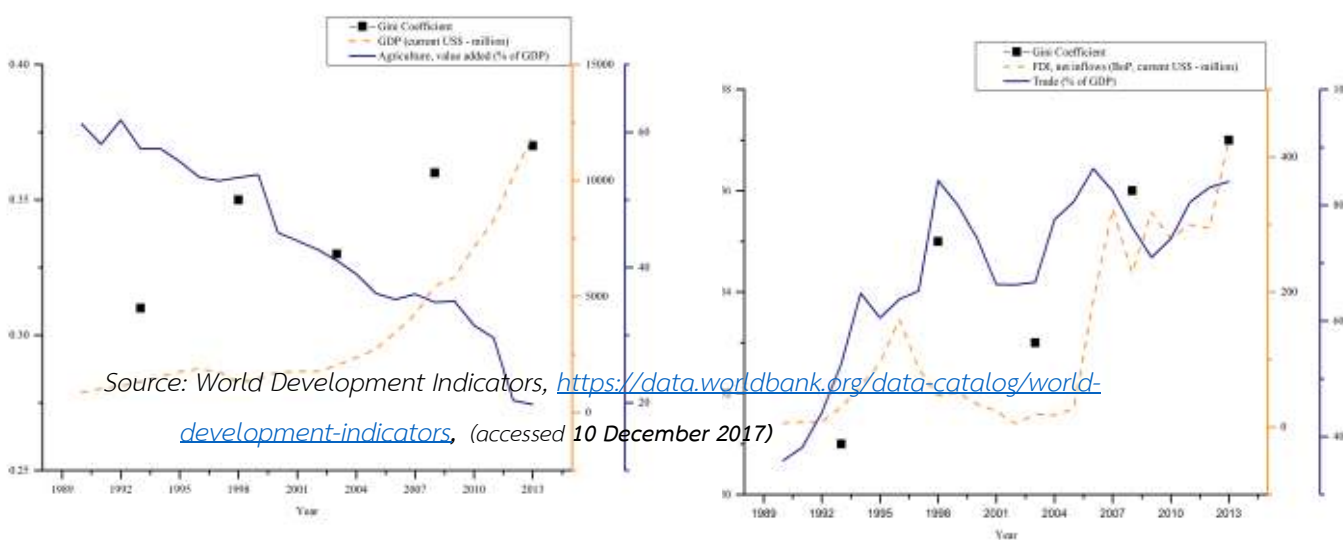
Source :Computed by the Author Using data 60 %of an original number of observations (from the Lao Consumption and Expenditure Surveys for the years 2002/03 )LECS 3(, 2007/08 )LECS 4(, and 2012/13 )LECS 5.(

Regarding economic development, Lao PDR has been through two significant economic reforms in the past 40 years. Socialist economic system was initially introduced after the victory of Lao communist party in 1975, which the state controlled almost every production system (what to produce, how to produce and for whom to produce). Consequently, the development in this period resulted in many ineffective outcomes, such as agricultural

dependency with inadequate food security, undeveloped and industrial trap, slow economic growth and other economic indicators (J. G. Anderson, 1996). Moreover, because of these disappointing results, the state has started to transform its economic system toward a market-oriented economy. This reform underwent with various system adjustments such as liberalizing market and price control, privatizing state-owned enterprise, encouraging private ownership, removing exchange rate control, embracing international trade and investment, and so forth (Phimphanthavong, 2012).

Since the 1986 reform, Laos has achieved an impressive rate of economic growth and been fueled by foreign direct investment and international trade. In the pre-era, manufacturing used to play a vital role on FDI, later the natural resource-based sector and hydropower sector has taken the position. In terms of export, primary commodity remains the main export of Lao PDR. Additionally, economic structure has shifted toward non-agriculture sectors while about 80 percent of nationals keep relying on agriculture as the primary income source, and most of the agriculture activities are subsistence-based (Menon et al., 2013). As it is shown in *Figure 3 & 4*, the overall trend of GDP, FDI inflow, and trade openness has rapidly increased over two decades except for agriculture sector. However, FDI and trade openness stagnated in the period after the Asian Financial Crisis 1997. Also, it is interesting that inequality is positively associated with FDI inflow and trade openness because inequality also decreased during the stagnation period. In overall, inequality and economic development are on the same trend.

*Figure 3 & 4: Trade openness, FDI, GDP, Agriculture sector, and Gini coefficient in Lao PDR*



### 3. Determinants of Inequality

To date, there is immense literature on determinants of income inequality. Most of the studies applied regression technic on cross-countries and within country panel data by regressing inequality indices against various social and economic variables. The starting point of the study regarding the relationship between inequality and economic development could be traced back to the contribution of Simon Kuznets in 1955, who purposed a hypothesis that

has later been well-known as a “Kuznets Hypothesis” or “Kuznets Curve” (ElGindi, 2014). The hypothesis shows the inverted-U relationship between inequality and economic growth in these developed countries: the United States, England, and Germany. In typical words, inequality would increase in the early stage of economic growth, then falls in the subsequent time (Kuznets, 1955). The primary explanations for this hypothesis are reliant on labor migration (the shifting of employment structure), urbanization, and demographic transition.

Due to the development of quality of data and technology, a cross-country analysis on the relationship between development and inequality has been increased since the 1980s (ElGindi, 2014). While, more factors have also been attached to this area of study. Notably, influenced by Kuznets’s explanation, Nielsen (1994) constructed an internal development model to investigate the relationship between growth and inequality by including three core variables, namely, sector dualism, demographic transition, and spread of education.

Besides this internal development model, globalization, infrastructure development, macroeconomic factors and others have been widely explored as significant determinants of inequality. For instance, Zhou et al. (2011) Jaumotte et al. (2013), ElGindi (2014) claimed globalization as drivers of inequality in particular through international trade, financial and investment liberalization, and technology development. Also, Sarel (1997), Deyshappriya (2017) examined the relationship between inequality and macroeconomic factors, including inflation rate, exchange rate, government expenditure, and others. Lastly, Calderón et al. (2004) and Seneviratne et al. (2013) investigated the relationship between inequality and infrastructure development through various indicators, namely, energy, road, railway, telecommunication.

The following section would review some of the empirical studies and theoretical perspectives on the relationship between inequality and each of these selected factors: economic growth, demographic transition, sector dualism, education, foreign direct investment, government expenditure, and infrastructure development. The selection purpose is to make the review more precise and direct to the study. In dealing with the issue of inequality, problem-focus would be more feasible and realistic approach than discipline-focus, which all potential determinants are essential (ElGindi, 2014).

**Economic Growth and Sector Dualism:** Kuznets frameworks on the inverted U-curve relationship of inequality and development are driven through labor migrations due to the urbanization and industrialization, which the relative wage between rural-urban, and sectors are different (Bourguignon et al., 1998). Nielsen (1994) generalized the hypothesis by assuming that the different rate of wage between agriculture sector (low wage) and industrial sector (high wage) caused sector dualism. In the early stage of industrialization, shifting of labor from agricultural to industrial sectors widens the income gap. Subsequently, the gap gets narrower in the next stage of industrialization. Moreover, he adopted the measurement of sector dualism through the share of the agricultural labor force in all employment, and the share of agriculture sector in GDP and the study confirmed the Kuznets hypothesis.

**The demographic transition:** Kruzenets (1965) has forecasted the relationship between growth and population growth as a curvilinear. The falling of death rate and high birth rate during the early stage of development lead to high rate of natural growth rate. Afterward, the birth rate would start to decline while economic growth still occurs (ElGindi, 2014). Regarding the relationship between inequality and population growth, Willismdon (1991) provided two explanations to support that the population growth has a positive impact on inequality through increasing labor supply. Firstly, if there are more young workforces, which usually are at the bottom of income distribution; Relatively, there would be more low-income people. Secondly, the supply of such labor could also push the relative wage of unskilled workers down (Nielsen, 1994). The relationship between these two variables is entirely conclusive among scholars, Nielsen (1994) Raychaudhuri et al. (2010), and ElGindi (2014) found that higher rate of population growth leads to more inequality.

**Education:** John Stuart Mill (1848) has suggested the concept of education spread which predicted that more people access to school would result in lowering income inequality (cited in Elgidi, 2014). The explanation was based on the linkage among inequality, human capital accumulation, and earning. In basic economic explanation, based on supply-demand mechanism, the increase in the supply of skilled labor force, due to the spread of education, would lead to competition in the high-income market. As a result, the skill premium would be diminished, and the income gap between skill and the unskilled market would be minimized (Nielsen, 1994). However, there is also a composition effect, which the education spread could also potentially lead to new wage polarization between skill and unskilled labors in the early stage of the development. This concept claims that the relationship is similar to Kuznets's inverted-U curve (Gregorio et al., 2002). Plenty of literature supports the inverted-U relationship. Gregorio et al. (2002), Park (2017) similarly examined the relationship between inequality and inequality that more education attainment and equality in access to education lead to an equal distribution of income. However, it is accepted that investment in human capital and offering equal access to education are core factors in reducing inequality in East Asia countries (ElGindi, 2014). Then, whether an invested-U curve or linear relationship, education may always be an answer for inclusive growth target.

**Foreign Direct Investment:** the relationship between FDI and Inequality are inconclusive. Both of negative and positive effect of FDI on inequality have been purposed. Regarding theoretical perspectives, Kentor (2001) provides three channels whereby FDI would cause inequality. First of all, FDI creates or restores sector employing specific group with a specific skill. This employee group relatively earns more salary than another group in the economy, particularly in public sector and other former sectors. Secondly, the profit from this kind of investment is sent back to the host economy rather than reinvested in the recipient countries. Third, in the era of racing to the bottom, to attract FDI, the government established a market environment to enhance the business climate for the investment by reducing wage, ignoring safeguard measure, providing tax exemption, and other privileges. These policies affect the income of labor and hamper inequality. Likewise, Jensen et al. (2007) suggested two mechanisms to explain the influence of FDI on inequality. On the one hand, FDI improves income distribution in recipient countries through reducing the gap between capital rent and wage rent because the inflow of FDI with capital possibly diminishing of



capital return in the domestic market, and higher demand for labor would push labor wage up. On the other hand, FDI leads to more inequality because it tends to pay a premium wage for a skilled worker, which endangers the gap between unskilled and skilled workers. Moreover, Cornia (2013) explained that FDI in labor-intensive and capital-intensive sectors have a different effect on inequality. Firstly, Labor intensive FDI increases the demand for an unskilled worker in the recipient market, and it also pushes the overall wage of this class. Consequently, FDI in this manufacturing sector improves income distribution. In essence, it is assumed that FDI in the manufacturing sector is ordinarily labor-intensive, seeking for cheaper labor to condense production cost. Then, its effect on distribution would be negative. Secondly, in contrast to labor intensive, capital intensive sectors seem to increase inequality due to the return to capital and skilled workers (Suanes, 2016).

**Government Expenditure:** although an inverted-U curve relationship between inequality and economic growth has been broadly tested, there are also existing doubts over the efficiency of growth in reducing inequality. It is settled among scholars that Without government's redistributive measures, such as tax, social spending, social safeguard, and other measures, economic development could fail to achieve any poverty reduction and equal distribution of income. In contrast to classical economics' argument over intervention and efficiency, the redistributive policy could foster growth (Martinez-Vazquez et al., 2012). However, the relationship between public spending and inequality remain vague. E. Anderson et al. (2016) conducted a meta-analysis of 84 separate studies containing over 900 estimates in the theme of government spending – inequality relationship. Most studies suggested that government spending (all sectors) is moderately positively associated with inequality. In contrast, spending in social sectors results in negative impact to inequality. Interestingly, the studies used Decile ratio found a more negative relationship than Gini coefficient. Ferreira (2016) reviews some mechanisms proposed by a various meta-analysis on the topic that public spending positively affects inequality. Firstly, in developing countries, middle-income class enjoys most of the government transfer spending. Secondly, subsidies also took a large share of government spending. Thirdly, public expenditure on education and health benefited middle class in an urban area than other groups. Lastly, financial source of spending is from taxes and monetary expansion, causing inflations which the low-income group gets directly affected.

**Infrastructure Development:** most of the literature on this topic has been supporting the argument of infrastructure development leading to a reduction in inequality. In conventional explanation, the infrastructure development enables people in the impoverished region to have an equal opportunity to engage in various productive activities by linking them to the broader economic network (Bajar et al., 2016). For instance, Fan et al. (2002) examined the relationship between various types of government expenditure, poverty, and inequality by evaluating provincial data from 1970 to 1997. It is found that the infrastructure development leads to rising of growth rates and reducing of poverty and regional inequality in China because the expansion of infrastructure created new opportunities for non-agricultural employment in rural regions. In Opposing to the trend, there is also a positive relationship found by scholars. An increase in access to necessary infrastructures, such as road, electricity, and may lead to an unequal distribution. Bajar et al. (2016) examined infrastructure and income distribution relationship by using a panel dataset

of major Indian states. The study found that more access to road and electricity are positively associated with consumption based inequality. According to his explanation, the people in society enjoy the infrastructure services at the different degree of benefit. For instance, the poor trend to less use such access to promote their productive activities than the rich.

#### 4. Data, Variables, and Model Speculation

The study was based on the cross-sectional time-series dataset, consisting of 17 provinces in Lao PDR over three periods (2002/03, 2007/08, 2012/03). This scope was selected according to the availability of overall data. Moreover, the core variables of this study are chosen based on the availability and consistency of the existing literature on inequality determinants. As it is illustrated in table 2, the inequality was represented by two inequality indices (GINI index and Decile Ratio). Besides, except for household expenditure, most of the variables are commonly used in previous work. Commonly, development was regularly represented by GDP per capita. However, because provincial (disaggregate) data on GDP is not available, the study utilizes household consumption expenditure as a proxy for development.

Moreover, in terms of data sources, the study collected data from various sources. Mainly, the data were from Lao government's published and unpublished official statistical reports. Data on foreign direct investment and government expenditure were from Ministry of Planning and Investment and Ministry of Finance of Lao PDR, respectively. Besides, other data were from publications of Lao Statistic Bureau (LSB), including Lao Statistical Yearbook and Household Consumption and Expenditure Survey Report. Furthermore, in case of Decile ratio, the study calculated from the household expenditure survey dataset (raw data) because the data is not available in any publication. The dataset is also provided by LSB.

$$Gini\ Index_{it} = \beta_0 + \beta_1 HHCON_{it} + \beta_2 SDual_{it} + \beta_3 POPG_{it} + \beta_4 EDU_{it} + \beta_5 FDI_{it} + \beta_6 GOVEX_{it} + \beta_7 Electr_{it} + \beta_8 Road_{it} + \varepsilon_{it} \quad (1)$$

$$Tlratio_{it} = \beta_0 + \beta_1 HHCON_{it} + \beta_2 SDual_{it} + \beta_3 POPG_{it} + \beta_4 EDU_{it} + \beta_5 FDI_{it} + \beta_6 GOVEXP_{it} + \beta_7 Electr_{it} + \beta_8 Road_{it} + \varepsilon_{it} \quad (2)$$

As the objective of this study is to find determinants of inequality in Lao PDR, the author has constructed two empirical models. In the first model, the dependent variable is Gini Index, and the independent variables include a set of social and economic factors. In the second model, all independent variables are the same as the first model. However, Decile ratio is set as dependent variable instead of Gini Index. The purpose of the second model is to specifically look at the inequality between top expenditure group and lowest income group, where the middle class is ignored. Moreover, the definition of variables in both models (Eq1 & 2) is presented in table 1. Besides, B0 denotes intercept and E denotes error term. In addition, the subscript i and t denotes the province and the time point of observation, respectively.

In essence, the empirical model expressed in equation (1) and (2) are in the form of Pooled OLS regression technique of Panel data. Panel data could be estimated through various empirical techniques. However, there are two reasons why the author opted to use Pooled OLS technique. The first reason is that the data set of this study is quite restricted in terms of a number of observation. Secondly, since the primary objective of the study is to find the cause of inequality, the analysis could ignore time specific and individual specific effect. Additionally, the expected sign of the results is presented in Table 3. These signs are drawn from existing literature in area of inequality determinants

**Table 3: Description of Variables and Data Sources**

| Variable Name                      | Variable Used   | Unit & Var in Model                                | Data Sources   |
|------------------------------------|---|--|--|
| <b>Inequality</b>                  | GINI Index and Decile Ratio (Top10/low10)                               | Percent for GINI Index, Ratio, (Tlratio)           | GINI index: LCES 3/4/5 Summary, LSB. Decile Ratio is computed by the author using LECS Raw Dataset |
| <b>Economic Growth</b>             | Mean Household Consumption Expenditure                                  | Kip (deflated to 2002 prices), (HHCON)             | LCES3/4/5 Summary, LSB   |
| <b>Sector Dualism</b>              | Percent of Labor Force in Agriculture Sector to Non-Agriculture Sectors | Percent, (SDual)                                   | LCES3/4/5 Summary, LSB   |
| <b>Population Growth</b>           | Natural Growth Rate of Population                                       | Percent, (POPG)                                    | Statistic Yearbook, LSB  |
| <b>Secondary School Attainment</b> | Net Enrolment Rate of Secondary School of Population Aged 9-15          | Percent, (EDU)                                     | LCES3/4/5 Summary  |
| <b>Foreign Direct Investment</b>   | Committed Value FDI   | Million US dollar (deflated to 2002 prices), (FDI) | Unofficial Report of Ministry of Planning and Investment of Lao PDR                                |
| <b>Government Expenditure</b>      | Government expenditure per capita                                       | US Dollar (deflated to 2002 prices), (GOVEXP)      | Official Gazette, Implementation of 2002-03, 2007/08, 2012/13 Fiscal Years                         |
| <b>Infrastructure Development</b>  | Percent of Household Has Access to Road in dry season and Electricity   | Percent, (ROAD and Electricity)                    | LCES3/4/5 Summary, LSB   |

Note: LECS or Lao Expenditure and Consumption Survey is a national level survey, usually conducted in 5-years interval by Lao Statistic Bureau (LSB). The first survey was done in 1992/1993. To date, the latest was the fifth survey (2012-2013).

Table 4: Description of Expected Sign of the Two Equations

| Variable Name  | Expected Sign | Recent Works  |
|--|---------------|---|
| Economic Growth  | +             | (ELGindi, 2014; Kuznets, 1955; Nielsen, 1994)       |
| Sector Dualism   | -             | (ELGindi, 2014; Kuznets, 1955; Nielsen, 1994)       |
| Population Growth                                      | +             | (ELGindi, 2014; Kuznets, 1955; Nielsen, 1994)       |
| Secondary School Attainment                            | -             | (ELGindi, 2014; Kuznets, 1955; Nielsen, 1994)       |
| Foreign Direct Investment                              | +             | (Cornia et al., 2004; Kentor, 2001; NOLINTHA, 2015) |
| Government Expenditure                                 | -             | (E. Anderson et al., 2016; ELGindi, 2014)           |
| Infrastructure Development (Both Road and Electricity) | -             | (Fan et al., 2002)                                  |

## 5. Result and Discussion

Table 5 elaborates the estimation result of the two equations in this study. The first and the second models are presented in the first and second column, respectively. In general, F-statistics of both models provides satisfactory results indicating that both models are statistically significant at the 99 percent of the confidence interval. In the first model, it is seen that 50.92 percent of the variation of Gini Index can be explained by the change of all determinants. Also, it is 49.18 percent for Decile ratio in the second model. Also, there are three variables in the first model (MEABHHE, GOVEXP, and ROAD) and two variables (FDI and GOVEXP) in the second model are found to be statistically significant. Moreover, following sections would discuss about the result of each variable in detail.

**Household Consumption Expenditure:** According to table 5, mean household consumption expenditure is positively associated with Gini Index at 5% of probability of an error. One thousand kip Increase in mean household consumption expenditure, ceteris paribus, would lead to an increase in Gini coefficient by 0.00521. This result is in the same line with many works listed in table 4, suggesting that inequality would increase in the early period of development, then, it would decrease later on. However, Kuznets curve could not be detected because the data used in this study is a short panel. Moreover, household expenditure also positively affects Decile ratio, but it is not statistically significant. In sum, this result suggested the positive relationship between economic development and inequality in Laos PDR.

**Sector Dualism:** percent of the workforce in agriculture sector is not found to be statistically significant with both Gini index and Decile ratio. However, it still shows a negative association with Gini Index and Decile ratio, which is also consistent with the previous literature that shifting of labor from agriculture to non-agriculture sector would increase inequality. In the case of Lao PDR, initially, agriculture sector used to play a critical role in Laotian economy, but, recently, service and industrial sectors become primary segments of the economy. Moreover, employment structure also shifted, but significant proportion of the population remains in the agriculture sector, and, mostly, the agriculture activities are subsistence-based. Thus, moving of labor from agriculture sector to non-agriculture during

this period would perhaps lead to an increase in inequality because the shift increases the number of high-income people while there are still some low-paid workers in the agriculture sector.

**Demographic Transition:** base on table 5, the natural rate of population growth does not exhibit any significant results, nevertheless it still shows a positive association with both Gini Index and Decile ratio in the first and the second models, respectively. These results also coincide with recent literature purposed in table 4. As discussed in the literature review about the theoretical explanation, supply of labor force caused by an increase in the natural rate of population growth would increase inequality. However, in case of Laos, as Hayes (2015) described that high fertility rate is concentrated among the poor while fertility rate of the rich is relatively much lower. Thus, it can be presumed that population growth rate is also concentrated among the poor, indicating that number of low-income population increases while the income base remains the same. Then, in general, the rising inequality could perhaps be caused by the increase in population in Lao provinces.

Table 5: Regression Result of the Two Models

|                    | GINI Index (Model 1) | TLratio (Model 2) |
|--------------------|----------------------|-------------------|
| 1.MEANHHE          | 0.00521*             | 0.000809          |
| t-value            | (2.59)               | (0.97)            |
| 2.Agriforce        | -0.00387             | -0.00417          |
|                    | (-0.08)              | (-0.21)           |
| 3.PopGrowth        | 1.331                | 0.229             |
|                    | (1.29)               | (0.53)            |
| 4.EDU              | -0.0317              | -0.0170           |
|                    | (-1.02)              | (-1.31)           |
| 5.FDI              | 0.00277              | 0.00631*          |
|                    | (0.38)               | (2.07)            |
| 6.GOVEXP           | 5.278*               | 2.641**           |
|                    | (2.69)               | (3.23)            |
| 7.Electricity      | 0.0115               | 0.00778           |
|                    | (0.49)               | (0.80)            |
| 8.Road             | 0.0681*              | 0.00954           |
|                    | (2.41)               | (0.81)            |
| _cons              | 15.84*               | 2.043             |
|                    | (2.33)               | (0.72)            |
| N                  | 51                   | 51                |
| Adjust R-sq (R-SQ) | 0.5092 (58.78)       | 0.4918 (57.31)    |
| F-value            | 7.49***              | 7.05***           |

Note: t statistics in parentheses \* p<0.05, \*\* p<0.01, \*\*\* p<0.001

**Education Spread:** As it was hypothesized in the methodology, the relationship between net secondary school enrollment rate and inequality are found to be statistically insignificant in both models. However, the signs of the coefficients in two models are negative. It means that an increase in net secondary school enrollment rate would lead to declining in both Gini Index and Decile ratio. Even though statistically insignificant, it is essential to explain the negative relationship between the two. As it is reviewed in the literature, the more people access to high education, the more they could engage in high-income work. Then, inequality would reduce. However, this study uses the net enrollment of the secondary school, which has already referred to the equality in access to school. Thus, previous net secondary school enrollment negatively affected inequality.

**Government Expenditure:** according to table 5, government expenditure is highly significant in explaining Gini Index and Decile ratio. It is surprising that government expenditure positively affects inequality in both models, which means that increase in government expenditure per capita leads to increase in inequality. This result seems not in line with many works that government expenditure would have a redistributive effect which would negatively affect inequality. However, the data of government expenditure used in this study was a total expenditure, including both recurrent expenditure and capital expenditure. Thus, the non-redistributive purpose of the spending could positively affect inequality. Moreover, as it is illustrated in table 6, capital expenditure and spending on wage and salary of civil servant captured a significant proportion of all expenditure. Regarding the impact of the salary of civil servant expenditure on income distribution, the middle class is likely to directly benefit most (salary) while the poor may only benefit indirectly from the public services. Thus distribution becomes unequal especially between the middle class and the lower. Moreover, it is also found that the gap between the top 10 rich and the low 10 poor is positively affected by the government expenditure. Based on the composition of expenditure, capital expenditure might play a role on this effect because government investment on infrastructure, such as road, building, water supply, electricity, and so forth, improves the business environment for business sectors. In short, recently, government expenditure had a positive effect on inequality in Lao PDR.

**Table 6: Composition of Lao Government Expenditure in Three Fiscal Years**

|                             | 2002/03    |         | 2007/08    |         | 2012/13     |         |
|-----------------------------|------------|---------|------------|---------|-------------|---------|
|                             | Allocation | Percent | allocation | Percent | Allocations | Percent |
| Total Expenditure           | 1835791    | 100.00% | 2870429.85 | 100.00% | 7497574     | 100.00% |
| Total Recurrent Expenditure | 639701     | 34.85%  | 1882929.39 | 65.60%  | 6232160     | 83.12%  |
| Wage, salaries and benefits | 377285.08  | 20.55%  | 1032747.85 | 35.98%  | 4845527     | 64.63%  |
| Operation and Maintenance   | 82703.26   | 4.51%   | 221164.01  | 7.70%   | 485927.7    | 6.48%   |
| Subsidies and transfers     | 152026.81  | 8.28%   | 85284      | 2.97%   | 191308.5    | 2.55%   |
| others                      | 27685.85   | 1.51%   | 543733.53  | 18.94%  | 709397.5    | 9.46%   |
| Total Capital Expenditure   | 1196090    | 65.15%  | 987500.46  | 34.40%  | 1265414     | 16.88%  |

Source: Official Gazette, Ministry of Finance of Lao PDR

**Foreign Direct Investment:** as it is shown in table 5, FDI inflow exhibits a significant and positive relationship with Decile ratio and a statistically insignificant and positive relationship with Gini Index. In general, the trend of the relationship between inequality and FDI in two models is consistent with previous works, that FDI positively affects inequality. As it is purposed by Kentor (2001), the foreign firm pays wage premium to a particular group, leading to difference in earning. Moreover, in case of Lao provinces, it is quite supportive that capital-intensive sectors in natural resourced sector and hydropower sector seized a significant portion of FDI inflow to Laos in a previous time, while labor-intensive industries were not pronounced. Then, employment as a channel of distribution would only be concentrated among highly skilled workers, and the rest could not have a direct effect from FDI.

**Infrastructure Development:** percent of access to the road in the dry season of Lao Household in provinces exhibits a significant and positive relationship with Gini Index, while access to electricity does not show a significant relationship with Gini Index. In addition, access to road and electricity are not significantly associated with Decile ratio in the second model. Unexpectedly, the variables of infrastructure development in two models are positively associated with inequality, meaning that infrastructure development increases inequality. The results are not in line with the concept positing that more access to road or electricity would enhance the ability of the people in the disadvantaged region to engage in the income cycle, then, inequality becomes narrower. Furthermore, in terms of the effect of infrastructure on the poor in Lao PDR, Byoungki (2007) addressed that improvement of access to road and electricity negatively affected poverty headcount rate. This is because of that the increase in access to these infrastructure established market access, increase non-agriculture employment, labor mobility and farm and non-farm productivity for low-income group particularly for those who were in rural, then their livelihood improved. However, according to the result of this study in table 5, the impact of infrastructure development on inequality is opposite to its effects on poverty. In short, there were still other groups of people that seized more benefits than the bottom group of distribution.

## 6. Conclusion and Policy Implication

The paper attempts to examine the determinants of consumption expenditure inequality in Lao PDR, by looking for the relationship between the potential social and economic variables and inequality indices. This study employed simple Pooled OLS regression to find the determinants of inequality. Fundamentally, this study found that three main variables namely, household consumption expenditure, government expenditure, and road access, are positively associated with Gini Index.

Firstly, the result supported the positive relationship between economic development (household expenditure) and inequality as it has been suggested in the mainstream literature. However, Kuznets inverted-U curve could not be found due to the short panel data. Secondly, it was found that government expenditure increased inequality. This case, however, seems not to be in line with the existing literature. Thirdly, road access also increased inequality, while many scholars broadly find that more road access would decrease poverty rate. On the other hand, the result also showed that such determinants also affected the income gap between the top 10 percentiles and the

lowest 10 percentiles in a similar trend, but it was just found that two variables, such as government expenditure and foreign direct investment are statistically significant. Government expenditure positively affected Decile ratio as it affected Gini Index. Meanwhile, FDI inflow was significantly found to widen the gap of the consumption between the rich and the poor.

Besides, other determinants, without statistical significance, also laid out interesting upshots. At first, the trend of access to education and inequality was found to be negatively related, which is consistent with mainstream literature claiming that access to education could lead to an equal distribution. Also, impact of demographic transition and sector dualism on inequality also followed the trend. Finally, it was found that infrastructure development (road and electricity) positively affected inequality. This trend seems to diverge from the previous studies. Moreover, the effect of these determinants on both Gini Index and Decile ratio were similar.

Based on the result of this study, there are some desirable ways to mitigate the inequality issue in Lao PDR. Firstly, to proscribe abandoning government expenditure, though found to be positively correlated with inequality, may not be a good choice. Instead, reconsidering about the redistributive function of the expenditure may be the recommended one, since it would encourage pro-poor growth.

Secondly, in term of shifting labor from agricultural sector to the non-agricultural sector, it is impossible and unbeneficial to keep people in the agricultural sectors. Nevertheless, reducing the time of shifting is possible by promoting agricultural productivity and establishing appropriate environment for the new sector, which would potentially absorb the labors from the agriculture sector and improves livelihood of those who remains in agriculture sector.

Thirdly, according to the result, education seems to be the most effective way to reduce inequality. Thus, to invest in education and promote equality in access to education would be a sensible way to reduce inequality. Fourthly, in case of FDI, resource sector and hydropower may have some limitations on distribution of the income because capital intensive nature mainly employs skilled labor. Then, to encourage the sectors that most of the people can take part without high skill such as labor-intensive is also preferable. Finally, infrastructure development and promotion of the commercial usage to all people are equivalently essential because access alone cannot always guaranty equal benefit for all.

Moreover, the result of this study is likely to raise a question rather than to provide a solution to the inequality issue. The dynamic of relationships between inequality determinants and inequality found in this study have not been yet explained. Further studies are, therefore, necessary to examine individual factor and its mechanism. Especially, in the case of infrastructure development and inequality, the justification as to the relationship of the two would potentially be investigated through the microdata, such as household level data. Moreover, to conduct an in-depth analysis of the channel influencing the relationship between inequality and FDI is also essential.



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# Effects of Agricultural Policies on Rice Industry in Myanmar

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## Abstract

Myanmar is an agriculture-based country; thus rice industry is the one of most important sectors for her economic development. During the early 20<sup>th</sup> century Myanmar was worldly recognized as the “Rice Bowl of Asia” and was the number one exporter in the world. However, the amount of rice export declined significantly time by time and no longer dominated the world’s rice export market. Therefore, the significance of this study is to examine how Myanmar’s rice policies shift its rice sector from top rice-exporting country to self-sufficient production of rice. This paper focuses on macro and micro economic policies. At macro level, the study analyzes policies on credit systems, exchange rate policy whereas at micro level, the study looks into policies on production, trade and price policies. This study discovered that since the end of British colonization in 1940s, rice policies in Myanmar had been constantly intervened by the government. This resulted to mismanagement and ineffective policies for rice industry in every successive government regime. It is obvious that the socialist period was the most damaging part for rice exporting through out of the period. These policies focused more on rice production rather than to develop strategies to improve the export of rice. The reason is that the government considered rice as one of the factors contributing to political stability in country. This resulted to the maintenance of low price of rice which has been proven not effective for the farmers as well as production thus led to the decline in rice export at the global market.

*Keywords: agriculture, rice policies, production, trade, export*

## 1. Introduction

Myanmar has been and still is a prominent agricultural country. The most prominent crop out of this industry is rice. From its early history to modern day, rice has been planted and becomes the backbone of Myanmar’s economy for many generations. Later in the 19<sup>th</sup> Century, due to the intervention of British colonialists and educated Burmese, the industry takes off and enters the world market. Myanmar’s rice production made a great stride in the world’s market as its demand continue to increase beyond what it can supplied. It occupied the world’s rice market in the 30s with its annual export reaching about 3 million tons per annum. It comes to a point that, Myanmar is envisioned to be the “Rice Bowl of Asia” and was called the Number One Rice Exporter. Russell (1947) as cited in (Naing , 2015) stated, the rice export

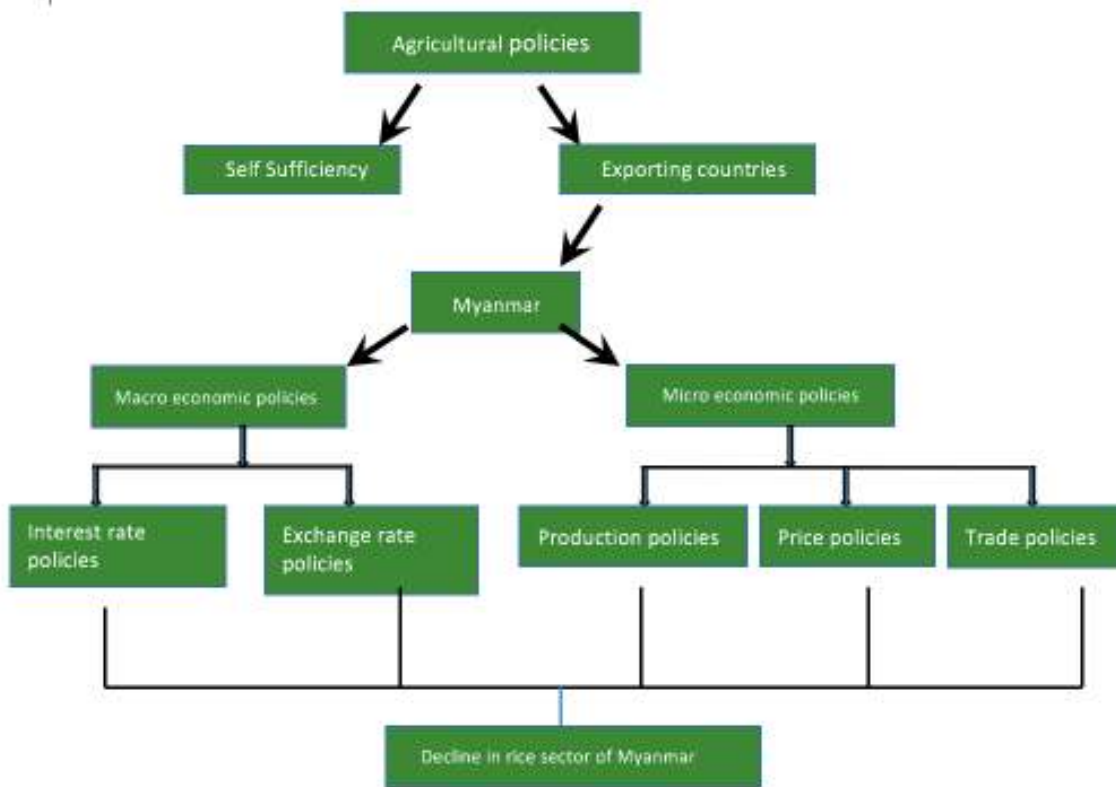
production increased from 64% to 71% during 1880 to 1940. However, Myanmar seems unable to continue this momentum as the country falls into a brief chaos post military coup, effectively affecting the industry. Gradually, due to some reasons, the industry gradually decline and no longer dominating the world's market. According to the FAO Stats, the volume of the rice export decreased from 3 million tons in 1940 to 0.86 million tons in 2011. Today, Myanmar rice industry overshadowed by her neighbouring countries rice exports. Does Myanmar's rice quality drop, or it becomes too pricey for consumers, or is it because of mismanagement by the state? These are the kind of questions that this study wants to look at, especially factors that failed the industry.

In Myanmar, policies play an important roles that affects the economy. Therefore, the agriculture policy is another important factor this study wants to focus on. As the country is in democratic transition, the civil government kick start plenty of economic reform and has pinpointed agricultural industry as one of them. Therefore, the motivation for this research is to study how the policy had changed during and after military government and how it affects Myanmar rice productions and export which take the crucial role in Myanmar economy development.

## 2. Research Objective and Research Question

The main purpose of this research is to look at the agricultural policies that turned Myanmar's rice sector from rice exporting country to that of self-sufficient rice production and consumption. In this perspective, the study trying to unveiled factors behind the fallout of the supposed to be the backbone of Myanmar's economy. Further down the road, the research use periodical categorization to study the policies of each and how it impacts the production, trade and exchange rate. This lead to the question for the research i.e. what are the government policies that make Myanmar rice sector to decline?

### 3. Methodology



The main objective of this chapter is to introduce the methodology that are going to be applied in this paper in order to analyze which policies had lead the Myanmar rice industry has fallen.

In this study, qualitative method will be applied to investigate the policies of Myanmar relating to rice commodity. As Myanmar is exporting country and for this study, it will look both macroeconomic policies and micro economic policies which can have impact on the rice industry of Myanmar. Firstly, under macroeconomic this paper will study about the interest rate policies and exchange rate policies. Relating to interest rate policies, it will also examine about the credit system and how the interest rates are going in Myanmar and its effect or impact on this sector. For the exchange rate policies, this paper will look at the value of Myanmar currency and whether is it over value or under value. For instance, if it under value it will favor the export because it makes the price of Myanmar currency lower. Furthermore, under microeconomic policies, it will look at three categories such as production policies, price policies and trade policies. For the production policies, will look at the policies relating to production, such as input subsidies including fertilizers, farm machinery, pesticides and seed. Then, it will study how the production policies have impact for farm outputs and exports. Furthermore, under micro economic policies this paper will look at the price policies and will study how the prices of input and output had been managed in the domestic and international level and its effect on Myanmar’s rice in global market. Finally, it will study about the trade system of Myanmar relating to export and import. In addition to that, it will look at how the import

tariffs, export taxes and restriction of trade had influence on the amount of rice export and has change the rice industry of Myanmar. Thus, such kind of policies will be studied from the period since colonial days 1880s to until 2011 in order to fulfil the objective of this study. Finally, this paper will analyze Myanmar policies which led Myanmar rice industry to fall in the global market.

#### **4. Myanmar Rice Policies during Colonial days (1885-1947)**

During the colonial days, the British government applied the “free enterprise rice policy” that encourage improvements to be made to the production and Myanmar rice cultivation (Young et al., 1998). The main purpose of this policy was to improve the revenue through export rice for British Administration. During this period, “laissez fair” competitive environment led government to intervene less in production and trade, besides upholding laws and order in the colony.

In order to fulfil the objectives of the policy, government improved the rice production through expansion of the rice areas. The agricultural activities at the Upper Burma expanded to the lower Burma and as a result the agricultural production was booming in this period. According to CHENG (1968), in the early twentieth century alone, there were 7 million hectare of rice field in lower Burma. The sown areas improved 1.5 million hectares in 1885 to 4 million hectare in 1910 respectively. Furthermore, the rice production improvement during this period was significant due to the expansion of growing rice areas and it was increased from 44,000 million tons in 1830 to 8 million ton by 1932. It can be analyzed that the improvement of this was mainly due to the land expansion for the rice grown areas. The British government uplift the tax for 12 years on the newly cleared land. Under this policy, the rice production grew significantly from 2 million tons in 1885 to 6 million tons in 1910.

There is no report of subsidizing the fertilizer given to farmers during Colonial rules. No commercial fertilizer and modern rice varieties were used by farmers. The farmers used their own initiatives to collect cow dung, bat guano, fish bone and left over from cotton and rice as fertilizer, it is found out that the homemade cattle dung was popular due to its availability everywhere (Win, 1991). As for credit, the loan was not popular among the farmers due to complicated process and many visits to colonial offices before receiving the loan and strict rules. Instead, moneylenders called “Chettyars” became popular due to ease of getting loans, low interest rates and flexible date of repayments. However, the farmers land has become the main mortgage items in order to secure the loans. Reason such as drought, pest fluctuation in rice prices forces the farmers to relinquish their titles and their land was confiscated.

In terms of trade, four European companies such as Steel Brothers, Anglo Burma Rice Company, Ellerman’s Arakan Company and Bulloch Brothers have the largest mill in the country, while medium and small size mills usually owned by the Indians, Chinese and Burmese millers and the four companies control domestic

trade and export activities. During British colonization, Myanmar exported about 60-70% of its production. Burmese rice were traded with much concentration to Europe, South America, West Africa and British Colonies such as Ceylon (Sri Lanka), Singapore and the rest goes to East Asian countries. By 1930, Burma managed to export approximately 2.1 million tons of rice, making the biggest rice exporting economy in the world.

In terms of the exchange rates, India Rupee was used as the main currency throughout of the period, there is no report to find out that the exchange rate system had impact on the rice industry during that time.

The rice production improvement during this period was mainly due to the land expansion activities in lower Burma. British government also helped to improve the rice industry in Burma by allowing the industry to take off and introduced market elements to rice exports management. However, there was a problem during colonial days relating with the problems in social economy between the landlords and small farmers and it led to increase government intervention and socialist policies after independence days.

### 5. Rice Policies After independence (1948-1962)

Myanmar gained her independence from the British on 4<sup>th</sup> January 1948. After gaining independence, the two plans such as “Simla Plan” or “White paper Plan” and “Two Year Economic Plan” were prepared (Win, 1991). The first plan was drawn by the British Government which aimed to improve the rice production and to increase the rice export level to prewar. However, that plan was not implemented as Myanmar gained her independence in 1948. Nonetheless, the second plan which was drafted by Burmese political leaders which emphasized on the land tenure problem, low rice yield and due to inadequate amount of rice export. During this period, rice still remained as an important export commodity of the economy and government emphasized on this industry as it contributed as main foreign exchange for the country’s economic development. Since independence government initiated “Food grain policy” in order to maintain the food sufficiency and tried to raise the foreign exchange by expanding the production and promoting rice export via implicit laws for food grains.

Government suddenly decided to nationalize this rice industry in order to ‘free the industry from foreign holdings and transferred the management of the rice industry into the hands of government’s agencies’. Contrary from the way the British run the industry, the succeeding governments profited from the industry at the expense of the farmer such as government rice procurement with low price.

During this period, government abolished the landlordism system and land reform was initiated again. The purpose of the land nationalization implementation was to allocate the firm equally again for all Myanmar people and to weaken the colonial land practices such as corvee and land lord. However, this proved to be not an easy task as Myanmar people exchanged their land titles for a mere lump sum of money and soon after returned to become labor for someone else’s lands. Therefore, it can be said that, this policy

affected the rice industry in such a way it distorted the labour market as well as the macro management of the industry. The independence government allowed farmers to decide which crop to choose.

During 1952, government released Five Year Agricultural Plan which aimed to provide incentive for farmers to create high yield in rice production. The plan helped to create micro credits for farmers to reduce their debts. However, the problems of the farmers still unresolved due to the insufficient amount provided by government and inefficient operation of the lending operation. It is studied that although government credit system could not fulfilled the requirement of agriculture credit where needed 200 million kyats and government loans only supported 25 percent of the requirement ( Win ,1991). In order to improve the production, government provided free fertilizers with expansion of irrigations across the country. However, the fertilizer and agrochemical usage was still unpopular and low as farmers considered that it can damage the quality of the soil.

After independence days, State Agricultural Market Board (SAMB) became the main organization that managed the rice industry on behalf of the government (Than, 2004). This board took the responsibilities of both procuring and exporting the rice from the European entrepreneurs and their subsidiaries. Government procured the rice on a fixed rates, making the farmer in disadvantage. The procurement price given by government was usually about 10-15% lower than export price (Mya Than, 1990). There were also some interventions in domestic rice retail marketing in order to distribute the rice to the poor. On the other hand, the private traders were still allowed to do trading in wholesaling and retailing of food grains in free domestic trade market. According to the rice grain policy, government started to lower the domestic good grain price in order to maintain the low cost living and supporting for socioeconomic stability (Young et al.,1998). Rice industry had been dominated by government by making the industry to follow instructions from the State level and disallowed farmers to innovate.

For rice export, SAMB controlled the flow of rice in both domestic and global market as state representative organization. During this period, India, Indonesia, Sri Lanka and Japan were the main major buyers for Myanmar. However, the rice export had declined from 3 million tons in 1940 to 1.7 million tons in 1960 due to its low quality of rice and the major import countries became self-sufficient.

After Independence days, Myanmar started to use Kyats currency in the country and the officially exchange rate system during 1948 there were 3.31 kyats per dollars and at the end of the socialist period, the exchange rate existed more or less the same and 4.477 kyats per dollars in 1961.<sup>3</sup> They may be however black market for exchange rate during this period there is no report which mentions the overvalue exchange rate system exist for this period.

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<sup>3</sup> Statistics on the Burmese Economy, The 19<sup>th</sup> and 20<sup>th</sup> Centuries



After Independence, Myanmar government basically continued British legacy in the rice industry except the industry ran by Myanmar. During this period, the yield was increased from 1.3 ton/ha in 1948 to 1.5 ton/ha in 1962 due to the improvement of infrastructure such as dam and drainage system and the amount of export gradually decreased. The study found out that the lesson learnt from the Colonial days led the new government to intervene in the rice market. It is quite clear that mismanagement at the state level together with inappropriate policy initiated to lead the declining of rice industry in Myanmar.

## 6. Rice Policy during Socialist Period (1962-1988)

Government adopted the Burmese Way to Socialism in 1962. While General Ne Win took the administration, almost all businesses and industries including trade, forestry, mining and some infrastructure, such as hospitals and schools were nationalized. This mean, the rice industry also affected as the management of the industry strictly follow that of socialist ideals. The changing of government administration had influenced on the agricultural development. During this period, government set up three objectives for agriculture sector to fulfil the food sufficiency, providing raw materials for the industries and to enhance the export or surplus products in order to raise the capital investment within country (Win , 1991). This period marks state total controlled over all mode of production within the country and subsequently resulted in rapid decline of Myanmar’s rice industry. During this period, government rice policy was to enhance rice production in order to fulfil for domestic food sufficiency and to raise the capital investment within country.

Government released the ‘Tenancy Law’ in 1965 which abolished the tenancy in many areas of Myanmar and affected nearly 25% of the total cultivated areas in Myanmar (Mya Than & Nishizawa 1990). As a consequences, this led to implement a state-wide socialist program based land tenure-ship during this time. On the other hand, the land were distributed to the poorest farmer with no capital to promote equity system which adversely affected on the productivity of rice.

Under Burmese ways of Socialism, the agricultural sectors, small businesses, assets and infrastructure such as distribution, transportation( river road) and external trade (some retail trade) were under close supervision by the State or cooperatives (BROWN, 2013) . This period marked state total control over all mode of production within the country and subsequently resulted in rapid decline of Myanmar’s rice industry. The socialist regime expanded the agriculture program activities since 1963, the agriculture areas were classified into two categories; planned and non-planned areas or “Pillar Crop“policy (Soe, 2004) . The government designated lands for cultivation across the country for specific vegetation or crops, according to their geography, climate, soil suitability and sustainability. However, in the program areas, the crops were limited according to government demand. The crops under the program areas were included rice, cotton and pulses were decided depends on the basic of main requirement (Thein, 2004).

On the other hand, government used the subsidies such as distributing the fertilizer as incentives to farmers in order to increase production. Although there were some land allocated for the non- program areas, government limited all kinds of aids and subsidies to force farmers to join the Program areas. However, government could not supply enough to farmers and only 20% of the total required amount and for the rest farmers had to buy themselves at market price. The socialist government also expanded credits options which promoted the credits activities during that period. However, the cultivation cost keep increasing over time and the new lending system could cover only 11 percent of the total production during 1973 (Mya Than, 1980). On the other hand, for the non-program areas, there were discriminately not allowed to access such incentives.

Under Socialist period, State Agricultural Marketing Board (SAMB) was renamed to Union of Burma Agriculture and Marketing Board (UBAMB), which took over all matters related to rice procurement and sales. Government set out on a policy of domestic self-sufficiency in 1963. This mean government only consider to sell rice from the surplus after meeting domestic demand. In terms of domestic distribution, one of the state Enterprise called “Public Trade Cooperation” took the responsibilities for it and UBAMB supported the requirement from that cooperation.

By 1964, the government fixed the domestic price all over the country. Since 1973, the sale of compulsory paddy or compulsory delivery quota system was implemented in domestic rice marketing system. Farmers had to sell their products to the government with fixed price which was usually below the market price and not allowed to sell directly to customers. Okamoto (2015), reported that the delivery quota for the farmers was approximately (1.5 to 2.1 tons per hectare). The distribution was under the management of the State through public shops or cooperatives with fixed price and government monopolized in both inter-regional or inter- divisional trade. Private sector was permitted only within division and for farmers, they were commanded for limited milling only enough for home rice consumption. Rice procurement took nearly 20-30 percent of the total output during this period. During 1980-1987 the procurement price was remained constant and below the free market price (Table 1). Consequently, this led to the farmer’s discouragement to expand their production and yield (Thein , 2004).

Table 1: Myanmar’s Rice Price (In kyats/ton) 1962-1987

| Year | Procurement |             | Export Price |
|------|-------------|-------------|--------------|
|      | Government  | Free Market |              |
| 1962 | 149         | 166         | 443          |
| 1965 | 149         | 147         | 484          |
| 1970 | 172         | 281         | 465          |
| 1975 | 431         | 679         | 1756         |

| Year | Procurement |             | Export Price |
|------|-------------|-------------|--------------|
|      | Government  | Free Market |              |
| 1980 | 472         | 1253        | 1506         |
| 1985 | 472         | 2521        | 1317         |
| 1987 | 472         | 2,879       | 820          |

Source: Report to Pyithu Hluttaw on the Financial, Economic and Social conditions for 1988/89; Review of the Financial, Economic and Social Conditions for 1989/90; Selected Monthly Economic Indicators (Various issues)

The state own organization UBAMB monopolized the rice export activities. It is reported that, the inability to improve the productivity to fulfil both domestic and global demands, Myanmar rice export declined constantly from 1.7 million ton in 1962 to 0.047 million tons by 1988. The rice export decreased during this period can be accounted due to government procurement system where there was a wide gap between the procurement and market prices of paddy (Mya Than, 1992).

In term of exchange rate, it remained overvalued throughout this period. Socialist system persisted until 1987. The official exchange rate for kyats per dollar 4.47 was relatively increased to 6.41 kyats per dollar by 1988 the end of the Socialist period. During this period, government seemed to adopt the black market economy (Aung Khin, 1983) and the overvalue exchange rate might persist throughout of the period.

During Socialist period, although government changed few policies from the previous period such as enhancing the credit activities and distributing the fertilizer as incentives , the level of government intervention in rice industry in marketing process were changed considerably in both domestic and export market. Despite agriculture was not collectivized, government implemented the procurement system by extracting the agriculture surplus with low prices. The industry was deteriorated and reached to minimum amount of export at the end of socialist period although government tried to increase the production in order to fulfil their procurement and increase the rice export.

## 7. Rice Policies under Military Government<sup>4</sup> (1988-2011)

In order to keep the country stability, new generation of military generals launched a coup against their own socialist (military) party and established a junta called State Law and Order Restoration council (SLORC) in 1988 which was renamed as State Peace and Development Council in 1997. Almost immediately, the junta abandoned most of the socialist era policies and returned to the pre socialist order and policy. During this period, agricultural marketing reform proceeded in two steps. In 1987 the domestic marketing reform was initiated and in 1988, government implemented the export liberalization except rice.

<sup>4</sup> it was called State Law and Order Restoration council or State Peace (SLORC) until 1997 when a reorganization was undertaken and it was renamed SPDC ( State Peace and Development Council)

### a. First Liberalization (1988-2002)

Under the SLORC period, government launched the market-oriented system and planned to increase the rice production. One of the food grain policy objectives during this period was to “produce surplus paddy for domestic food security and for promotion of exports.” Besides, government removed the restrictions on the private exports of some agricultural products including green gram, black gram, maize and pigeon pea. However, rice was still remained under the control of the State association, Myanmar Agricultural Produce Trading (MAPT).

In order to enhance the rice production, government started to introduce the summer paddy program in 1992-93 especially in delta areas. Under this program, many farmers were induced to choose paddy in dry season with irrigation supports (Thein, 2004). As a consequence, this led to failure due to mandatory cultivation especially in the area where no irrigation and little interest cultivation loans or not suitable for the summer paddies (Thawngmung, 2008). However, the program became stagnant due to high price of the inputs of diesel oil and chemical fertilizer after 1995. Furthermore, Myanmar government also implemented “Regional Rice Self-sufficiency Promotion Policy” since late 1990s, many areas were encouraged to grow rice in unsuitable land many Central Dry Zone and mountainous areas like Shan State and Kachin State (Odaka, 2016). The main purpose of this plan was to expand the rice cultivation area towards land frontiers. In 2001 government launched another policy, the land owned by the State and farmers were allowed for tillage rights. According to the policy, state had the absolute power for tillage right for farmers. The cropping pattern strategy was made by government according to the official policy. Farmers also aware the challenges if they cancelled or avoid from government mostly related to paddy. Thus farmers were ordered by government officials to grow the paddy according to the crop plan policy. Government had struggled to keep up with the subsidies as during these days Official Development Assistance (ODA) especially from Japan was halted immediately and the price rose abruptly and government stopped to distribute the main inputs such as chemical fertilizers after 1988 Myanmar agricultural Development Bank supported farmers with seasonal crop loans but the loan amount was too small and less than 10 % of the 10% of the actual cost of cultivation (Thein, 2004). Thus, it was clear that farmers could not invest enough for increased paddy productivity.

The first liberalization eliminated the restriction on the private millers and the rice trading restriction in terms of the geographical areas. MAPT was responsible for marketing of rice paddy and distribution the rationed rice for the target group. For domestic trading, government did not intervene the private sectors purchasing the commodities from farmers directly. Farmers had freedom to sell their rice directly to the customer after fulfilling the procurement demand from the government. On the one hand, government attempted to assure sufficient rice supply for them first through procurement policy. Thus, this mean rice trader had no absolute freedom in domestic trade. There were three situations that government intervened in the domestic market (Okamoto I. , 2009). The first situation was traders had to get permission from the

local authorities when they did rice transactions at the border areas. In fact, no restrictions on rice marketing around the country after first liberalization. Government set up some monthly procurement quota for the private sectors and this mean that private traders could not purchase the rice amount as they want. Government considered that the rice export to remote areas could raise domestic rice price. As for the second reason, government intervened in the domestic trade when the procurement amount of rice was below the government demand and private traders could not buy paddy or rice from farmers at that time. Especially, at the remote area of deficit regions, private traders were not allowed the sales during the procurement seasons. Thirdly, when the rice price increased in the domestic market, government usually began to check the rice traders' activities in the market at both rural and urban regions. As mentioned above, for the domestic rice trading was also not fully liberalized for the private traders.

Under socialist period, government distributed the rationed rice to general consumers (people stay at food deficit areas) with low price. When the population increased over the years, government fiscal deficit for rationing expanded. As a result, government could not raise the procurement price and this disincentive made farmers reluctant to cultivate the rice. During 1987, the discontent and reluctance peak made government fail to procure a sufficient supply of paddy at its low procurement price and led government to reform the rice marketing policy. Thus, rice rationing system for general consumers was abolished and continued only for the budget group including military personnel and civil servants. On the one hand, the rice ration system only benefit to consumers in terms of price and not quality and the recipient sold back to the traders in order to feed for livestock.

In terms of paddy procurement system, which had been abolished in 1987 was implemented again in 1989. Government decentralize the procurement system to the broker and keep the procurement price intact. However, volume of paddy procurement from government was declined one third after liberalization, reduced from 1.5 tons per hecter during socialist regime to 0.5 tons (Okamoto I. , 2005). Government still continued the 10% procurement from total production. However, the recipient found out that it was not efficient to secure the rationed rice due to the poor quality of grain and it can destroy the exporting of rice. The military regime kept a tight control on rice price for political economy reasons. By taking control over rice industry and its process, the military took the control of the economy indirectly. Government continued the practice of keeping the price of rice low to ensure sufficient supply for the population as well as to keep the public officers and servants content. In order to do that, the government imposed a strict procurement system which forced farmers (around 70% of the population) to sell thirty to forty baskets per acre to government below market price and adopted rationing program throughout the country. As a consequence, farmers had just enough as they were prohibited from conducting private rice trading which led to a considerable decreased in production, productivity and quality of rice. The compulsory quota system was still retained until 2002. The domestic rice price was still 40% lower than the international price

during 1993 (Fujita & Okamoto, 2006). As the amount of rice export was low in this period, basically, supply and demand status in the domestic market determined the rice price.

According to the rice production policy in the 1990s, there was a rice surplus in the market and led to a rice price collapse that happened in 2000-2001. In 2002 the rice price rose again as a temporary phenomenon as farmers were unwilling to sow paddy as the price collapsed and declined rice production due to bad weather. Therefore, it happened government to start the deregulating of private rice exporting.

After the liberalization, government reconsidered to keep the low rice price for general consumers at peak situation and the decision to allow the private sector in rice exporting made a comeback. It is significant that monopolizing on rice export was used as a tool to control the domestic rice price for general consumers who were excluded from the rice rationing system after the first liberalization. Government priority on domestic rice security and rationed rice and only the rice left in government hands after rationing was released for export. By the time, the amount of rice export was relatively lower compared with the socialist period. Under the state monopoly, rice export declined from 42 percent of total export earnings in 1980 to only 3.2 percent in 2002 (CSO, 2002). As the state marketing sector considered more on quantity rather than quality, the low quality of procured paddy limited the destination countries for Myanmar. Hence, during that time the South East Asian countries and Middle East countries became the main destinations for Myanmar rice export. Despite rice exported by private sector was not allowed some rice and other agricultural commodities were smuggled across the border areas, mainly to China (Young et al., 1998). As a consequence, the illegal export led to a problem in data collecting in Myanmar.

The first liberalization was only a limited liberalization from a total state control to market oriented in all sectors of the economy. Rice marketing during this period was sustained as the shrinking of the procurement system deficit when compared to the socialist period and the reduction quota obligation comparing with the socialist period. It can be said that the first liberalization is not successfully implemented as it turned back to production oriented strategy and low price policy in the domestic market in order to maintain the political unrest and for the social welfare of the urban people.

### **b. Second Liberalization (2003-2011)**

By 2003 April, Myanmar government announced another liberalization of rice marketing after 16 years of establishment by socialist government. The main purpose of the second liberalization was to enhance the foreign exchange by increasing the rice export and to open the rice export sector to private sector for the export. Since 1990s government tried to improve the rice export sector by increasing the procurement from the farmers. As the plan was not so productive, government changed their strategies more focusing on the private sector and this led private rice millers to become the members of “Rice Trading Leading Committee”. The main change under this liberalization for the industry is holistic abolishment of restrictions

to the industry such as paddy procurement system, state monopoly to market and sell rice as well as considerable drop in rationing system, to be replaced with other kind of incentives.

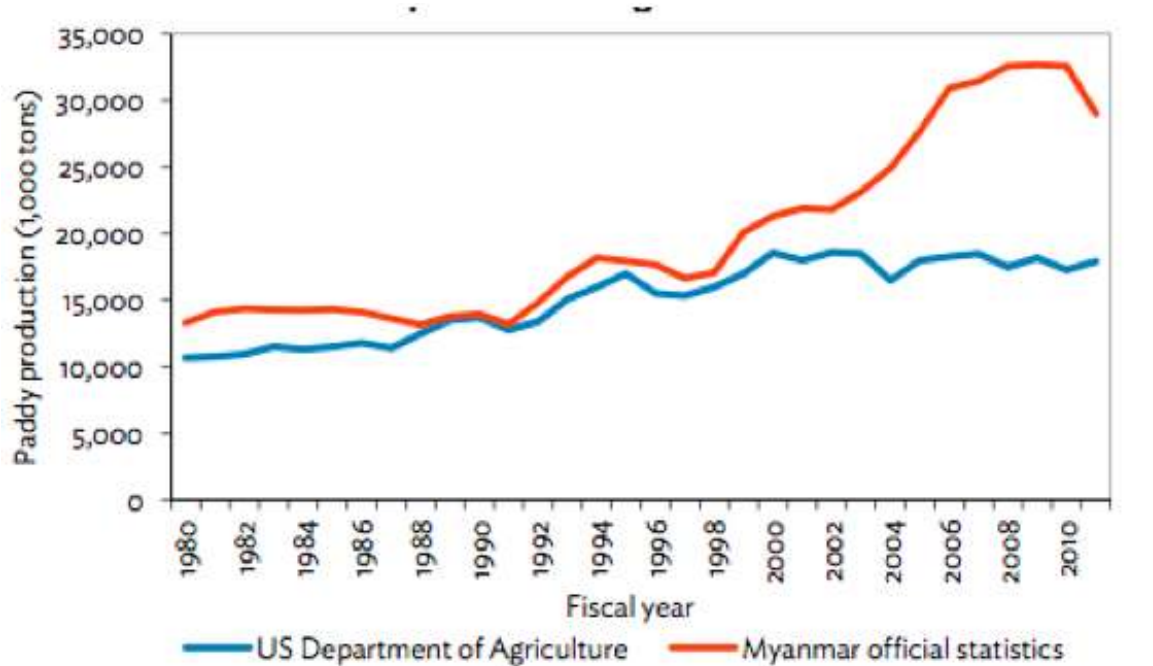
During this period, most of the land policies still remained the same as socialist period where state owned all land. However, there was no more for planned and non planned program which was initiated since socialist period. Furthermore, government continued to enforce the procured cropping plans which was implemented since 1990s with the help of the irrigation facilities for paddy. However, it was reported that second liberalization 80% of Myanmar cultivation land faced irrigation problems (Dapice, 2003)

Government attempted to withdraw the distribution of subsidies such as fertilizers and diesel for farmers. In fact, the official fertilizer price was kept low for 15 years since the beginning of the socialist period. Contributing of fertilizer became decreased significantly in 2005 due to difficulties in sufficient supply from the international aids and higher import price.

In terms of credits, the government official institution not offered to most of the farmers and only less than 3 percent of the bank loans reached out to agricultural sector. The main weakness of land system in Myanmar was farmers could not get loan from government by using as a collateral. Majority of the decision was taken by state owned, Myanmar Agricultural Development Bank (MADB). Contradictorily, the private banks were not allowed to lend for farming (FAO, 2004). The rural famers could not access easily to formal institutions (either public or private) and historically limited in Myanmar. In terms of microfinance it can be said that it was underdeveloped up to early 2010s. It was more serious for farmer who has no major asset such as land had to borrow from the employers as a wage advance and sometimes the interest rates were approximately 20-30% per month (Okamoto I. , 2008b). As a consequence, the underdevelopment of institutional finances (including microfinance) led to underdevelopment of agriculture sector in Myanmar. The scholar (Turnell, 2009) criticized that Myanmar Rural areas had never experienced of “beneficial” development in financial market.

According to the official statistic from government office, the production increased from 23 million tons in 2003 since second liberalization to 29 million tons in 2011 (FAO, 2011) However, according to figure (1), there was a difference gap between the two data sources (FAO) which works closely with Myanmar government and other independent source such as United State Department of Agriculture department (USAD) The former source mentioned the data as twice as the latter one. As paddy is the major agriculture product, the uncertainties of the data have distorted the understanding of the agriculture performance in Myanmar and hinder the planning of effective policy establishment and sharing of the accurate market.

Figure 1: Annual Production of rice according to US Department of Agriculture



Source: US Department of Agriculture, Foreign Agricultural service. <http://apps.fas.usda.gov/psdonline/psdhome.aspx>; Food and Agriculture Organization of the United Nations, FAOSTAT. <http://faostat.fao.org>. US= United States

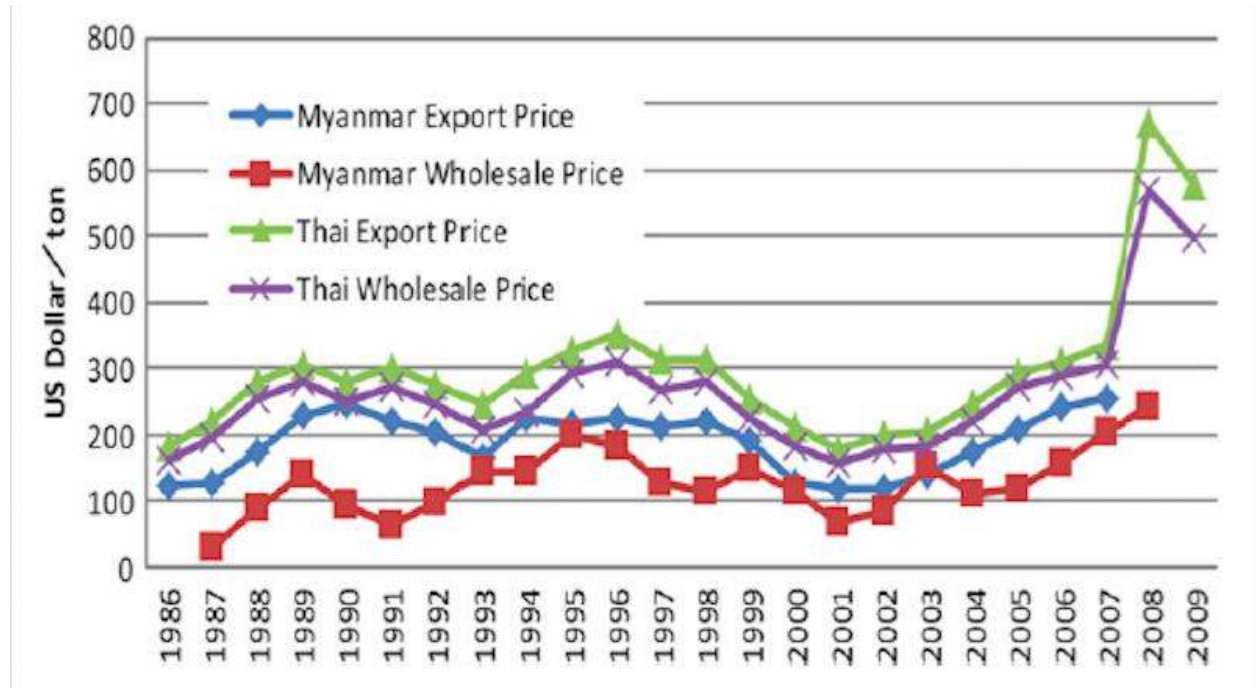
During Second liberalization, Myanmar could not highlight on the deregulation of the domestic rice market. It was expected to reduce the government intervention in some situation. And the rice marketing was expected to be less controlled by government. However, according to government rice policy framework, the private rice market only could implement in remaining scope of the rice marketing area without judging the objective of government policy supplying rice at low prices. Thus, the private sector could survive in the domestic market under limited conditions and demand to the low and moderate quality of rice. As a consequent, although it was completely liberalized during this period, government could not highlight anymore on the deregulation of domestic rice market after prolong controlled by government since socialist regime.

Under second liberalization, rice procurement system from farmers were abolished as government realized that the benefits was not sufficient to justify the cost of retaining it. However, the rice ration was still retained for the budget group and rice still needed to procure from commercial traders with market prices. As government could not afford to purchase at market price for long term and in 2004 the rationing system was ended. This possibility frightened the government, decided to freeze private rice export. Then government reformed the plan without discussing with the private sector. Under the objective to stable supply of rice with a low price. In reality, the military government aimed to avoid the social unrest and this led government considered more on the production, the domestic low rice price rather than farmer's



income and welfare. The scholars Okamoto & Fujita (2006) reported that the domestic rice price in Myanmar during the period was relatively (40-60%) lower than the international price, especially compared to the Thai export price (Figure 1)

Figure 2: Rice Price in Myanmar and in the international market



Source : Prepared by Mr. Koji Kubo (Institute of Developing Economies, Chiba, Japan)

Note: The Myanmar export price was estimated from the statistics of export values and amounts by FAO ( The quality of rice is unknown). Myanmar wholesale price was estimated by converting the Yangon wholesale market price (Emata 35% broken ) to US dollars by the market exchange rates . The Bangkok FOB price of 100% Grade B and Bangkok wholesale market price (5% broken) was used for the Thai export price and wholesale market price, respectively)

In terms of export, the main purpose of the second liberalization was to allow the private sector in rice exporting and sharing the foreign exchange between government and private equally. Nonetheless, this plan was not implemented when the rice rationing system abolished in 2004. The original plan was for the government to open the rice export by giving the rice export license to the private traders. Traders who attained the license could export under the quota set up by government where government took half of the foreign exchange earnings. During second liberalization, with the nonexistence of Myanmar Agricultural Producing Trading, there was no procurement system and this was noticeable as the end of government intervention in this industry. On the other hand, in order to compensate the loss of income from procuring and selling rice, government imposed 10% on the rice export.

In December 2007, government introduced the regional rice surplus structure and decide the rice export quotas and rice surplus regions. Moreover, the clear objective for the domestic and market price were set up in order to prevent consumer price problem due to rice export. Additionally, the shipping schedules for

the rice export, number of rice export companies for different region to purchase the rice surpluses and destination countries also set up by the time. After second liberalization, rice export declined yearly and could export only 0.4-12 percent of its rice surplus when compared to 40-60 percent of the rice surplus in 1995. It could be the increasing number of smuggled rice in the black market (Lwin 2010). As government withdraw its control from the rice market, this led not only to encourage the official trading but also create the opportunity for the black market to develop. Due to the complicated licensing procedure, the number of rice export companies and rice export volume inconsistent after second liberalization. However, the government could not withdraw totally from the rice export as sometimes the national surplus could not meet up to a level where it can get constant income for country. Two government organizations such as Myanmar Agricultural Produce Trading (MAPT) and Ministry of Agriculture and Irrigation (MOAI) no longer involved in rice export except the allocating the existing supply.

On the contrary, military government announced the export quota for every year as it was difficult to keep with surpluses differences. By 2007, it reached 800,000 tons, which was the highest quota amount after 2003. When Nargis Typhoon hit in Myanmar 2008, and the export quota became decreased. After imposing quota for another two years government abolished quota system in 2011. Although the second liberalization aimed to improve the profitability of production and lessen the government intervention in the market, it was not successful to delegate the rice exporting to private traders. More than 20 companies which had effort on rice liberalization was totally wasted ( Okamoto I. , 2009)

For foreign exchange rate, Myanmar exchange rate system was not unified and the currency of Myanmar Kyat is overvalued. Moreover many parallel exchange rate operations such as “ Custom Rate”, “ Money Changer Rate”, and “ Money Changer Rate” had negatively affected the export and imports of the agricultural products and farm inputs. ( Tin Soe, 2004 ). Since 1974, Myanmar was under multiple exchange rate regime and the official exchange rate was at a fixed rate ( 6 kyat to a US dollar ). The purpose of the official exchange rate was for the importation of the raw materials for state own enterprise. However, in 1988 the exchange system was liberalised and the unofficial exchange rate was depreciated and reached to 1400 to a US dollar in 2001. The multiple exchange rate system was terminate in 2012 and initiated into a single-rate regime (Odaka, 2016).

During 2006 to 2011 the world rice price was generally strong, though the falling real exchange rate received by Myanmar farmers have caused to the 15% per capita output decline. It was mentioned that the exchange rate took key role in declining output and incomes of farmers.<sup>5</sup> The overvalued exchange rate system had damaged Myanmar agricultural sector. On the other hand, the low price of paddy led farmers to broadcast

seed instead of transplanting or to use less fertilizer. As a consequence, low yield and production resulted. Summer rice output is likely to be significantly affected by changed in paddy prices Farmers admitted that the decline of paddy production 50% to 70% was possibly due to the decline in paddy price. If the exchange rate reached to 700 kyats to the dollar there will be possible for decline of rice output, perhaps 10-15% unless world rice prices in dollar rose to offset the overvalued kyat.<sup>6</sup> For many farmers, even the current exchange rate decreased the rice output (Dapice *et al.*, 2011). Such an overvalued exchange rates encouraged black market exist parallel to ‘real’ economy. Black market existed due to government intolerance in both policies and undertakings, which makes the market as a ideal place to seek protection for a better deals. Hence, as can be seen, the exchange rates for the industry continued to be overvalued through out of many years. Overall, the exchange rate system in Myanmar had negative impact on the rice production of Myanmar and one of the reasons which led to decline the rice export in Myanmar. After second liberalization since 2003, It is quite clear that Myanmar government persisted to stick with the policy increasing rice production instead of considering giving incentives to farmers. This finally led to farmer discouragment on producing high quality grains and affect negatively on the rice production. The study found out that government still intervened in the rice marketing with restriction by imposing tax on rice export and limited the rice export in term of quota on the private sector. Although the state planned to fully deregulation of the economy, the rice industry remained closed in some particular parts. Hence, this period can be said Myanmar government still not ready yet to facing the new challenges and overcome the obstacles that derived from the liberalization of the economy. In stead of improving the strategies for the farmers, who are the main player to enhance the rice production, governments more prioritized on the stable rice price for the urban community.

## 8. Conclusion

Although rice industry has a very important role in Myanmar’s economic development, Myanmar government could not develop the rice industry since Socialist period onwards. This study has shown that the main interest of government is to monopolize in the rice marketing in both domestic and export. Furthermore, it is quite clear that government prioritized on the rice production and domestic sufficiency rather than focusing on the farmer’s interest to increase their livelihood. It was found that government intervention and monopoly takes place on rice marketing throughout the period and has brought this industry to its worst state. Myanmar’s rice industry had reached the top rice exporter in the global market during colonial days. Nonetheless, since socialist period, Myanmar government monopolized not only in decision making for rice marketing and but also involved in crop choice for farmers. All the rice policies that Myanmar government implemented throughout the successive regimes were mainly focused on rice

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<sup>6</sup> When the world rice exports jump, there is a tendency in some rice exporting countries to restrict exports and keep local rice prices below world rice prices. This helps urban consumers and other rice buyers and hurts rice farmers and those whom they employ. Periodic export bands also hurt the reputation for reliability of the rice exporting nation

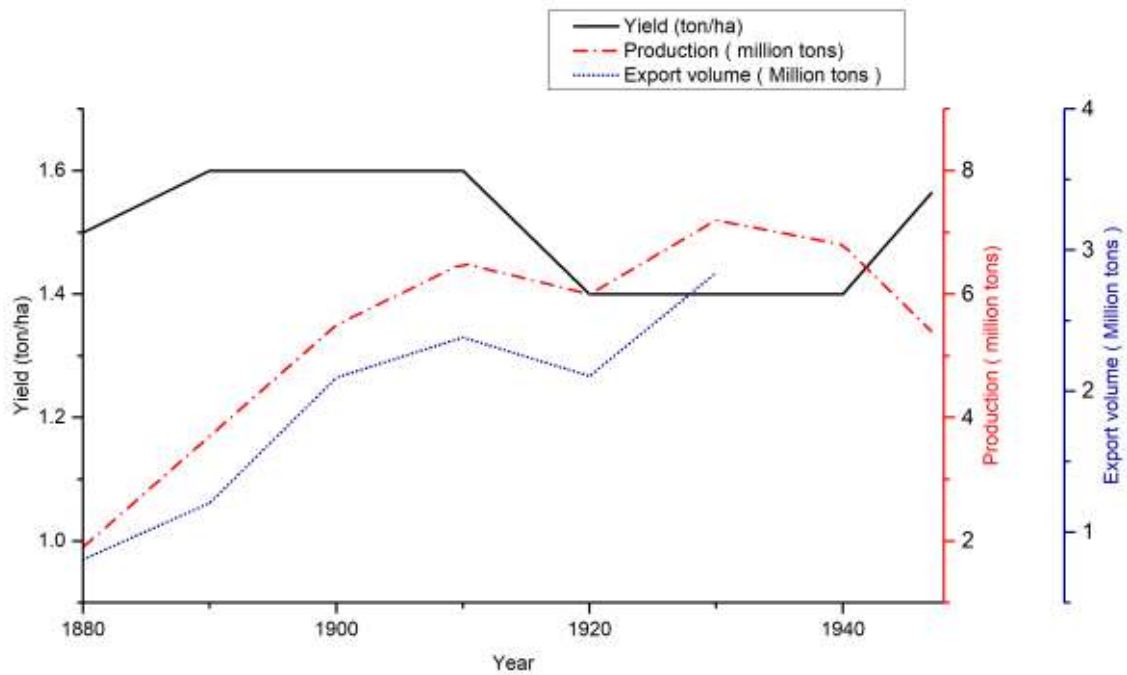
production for their own political interest. Hence, it is reflective into the industry, whereby, it was use for the gain for those in power. The successive policies clearly lacks of incentive for farmers to contribute in enhancing the rice production and it also had impact on rice export at the world market in terms of quality and quantity. At the same time, lacks of freedom and market mechanisms in the industry also hampered liberalizations efforts, as junta era system such as rationing system remained in place. As a consequence, the rice policies in Myanmar still needs to be improved in order to enhance the development of rice sector. But it is difficult to achieve this since Myanmar is politically driven with interest in keeping the country stable by keeping the price of the rice low in the domestic market. It is expected that it will be very difficult for Myanmar government to liberalize the rice policy and overcome these domestic challenges in future too.

Historically, with regard to the rice sector Myanmar has learned a lot of lesson, however, these lessons learned from the past are not being properly put in policies. And unfortunately, it can be foreseen that the rice sector would still be stagnant in years to come.

### APPENDIX 1

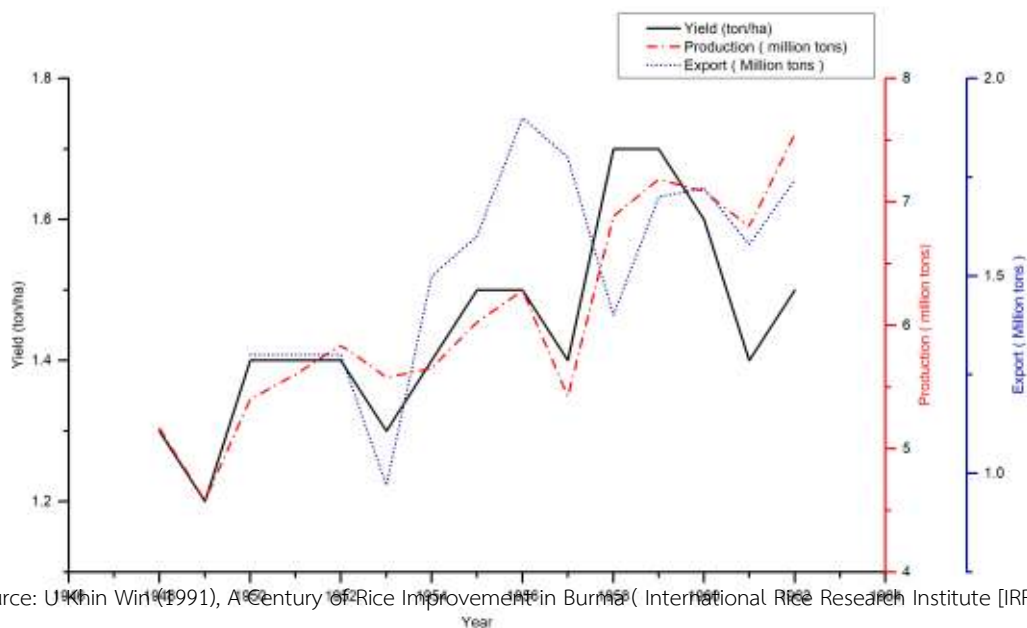
#### Figures for rice yield, production and export volume for Myanmar (1880-2011)

Figure 5. Rice Yield, Production and export volume during colonial days (1880-1947)



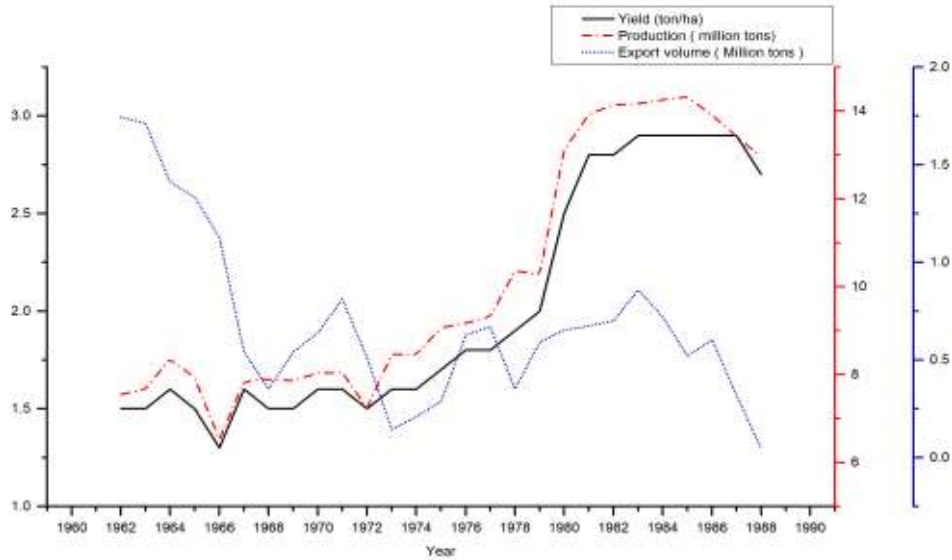
Source: U Khin Win (1991), A Century of Rice Improvement in Burma (International Rice Research Institute [IRRI] 1991)

Figure 6: Rice Yield, Production and export after Independence Days (1948-1962)



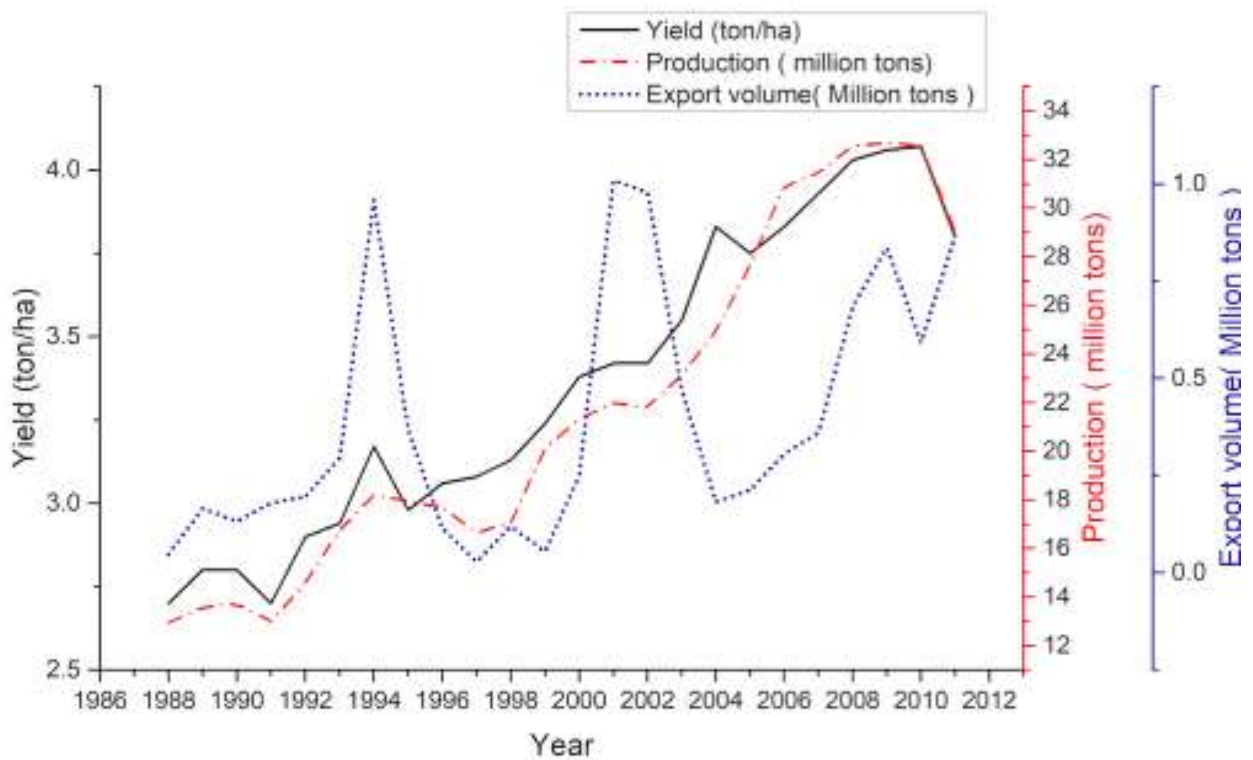
Source: U Khin Win (1991), A Century of Rice Improvement in Burma (International Rice Research Institute [IRRI] 1991)

Figure 7: Rice Yield, Production and export volume during Socialist Period (1962-1988)



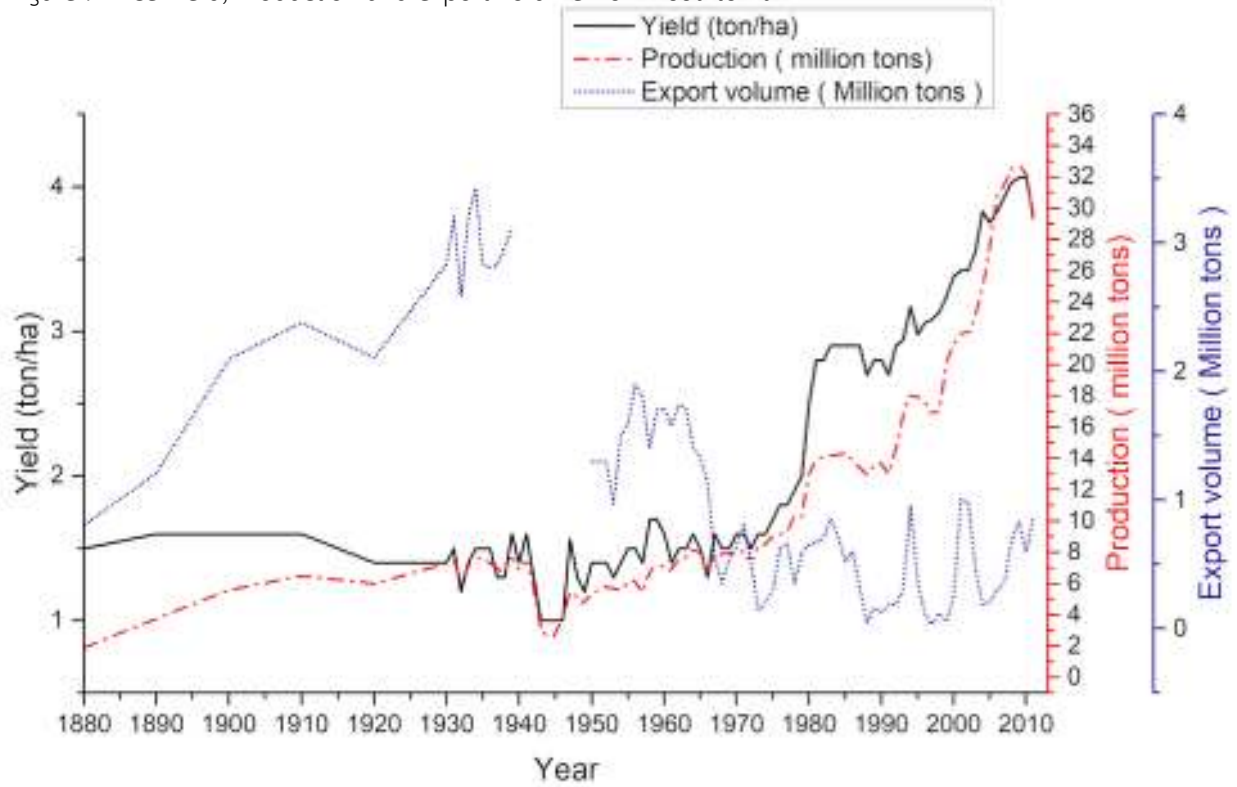
Source: U Khin Win (1991), A Century of Rice Improvement in Burma (International Rice Research Institute [IRRI] (1991)

Figure 8: Rice Yield, Production and Export During Military Regime (1988-2011)



Source: IRRI ( FAOSTATS)

Figure 9: Rice Yield, Production and export volume from 1880 to 2011



Source: Data from 1880 to 1991 U Khin Win (1991), A Century of Rice Improvement in Burma ( International Rice Research Institute [IRRI] (1991). Data from 1991 to 2011 from IRRI (FAO STATS).

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## Vietnam's FTA Strategy

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### Abstract

Vietnam's trade performances after 1975 were primarily in Council for Mutual Economic Assistance (CMEA or COMECON) that was formed in 1949 under the leadership of Soviet Union to both constrain to Marshall Plan of United States and facilitate the economic cooperation within the socialist bloc. After the Soviet Union collapsed in 1991, Vietnam lost the dominant aids and traditional markets. This urged Vietnam to push quickly the economic reform namely "Doi Moi" that was introduced since 1986. Hence Vietnam started to open the door and take part in the process of integration into the world economy. The process began with accession into Association of Southeast Asian Nations (ASEAN) in 1995 and ASEAN Free Trade Area (AFTA) in 1996; signing a bilateral trade agreement (BTA) with the United States in 2000 and free trade agreements (FTAs) under ASEAN framework in the 2000s and Vietnam has virtually engaged in international trade when Vietnam officially became a member of World Trade Organization (WTO) in 2007 and was more proactive and active in pursuing FTAs with major economies both neighbour countries such as Japan, Korea and distant economies such as the European Union and with multiple countries such as Chile, European Free Trade Association, Eurasian Economic Union and Israel. This study attempts to have the profound investigation about Vietnam's FTA strategy in the process of integration. Based on the data was collected from past literature, WTO's reports, the official website of World Bank and Vietnam's government and so on, the analysis indicates that the integration process via FTAs is oriented clearly since the dissolution of the Soviet Union. FTAs are considered a tool for Vietnam to expand export destinations, attract foreign investment and foster trade liberalization reform through strong commitments. As a result, this will help Vietnam ensure a sufficient implementation of "Doi Moi" and promote Vietnam's development in the long run.

*Key words: Vietnam, FTA, strategy, economic integration, trade, liberalization*

### 1. Introduction

The economic reform is well known as "Doi Moi" in 1986 marking a remarkable turning point in the transformation of the Vietnam's economy from Soviet-type central planning subsidy and closed economy into socialist market-oriented and opened one. With such change of policy, Vietnam is becoming increasingly

active in the integrated world economy by joining not only the multilateral trading system World Trade Organization (WTO) but also regional and bilateral free trade agreements.

The participation of Vietnam in regional trade agreement began with accession to Association of Southeast Asian Nations (ASEAN) and ASEAN Free Trade Area (AFTA) respectively in 1995 and 1996 that paved the way for Vietnam to participate the deeper integration with a series of FTAs. As a member of ASEAN, Vietnam has joined many FTAs such as ASEAN-Japan, ASEAN-South Korea, ASEAN-China, ASEAN-India, ASEAN-Australia/New Zealand, ASEAN-Hong Kong, and Regional Comprehensive Economic Partnership (RCEP). As an independent side, Vietnam has bilateral trade agreements with the United States and FTAs with a range of countries includes Japan; Korea; Chile; EU; Israel, Customs Union of Russia, Belarus, and Kazakhstan; European Free Trade Association. Only Trans – Pacific Partnership (TPP) were signed but after US’s withdrawal, the others attempts to bring the pact into force by shifting TPP into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) due to expectation of achieving trade liberalization for the whole Asia-Pacific region.

Becoming a member of WTO as well as negotiating a variety range of trade deals with other countries, on the one hand, has played a crucial role in declining tariffs and facilitated the export of products made in Vietnam; on the other hand, most of the partners Vietnam has signed FTAs are the most critical partners such as Korean, Japan, the US and EU so it is inevitable to be under competitive pressures. Not to mention that nowadays, Vietnam has been incrementally negotiating some high quality FTAs that incorporates new issues such as government procurement, competition policy, environment, labour, particularly diversity and complexity of rules of origin.

Definitely, as for developing countries like Vietnam, this will pose a ton of difficulties and challenges Vietnam has to face but it seems always willing to join the trade race that comprises new international trade rules in the twenty-first century. Therefore, the thesis focuses on doing research about tactics of Vietnam to answer the research question: “What is Vietnam’s FTA strategy?”

## 2. Research Objectives

The purpose of the study is going to explore:

- i. To identify Vietnam’s strategy in engagement in FTAs
- ii. To analyse the rationales Vietnam joins FTAs

### 3. History of Vietnam's participation in FTAs

Since the "Doi Moi" initiative in 1986, Vietnam has incrementally accelerated the international economic integration and is becoming increasingly involved in the international trade over the past three decades.

Vietnam's trade liberalization progress encompasses three main periods:

- i. The period after war and under the Soviet Union's influence
- ii. The period of "Doi Moi" and after the dissolution of the Soviet Union.
- iii. *The period of deep integration after accession into WTO*

#### *a) The period after war and under Soviet Union influence*

After the liberation in 1975, the US withdrew all aid to the South and China also terminated its aid at the same time since China failed to gain its influence in Vietnam in the Sino-Soviet strategic rivalry (Koga Kei, 2016). This induced the sharp decrease of external resources and pushed Vietnam on the edge of famine and some crises of supply for industrial activities in the South also emerged since the country lacked foreign currency to purchase inputs whilst the North's supply could not meet for only its own economic performances. Facing with the situation, together with the need of post-war economic rehabilitation, closer cooperation with the Soviet bloc was fostered strongly to compensate for the loss of China's and US's aids. Some commentators also believed that it was the reason of Vietnam government's decision to take part in Council for Mutual Economic Assistance (CMEA or Comecon) that was formed in 1949 under the leadership of Soviet Union to both counter to Marshall Plan of the US and facilitate the economic cooperation within the Soviet bloc.

Comecon's members were encouraged to be largely self-sufficiency, not necessarily full economic integration. Trade was insignificant because it was believed that trade was insufficient mechanism that was only used to purchase was not an efficiency mechanism; rather, trade was only used to cover essential purchases of goods that the domestic economy was unable to supply to subsistence levels and the composition of imports depended largely on what partner countries were willing and able to supply. Comecon also lacked a reliable price mechanism. Trading prices was well known as "stop price" was formed for each five year plan period based on average world market prices in the previous five years. In principle, the prices were based on world market prices but fixed for the purposes of planning. In the case of Vietnam, in terms of essence, trade with Comecon was the form of goods exchange at preferential prices that was subsidised by Soviet Union for Vietnam. For instance, Soviet sold oil for Vietnam at R/\$39 a tonne but actually, Soviet could sell easily at market price \$300 a tonne (Melanie & Dang, 2000). This made the much greater reliance on Comecon's aids.

#### *b) The period of "Doi Moi" and the fall of Soviet Union*

Owing to changes in the international context of the late 1970s, the Soviet Union and other CMEA countries were in severe difficulties and were not willing to supply imports on highly concession terms, they began

to cut aids at the start of 1981. Consequently, the planned sector of the economy could scarcely have survived. Indeed, the acute shortages induced by the reduced aid supply had already begun seriously to erode the effectiveness of central planning which relied heavily on central control over major resource (Melanie & Dang Phong, 2000). Furthermore, the priorities of leaderships during the period were tilted toward heavy industry whilst the agricultural sector was not provided enough inputs contributing the largest proportion to national income through exporting. The shortcomings of Soviet economic type itself forced Vietnam move toward a series of limited reforms in foreign trade, industry, agriculture and prices during 1980-1981 and the comprehensive reform in 1986.

Thus, the reform took place before dissolution of the Soviet Union driving Vietnam to be closer with the regional countries thanks to commercial relations. These economic ties continued to be strengthened after the Soviet Union collapsed, the central planning mechanism ended in 1991 with the complete termination of Soviet “trade as aid”. So Vietnam was no longer able to rely on Soviet Union and had to foster reforms as well as adopt a new outlook on foreign policy in 1991. According to this new outlook, Vietnam desires to be a friend to all and to diversify its relations with all countries in the world regardless of their political and economic system. The ideological approach to foreign policy was replaced by one based on national interest; thereby, priority has been given to relationships with neighbouring countries. With such changes in Vietnam’s policy, Vietnam began to develop all-sided relations with ASEAN. In fact, since 1989 the ASEAN countries has contributed significantly to Vietnam’s economic operations through their trade and investment in Vietnam and this, in turn, has created greater interdependence between them. In 1991, Singapore surpassed Japan to become Vietnam’s largest trading partner with bilateral trade exceeding \$US 930 million. Furthermore, Singapore and Malaysia also were the biggest foreign investors in Vietnam with \$US 186 million and \$US 163 million respectively in 1993 (Hoang, 1993). So it was not surprising when Vietnam expressed interest in joining the regional integration-ASEAN that is Vietnam’s bridge to the wider world as early as 1992, or when it did in fact join in July 1995.

After one year Vietnam become ASEAN’s member, it was the first time Vietnam participated in regional economic cooperation and free trade through AFTA. It is worth noting here that since 1990s, the efforts of Vietnam to integrate were much more apparent. In the same year of Vietnam’s accession to ASEAN, Vietnam also attempted so as to enter to the playing field in international trade through application for WTO membership. After the insufficient trading progress under Comecon with socialist countries, Vietnam finds it very crucial to expand trade the rest of the world as well as carry out reforms for further development in the future and joining WTO can serve for these rationales.

Other crucial important FTA Vietnam signed at that time is BTA with US. Even though the US used to be one of enemies in Vietnam’s war and the US also ended virtually all economic interchange with unified Vietnam as well as imposed an embargo on bilateral trade after 1975, but due to realization of the US’s

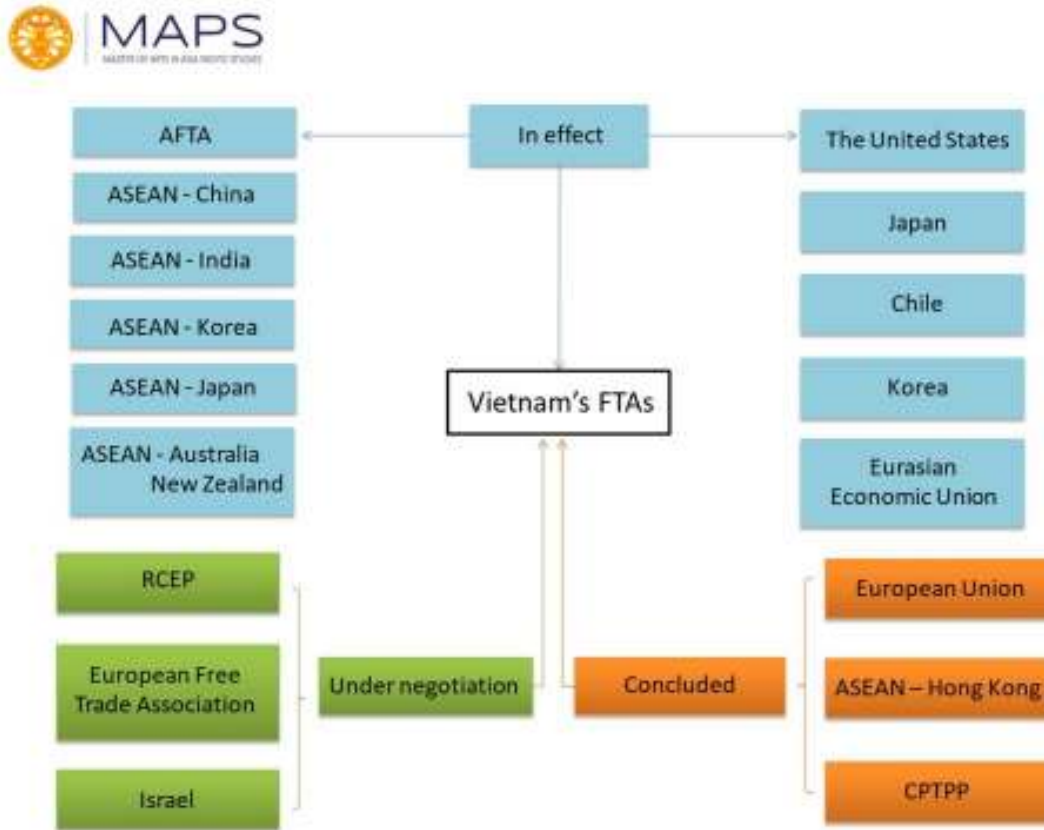
influence in international stage and the importance together with benefits from trading with large economy like the US, Vietnam gradually began to re-establish relations with the US and the US officially removed trade embargo towards Vietnam in 1994. Two countries normalized formal diplomatic ties in 1995 and move towards BTA that was signed in 2000.

It can be said that the period is the time for Vietnam to both integrate and learn as well as regulate gradually to prepare for the far-reaching integration in the future. From 2001 to 2006, Viet Nam relied on ASEAN for progress on regional integration so Vietnam has participated extensively and comprehensively in economic cooperation as well as in the developmental orientation process and seriously fulfilled the commitments and obligations of a member country under the motto of "proactive, active and responsible". Thus, as a member of ASEAN, engaging in collectively FTA discussions under the ASEAN bloc is inevitable. Until now, Vietnam had eight FTAs as a member of ASEAN including AFTA, FTA of ASEAN with China, India, Korea, Japan, *Australia and New Zealand*, *RCEP*, *Hong Kong*.

***c) The period of deep integration after accession into WTO***

*After participating WTO, Vietnam has been pushing the integration process quickly to catch up with the propensity of pursuing FTAs owing to the deadlock of WTO’s Doha ground and meet the need of reform and economic development of Vietnam. Hence, besides FTAs Vietnam has in the framework of ASEAN, Vietnam pursued FTA negotiations with Japan, EFTA, Korea as primary targets to conclude FTA as well as high quality FTAs such as Vietnam-EU FTA and CPTPP*

Besides signing FTAs with huge markets, Vietnam also emphasizes on new and potential market such as Chile. In addition, Chile is the first country in Latin America Vietnam negotiated to sign a free trade agreement with. This is considered a gateway for Vietnamese goods to penetrate into large markets in Latin America if the goods of Vietnam are able to enter the Chilean market, it can also penetrate into other markets in the Pacific Union and Latin American markets. Meanwhile, Vietnam actively engaged in FTA talks with EFTA consisting of Iceland, Liechtenstein, Norway and Switzerland. The signing of the FTA with the EFTA will create opportunities for the development of Vietnam's textile and apparel exports as EFTA links with the EU and the EU has been the main market for Vietnamese textiles and garments. In 2015, Vietnam also became the first nation to sign FTA with the Russian-led Eurasian Economic Union EEU – which includes Armenia, Belarus, Kazakhstan and Kyrgyzstan. As for Israel, after 23 years of diplomatic ties, Vietnam and Israel have become important partners. In terms of commerce, according to Embassy of Israel, Israel is one of Vietnam's major partners with bilateral trade volume swelling from \$US 375 million in 2011 to nearly \$US 1.7 billion in 2015. Prospects for co-operations have been seen in other fields such as investment, finance, services, science, technology and labour.



Vietnam's FTAs

#### 4. Vietnam's FTA with selected countries

Over the past three decades, Vietnam has deeply integrated into the economy of the world so the objective of this part is to capture the potential connections between Vietnam's participation in FTAs and the economic development in Vietnam. Viet Nam might consider to developing a strategy in its trade liberalization process to diversify its export markets, attracting FDI as well as serving the process of internal reforms.

In 1995, the country officially applied for accession to WTO and became one of WTO's members in 2007. Vietnam determined to participate in the organization since the early stage of "Doi Moi". Vietnam's economy in recent years has been an export-oriented economy with high openness and export has been playing a role as the engine of economic growth. Therefore, theoretically, after accession to the WTO, access to markets of WTO member countries at the MFN (preferential import tax rate), the transition to the next developmental stage through FTAs that grants much more preferential-access provisions than MFN is inevitable. Hence, besides WTOs, Vietnam also signed some FTAs with large economies such as the US, Japan, Korea, EU, and ASEAN.

***Vietnam-the US BTA***

The first FTA Vietnam signed unilaterally is BTA with the US in 2000, There are several following reasons being able to interpret why Vietnam picked up the US as the first country to conclude FTA.

Firstly, negotiation BTA with the US served as a stepping stone to Vietnam’s accession to WTO in 2007 since as a part of BTA, the US extended to Vietnam conditional most favoured nation (MFN) trade status, now known as normal trade relations (NTR). Economic and trade relations further improved when the US granted Vietnam permanent normal trade relations (PNTR) status on December 29, 2006, as part of Vietnam’s accession to the World Trade Organization (WTO). It can be said that the negotiation with the US was the most difficult in the WTO members, but fortunately, the BTA was implemented, so the negotiation was much smoother.

Secondly, choosing the US as the first one, demonstrates the role of the US’s market to Vietnam economy. Before 1990, trade relations between the two countries are one-way, only the US exported goods to Vietnam; by contrast, on the Vietnamese side, almost no Vietnamese products were exported to the US (Nguyen, 2016). But it is necessary for Vietnam to form economic ties with the US seeing that the US had the tremendous national strength in terms of economy and also are the most powerful country in the world after the dissolution of Soviet Union.

Hence signing the trade agreement with the US is beneficial a lot for Vietnam. On the one hand, it has been able to generate a great market access for Vietnamese exports. The difficulties in the early stage of “Doi Moi” to divert economy from centrally planned economy into to a market-oriented economy as well as other internal issues such as poverty alleviation, employments so it is extremely necessary to seek new markets for its exports, particularly labour-intensive products, which Vietnam has comparative advantages and previously was imposed high tariffs around 40% by US.

However, BTA granted Most Favoured Nation (MFN), Normal Trade Regulation (NTR) for Vietnam, as a result, the tariff rate fell sharply to 3% (Vo, 2005). This opened the way for the growth of two countries’ trade in general and Vietnam’s trade in particular

Vietnam exports to the market have soared in 17 years. In 1996 Vietnam and the US just started to negotiation BTA and Vietnam's exports to the United States amounted only \$US 0.319 billion in 1996. Until 2000, the figure increased slightly to \$US 0.733 billion and jumped into \$US 5.927 billion and \$US 14.23 billion in 2005 and 2010 in respectively. It is worth noting here that the Vietnam exports valued \$US 33.48 billion in 2015 and still increased to \$US 38.46 billion in 2016 accounting for a fifth (21.78%) of the country’s total exports. This is far higher than that in 1996 (4.69%) (Table 1).

Table 1: Export value and Share of export value in selected FTAs of Vietnam

Unit: \$US billion and %

| Year | US           |         | Japan        |         | Korea        |         | EU           |         | ASEAN        |         |
|------|--------------|---------|--------------|---------|--------------|---------|--------------|---------|--------------|---------|
|      | Export Value | % Share | Export Value | % Share | Export Value | % Share | Export Value | % Share | Export Value | % Share |
| 1996 | 0.319        | 4.69    | 1.546        | 21.3    | n.a          | n.a     | 0.9          | 12.4    | 2.58         | 22.8    |
| 2000 | 0.733        | 5.11    | 2.575        | 17.78   | 0.353        | 2.43    | 2.9          | 20      | 2.60         | 17.95   |
| 2005 | 5.927        | 18.27   | 4.340        | 13.38   | 0.664        | 2.04    | 5.5          | 17      | 5.56         | 17.13   |
| 2010 | 14.23        | 19.73   | 7.728        | 10.70   | 3.092        | 4.28    | 11.4         | 15.78   | 10.40        | 14.39   |
| 2015 | 33.48        | 20.66   | 14.14        | 8.7     | 8.93         | 5.5     | 30.94        | 19.09   | 18.25        | 11.26   |
| 2016 | 38.46        | 21.78   | 14.68        | 8.31    | 11.41        | 6.46    | 33.97        | 19.2    | 17.45        | 9.88    |

Source: Vietnam Customs, World Integrated Trade Solution and the Japan External Trade Organization

\* n.a: not available

Notably, before 1996, commercial relations between two countries was not developed and since 1994, Vietnam started to export to the US but it was insignificant, primarily the US exported to Vietnamese market so the US remained trade surplus until 1996. Nonetheless, the period from 1997 to now has witnessed a reserve in economic relations of Vietnam with the US when Vietnam has pocketed continuously the trade surplus with US. It was only \$US 0.1 billion in 1997 but rose gradually to \$US 0.28 billion, \$US 0.31 billion and \$US 0.45 billion in 1998, 1999 and 2000 in respectively and notably, climbed sharply to \$US 31.9 billion (Table 2). It is undeniable that US economy is the world's leading economy as well as has great scopes of market access so any countries in the world want to export goods to the United States.

Table 2: Vietnam's trade in goods with US

Unit: \$US billion

| Year | Export Value of Vietnam | Import Value of Vietnam | Trade balance |
|------|-------------------------|-------------------------|---------------|
| 1992 | 0.0                     | 0.0046                  | -0.0046       |
| 1993 | 0.0                     | 0.007                   | -0.007        |
| 1994 | 0.05                    | 0.17                    | -0.12         |
| 1995 | 0.199                   | 0.25                    | -0.05         |
| 1996 | 0.33                    | 0.61                    | -0.28         |
| 1997 | 0.38                    | 0.28                    | 0.1           |
| 1998 | 0.55                    | 0.27                    | 0.28          |
| 1999 | 0.6                     | 0.29                    | 0.31          |
| 2000 | 0.82                    | 0.36                    | 0.45          |



| Year | Export Value of Vietnam | Import Value of Vietnam | Trade balance |
|------|-------------------------|-------------------------|---------------|
| 2005 | 6.63                    | 1.19                    | 5.43          |
| 2010 | 14.86                   | 3.7                     | 11.1          |
| 2015 | 38.01                   | 7.1                     | 30.9          |
| 2016 | 42.09                   | 10.1                    | 31.9          |

Source: United States Census Bureau

According to the Statistics Portal, the US spent nearly \$US 2000 billion annually to import products from other countries showing the size of the largest import market in the world and demand of US' importers are extremely large. Even though the total export turnover of Vietnam to the US rocketed over 20 years but it also accounted for a relatively modest proportion of total imports of this country at approximately 1.15% in 2016. When a lot of Vietnamese businesses were interviewed, they responded that their anxiety was not in the size of market or competition in price. It is ability of Vietnam enterprises that is still limited and is not able to meet the demand of large numbers of partners (Nguyen, 2004)

Moreover, the US is also a very choosy market but the good thing is that Vietnam can export products to the US. Hence BTA is an opportunity for Vietnam to take advantage of the US's market. In total 40 items, Vietnam has exported to the US, textiles and garments posted the highest export turnover followed by footwear, wood and wood products, seafood. The US remained Vietnam's largest export market among 200 countries and territories that it had established trade partnerships with.

On the other hand, the US also is the world's leading source of technology, importing machinery from the US definitely helps Vietnam acquire advanced and modern equipment for the process of industrialization and modernization.

Finally, opportunities to attract direct investment from one of the most developed countries for the socio-economic development of Vietnam was also crucial at that time. While US's FDI from 1988 to 1993 (when trade embargo was not lifted), only reached \$US 3.3 million, only after the first year (1994) lifted the ban, this figure increased to more than \$US 266 million. Thus, the US jumped from 11<sup>th</sup> in 1994 to 8<sup>th</sup> in the top investors of Vietnam in 1995 (Nguyen, 2004).

### ***Vietnam-Japan EPA***

EPA with Japan is the first bilateral free trade agreement Vietnam has signed since the World Trade Organization's accession. In fact since 1996, Japan has been one of the most crucial and potential of Vietnam seeing that the export turnover reached \$US 1.546 billion and presented 21.3% in total value of Vietnam's exports (Table 1). So it is understandable that Vietnam desired to continue to export more products in the market, particularly, Japan has been one of the largest importer of many of the products

in which Vietnam holds an absolute advantage in producing, such as agricultural products, consumer textiles, footwear, processed food products and so on. Especially in bilateral relations, Vietnam has the opportunity to strongly export seafood as Japan committed to reduce tariffs on these products, equivalent to about 83.8% of Vietnam's agricultural exports (the highest rate among ASEAN countries in all EPA Japan signed with other ASEAN countries). In contrast, Vietnam desires to import commodities from Japan such as machinery, technology. Then, it is inevitable for Vietnam to enjoy much more benefits from EPA with Japan. Under the established commitments, Japan has pledged to liberalize 94.53% of trade revenue within ten years. Therefore, the VJEPA will improve the growth of Vietnam's exports while also insulating said exports from the downturns and fluctuations currently seen in the American and European markets (Nguyen & Shira, 2013). Thus, the export turnover of Vietnam in 2010 (\$US 7.728 billion) was nearly twice as high as that in 2005 (\$US 4.340 billion) and it also soared to \$US 14.14 billion and \$US 14.68 billion in 2015 and 2016 in respectively, as a result of signing EPA with Japan (Table 1).

***Vietnam-Korea FTA***

Korea is second developed economy in Asia Vietnam attempted to negotiate FTA. The trade relations between Vietnam and Korea began in 1983 and were strongly developed after 1992 when the two countries formally established diplomatic relations. The goal Vietnam towards to sign FTA with Korea is not different from the US and Japan because one of the most salient characteristics of Vietnam-Korea bilateral trade relation is the export-import structure is highly complementary and basically not competing directly against each other. The trade structure between Vietnam and Korea reflects the overall trade structure of Vietnam and its competitive advantages in terms of natural and human resources as well as cheap labour cost. Vietnam exports mainly fuel in the post-1992 and agricultural products to Korea and import mostly machinery, capital goods and production materials.

The structure of Vietnam's exports has witnessed positive transformation from raw materials and fuels to agricultural and manufactured goods. There was the largest share in the fuels and raw materials category that presented about 35.26% total export turnover in 1993 but this figure declined sharply to only 13.3% and 6.85% in 1997 and 2000 in respectively (Nguyen, 2014). Korea, currently, is one of the crucial markets for Vietnam's major exports such as textile and garments, telephones and parts, seafood, wood and wooden products, and footwear.

Exchange turnover has been continuously increasing from \$US 0.353 billion in 2000 to \$US 3.092 billion in 2010 and \$US 8.93 billion in 2015. There was a remarkable increase in 2016 after Vietnam and Korea signed FTA at \$US 11.41 billion, accounting for 6.46% in total Vietnam's exports. As a result, South Korea was the fourth largest export market for Vietnam, according to the General Department of Customs (Table 1).

***Vietnam-EU FTA***

In the same year with VKFTA, Vietnam also signed a high quality with EU. The strong market access commitments are expected to boost Vietnam-EU trade relations. Vietnam and the EU will eliminate import tariffs on more than 99% of tariff lines. For the very few remaining tariff lines, the two sides will give each other tariff quotas or tariff reductions. This can be considered as the highest level of commitment Vietnam has achieved in FTAs that have been signed so far.

Since the establishment of diplomatic relations between Vietnam and the European Community (EC) on 28 November 1990, economic relations between the two sides have grown steadily. But in general, for five years from 1990 until the signing of the Cooperation Agreement in 1995, the economic cooperation has been modest (Dinh, 2011). Economic activity was the developmental assistance of EU for Vietnam. However, the market always presents a large proportion of Vietnam’s market share. In 1996, Vietnam’s exports to EU amounted at \$US 0.9 billion, accounting for 12.4 %. There is an increase in exports Vietnamese goods to EU in the following years. In 2010, it reached \$US 11.4 billion and recorded \$US 30.94 billion in 2015 and peaked at \$US 33.97 billion in 2016 (Table 1)

With 500 million consumers, the signing of EVFTA will be an important impetus for Vietnam to access potential market and continue promoting economic and trade relations with the EU. As the FTA framework allows the elimination of tariffs on more than 90 types of tariffs, Vietnam is able to access easily to the EU’s market. This has resulted in sustained benefits for Vietnam. The reduction of tariffs alone will facilitate for Vietnamese exports increase to 30%-40% compared to the absence of an agreement. The sectors most likely to benefit from EVFTA are electronic products, footwear, textiles and clothing, coffee, rice, seafood, and furniture and so on. The average tariff of Vietnamese goods is about 4% when Vietnam exports to the market, but in fact, this level rises to 7% since most of Vietnam's exports are subject to the list of goods that are imposed high tariffs by EU. Thus, when EVFTA comes into force, Vietnamese goods will benefit greatly in terms of tax rates, contributing to the competitiveness of Vietnamese goods in the EU.

It can be seen that the reduction of tariff barriers thanks to EVFTA will bring many benefits to Vietnam because on the one hand, EU is a diversified and huge market; on the other hand, main exports of Vietnam and EU are complementary with one another other.

One point need to be noted in here that EVFTA is a high quality FTA so besides tariff barriers elimination, it also includes commitments behind the border such as investment, services liberalization, government procurement, intellectual property protection, environment, labour. This will require Vietnam to regulate certain domestic regulations being in line with policy of reforming administrative procedures and renovation of Vietnam's growth model, so it will bring about positive impacts on the economy in the long run.

## 5. Conclusion

After the fall of the Soviet Union in 1991, Vietnam has responded quickly to the international diplomatic isolation together with the loss of dominant source of economic aid and markets by the greater emphasis on comprehensive reform namely “Doi Moi” or renovation that was introduced in the Sixth Party Congress in 1986. Vietnam started its own integration with neighbour countries through participating in AFTA in 1996 and with the world through WTO in 2007. Nowadays, Vietnam is in the far-reaching integration due to a range of negotiations in FTAs with many countries. This process indicates that Vietnam has clear strategy in engagement in the process of trade liberalization via FTAs. by signing FTAs with the core advanced and major economy first as the US in 2000 and promoting FTAs with other developed countries both neighbour countries as Japan, Korea and the EU and multiple countries such as Chile in the Latin America region, European Free Trade Association, Eurasian Economic Union and Israel. The ultimate goals in signing these FTAs are to expand and diversify export destinations, attract investment inflows and serve domestic reforms particularly new generation FTAs such as Vietnam-EU FTA.

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## Economic Development Pattern under Military Regime: A Comparative Study between Park Chung Hee and Sarit Thanarat Administration

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### Abstract

Thailand and South Korea in the period of 1960s had some similar characteristics. Thailand was governed by Field Marshal Sarit Thanarat who was a military leader. South Korea was also under President Park Chung Hee. South Korea and Thailand established economy plan that attempted to develop their economy at about the same time which were the First National Economic Development Plan in 1961 in Thailand, and the First Five-Year Plan in 1962 in South Korea. These two plans brought many significant economic changes to Thailand and South Korea. This research going to compare the economic development pattern under the military regime between Park Chung Hee and Sarit Thanarat administration during 1960s. The objective is to explore the reasons that cause South Korea and Thailand had different results in economic development and to analyze what were the strength and weak points that Thailand should learn from South Korea. This study has been done by analyzing the key factors of development in these two countries, including the context of development, and the mechanism of development. The documentary research data was taken from the journals, scholar articles, books, and online databases in Thammasat University Library. The results show that apart from the external factor that pushed both countries to have economic transformation; cooperation among the military government, the bureaucracy, and the private sectors was important in order to dramatically bring about development. The outcomes of this research can be helpful not only for understanding of the past, but also for learning and applying in current situation in both countries.

Keywords: *economic development, military regime, President Park Chung Hee, Field Marshal Sarit Thanarat*

## 1. Introduction

The Classical Economic Models argue that an escalation in military budget will decelerate economic growth (Pieroni, 2009). Moreover, they also argued that the greater of government intervention the more negative impact on economic growth (Korkmaz, 2015). Interestingly, South Korea became one of the poorest country in the world after the World War II. Park Chung Hee was an authoritarian president through a coup d'état in 1961. In 1961 - 1979, Park Chung Hee and his military government, laid the foundation for the modernization of South Korea. This resulted to South Korea's development from being a country decimated by war, to one of the potential leaders of the Asia Pacific (Yi, 2006). The Park government attempted to focus on industrialization and modernization. This approach achieved spectacular results and the economy recovered within only two years. Even nowadays, most Korean people agree that President Park Chung Hee is "the most effective President ever" (Khaled, 2007).

At the same time, in 1959, Field Marshal Sarit Thanarat who installed himself as an authoritarian prime minister in a coup d'état also seized the government of Thailand. Field Marshal Sarit Thanarat also had the opportunity to develop the Thai economy outside the confine of a democratic system. He is the one who established The First National Economic Development Plan in 1961, which is still be continuing until today. The main objective of the first plan was economic development, industrialization, and export promotions, in a similar direction with Park Chung Hee was doing. Field Marshal Sarit encouraged private sectors to invest in industry, both domestic and foreign investment, and also attempted to utilize domestic resources as much as possible on industrialization. As a result of The First National Economic Development Plan, gross domestic product increased significantly.

To summarize, there were many similarities between these two countries. Before 1960, South Korea and Thailand faced destruction and poverty because of the war. In the 1960s, both countries faced coups led by the military, under President Park Chung Hee and Field Marshal Sarit Thanarat. The new leaders of both countries had the same objectives in terms of economic development, such as modernization, increasing national income per capita, and human development. Despite these similar conditions, within a very short time, South Korea prospered and became a developed country, but Thailand has not yet to achieve the same level of success. Therefore this research attempts to examine the reasons for this contrast.

## 2. Background and significance of study

In the 1960s, Thailand and South Korea had some similar characteristics. Thailand was governed by Field Marshall Sarit Thanarat who was a military leader, whereas South Korea also was governed by President Park Chung Hee. South Korea and Thailand established their economic plans at the same time: The First National Economic Development Plan for Thailand was in 1961, whereas the First Five-Year Plan for South Korea was in 1962. These two plans brought significant economic changes to Thailand and South Korea. Both countries developed rapidly at high growth rates. In addition to that, the World Bank identified them

as part of the “East Asia miracle”. Sarit contributed to changes in economic policy and established many economic institutions in Thailand. Park also led Korea to be an industrialized country through economic and industrial development. Overall, Thailand and South Korea had the similar objectives: industrialization, economic development, and raising standards of living.

Figure 1. Comparative an export rate between South Korea and Thailand (Million USD)

| Country/ Year | 1960 | 1970 | 1975  |
|---------------|------|------|-------|
| South Korea   | 33   | 882  | 5,003 |
| Thailand      | 408  | 710  | 2,208 |

Source: Asian Development Bank, Key Indicators, and Bhung-Nak Song, The Rise of the Korean Economy, Hong Kong: Oxford University Press, 1990.

Figure 2. Comparative the GNP per capita between South Korea and Thailand (US\$)

| Country/ Year | 1961 | 1970 | 1980  | 1990  | 1995   |
|---------------|------|------|-------|-------|--------|
| South Korea   | 80   | 243  | 1,589 | 5,667 | 10,000 |
| Thailand      | 100  | 195  | 686   | 1,508 | 2,750  |

Source: Asian Development, Key Indicators of Developing Asian and Pacific Country, Office of the National Economic and Social Development Board, Bhung-Nak Song, the Rise of the Korean Economy, Hong Kong: Oxford University Press, 1990. And Central Statistical Office, Statistical Yearbook of Thailand.

However, when examined in more detail from the figure 1, even in the beginning Thai export rate was higher, the number of export in South Korea was greater than Thailand overwhelmingly in the end. In the figure 2, particularly in the later years, living standards in Korea would eventually outstrip Thailand with two times its income rate in the 1960s and 3.5 times by the 1980s. From 1961 – 1995, Thai’s GDP per capita increased from \$100 to \$2,750, but at the same time, Korea could increase from \$80 to \$10,000. Thai GNP increased by 27.5 times, but Korea managed to increase by 125 times. This study investigates the reason why these two countries had very different outcomes within a short time despite starting from similar contexts.

a. **Research objectives**

- 1) To compare economic development in Thailand and South Korea while under their respective military regimes
- 2) To determine what successful economic measures Thailand could emulate from South Korea.

b. **Research question**

This research attempts to answer the question that what are the differences and similarities of economic development pattern under military regime between Park Chung Hee and Sarit Thanarat administration.



### 3. Literature Review

Regarding the literature in this field of study, it is necessary to go through relevant concepts such as economic development, military regime, and developmental state theory. Economic development occurs when an individual has the chance to participate in and contribute to the economy. The greater number of individuals participating in an economy, the more new ideas emerge for development. Economic development can be measured by the real per capita income, distribution of income, or even quality of life (Feldman et al., 2014). As for characteristics of states, military regime is understood through four characteristics; military rule, high level of military spending, a proclivity for aggression, and a predominant influence of military institutions (Berg & Berg, 1991). Manuel Castells used developmental state theory to explain government intervention in economic development. According to Castells, government has strong influence and power to specify the policies and guide the way to achieve economic development goal and change to industrialization through cooperation between public sectors and private sectors. The main idea is that in a state-led capitalism, government play an important role in developing the economy (Castells, 1991).

From the previous researches, such as *The Nation and Economic Growth: Korea and Thailand* (Yoshihara, 1999), *Economic development in South Korea and the Lesson for Thailand* (Tarnthip, 2010), and *Economic Reformation in Thailand* (Satitniramai, 2013), and the reviewed historical background of South Korea and Thailand, the author noticed that all of the findings converge in the fact that the government intervention is the key to economic development. South Korean government intervened in Korea economy more than Thai government did. This allowed Park government to have control in every economic program such as economic planning, investment, economic policy, foreign loaning, and even business activities. On the other hand, Sarit government let the technocrat took control of economic development. Another difference between Thailand and South Korea was that Koreans were more discipline than Thais. This is due to the threat brought by North Korea that created a sense of unity with the aim to have better life.

Based on literatures above, the author noted that there was a gap in the literatures concerning this topic, which is the relationship among three main actors at that time, which were the military government, the bureaucrats, and the private sectors. Because these three actors played a very important role on economic development in that period, hence, the author would like to focus on this idea in this research.

### 4. Methodology

#### a. Research design

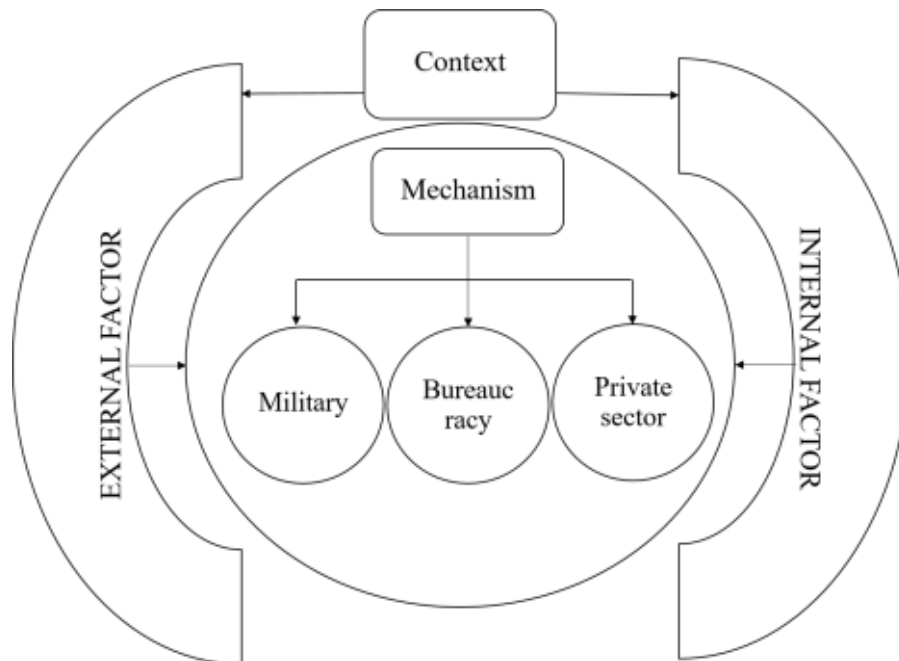
This thesis will answer the research questions by presenting a qualitative comparative study of the two economies. Accordingly, an extensive survey of the existing literature on the economic development of South Korea and Thailand in 1960s was conducted. This review comprises the main body of the research

material. Emphasis will be placed on the relationship among three main actors: the military governments, the bureaucracies, and the private sectors.

**b. Data collection and content analyses**

The research will use secondary data as the essential sources to answer the research question. Those sources include academic journals, papers, articles, books, theses, and researches. Finally, all the data obtained will be synthesized and analyzed qualitatively through interpretation and discourse analysis.

**4.3 Conceptual framework**



This framework explains the sources of economic development and its mechanism of action. Development comes from external and internal influences. The implementation of development measures is influenced by three main groups: the military government, the private sectors and the bureaucracy. In the case of Thailand and South Korea, these three actors became an important mechanism in economic development after seized the power by the two leaders.

**5. Comparison and Findings**

**a. The context**

**i. The external factor**

For Thailand, the World Bank and International Monetary Fund were the main factors that pushed Thai economic development. Two main conditions that the United States required the Thai government to follow, 1.) The government should stop the expansion of state enterprises in the future and, 2.) The government should support both foreign direct investment (FDI) and domestic investment as well. However, it was argued that actually the US and World Bank were not the main actor as understood. Sarit merely

attempted to weaken his political rivals, and applied the World Bank’s suggestion as a justification. For South Korea, North Korea played a significant role in influencing the direction and the pattern of South Korea’s economic development. South Korea spent about 6 percent of GNP on defense. The government also supported young people to embrace modernity, be education, and acquainted with modern organization and techniques. Thus the threat from North Korea led to South Korea’s nation-building. The sense of competition drove to concentrate their economic and non-economic development.

**ii. The internal factor**

The state’s decision to liberalize the economy that caused a shift from supporting state enterprise to capitalism and foreign investment and domestic politics was also significant to Thai economic development. Sarit’s decision on private sector, came from political reasons to undermine the opposition group that was mentioned above. Therefore, the reasons for economic reform were not only driven by international relations or economic situation at that time, but political issue as well. For South Korea, in 1950, The Korean War caused the most damage to South Korea economy. Then South Korea became one of the poorest country in the world. After the coup by President Park Chung Hee, the Park government led the new regime which resulted to the blooming of industrialization and the beginning of modernization (Minns, 2006).

**b. The mechanisms**

**i. The role of military government**

Park Chung Hee with Guided-capitalism or command economy had led the government to intervene in industrial sector both direct and indirect ways. The government intervened in the private sector by motivating, coercing, and even pressuring. Thus economic objective in South Korea was stable because it was commanded by the government. On the other hand, Field Marshal Sarit Thanarat believed in liberalization of the economy. Therefore the Thai government decided to reduce their role in the economy, while the Korean government increased their economic role. Also the state enterprises in Thailand was only limited to public utility, but for South Korea the government still focused on state enterprises. Moreover, Sarit and the army played important role in rural development rather than national economic development because the context of the cold war in order to contain communist in the region. Therefore government allowed the technocrats to determine the economic policy, and left the industrial development to be under private sector and the elite as the capitalist economy.

**ii. The role of bureaucracy**

Thai bureaucracy was highly dependent on economic institutions, because each economic institutions were directly responsible to the prime minister and all of them could not command to another one. Moreover, the pattern of setting up of these institutions led to incoordination in microeconomic and macroeconomic that caused Thai government to have more capacity in managing macroeconomic than microeconomic

(Satitniramai, 2008). This was different from South Korea because the Economic Planning Board was the completed institution of economic development. Thus Thai government could not have the exact and stable economic direction.

### iii. The role of private sector

The relationship between Thai government and the private sector in Thailand could be explained through the idea of pluralism. The idea of pluralism was that the government played fewer roles, such as no intervention in the establishment of private sector, to allow private sectors to be independent. The government did not need to be involved in negotiation between the interest groups. The role of the Thai government was only limited to providing infrastructures, law, and environment for investment. The government did not intervene in establishment of the private sectors. On the other hand, the relationship between Korean government and the private sector in Korea was based on corporatism model, whereby interest group or private sector could influence in economic policy and law by pressuring the government. Korean government was more independent than Thai.

## 6. Conclusion

To conclude, Thailand and South Korea developed the economy very well under the military regime in the 1960s in comparison to the previous period. Both President Park Chung Hee and Field Marshal Sarit Thanarat's era marked the beginning of economic development. The thing was that no matter how far they had developed, the role of leadership alone could not contribute to these achievements. Cooperation and synergy among the main actors, which were the military government, the bureaucracy, and the private sector, was also crucial. And the way they cooperate was important as well. Even though both governments had the same objective which was economic development, they propelled it in the different way. Thai government concentrated on rural area rather than whole country, thus the economic policy was controlled by the technocrats and the private sector was very independent. The result was that Thai economic direction was unstable because of an unobvious economic objective. And then Thai economy was improved, but slowly. On the other hand, state-led economy or command economy as Korean government could make the government, the bureaucracy, and the private sector worked together. Even if this strategy brought Korean government intervene in economy very much, but it led South Korea had stable and exact economic direction as well. That was the reason why Korean government could improve the economy rapidly.

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# The Continuity of Thailand's 'Bamboo Bending with the Wind' Foreign Policy: The Perception of National Independence

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## Abstract

This thesis seeks to analyse the motives behind the continuity of Thailand's traditional 'bamboo bending with the wind' foreign policy between 1868 and 2017. The research focuses on explaining how Thai leaders' perceptions on 'national independence' have played a significant role in directing this flexible foreign policy. This has been done by examining speeches at the cabinet meetings from four prominent leaders of Thailand, namely King Chulalongkorn, Prime Minister Prem Tinsulanonda, Prime Minister Thaksin Shinawatra, and Prime Minister Prayut Chan-o-cha. Each leader was selected to represent a different time period, world order, external threats, and domestic political structure. However, one common finding is that the image of being independence and free from external controls has remained as an honor and dignity of the nation. Therefore, Thailand would bend to whichever directions of the wind that allow the country to protect its national prestige based on the idea of national independence. By analyzing Thai foreign policy throughout a long period of time, this reveals how a desire in maintaining the image of national independence has long been at the heart of this lasting 'bamboo bending with the wind' foreign policy of Thailand.

*Keywords: Thai foreign policy, 'bamboo bending with the wind', flexibility, self-perception, national independence*

## 1. Introduction

The foreign policy of Thailand, likens a bamboo tree, is flexible enough to bend whichever direction the wind blows without breaking, yet always firmly rooted to the ground. The absence of a solid moral stance and principle allows Thailand to flexibly bend with any foreign powers. This reflects a unique approach to international relations of Thai diplomatic culture. The bamboo bending with the wind analogy commonly used to characterize the nature of Thai foreign policy behavior from the time of ancient Siam through to a modern-day Thailand. Despite its balancing of power between French and the British during the colonial period, its close alliance with the United States during the Vietnam War, its companionship with the Asian region in early twenty-first century, and its conciliation with Beijing during the age of China's rise; throughout a different time periods, world orders, global superpowers, forms of domestic government, and individual leaders, Siam or Thailand has consistently crafted a

flexible and pragmatic foreign policy from generations to generations. Therefore, the central question to this thesis is: why Thailand's 'bamboo bending with the wind' has remained continued? Which factor help maintaining the 'bamboo' characteristic in Thailand's foreign policy?

Thailand's bending with the wind is more than just to protect the country's survival. Rather, Thailand flexed its foreign policy in order to maintain its national core value which is the image of Thailand as an independent nation. Thailand's perception of its independence is a little more than just a free sovereign nation today, yet Thailand views itself as a long independent nation due to the fact that it is the only Southeast Asian nation to never been colonized during the age of colonization. This pride of national independence is embedded as Thai identity. As parts of national identity, therefore Thailand needs to protect its image of independence in order to maintain its sense of nation. Hence, foreign policy plays a major role in retaining the country's independent image.

This thesis evaluates the unchanging nature of Thai foreign policy between 1868 and 2017. It examines 149-year of Thailand's bamboo in the wind policy and offer a distinct reason behind this continuous nature of Thai foreign policy. Contrary to the traditional debate that generally argues that the ultimate goal in the conduct of bamboo diplomacy is the protection of national sovereignty, territorial integrity and to minimize the degree of foreign intervention in domestic affairs, this thesis insists that such conventional wisdom is outdated especially in explaining Thai foreign policy in the post-Cold War era when potential security threat is absent. Therefore, the central argument of this study is that the continuity of bamboo bending with the wind foreign policy is driven by Thailand's continuous desire to preserve its long lasting national image of independence because such image is one distinctive self-perception of the nation. Hence, the reason behind the bend is not to safeguard the national security, rather to retain its national identity. This thesis aims to examine how notional factor of self-perception, particularly Thailand views itself as an independent nation, has certain influences on the conduct of Thai foreign policy.

## **2. Thailand's 'Bamboo Bending with the Wind'**

### **2.1 Nature of Thailand's Foreign Policy**

An analogy of 'bamboo bending with the wind' is inseparable from a study of Thailand's foreign policy. Most analysts seem to be in agreement that Thai foreign policy is best characterized as flexible likens a bamboo tree bends with the wind, meaning "always solidly rooted, but flexible enough to bend whichever way the wind blows in order to survive" (Kislenko, 2002, p.537). This view has been evaluated Thailand's diplomacy from a distant past of the ancient Siam (Klausner, 1981). Several early Siamese kingdoms have demonstrated a flexible policy towards Great Powers. Based on the ancient practice of a Hindu-Buddhist cosmological concept of Mandala, the less powerful kingdoms often acknowledge the

superiority of the most powerful empires by submitting themselves as tributary states. This accommodation helps to guarantee the survival of the weaker polities (Busbarat, 2016). The ancient Siamese kingdoms submit themselves as a Chinese tributaries in order to maintain their autonomies, and to overcome the Khmer and Pagan kingdom (Kislenko, 2002).

Following the arrival of European powers in Southeast Asia, from the middle of fourteenth to sixteenth century, the Ayuthaya Kingdom switches focus and maintains complex yet friendly political, military and trade relationships with many Western powers (Kislenko, 2002). In the mid-nineteen century, with the arrival of European colonizer, the Chakri dynasty (Thailand's current dynasty) is capable of flexibility in playing off the British against the French and vice versa. Later, despairing to counter-balance between French and the British, Siam is flexible enough to reach out for Germany and Russia to be the new counter-balancers in the region in order to protect the Siamese national interests which is national sovereignty and territorial integrity (Kislenko, 2002; Busbarat, 2016). This makes the idea of flexibility becomes a core value in the conduct of Thai foreign policy (Busbarat, 2016).

The flexible policies continue as in the First World War, the Siamese king switches to hold on to the potential winner United States and the Allies power, and declares war on the Central Powers in order to undermining the European imperialism. Similar story repeats during the Second World War, following the stimulation of anti-Western sentiment, Siam - renames Thailand declared war on the British and the United States on January 1942. However, due to the fact that the United States does not accept the war declaration, instead recognizes a Thai in-exile-government in Washington who in opposition to the Japanese occupation. In the end, Thailand stays in the winning side and receipts war preparation (Kislenko, 2002; Busbarat, 2016).

In 1950s and 60s, during the Cold War, Thai foreign policy shifts from retaining contact with both democratic and communist bloc to adapting an anti-communist position. Thailand at the time adopts a pro-Western posture, especially retains close relations with the United States (Corrine, 1999). Later, at the time when the competition between the United States and the Soviet Union has declined, Thailand shifts its focus and re-approach with other great powers, such as China and Russia during the Vietnamese occupation of Cambodia in 1980 (Busbarat, 2016). In absence of traditional security threats during the late 20th century, Thailand attempt to maintaining a balance position between the current global hegemon United States, and the new rising power China, in order to be pragmatic and flexible in a new changing political environment (Busbarat, 2016).

## 2.2 The Definitions of 'Bamboo Bending with the Wind' Policies

The fundamental definition of 'bending with the wind' refers to the capable of flexibility. Thoroughly, the distinct characteristics of flexibility according to Thailand's 'bamboo bending with the wind' foreign



policy has been described as follows (Corrine, 1999; Kislenco, 2002; Chachavalpongpun, 2012; Busbarat, 2016):

1) pragmatism as Thai leaders acknowledges the nation's level of capabilities and strengths, and conduct a foreign policy in respond to the reality rather than to the idealistic principles or uninhabited ambitions;

2) absence of fundamental principles and moral stances as in changing its alignment without being overly concerned on losing its own principles and stances, nor overly concerned on losing trusts or benefits from other polities. Thailand is capable of making friendly relationships with whoever is in power or in a winning position regardless of its historical conflicts or policies;

3) accommodating the demands of the great powers through the strategy of alignment, bandwagoning and balance of power in order to maintain friendly relations, yet avoiding conflicts with any potential threats to its survival;

4) Opportunism as in seeking to take every opportunity to exploit from the superpowers of the day. While Thai foreign policy seems to depend on interests of the great powers, at the same time Thailand also takes advantages of them for its own interests such as to ensure its national security and stability;

5) The protection of national sovereignty has been the ultimate goal for Thailand's flexible foreign policy. This flexibility allows Thailand to preserve its status quo regarding the maintaining of national sovereignty, territorial integrity and also minimising external intervention into the domestic affairs.

### **2.3 The Study of Thailand's 'bamboo bending with the wind' Diplomacy**

Related to the discussion in the previous section, the study of 'bamboo bending with the wind' behavior in Thailand's foreign policy is relatively limited. This dues to several reasons. First, in most literatures on Thai foreign policy, the 'bending with the wind' concept is limitedly used in a descriptive manner rather than as an argumentative fashion. As mentioned above, the term 'bamboo bending with the wind' is inseparable from the study of Thai foreign policy. However, most of the time, the bamboo concept is used to describe the characteristics, natures and patterns of Thailand's foreign policy. Limited number of scholars have criticized or challenged the concept itself. As a long-lasting continuous conventional wisdom, therefore, the understanding of bamboo diplomacy seems to be taken for granted. This thesis is interested in the continuity of 'bamboo bending with the wind' behavior. It aims to examine a distinct reason why Thailand's 'bamboo' policy is continued, particular from the age of colonialism.

Second, it has been most of the time that the 'bamboo bending with the wind' is studied under a relatively short-term rather than in a long linear fashion. Scholars often focus their studies on a one specific point in time. For example, '*Siam and Colonialism, 1855-1909: An Analysis of Diplomatic Relations*' by Dhiravegin in 1974; '*Thailand's Foreign Policies: The Four Decades After The Second World*

*War (1945-1989)*’ by Corrine Phuabgkasem in 1999; *‘Reinventing Thailand: Thaksin and His Foreign Policy’* by Pavin Chachavalpongpun in 2010; *‘Bamboo Swirling in the Wind’’: Thailand’s Foreign Policy Imbalance between China and the United States’* by Busbarat Pongphisoot in 2016. The concept of ‘bamboo bending with the wind’ has appeared to describe the nature of Thai foreign policy in each different time period throughout its diplomatic history. However, the study of ‘bamboo’ policies in a long linear timeframe covering from a past history through to a recent period is limited, especially in the twenty-first century where a traditional threat is absent. Interestingly, as mentioned in the earlier section, the changing circumstances has not changed the flexible nature of Thailand’s foreign policy. Therefore, it is important to study the Thai ‘bamboo’ diplomacy in a continuous fashion in order to understand the motive behind its consistency.

Third and related to the characteristics of ‘bamboo’ policies discussed above, the general trend in major literature of Thai foreign policy studies view Thailand’s ‘bamboo bending with the wind’ nature based on a security-oriented notion. The reason behind Thailand’s flexible foreign policy almost at all time refers to the protection of national security through the maintaining of national sovereignty, territorial integrity and to minimizing a degree of external intervention into the domestic affairs. Theoretically speaking, Thailand’s ‘bamboo’ foreign policy has been limitedly understood through a view of realist approach, focusing on a struggle for power and survival in the international system. There is an absence of multidimensional understandings to Thai foreign policy. Moreover, this security-oriented view can be problematic when it comes to explaining Thai foreign policy in the present day where the significance of traditional security threat is lessening. Therefore, this thesis intends to insert a distinct angle to view and to understand the reason behind the continuity of Thailand’s ‘bamboo bending with the wind’ nature, using Thailand’s self-perception of independence.

### 3. Research Methodology

This study adopts a qualitative research method to understand the underlying reason of Thailand’s continuous ‘bamboo bending with the wind’ foreign policy. The thesis examines the possible connection between the role of self-perception and the conduct of foreign policy. The main strategy is to investigate how Thailand views itself as an independence - has never been colonized - nation has influenced and helped shaping the foreign policy preferences of the Thai leaders. It focuses on analyzing the role of self-perception as independence in the conduct of Thai foreign policy.

The analysis of self-perception in the conduct of foreign policy has been relatively ignored in the field of international relations. To understand human cognitive in political behaviors, international relations has borrowed the analysis of perception from the field of psychology. Adopting to the decision of policy makers, Robert Jervis (1976) argues in his ‘Perception and misperception in international politics’ that the perception of decision makers such as beliefs, principles and images appear as a basis driving force behind

political decisions. Perceptions determine the direction of foreign policy toward others in international arena (Herrmann, 1986).

This thesis employed the self-perception theory to analyze Thailand’s self-perception. The Self-perception theory argues that social behavior is formed based on ‘principles, attitudes and beliefs’ (Bem, 1972, p.55) which are formed based on the past history. This theory believes that the image formed in the first place is usually stable with little change occurring afterwards. Individuals usually want to reinforce their beliefs and images by conducting their behaviors to reflect such image.

Drawing to the case of Thailand, the formation of national image process started in the reign of King Chulalongkorn. The concept of nation was taught in the standard textbook of Thammachariya as a community of sharing similar historical experiences, cultures and values (Kullada, 2004). Prince Damrong wrote a Thai history text of Laksana kan pokkhong Sayam tae boran suggesting that one of the main characteristics of Thai people is ‘love of national independence’ (Prince Damrong cited in Chatchai, 1991, p.354) due to the past kings efforts in protecting the independence of Siam. Therefore, the image of Siam exited as independent nation, at the same time dictated the image of Siamese people as national independence lovers.

This historical narrative applied to four case studies representing Thai foreign policy in four different eras. The selected periods are:

- 1) King Chulalongkorn (1968-1910)
  - Significant event: Western Colonialism in Southeast Asia
  - International system: Multipolarity (Western Colonizers)
  - Form of government: Absolute monarchy
- 2) Prime Minister Prem Tinsulanonda (1980-1988)
  - Significant event: Cold War (the United States and the Soviet Union)
  - International system: Bipolarity
  - Form of government: Military government
- 3) Prime Minister Thaksin Shinawatra (2001-2006)
  - Significant event: The 1997 Asian Financial Crisis
  - International system: Unipolarity (The United States)
  - Form of government: Parliamentary democracy
- 4) Prime Minister Prayut Chan-O-Cha (2014-present)
  - Significant event: The rise of China
  - International system: The new bipolar world (The United States and China)
  - Form of government: Military Junta

The case selection is based on three main criteria. First, author selected the case studies from the reign of King Chulalongkorn to Prime Minister Prayut because the time of King Chulalongkorn was the official beginning of Thailand’s national image building process. The thesis is willing to examine how the image of independence established during King Chulalongkorn has influenced the direction of Thai foreign policy occurring afterwards. Second, each of the four selected cases illustrate a distinct political environment both domestic and international, as mentioned above, from timeframes, political events, world orders, forms of government to individual leaders. It is more efficient to evaluate the continuity of foreign policy with the concern of changing environment. Those differences help strengthening the overall argument regarding the consistent role of self-perception in shaping the direction of Thai foreign policy. Third, the four selected regimes share one similar strength, referring to a relatively long-term stable government. The administration of King Chulalongkorn was in power for 58 years, Prem for 8 years, Thaksin for 5 years, and Prayut for 3 years and ongoing. These numbers are large enough to prove the stability of the regimes. The author believes that stable governments are more likely to conduct or to adjust the policy closer to the direction of their own preferences due to their continued administrations. Therefore, the selected regimes are likely to offer a clear, solid and consistent directions in the conduct of their foreign policy which makes the analysis becoming more efficient.

In the analysis, the main source is relied on the speeches of the king/ prime minister delivered at the cabinet meetings. However, some other public speeches delivered by the king/prime minister outside the cabinet meets also be used. The thesis examines the role of national independence through analyzing leaders’ speeches in order to analyze the role of self-perception in shaping the policy preference of preserving its image of independence. The research has been done mostly through a traditional library research and online research. This thesis has relied upon archival materials, books, journal articles, newspaper and other online sources to support the analysis.

#### 4. Findings

Thailand’s self-perception appeared as a basis for constructing the foreign policy of independence. As self-perception theory, discussed in Research Methodology section, argues that social behaviors are strongly influenced by one’s beliefs and principles based on one’s historical experiences. This well explains the connection between self-perception and the conduct of Thai foreign policy. Thailand or formerly known as Siam had experienced freedom and independence during the colonization period, leaving Siam as the only Southeast Asian nations not being colonized. This has strongly affirmed the self-perception of independence for Siam.

To consolidate the nation's image of independence, Thai leaders adopt various foreign policy strategies in order to preserve a sense of independence for the Thai people. In the case of Thaksin administration,

Thailand's image of independence strongly influenced the direction of his foreign policy. In 2001, Thaksin came to power at the time when Thailand was still suffer from the 1997 Financial Crisis. The collapse of Thai economy followed with increased rate of unemployment and suicide, plunged numbers of Thais into difficult conditions. With financial assistance and reform guidance from the International Monetary Fund (IMF), overall Thai economy gradually recovered from deep recession. Nevertheless, the IMF confronted many criticisms from both Thai and non-Thai critics. At the time, Thailand was seen as a 'US puppet' surrendered to the IMF conditions (Gordon, 2001, p.118). The economic reform program was considered as a modern form of colonialism, spreading the US influence of neoliberalism and financial liberalism ideologies onto Thailand's economic sovereignty (Si-Ariya, 1999). This loyalty to the United States diminished a sense of national pride in its dependence for the Thais.

As Thailand's image of independence had been challenged, the Thaksin government, in response, took a major role to abolish the country's image of dependent nation. Thaksin employed a more assertive and militant role through the anti-IMF, anti-US and anti-Western-influence sentiments in order to prove to all Thais that their nation strongly refused to be subordinated under any foreign influences. This can be seen through Thaksin's famous phrase such as "U.N. is not my father" (Tunyasiri & Ashayagachat, 2003). The image of submissive Thailand further abolished through Thaksin pro-Asia foreign policy. Thaksin successfully relocated Thailand at the forefront of the Asian region as the central hub for regional cooperation, at the same time spreading Thai influences over its neighboring countries. Thailand was a centered to several regional cooperation such as the Asia Cooperation Dialogue (ACD) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). This image of absence of external controls rather a self-dependence and a regional influencer helped restoring a sense of independence to all Thais.

Thaksin's restoration a sense of independence to the people of Thailand helped boosting his popularity at home. As many claims, Thaksin's pro-independence foreign policies was the utilization of Thailand's independence image to satisfy his own interest in stimulating his domestic supports (Symonds, 2001; Lamb, 2004; Bello, 2005). Thaksin government won an outright majority in the election, for the first time by any party ever since 1991, and was able to secure his position in the second term. His success based on the use of the image of independence as a political tool reflects that the people of Thailand still views their nation as independence and also willing to preserve the existence of such image. In the end, it is people's desire to protect the image of Thailand as an independence nation that directed the direction of Thailand's foreign policy during Thaksin's administration.

## 5. Conclusion

This thesis has demonstrated that Thailand's self-perception of itself as an independent nation is relevant in the study of Thai foreign policy. Self-perception was built and sustained through a process

of the formation of national image. This image embedded in the perception of the Thai people and became a fundamental ideal of the nation as reflected in the conduct of foreign policy. Each leader used the image of independence differently for different purposes. Thai leaders employed various strategies regardless of fundamental political ideologies, moral stances and historical conflicts to maintain the national sovereignty, territorial integrity and minimising foreign influences in domestic affairs in order to preserve the image of independence for Thailand. It is the continuous image of independence that carries on the foreign policy preference of flexibility. Therefore, this thesis concludes that Thailand's self-perception of itself as an independent nation has played a role in sustaining the continuity of 'bamboo bending with the wind' foreign policy for Thailand.

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## Refugee Status Determination (RSD) Practices in Thailand

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### Abstract

Most scholars agree that asylum seekers are entitled to Refugee Status Determination (RSD) procedure. The fact that Thailand does not acceded to 1951 Convention Relating to Refugee Status and its 1967 Related Protocol makes it depends entirely on national RSD mechanism. This work acknowledges the prominence of refugee status as it paves the way to protection mechanism for refugees afterward. The aim of this study is to explore the refugee status determination regime in Thailand which ultimately is measured how effective it is being conducted. The measurement is done through examining what level Thailand conforms its practices to the core values of RSD procedure set forth by the United Nations High Commissioner of Refugees (UNHCR) which is internationally recognized as the expertise agency on refugee arena. Upon discovering of RSD practices, it shows that despite Thailand has no formal RSD procedure, Thailand does attempt to adhere its practices to international standards; creating RSD ad hoc style of procedure. Although an ad hoc RSD is conducted by the Thai government, UNHCR is assumed to carry RSD for urban refugees (except Myanmar asylum seekers) under UNHCR's own mandate. The effectiveness of RSD practices in Thailand, hence, depends on the examination through the aspect from the Thai government or UNHCR mechanism.

Keywords: *refugee, refugee status determination, RSD, migration, Thailand*

### 1. Introduction

Most scholars agree that refugees are entitled to international protection mechanism. Moral obligation is within international refugee laws that states have a duty to adhere themselves to. Ironically, those countries that do not acceded to 1951 refugee convention and its related protocol seems to have a difficult time to fully relate themselves to the ideal of providing protection to refugees. One explanation could be that because the refugee status is not yet recognized by states which makes the rights to refugee unrelated. In that regard, the question of what should come first of the rights or the status of refugee may arise. 'Persons recognized by a country's asylum authorities as refugees under the 1951 Convention/1967 Protocol are normally considered by UNHCR as coming within its international protection mandate' (UNHCR, 2005). In short, the protection regime would be fully functioning when the governments granted refugee status to



those who seek refuge. This work acknowledges the prominence of refugee status as it paves the way to protection mechanism for refugees afterward. This work aims to explore on the refugee status determination regime in Thailand. It further examining what level Thailand adhere its practices to international standards by focusing on the two key conductors; the Thai government and the UNHCR. The main purpose is to determine how effective of RSD procedure is being conducted in Thailand by measuring with the core values of Refugee Status Determination (RSD) set forth by the United Nations High Commissioner of Refugees (UNHCR).

The author sees that the outcome of this study will contribute to the further study of RSD scholarly scrutiny that others expressed the necessity to develop one (Saltsman, 2014). This paper also contributes itself as one of the useful sources in finding answers to lingering questions such; how protection mechanism toward asylum seekers could be enhanced and What other ways to handle the RSD effectively without the breakouts between key stakeholders. Given the situation where Thailand RSD practices data is extremely limited both term of official publications and academic articles.

## 2. Methodology

This work focuses on the fact findings and analysis by using primary and secondary data. The qualitative study will cover both administrative structure and the practices that being carried out by different actors such as Thai Government, local authorities, and UNHCR. That includes the exploratory of Thai regulations and its practice related to asylum seekers. The sources will be gathered through any publishing of RSD process related materials such as government official reports, country reports, and documentary review from institutions and IROs. The collection of the data will be framed from 1990 till present time, considering that the trend of RSD practices might be different through each Thai governments throughout the period. At the same time, the reasons and motivations behind the practices, through the exploration of power relationships among actors, are emphasized on as well, as it justifies how the policies and regulations are being translated into actions (Hamlin, 2012; Saltman, 2014). The collection of information would reflect how Thailand response to the situations.

The second method that will be used is the informative seek out from RSD lawyers (informal interview). This method aims to gather to most recent RSD practices in Thailand. However, the number of RSD lawyer in Thailand is less than ten. The researcher had initially contacted four through personal connection. At the end, only two were available to do informal interview.

| Name                     | Organization           |
|--------------------------|------------------------|
| Kohnwilai Teppunkoonngam | Private RSD Lawyer     |
| Megan McDonough          | Asylum Access Thailand |

The set of questions to be used in interviewing RSD lawyers are;

- 1) How long have you been involving with RSD in Thailand?
- 2) Is there RSD procedure or regime existing in Thailand?
- 3) How is your experience with the RSD regime in Thailand?
- 4) How consistent of the regime being conducted?
- 5) What are the strengths and weakness of the RSD practiced in Thailand?
- 6) What are the prominent issues that asylum seekers faced?
- 7) What are the tactics you use to gain favorable decisions?
- 8) Are there any concerns about the RSD system as a whole?
- 9) The Procedural standards and safeguards elements

### 3. Literature Review

It is noteworthy to mention that there is limited in number of literature done on the RSD procedure in Thailand. One of the reasons is due to the sensitivity of the information sharing between UNHCR and the Thai government in regarding sovereignty, national security, and foreign affairs issues (i.e., Thai-Burmese relations) (Muntarbhorn, 2003). Not only that the information would be heavily confined but also that the most up-to-date data is severely lacking. Nonetheless, the literature review focuses on three themes; the factor affected RSD system in states, the RSD operation in Thailand, and the element of effectiveness in RSD Procedure.

First part of the review explores what factors potentially affect the refugee status determination system in states. It is important to take a step back and look at the big picture of how RSD originated before determining how effective it is. There are three main concerned aspects that influence domestic refugee policy which are; perception on refugees, national security, and International relations (Jacobsen, 1996). They are rather inter-related influencing each other in a complex way.

Second part of the review aims to observe the RSD operation in Thailand. Muntarbhorn (2003) discovered that that there was a non-consistency in interpreting the definition of refugee; particularly to Burmese Refugees. The criterion was falling short of who is qualified as refugees; between those who effected ‘directly from the armed conflict event’ or ‘consequence of armed conflict.’ Consequently, many of those who should be screening in have been left behind and deported back to Burma which that violating the non-refoulment principle. In his work, he stated that the Provincial Admission Board that established specifically to screen Burmese refugees had become ‘dysfunctional and diverse in opinion’ during in 2002 (Muntarbhorn, 2003).

While Muntarbhorn focuses on the broader sense of RSD operation in Thailand, Alexander emphasizes on the details of RSD elements that she argues ineffectively carried out by UNHCR. She believes that because UNHCR doesn't provide 'a clear RSD guidelines', the practice of it then consequently inconsistent within UNHCR itself, resulting, somehow, in ineffective RSD operation coordinating with the governments (Alexander, 1999; Pacifico, 2013) She explores the RSD elements that conducted in Thailand, declaring that there is needed of more transparency and openness in enhancing fair hearing procedures.

The third section looks at elements of effectiveness in RSD procedure. Since, the research question concerns the elements of RSD effectiveness, the reason of justification to draw elements from UNHCR are mainly three; first the organization has been conducting RSD procedure for over fifty countries, which in additional of twenty countries it conducted jointly with the government. That reason has also made UNHCR being the second world largest of RSD body. Most importantly, Thailand has been embracing UNHCR's assistance since 1975. In that sense, Thailand has recognized the legitimacy of UNHCR's RSD standards of procedural. The core elements model is adopted from 'The Handbook on Procedures and Criteria for Determining Refugee Status' (UNHCR, 2003) and 'The Self-Study Module on Refugee Status Determination' (UNHCR, 2005).

#### **I. Procedural standards**

- Access to asylum determination (non-refoulement Principles)
- Specialized authority with single examination

#### **II. Procedural safeguard and guarantee**

- Right to access information; including reasons for rejection, report of personal interview, and other information on file
- Right to Confidential policy
- Right to legal assistance and representation
- Right to appeal procedure

Mathew sees that, 'due process and procedural fairness' are state's duty ordained directly from Human Rights law (Mathew, 2010). Chetail emphasizes on one of the prominent elements that indicates right procedural which is the time-appropriate on granting refugee status that it must not be 'unreasonable delay' (as cited in Mathew, 2010; Goodwin-Gill, 1983; UNHCR, 2005). Mathew, likewise, claims that; 'Refugee status is often the only form of legal security available to those able to claim it. Thus, delaying the attainment of legal status denies access to rights owed to a refugee. The requirement for due process thus carries with it a requirement for granting refugee status without unreasonable delay (Mathew, 2010).

However, the literature reflects that there is certainly a gap of knowledge in RSD practices, especially in Thailand. There are numerous of refugee protection articles but severely limited on RSD which the existed

documents are mostly outdated. The measurement of effectiveness of RSD being practices, by both conductors; the Thai government and the UNHCR, have never been inclusively examined before.

#### 4. Findings and Analysis

As Thailand does not own any domestic legal framework in conducting RSD, the refugee status then does not get fully recognized in Thailand. In that regard, Thailand has invited UNHCR into State in 1975, when Thailand realized it was beyond its capability to conduct RSD to mass influx of Indochinese refugees. Furthermore, asylum seeker and Refugee in Thailand can be categorized into two broad groups. First, ‘Camp asylum seeker and refugee’ which the Thai government took absolute authority in screening in refugees into temporarily shelters along the borders. Second, ‘Urban asylum seeker and refugee’ which UNHCR conduct RSD for those who made their way into urban areas expressing the will to file for refugee claims.

##### Procedural Standards:

###### I. Access to asylum determination

This is the initial step to ensure that genuine refugees get the opportunity to obtain their status which pave the way to further international protections as well as finding them the durable solution.

###### II. Specialized authority with single examination

To achieve the best quality of RSD, it is necessary to have single RSD expertise unit who determine refugee status. Single examination means all forms of rights is included during the process. Specialized authority with single examination will enhance the efficiency in term of status decision-making.

| Procedural Standards                                     | UNHCR<br>(Urban Asylum Seeker/<br>Refugee)  | Thai Government<br>(Camp Asylum Seeker/<br>Refugee)  | Effects  |
|--|---|--|--|
| <b>I. Access to asylum determination</b>                 | - Conduct RSD for Urban asylum seekers. They can access to the determination but limited for some nationalities | - No official RSD operation in camps<br>- Asylum seekers at territory entry points get Limited accessibility of determination. | - Urban and camps asylum seekers get different treatments on status determination<br>- Potential refugees is prevented to get international protections they are entitled to |
| <b>II. Specialized authority with single examination</b> | - Assumed specialized authority with single RSD examination for urban asylum seeker                             | - Multiple authorities exercise camp management<br>- No single RSD examination   | - Camps refugees confused who in authority they can approach   |

Source: Author’s own analysis

**Procedural Safeguards and Guarantees:**

I. Right to access information

The written reports provide the concrete evidence for asylum seekers and refugees to refer to their own case data

II. Right to Confidential policy

The confidential policy concerns the life security of asylum seekers and refugees. Their information should not be shared with the origin countries or outside sources in purposely to prevent asylum seekers facing the previous or future fear of persecution.

III. Right to legal assistance and representation

Right to legal assistance is recognized as a cornerstone in protection safeguard. As in reality, the RSD procedure itself is complicated and not easily to understand. Quality legal assistance and representation is a tool that helps asylum seekers be more prepare with the procedure, especially during RSD interviews.

IV. Right to appeal procedure

The appeared procedure give asylum seekers the second chance to challenge the negative decision (only when there is new evidence of proof). The RSD officer can mistakenly made the decision. The right to appeal is a way to reaffirm the rejection of refugee status that it is made concisely.

| Procedural Safeguards and Guarantees | UNHCR (Urban Refugee)  | Thai Government (Camp Refugee)                        | Effects   |
|--------------------------------------|--|---|---|
| I. Right to access information       | - UNHCR does provide but not all the information on files; ex: Transcript of interview, the rejection letter | - Thai authorities do not share information on files. | - Asylum seekers faced difficulty in defense themselves to contradict claims                  |
| II. Right to Confidential policy     | - UNHCR shares necessary information with the Thai authorities but not outside sources                       | - Share information to origin countries               | - Asylum seekers and refugees get forced repatriation where they face the fear of persecution |

| Procedural Safeguards and Guarantees              | UNHCR (Urban Refugee)   | Thai Government (Camp Refugee)                          | Effects  |
|---|---|---|--|
| III. Right to legal assistance and representation | - UNHCR has partnered with legal representatives NGOs; allowing asylum seekers to be assisted in RSD preparation        | - No legal assistant on RSD procedure to asylum seekers | - The quality of RSD can be affected as if the asylum seekers fail to understand the procedure steps |
| IV. Right to appeal procedure                     | - UNHCR practices appeal procedure when asylum seekers get negative decision (only when there is new evidence of proof) | - No appeal procedure                                   | - The RSD procedure get to be challenged. Benefiting both the mechanism and asylum seekers           |

Source: Author's own analysis

## 5. Conclusion

Upon the completion of this research in answering the question of 'How effective Refugee Status Determination procedure conducted in Thailand is', the author has learned the following significant knowledge which has led to answer the question:

- 1) The category of refugees in Thailand can be categorized into two: Urban and Camp refugees. The Thai government allows UNHCR to conduct RSD for urban refugees. Meanwhile, refugee camps are fully under the Thai government authority to carry screening-in process. Despite the lack of national framework on RSD, the government attempts to adhere itself to international standards of practices.
- 2) The effectiveness of RSD practices in Thailand is examined through two conductors; UNHCR and the Thai government. It is necessary to take into consideration that UNHCR exists on the merit of permission granted by the Thai government. Any practices must be notified and approved by the Thai government.
- 3) By using international standards of practices provided by UNHCR, it is possible to investigate each element accordingly to perspective preferred. As concluding, it could be seen that the RSD practices are not consistent regarding; first, not all asylum seekers get access to the determination

process which it is the purpose of having RSD procedure at the first place. Second, different groups of asylum seekers and refugees get treated differently by different authorities. Since it is State responsibility to conduct fair and efficient RSD, this research concludes that the level of effectiveness of RSD conducted in Thailand is low and inefficient.

- 4) Notwithstanding, in the light of ineffectiveness of current RSD system, earlier this year, the Thai cabinet approved the proposal to be finalized on comprehensive screening mechanism for undocumented immigrants, asylum seekers and refugees, which will pave the way to standardize RSD system. Therefore, that could create more effective RSD procedures by incorporate all the procedure standards, safeguards, and guarantees to all asylum seekers. The potential refugees have more chances to get recognized or at minimum will be included in protection mechanism by the Thai authority. In that regard, the future observation must be kept in close attention to see if positive practices will be implementing.

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# Factors Attracting Investors to Invest in Laos: Case Study of Savan-Seno Special Economic Zone

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## Abstract

In 2003, the Lao government launched the first Special Economic Zone called “Savan Seno Special Economic Zone” or in short SASEZ, located on road no.9 of the East West Economic Corridor. It is Lao government’s policy to support and promote investment in Laos to create job opportunities and to enhance labor skills in Laos. However, the number of operating projects in the zone is still lower than it supposed to be, accounting for only 55 percent of registered projects. In addition, the study of the main challenges of SEZ in Laos that affect the number of investors is limited. It is understandable that it is timely to study this issue. The purposes of this study are to examine the factors, which attracted investors to invest in SASEZ, to rank the important factors from the perspective of investors, and to provide policy recommendations in order to improve the SASEZ. The finding is guided by three main theories, which are Heterodox approach, Agglomeration economies’ approach, and OLI paradigm theory. The study uses surveys applying Likert-type Scale method; in-depth interview targeted to government officials who are responsible for this task, investors who invested in this zone, as well as academicians who are experts on SEZ in Laos; and the review of published and unpublished sources as the secondary data. The results show that firstly, good location, where the cost of production and labor are cheaper than many countries, is an important factor that attracts foreign investment. Secondly, the flexible legal control and supports from local authority are necessary for both domestic and foreign investors.

*Keywords: Special Economic Zone, Foreign Investment, Domestic Investment*

## 2. Introduction

### 1.1 Special Economic Zone

The concept of special economic development zone in Lao PDR was introduced in 2000 by Japan International Cooperation Agency (JICA) after the feasibility study of the Second Lao-Thai Friendship Bridge construction in Savannakhet province. According to the Decree on Special Economic Zone and Specific Economic Zone in the Lao PDR,

*“Specific Economic Zone is the area that the Government has determined as the area having the location and economic environment which can provide facilities and autonomy for undertaking business operations more than other areas countrywide, through comprehensive building of social and economic infrastructures, institutions and so on with a view to raising the competitive capacity of the business operations which will be the incentive for attracting the investment of all parties so that the economy in this area may be developed at a faster pace, compared to other areas”*

*(Decree of Prime Minister on Special Economic Zone and Specific Economic Zone in the Lao PDR, 2010).*

## 1.2 Savan Seno Special Economic Zone

Savan Seno Special Economic Zone is the first special economic area in Laos, established under the decree of Prime Minister No 148/PM on 29 September 2003. It covers 677 hectares and divided into four zones, located at the tip of the Second Friendship Bridge and along the Road No.9 in Savannakhet province. The main objective of establishment of SEZ is to promote the investment for production, trade, and services along East-West Economic Corridor (EWEC) managed by specific decree of the zone based on the market economic mechanism under the management and inspection of government.

## 1.3 Statement of Problem

There is a gap of investment between inside and outside the SEZ (only 31.04% of investment inside SEZ). Savan Seno has established for 15 years, but the number of investment is still lower than it supposed to be. Moreover, the study of the main problems within SEZ that affect to the investors is limited. Consequently, the author deems this as a good opportunity to examine the factors attracting investors to invest in Savan Seno Special Economic Zone.

## 1.4 Objectives

The objectives of this study are to:

- 1) Examine the factors which attracted investors to invest in Savan Seno SEZ,
- 2) Rank the important factors viewed by investors who invested in this SEZ,
- 3) Provide policy recommendations to improve SEZ in Lao PDR

## 2. Literature Review and Research Methodology

### 2.1 Literature Review

The finding is guided by three main theories, which are Heterodox approach, Agglomeration economies’ approach, and OLI paradigm theory. Theories mentioned that SEZ is the best instrument of the government in order to develop the domestic economy and to compete with the world economy; since the government

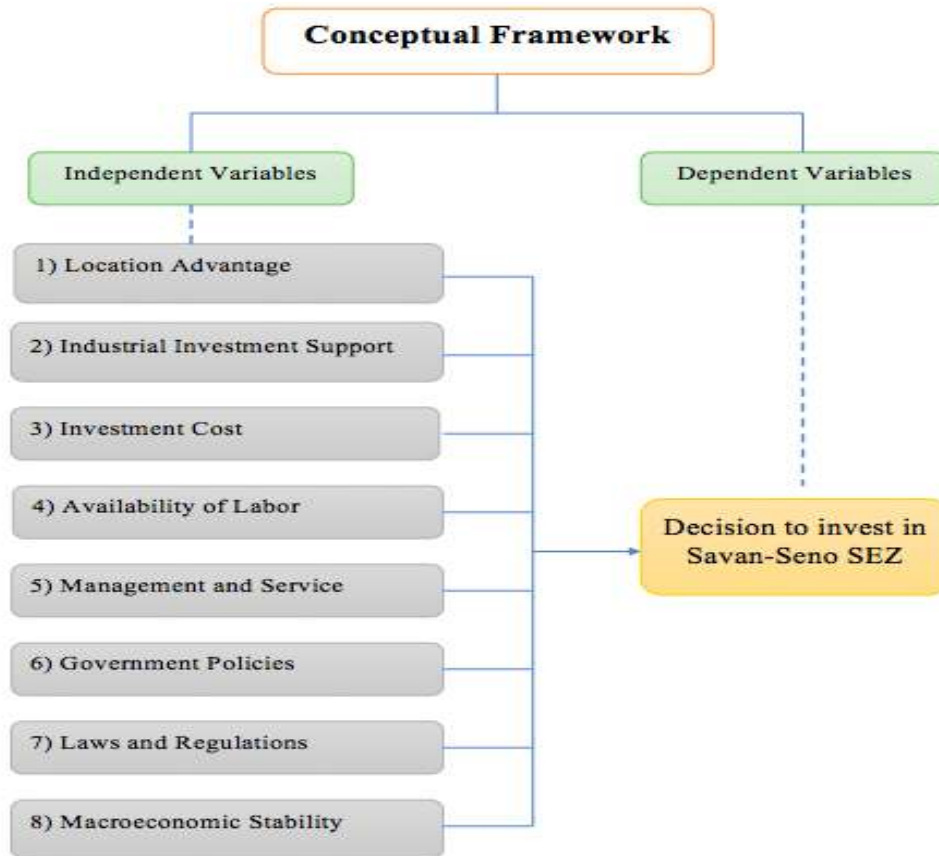
plays an important role in terms of investment, building human resources, technology transfer, institution setting, promotion policy and institutional reforms (Aggarwal, 2010).

In order to achieve the goal of establishing SEZ, location is one important point that government should be considered because if it was located in a wrong place, the investors might not come to invest. Aside from good location, government's initiative such as government's support, government office's performance, law enhancement could be the successful factors in order to develop the SEZ as well (Funkhiaw, 2014).

A study of FDI in Vientiane Industry and Trade Area, aimed to compare the investment promotion policy between inside and outside Industry and Trade Area. Besides, it also analyzed opportunities, challenges, and current problems of the investors. The study found that from 2005-2011, there were 1,162 investment projects in Industry and Trade Area in Lao PDR, which came from more than 44 countries. The main sectors were electric energy, service, industry, construction and agriculture. Likewise, due to the low cost of electricity, water supply and land lease as well as long period of land concession (75-99 years), tax holiday 3-10 years and quick process in terms of registration compare to investment outside the Industry and Trade Area; so all these reasons made investors decide to come to invest in Lao PDR. Nonetheless, there were some challenges for investment such as lack of world class infrastructure and availability of labor (Nammanivong, 2013).

## 2.2 Research Methodology

The data for this study was collected from both primary and secondary sources. The primary data was collected by in-depth interview and questionnaires and applied in Liker-type Scale method. The samples are companies that invested in Savan Seno SEZ, government officials who are responsible for this task, and academicians who are experts on SEZ in Laos. The questionnaires asked the samples to rate the importance of attributes that related to investment in Savan Seno SEZ, also to rank the most attractive and problematic factors of doing business in Savan Seno SEZ. Moreover, the findings are based on the conceptual framework below.



### 3. Findings

#### 3.1. Level of importance (Likert-Scale)

The author has classified the survey questionnaires using the cross-tab dividing samples into groups by number of the employment, nationality, and business sector.

##### 3.1.1. Number of Employment

The number of employment symbolizes the size of business and it is divided into two groups; the companies that employed less than 100 workers would represent the SMEs or the companies that based on high technology or machinery. For the companies that employed more than 100 workers would represent the bigger scale of business or the business that based on labor intensive. Firstly, the companies that employed less than 100 workers have rated quality and availability of infrastructure, and quality of one stop service as the top choice in terms of importance of doing business at Savan Seno SEZ, followed by tax incentives, and logistic cost respectively. For the two least important attributes are first, quality of labor and non-tax incentives. Second, macroeconomic stability, convenience to access to services and entertainments, time use for delivering goods from production bases to destinations, and operating cost.

For the top three attributes of the companies that employed more than 100 workers are land lease/factory rental, logistic cost, and tax incentives, quality and availability of infrastructure. For the two least important attributes are first, non-tax incentives, second macroeconomic stability, utilities cost, and convenience to access to services and entertainments.

### 3.1.2. Nationality

This part is separated into two groups, which are ASEAN and Non ASEAN countries in order to find the different demands of investors who came from different regions. The top three scores of the companies from ASEAN countries are first, land lease/factory rental, and domestic laws and regulations. Second, quality and availability of infrastructure. Third, time use for delivery goods from production bases to destination, logistic cost and tax incentives had the same score. For the two least important attributes are first, operating cost; second, macroeconomic stability, utilities cost, and non-tax incentive.

The top three attributes of companies from Non-ASEAN countries, starting with tax incentives, secondly, logistic cost, quality and availability of infrastructure, and quality of one stop service had the same score; and lastly, utilities cost. For the two least important attributes are time use for delivering goods from production bases to destination and convenience to access to services and entertainments.

### 3.1.3. Business Sector

The last category is divided into two groups, which are industrial sector and service sector in order to find the different demands since each sector might has different purposes to come to Savan Seno SEZ. The top three scores for the industrial sector are first, domestic laws and regulations, and quality and availability of infrastructure. Second, tax incentives, logistic cost, and land lease/ factory rental. Lastly, availability of labor, and quality of one stop service.

In terms of service sector, the top three scores are first, quality of one stop service and tax incentives. Following by quality and availability of infrastructure, and logistic cost, land lease/factory rental, and utilities cost and lastly, quality of labor and macroeconomic stability. For the two least important attributes are time use for delivering goods from production bases to destination, convenience to access to services and entertainments, and domestic laws and regulations.

### 3.2. Attractive Factors

| Factors                       | Attractiveness |      |                |
|-------------------------------|----------------|------|----------------|
|                               | Score          | Mean | Ranking result |
| Location Advantage            | 71             | 6.45 | 1st            |
| Management and Service        | 60             | 5.45 | 2nd            |
| Government Policies           | 54             | 4.9  | 3rd            |
| Investment Cost               | 52             | 4.72 | 4th            |
| Laws and Regulations          | 52             | 4.72 | 4th            |
| Industrial Investment Support | 43             | 3.9  | 5th            |
| Availability of Labor         | 36             | 3.27 | 6th            |
| Macroeconomic Stability       | 28             | 2.54 | 7th            |

Source: from the author's Survey, August 2017

According to the responses, the most attractive factor is location advantage, followed by management and service, government policies, investment cost, laws and regulations, industrial investment support, availability of labor, and the least attractive factor is macroeconomic stability.

The reason why location advantage has been ranked as the most attractive factor is that, Savan Seno is located in a center of East West Economic Corridor (EWEC) route connecting to many countries. The landlocked country is not a big problem here since all products are able to transfer to neighboring countries such as Thailand or Vietnam before shipping to other regions. Moreover, the Second Lao-Thai Friendship Bridge also plays an important role of investment in Savan Seno SEZ since the number of investment was increased rapidly after the bridge construction in 2008. However, based on the statistic of investment in the zone, the biggest trade partner of Savan Seno is Thailand since the products that produced in the zone were exported to Thailand; so it could assume that the companies that came to Savan Seno SEZ aimed to save the transaction cost because it is close the main factories in neighboring countries. For example, Toyota Boshoku launched the factory in Savan Seno SEZ to produce car seats and export to assemble in Thailand.

### 3.3 Problematic Factors

| Factors                       | Problem |      |                |
|-------------------------------|---------|------|----------------|
|                               | Score   | Mean | Ranking result |
| Laws and regulations          | 74      | 6.72 | 1st            |
| Management and service        | 72      | 6.54 | 2nd            |
| Industrial investment support | 57      | 5.18 | 3rd            |
| Government policies           | 53      | 4.81 | 4th            |
| Availability of labor         | 45      | 4.09 | 5th            |
| Investment cost               | 43      | 3.9  | 6th            |
| Macroeconomic stability       | 28      | 2.54 | 7th            |
| Location advantage            | 16      | 1.45 | 8th            |

Source: from the author's Survey, August 2017

For the problem of doing business in Savan Seno SEZ, the investors have ranked domestic laws and regulations as the most problematic factor; followed by management and service, industrial investment support, government policies, availability of labor, investment cost, macroeconomic stability, and location advantage subsequently.

The problems occurring in the zone are the instability and inconsistency between laws and regulations may reduce the investors' confidence to come to invest. Even though, the system of one stop service is good, sometimes because of limited experience of government officials make the process delay. For example, the decree mentioned that the company would get the approval from the zone authority within five days after submitting application form, but in some cases it took longer. As well as the industrial investment support; after observing during fieldwork, zone C is the most developed among four zones of Savan Seno SEZ. The expansion and standardization of road construction are required; some zones are insufficient in terms of water supply and unstable electricity, which are the setback of companies' production activities. According to the interview of government officials who are working at The Savan Seno Special Economic Zone Authority, they explained that recently the labor factor does not affect the investors' decision to invest in the zone since a supply of labor is able to reach a demand of labor; however, the skilled labor is limited in the zone, so the companies usually imported or hired international workers for higher positions such as engineer, manager, etc.

### 4. Conclusion and Recommendation

Based on the results from interviews and questionnaires in accordance with the conceptual framework, the author has found three main findings. First of all, in terms of level of importance of the attributes to invest

in Savan Seno SEZ, quality and availability of infrastructure, quality of one stop service, land lease/factory rental, domestic laws and regulations, tax incentives, and domestic laws and regulations all are regarded as important for the investors.

However, the degrees of importance vary according to the number of employment of each company, nationality of investors, and types of investments. Secondly, the author has found that there are some sets of factor that could constitute either attractions or problems of investments. The factor that seems to be the most attractive is location advantage, while the least attractive factor is macroeconomic stability. Moreover, the most problematic factor is laws and regulations, while the least problematic factor is location advantage.

Having found the above factors and identified the problems, the author would recommend the government to provide various policies in order to attract different industries with different demands. Besides, since the investors perceive the domestic laws and regulations as the most problematic factor of doing business in the zone, the government should reform the laws and make it consistent in order to raise the confidence of the investors. However, different investors have different demands and all problems might not be solved at one time, so it is the task of the government to prioritize the sectors that are of most significance to the Savan Seno SEZ.



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## Appendix

### Number of employment

| Attributes   | Number of employment  |                                   |                       |                                   |
|--|-----------------------|-----------------------------------|-----------------------|-----------------------------------|
|  | Less than 100 workers |                                   | More than 100 workers |                                   |
|  | Mean                  | Level of importance               | Mean                  | Level of importance               |
| Availability of labor  | 4                     | Important                         | 3.8                   | Important                         |
| Quality of labor   | 3.66                  | Important                         | 4                     | Important                         |
| Quality and availability of infrastructure                       | 4.5                   | Important                         | 4.2                   | Important                         |
| Macroeconomic stability  | 3.5                   | Neither Important nor Unimportant | 3.4                   | Neither Important nor Unimportant |
| Time use for delivery goods from production bases to destination | 3.5                   | Neither Important nor Unimportant | 4                     | Important                         |
| Logistic cost  | 4.16                  | Important                         | 4.4                   | Important                         |
| Utilities cost   | 3.83                  | Important                         | 3.4                   | Neither Important nor Unimportant |
| Land lease/Factory Rental  | 4                     | Important                         | 4.6                   | Very Important                    |
| Operating cost   | 3.5                   | Neither Important nor Unimportant | 3.8                   | Important                         |
| Quality of One Stop Service                                      | 4.5                   | Important                         | 3.8                   | Important                         |
| Convenience to access to services & entertainment                | 3.5                   | Neither Important nor Unimportant | 3.4                   | Neither Important nor Unimportant |
| Tax incentives   | 4.33                  | Important                         | 4.4                   | Important                         |
| Non tax incentives   | 3.66                  | Important                         | 3.6                   | Important                         |
| Domestic laws & regulations                                      | 4                     | Important                         | 4                     | Important                         |

**Nationality**

| Attributes   | Nationality     |                                   |                     |                                   |
|--|-----------------|-----------------------------------|---------------------|-----------------------------------|
|  | ASEAN countries |                                   | Non ASEAN countries |                                   |
|  | Mean            | Level of importance               | Mean                | Level of importance               |
| Availability of labor  | 3.8             | Important                         | 4                   | Important                         |
| Quality of labor   | 3.8             | Important                         | 3.83                | Important                         |
| Quality and availability of infrastructure                       | 4.4             | Important                         | 4.33                | Important                         |
| Macroeconomic stability  | 3.2             | Neither Important nor Unimportant | 3.66                | Important                         |
| Time use for delivery goods from production bases to destination | 4.2             | Important                         | 3.33                | Neither Important nor Unimportant |
| Logistic cost  | 4.2             | Important                         | 4.33                | Important                         |
| Utilities cost   | 3.2             | Neither Important nor Unimportant | 4.16                | Important                         |
| Land lease/Factory Rental  | 4.6             | Very Important                    | 4                   | Important                         |
| Operating cost   | 3.4             | Neither Important nor Unimportant | 3.83                | Important                         |
| Quality of One Stop Service                                      | 4               | Important                         | 4.33                | Important                         |
| Convenience to access to services & entertainment                | 3.8             | Important                         | 3.16                | Neither Important nor Unimportant |
| Tax incentives   | 4.2             | Important                         | 4.5                 | Important                         |
| Non tax incentives   | 3.2             | Neither Important nor Unimportant | 4                   | Important                         |
| Domestic laws & regulations                                      | 4.6             | Very Important                    | 3.5                 | Neither Important nor Unimportant |

**Business sector**

| Attributes   | Business Sector |                                   |         |                                   |
|--|-----------------|-----------------------------------|---------|-----------------------------------|
|  | Industry        |                                   | Service |                                   |
|  | Mean            | Level of importance               | Mean    | Level of importance               |
| Availability of labor  | 4               | Important                         | 3.75    | Important                         |
| Quality of labor   | 3.71            | Important                         | 4       | Important                         |
| Quality and availability of infrastructure                       | 4.42            | Important                         | 4.25    | Important                         |
| Macroeconomic stability  | 3.14            | Neither Important nor Unimportant | 4       | Important                         |
| Time use for delivery goods from production bases to destination | 3.85            | Important                         | 3.5     | Neither Important nor Unimportant |
| Logistic cost  | 4.28            | Important                         | 4.25    | Important                         |
| Utilities cost   | 3.42            | Neither Important nor Unimportant | 4.25    | Important                         |
| Land lease/Factory Rental  | 4.28            | Very Important                    | 4.25    | Important                         |
| Operating cost   | 3               | Neither Important nor Unimportant | 3.75    | Important                         |
| Quality of One Stop Service                                      | 4               | Important                         | 4.5     | Important                         |
| Convenience to access to services & entertainment                | 3.57            | Important                         | 3.25    | Neither Important nor Unimportant |
| Tax incentives   | 4.28            | Important                         | 4.5     | Important                         |
| Non tax incentives   | 3.57            | Important                         | 3.75    | Important                         |
| Domestic laws & regulations                                      | 4.42            | Important                         | 3.25    | Neither Important nor Unimportant |

# Factors Affecting Foreign Direct Investment (FDI) Inflow to Lao PDR

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## Abstract

This study aims to investigate the factors affecting Foreign Direct Investment (FDI) inflow to Lao PDR, so as to provide proper recommendation to Lao government, since FDI accounts for a considerable share of Lao PDR's GDP. According to the theoretical framework of the Determinants of FDI, the paper will analyze the factors that affect FDI inflow to Lao PDR by applying the methodology of qualitative approach and comparing the investment promotion policies of Lao PDR with those of Vietnam. Vietnam is chosen as the comparative sample due to the fact that the inflow of FDI to Vietnam is relatively much higher than that of Lao PDR. In addition, the study also conducts the interviews with both government officers and foreign investors. The result of the research demonstrates that the infrastructure factor strongly affects FDI inflows to Lao PDR, followed by the government regulation factors, the economic size, and social and cultural factors. Finally, the paper concludes, based on the findings, by providing recommendation on how to improve the country's infrastructure and government regulations to attract more FDI inflow.

Keywords: *FDI inflow, Determinants of FDI Inflow, Investment policies*

## 1. Introduction

Over several decades, Foreign Direct Investment (FDI) has been considered as a key driver on the economic development of countries. Many countries are actively promoting their strategic potential in order to attract FDI inward. According to the Organization of Economic Cooperation and Development (OECD, 2015), FDI is an investment of foreign investor from one country (home country) to another country (host country) with at least 10 percent ownership of foreign investor on ordinary shares in the business.

Since the 1990s, FDI has played a significant role in the world's economic integration and development (UNCTAD, 2015). It contributes a lot of benefits to the host countries by raising the capital inflows, providing an employment, transferring technology, simulating domestic enterprise sectors as well as enhancing both external and internal competition on trade and investment. However, the advantages of FDI in each recipient country are not the same, some may gain a lot of benefits, but some may not. Thus, the investment policy, as well as the law on investment promotion of the host country, are the crucial factors for attracting FDI inflow in order to enhance economic development.

In the Lao People’s Democratic Republic (Lao PDR), FDI is also recognized as a significant source of capital inflows, because it promotes the economic growth and strengthens the social economic development. Especially after the Lao government started to implement the national economic reform in 1986, shifted from centrally planned economy to the market-oriented economy with the open door policy. Two years later, the law on investment promotion was officially promulgated for the first time. Since then, Lao PDR began attracting more and more FDI inflow in the following years. As a result, FDI inflow to Lao PDR has dramatically increased from \$ 58.54 million in 1991 to \$ 1.19 billion in 2015 (UNCTAD 2016), around 78.26 percent of the total FDI inflow during 2001 - 2011 came from the three biggest foreign investors in Lao PDR including China, Vietnam, and Thailand (Phommahaxay, 2013). Mostly, the hydropower and mining sectors were dominated by these countries which accounted for almost 70 percent of total FDI inward during 2006 - 2011.

## 2. Statement of Problem

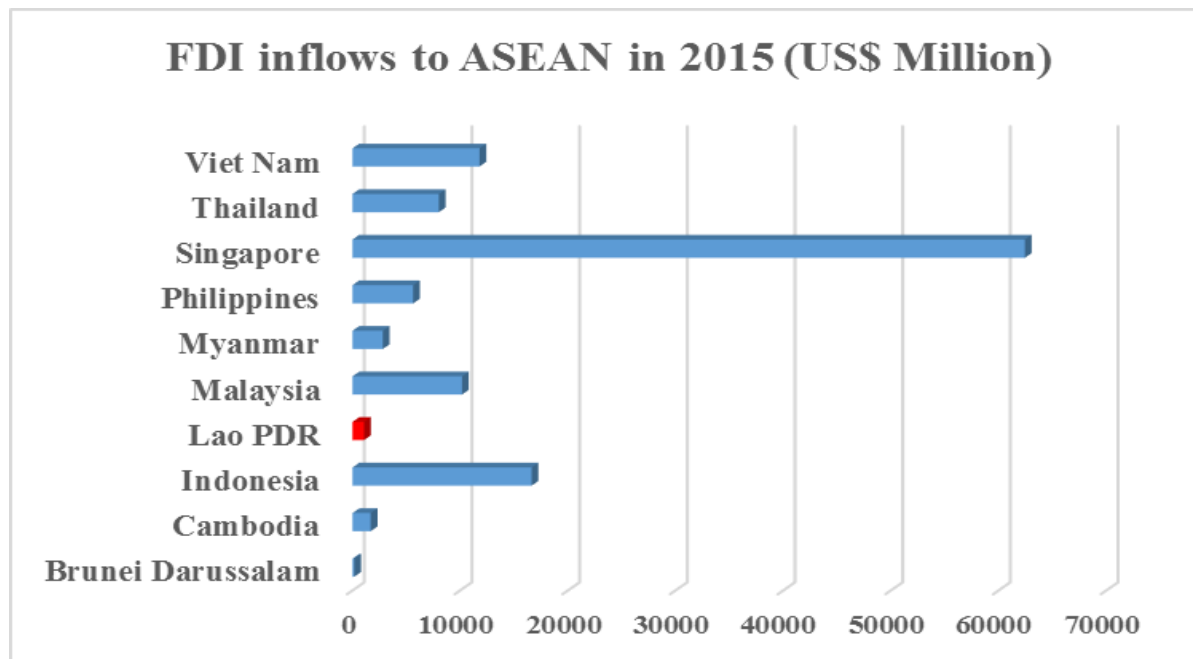
Despite the decline of global FDI inflow by 18 percent, from \$ 1.65 trillion in 2011 to \$ 1.35 trillion in 2012, the Association of Southeast Asian Nations (ASEAN) remained a major destination of FDI inflow among developing economies, accounting for 16 percent of the total FDI inflow. With a slowdown of FDI flows in ASEAN by 8 percent, from \$ 130 billion in 2014 to \$ 120 billion in 2015, intra-ASEAN investment has shared the largest percentage of FDI flow in ASEAN for 17 percent and 18.5 percent in 2014 and 2015 respectively. It rose marginally by \$ 15 million in 2010 to 22.1 million in 2015, making it remain the largest sources of FDI flows in ASEAN, According to the Asia-Pacific Trade and Investment Report (UNESCAP 2013) and ASEAN Investment report (UNCTAD, 2016).

Lao PDR is one of the ASEAN member countries and recognized as one of the fastest growing economies in Asia - Pacific region and globally, as a result of its economic decentralization in 1986 (WB, 2017). Notably, Lao PDR opened for FDI inflow since 1988, but Lao PDR received FDI inflow very modest when compared to other countries in ASEAN. Specifically, the FDI inflow to CLMV<sup>1</sup> countries increased from \$ 12.5 billion in 2014 to \$ 17.5 billion in 2015. But Lao PDR obtained the smallest amount of FDI inflow among them, only \$ 0.7 billion and \$ 1.2 billion in 2014 and 2015 respectively. This making the FDI inflow to Lao PDR remained relatively low when compared to other ASEAN member countries as well as in the region. Therefore, this research attempts to analyze the determinant factors that affect the FDI inflow to Lao PDR in order to provide an appropriate recommendation to Lao government for further FDI attractiveness policy in the future.

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<sup>1</sup> C: Cambodia, L: Lao PDR, M: Myanmar, V: Vietnam

Figure 2.1 FDI inflows to ASEAN in 2015 (US\$ Million)



Source: ASEAN Secretariat - ASEAN FDI Database as of 31 October 2017

### 2.1 Research Objectives

- (1) To investigate the current situation of FDI inflow to Lao PDR.
- (2) To analyze the factors that affect FDI inflow to Lao PDR.
- (3) To provide an appropriate recommendation to Lao government in order to accelerate the increase in FDI inflow to Lao PDR.

### 3. Literature Review

According to the study on the determinant of foreign direct investment inflows to Lao PDR (Vathsana, 2016), there are 12 significant factors that indicate FDI flows to Lao PDR. These factors include electricity, road and internet, investment law, government stability, enterprise law, bureaucracy, low labor cost, economic stability, market growth potential, exchange rate fluctuation, and social stability. Another study conducted by Asiedu (2002) delves into the factors affecting FDI in developing countries, specifically in the region of Sub-Saharan Africa (SSA) countries. The study revealed that there are three factors that are affecting the SSA countries which include the geographical location, higher return on capital where no significant impact on FDI flows to non-SSA countries. At the same time, the openness to trade has a positive impact on FDI inflow to both SSA and non-SSA countries. Hence, infrastructure development encouraged FDI inflow to non-SSA countries, but have no significant impact on FDI flows to SSA countries.

A study by Huyen and Hoang (2015) focused on the determinant factors affecting foreign direct investment capital in Thanh Hoa province in Vietnam. The study revealed that there are some factors that have a significant impact on FDI inflow including the availability of resources factors, infrastructure, and financial factors. On the other hand, the social and cultural factors have a negative effect on FDI inflow. At the same time, another study Ali and Guo (2005) found that market size and market growth potential are the major factors that affect FDI inflow to China, therefore the government incentive policies, cheap labor cost causes high investment return. Cuyvers and Soeng (2011) indicated in their study that the GDP of the host country and the exchange rate has significant impacts on FDI inflow to Cambodia, while the geographic location has no significant effects on FDI inflow.

#### 4. Methodology

This study used a qualitative method in order to investigate the determinant factors affecting foreign direct investment (FDI) inflows to Lao PDR. The paper mainly utilized the secondary data through an approach in documentary researches including articles, academic research papers, textbooks, journals, official reports and other internet sources. In addition, it also conducted the data collection by an in-depth interview with both Lao government officers and foreign investors.

#### 5. Findings and Results

##### 5.1 Infrastructure Factors

The infrastructure has a significant and positive effect on FDI inflow, the availability of infrastructure in a host country can definitely attract FDI and further accelerate the rate of economic development (Nor’Azni AbuBakar, 2012). The study included four crucial variables for the infrastructure factor that influence the FDI inflow to Lao PDR by comparing it to Vietnam. The analysis included the geographical location, electricity accessibility, road length networks and internet accessibility. The finding revealed that Vietnam has more advantages than Lao PDR in terms of infrastructure factor, mainly the geographical location, electricity accessibility, and internet accessibility. On the other hand, the only advantage that Lao PDR has is the road length networks.

##### 1) Geographical location:

It is one of the key factors for FDI desirability because a good location of the host countries cost less in transportation for exporting goods to the world market (Pettinger, 2017). The landlocked developing countries spend about 50 percent more in transport costs than coastal countries (Misovicova, 2003). Vietnam has an appropriate location according to its geography. It is ranked as the 4th largest country in ASEAN and 1,400 miles coastline on the east side of the country along the South China Sea. In addition, Vietnam is recognized as a heart of Asia Pacific region. This made Vietnam become the world’s top destinations for FDI inflow. As a result, Vietnam shipped \$ 210.8 billion worth of goods to other countries



and regions around the globe in 2016 (Workman 2017). Lao PDR, on the other hand, is a landlocked country which denotes that it has no territorial access to the seas, limited border crossings and transit dependence which is an obstacle for FDI inflow especially on those investments targeting on exporting goods to the world market. As a result, Lao PDR shipped only \$ 3.2 billion worth in 2016.

**2) Electricity accessibility:**

Although Lao PDR is one the richest countries in Southeast Asia in terms of hydropower resources (Sager, 2016), it is still poor in household electricity accessibility when compared to that of Vietnam. According to the World Bank (WB), about 73.9 percent of Vietnamese household has an access to electricity in 1990 which raised to 99.2 percent of accessibility in 2014. Whereas the household in Lao PDR, only 17.7 percent has access to electricity in 1990 and 78.1 percent in 2014. As a result, the household in Vietnamese is able to access the electricity at almost 100 percent in 2014, but Lao PDR's was 78 percent (WB, 2017).

**3) Internet accessibility:**

Every 10 percent increase in the number of internet users in a host country raised the FDI inflow by more than 2 percent (Choi 2003). Even though the increase in a number of internet user can be seen in both Lao PDR and Vietnam, Lao PDR is still poor in internet accessibility. As a result, there were only 5,933 internet users in Lao PDR in 2000, accounting for 0.1 percent of the population. While Vietnam has 204,125 users which accounted for 0.3 percent of the population. In 2016, the number of internet user in Lao PDR increased in 1,087,567, accounting for 15.7 percent of the population, while Vietnam has 49,063,762 users which accounted for 52 percent. Therefore, Lao PDR is still behind Vietnam in terms of internet accessibility.

**4) Road length networks:**

The length of road networks has played a crucial role in attracting FDI inflow (Kaur 2016). In terms of road length networks, Lao PDR has longer road network than Vietnam. As a result, Lao PDR has 0.84 Km/100 people of road length network in 2015, whereas Vietnam has 0.23 Km/100 people. Therefore, Lao PDR has more advantage than Vietnam in term of road length networks.

**5.2 Political and Government Regulation Factors**

The political and government regulation is strongly considered as an important factor in attracting FDI flows to a host country (Kim, 2010). In this research, 4 crucial variables were used as indicators of political and governmental regulation factors which are political stability, lengthen approval procedure (bureaucracy), investment promotion policy and investment incentives. The study found out that Lao PDR has disadvantages in the lengthen approval procedure (bureaucracy) compared to Vietnam. Nonetheless, the two countries are equal in the rest of the remaining variables.

### 1) Political stability:

The political situation in a host country plays a significant role in FDI inflow attractiveness. A study indicated that investors consider the political stability of a host country as one of the most significant factors in providing funds to foreign projects because it is believed that an unstable country in terms of politics is likely to make foreign investment face with vagaries of forces beyond the investors' control (Fatehi-Sedeh and Safizadeh, 1989). Another study in Bangladesh also found that the political stability has a positive impact on FDI inflow in the long run (Jewel, 2015). The study indicated that a stable in the political situation in Lao PDR and Vietnam is equally because both of them have the same political system; communist which shares a lot of similarities in most administration structures. The most important thing, there is no any harsh demonstration or conflict in the internal level over several decades. As a result, Lao PDR and Vietnam are ranked in the top of the most stable countries in Southeast Asia. Therefore, when foreign investors analyze the background of the country for their investments, political stability will be one of the top lists that can attract and impresses their attitude toward these countries. Hence compared to other countries in ASEAN, Lao PDR and Vietnam will be at the same level of investors' choices to do investment in terms of their political stability.

### 2) Lengthen approval procedure (bureaucracy):

It is considered as one of the most import factors for FDI attractiveness because bureaucracy of a host country has played a significant role in attracting FDI inflow (Fráncu, 2015). As mentioned in the previous chapter, Lao PDR has a disadvantage in its bureaucratic system when compared to Vietnam, due to the lengthening of approval in Lao PDR which is long especially in big investment projects. Big investors are required to come to the central in order to get approval. Whereas the procedure in Vietnam is shorter. Thus, Lao PDR would be the second choice for investors compared to Vietnam.

### 3) Investment promotion policy:

The host country with a good investment promotion techniques can encourage more FDI inflow (Miskinis and Byrka, 2014). The investment promotion policy of Lao PDR and Vietnam has not much difference. As a result, the government in both Lao PDR and Vietnam is now focusing on attracting foreign investment in these sectors that will contribute technology transfer, create employment and promote labor productivity. It means both countries are targeting in a project with high-tech, high industry of value added as well as encouraging the investment sector that is friendly to the environment and leads the country to be the center of supply chain in regional and international level.

### 4) Tax incentive:

It is the fundamental factor that influences investors' decision in order to allocate the investment capital in that host country. The tax incentives in Lao PDR is depended on the zone and the promote sector that as well. For example, the investment in the agriculture sector will get tax exemption from 1 year up to 10

years depending on the investment zoning. And the investment in education and healthcare sector will receive a tax exemption for 3 years up to 15 years depending on the zone as well. Similar to in Lao PDR, Vietnam also provides tax exemption in different sectors. Therefore, there is no strong evidence to prove whether Vietnam has more advantage to Laos Lao PDR and Vietnam may not able to compare in term of tax incentives, because both countries have something similar and some differences.

### 5.3 Economic and Market Factors

Economic and market in a host country are considered as the key factors for attracting FDI inflow as well as country's development. This study analyzed 6 significant variables of economic and market factors that encourage the FDI inflow to Lao PDR by comparing to Vietnam. There are GDP per capita, labor cost, export and import, domestic market, regional and international market accessibility and market growth potential. The finding of this indicated that Lao PDR has more advantages in GDP per capita, labor cost and market growth potential when compared to Vietnam. On the other hand, Vietnam has more advantages in export and import, domestic market, and regional and international market accessibility.

#### 1) GDP per capita:

It has a significantly positive impact on FDI inflow because when the GDP per capita increases by 1 percent, the FDI will increase by 4.82 percent (Khamis Hareb Alshamsi 2015). The result of this paper revealed that since 2014, the GDP per capita of Lao PDR is relatively higher than Vietnam's. It was \$ 2,017.56 in 2014 which steadily increased by \$ 2,353.153 in 2016. Vietnam on the other hand gradually increased by \$ 2,052.32 and \$ 2,185.69 in 2014 and 2016 respectively. Thus, Lao PDR had more advantage than Vietnam in term of GDP per capita which is one of the crucial aspects of FDI inflow attractiveness.

#### 2) Labor cost:

Labor cost in a host country is also considered as an important aspect for promoting FDI inflow. The study indicated that there is a significant relationship between labor cost and FDI inflow in OECD countries (Bayraktar-Sağlam and Sayek Böke 2017). This paper utilized the minimum wage as an indicator of labor cost. The finding of this paper revealed that the minimum wage in Lao PDR is relatively lower when compared to Vietnam. As a result, the minimum wage in Lao PDR was \$ 77 per month in 2014 and raised to \$ 110 per month in 2015, while Vietnam remained relatively higher which was \$ 118 and \$ 138 per month in 2014 and 2015 respectively. Therefore, Lao PDR has more advantage in labor cost when compared to that in Vietnam.

#### 3) Market growth potential:

Market growth potential is one of the crucial factors influencing FDI inward to a host country. According to a study, economic growth has a positive impact on FDI inflow to a host country (Almfraji and Almsafir 2014). Therefore, the GDP growth rate was used as an indicator of the Market growth potential of both Lao PDR

and Vietnam in this paper. The study found out that the GDP growth rate of Lao PDR is relatively higher when compared to Vietnam. As a result, Lao PDR has an average of GDP growth rate of 7.8 percent per year (2010 – 2016), while Vietnam has an average of 6 percent growth rate of GDP in the same period. It can be concluded that the market growth potential in Lao PDR is relatively higher when compared to Vietnam.

#### 4) Export and import:

Export and import has played a significant role in promoting FDI inflow to a host country. In this paper, the degree of openness was used as an indicator of export and import of Lao PDR and Vietnam. Because it is believed that the larger percentages of the degree of openness, the more the country is accessible to the international trade which is a crucial factor encouraging FDI inflow (Blog 2017). The study revealed that the degree of openness of Lao PDR is relatively lower when compared to Vietnam. As a result, the degree of openness of Lao PDR was 74.217 percent in 2010 and it gradually increased in 85.481 percent in 2014 before decreasing in 68.445 percent in 2016 (WB, 2017). Whereas, in Vietnam, it was 152.217 percent in 2010 and increased dramatically in 184.686 percent in 2016. It means Vietnam is more exposed to international trade. Therefore, Lao PDR had a disadvantage in the degree of openness when compared to Vietnam, due to it remaining relatively low. This would contribute to a negative impact on export and import in Lao PDR.

#### 5) Domestic market:

The size of the domestic market in a host country is one of the fundamental determinants that influenced FDI inflow because it related to the number of consumers in that country. The study of (Mughal and Akram, 2011) indicated that market size is the most dominating significant impact on FDI inflow. The result of this paper revealed that Lao PDR has a restriction for the size of its domestic market, its small population of 6.7 million people (2016), while Vietnam has a large number of population of 92.7 million people (2016). Therefore, Lao PDR has a disadvantage in terms of the domestic market.

#### 6) Regional and international market accessibility:

Being a part of both regional and international organizations is very important for host countries in order to attract FDI inflow. Since the 1990s, FDI flows have been increasing dramatically because of an increase in number and integration of regional and international trade agreements (Thangavelu 2011). The study revealed that Lao PDR has a disadvantage in regional and international market accessibility when compared to Vietnam. Because Vietnam had been in partnership of many FTAs around the globe. As a result, Vietnam had signed and is in the negotiation process resulting to a total of 16 FTAs (2015), while Laos PDR has only 10 FTAs. In addition, Vietnam also signed a bilateral and multilateral agreement with many countries, especially with the US. And also being a part of TPPs. Whereas Las PDR has mostly cooperated with regional partners particularly ASEAN member countries.

## 5.4 Financial Factors

Financial factor in a host country has played a significant role in attracting FDI inflow. This study investigated 3 fundamental variables of financial factor including exchange rate volatility, inflation rate, and interest rate. In order to attract FDI inflow to Lao PDR by comparing to Vietnam. The study found that Lao PDR has more advantages in exchange rate volatility and inflation rate, but it has a disadvantage in interest rate when compared to Vietnam.

### 1) Exchange rate volatility:

According to the study of Fatemeh Mohagheghzadeh (2014), there is a significant relationship between exchange rate validity and FDI inflow. The finding of this paper revealed that the exchange rate in Vietnam has strongly fluctuated than that of Lao PDR. As a result, the average of exchange rate volatility in Vietnam for 4 years (2013-2016) is 9.01 percent, with the highest percentage of 5.13 in 2015. Whereas it was only 2.13 percent in Lao PDR in the same period. Therefore, Lao has an advantage in exchange rate volatility when compared to Vietnam, because the fluctuation of the exchange rate in Lao PDR remained relatively low.

### 2) Inflation rate:

The inflation rate of a host country is a crucial factor in influencing FDI inflow because it diminishes uncertainty and strengthens investors' confidence of for doing businesses and making investment decisions (Giri, 2016). The result of a study showed that the inflation rate in Lao PDR is relatively lower than that in Vietnam, due to the average rate of inflation in Lao PDR for 5 years (2012 - 2016) is 3.54 percent, with the lowest rate of 1.3 percent in 2015. On the other hand, the inflation rate in Vietnam is 4.68 percent in the same period. Therefore, Lao PDR has more advantage than Vietnam in the inflation rate for the FDI In-flow attractiveness.

### 3) Interest rate:

The interest rate in Vietnam is relatively lower than in Lao PDR, As a result, the average of interest rate in Lao PDR for 5 years (2006 – 2010) is 18.332 percent, while in Vietnam is only 2.775 percent in the same period. However, according to the previous study, the interest rate in a host country has an insignificant impact on FDI inflow (Chingarande, Karambakuwa et al.

2012). Thus, no matter how high or low-interest rate in Lao PDR and Vietnam is, there is no significant impact in attracting FDI inflow in both countries.

## 5.5 Social and Cultural Factors

Social and cultural factors are also significant in influencing investor’s decision in order to allocate their investment capital in the host county. Explicit social and cultural factors have a crucial effect on FDI inflow (Sathe and Handley-Schachler 2006). This paper utilized 3 significant variables as an indicator for the social and cultural factors in order to attract FDI inflows to Lao PDR by comparing to Vietnam, which included social stability, educational level and language and communication. The result of the study revealed that Lao PDR has more advantages only in social stability, whereas other two variables such as educational level and language and communication are Vietnam’s advantages.

### 1) Social stability:

Social stability is one of the fundamental factors that influenced FDI inflow to a host country. The study revealed that crimes contributed negative and statistically significant impact on FDI inflow because crimes activities led an unfavorable business and affect the confidence foreign investors to do investment in that country (Nadeem and Shakeel, 2017). The study found that Lao PDR is safer than Vietnam. According to the crime and safety rate in ASEAN in 2015. Vietnam was ranked in the 2<sup>nd</sup> position with a crime rate of 52.29 percent among eleven countries but the rank of crime rate in Lao PDR was the 9<sup>th</sup> level with 36.24 percent. It means safety index in Lao PDR is much more than that of Vietnam. Therefore, according to the statistics, the crime rate in Lao PDR is lower than that in Vietnam which is an important factor that can influence investors’ decision and Lao PDR may have greater potential for attracting FDI inflow.

### 2) Educational level:

The education level of a host country is one of the keys factors for attracting FDI inflow. The study indicated that educational level has a significant relationship with FDI inflow (Strat, 2015). It is because educated people will have more opportunity to gain employment and its growing movement towards globalization. The paper indicated that Lao PDR has a disadvantage in educational level when compared to Vietnam. As a result, the completion rate of students from lower secondary school (% of relevant age group) in Vietnam is relatively higher than Lao PDR. In 2011, about 77.925 percent of Vietnamese student graduated from lower secondary school, while around 43.063 percent in Lao PDR, and in 2015, the percentage of the completion rate of student from lower secondary school in both countries has dramatically increased into nearly 100 percent in Vietnam and over 60 percent in Lao PDR. Therefore, the FDI inflow to Lao PDR may be affected by its insufficient education standard. It is certain that foreign investors will greatly consider this factor and may prefer to invest in Vietnam more than in Lao PDR by seeing country’s educational level.

### 3) Language and communication:

Language and communication are one of the crucial factors that promote FDI inflow to a host country. There is a strong and significant relationship between language and FDI inflow because the high percentage of foreign languages spoken in a host country especially English can decrease the transaction cost and can encourage investors to invest in that country (Kim, Liu et al. 2015). The study demonstrated that Lao PDR is still poor in English proficiency when compared to that of Vietnam. According to the survey the EF English Proficiency Index in 2017, Lao PDR is ranked as the lowest in terms of average English proficiency in Asia with 37.56 percent. While Vietnam is moderate with 53.43 percent. From the point of view of languages and communication, both countries may have language barriers for FDI inflow due to the difficulty for foreign investors to communicate with local people. Nonetheless, Vietnam has more advantages in terms of language and communication, as the rate of average English proficiency is over 50 percent and the number of Vietnamese people learning foreign languages has rapidly increased nowadays.

## 6. Conclusion

This study attempted to investigate the determinant factors that affect FDI inflow to Lao PDR under five crucial factors. These factors include infrastructure factors, political and government regulations factor, economic and market factors, financial factors and social and cultural factors. Each factor consists of different significant variables that influence the FDI inflow to Lao PDR. The study revealed different insignificant impacts on FDI inflow to Lao PDR. The infrastructure factor has significant impact, this is due to Lao PDR having disadvantages because of its geographical location, electric accessibility, and internet accessibility when compared to that in Vietnam. And the economic and market factors also have considerable impact due to Lao PDR remaining poor in export and import, domestic market, and regional and international market accessibility when compared to that in Vietnam. The lengthen approval procedure is an obstacle of FDI inflow for political and government regulation factors. For Social and cultural factors: the educational level and language communication have an important impact as well as the interest rate of the financial factors. Therefore, this paper would like to conclude with some recommendations to Lao government and related sectors especially the factors that should be improved first in order to attract more inward FDI to Laos PDR. For geographical location, the government should invest more in road network projects connecting with neighboring countries in order to make Lao PDR become a land-linked country. The electric power lines and internet network should be expanded widely especially to the rural area in order to increase penetration ratio. At the same time, Lao government should enhance cooperation with other economic partners in both regional and international level in order to increase international trade and size of the domestic market that is an important factor for FDI.

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# Global Land Taking Compensation Schemes for Dam Project: A Lesson for Laos

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## Abstract

The paper aims to study the factors that influenced the differences in land compensation for land taking or acquisition in Laos. Dam construction varies from place to place due to the differences in patterns of compensation. Thus, explains the number of patterns of compensation in land taking in the world. To analyze different types of compensation, this paper identified four theories of compensation in land taking such as full compensation, partial compensation, zero compensation and negative compensation. Then, it use this to examine the effects of gap in compensation for example regulation of each country, state interest (zoning), classification of land, project operator, and the number of people who were affected. After analyzing this, it could be said that there were many patterns to compensate in terms of land taking in each country. The study then applied those theories and effects in the context of Laos as a comparison and to understand what is the available options to apply pattern of compensation in land taking on dam construction in Laos. In conclusion, this study indicated that, there are many lessons that Laos could use to consider about the pattern of compensation in taking land in order to build dam in different part of the country. This paper might be useful in the future in order to understand and analyze the condition for the pattern of compensation in land taking on dam construction especially in Laos.

Keywords: *Compensation, Land taking, Dam construction, Lao PDR*

## 1. Introduction

Developing infrastructures are usually part of a country's development. However, in these development projects, due to limited resources, the government needs to reclaim back its land for development. This leads to certain problems faced by the government, particularly within the realm of compensation. Compensation is defined as providing with full or equal equivalent compensation for the losses individuals, parties or entities incurred.

The problem in land compensation has also been experienced in Laos, a small land lock country in the Southeast Asia region. Nonetheless, the government tries to direct the country to achieve Laos national objective as the battery of Asia. To achieve this, the government consider hydropower sector as a significant part of development (ABD, 2009). Hence, the government focus on the construction of hydropower dam. Moreover, Laos is endowed with natural resources such as rivers, making it a potential site for dam construction. In fact, the Mekong River passes by 11 trans boundary area in the country. Given this notion, this paper would like to analyse the different patterns of compensation in land taking in other countries and how these patterns can be applied on Laos.

## 2. Compensation for government taking

W. Lee and Naito (2002) focused on the type of compensation pertaining to the government’s requirement for public use of land. The study focused on the economic aspect to analyze how different types of compensation influenced investment decisions. It is known that there is no risk for other landowners if there is no compensation given during the land taking. Thus, in determining the site of land taking, it is important for investors and government to look for a place that is less likely to have effects on people.

The characteristics for model of compensation is the efficient outcome. First, the government will take the property if the public value is higher than private use value, thereby maximizing the property’s ex-post value. Second is the suitability in investment level in order to maximize the property’s expectation in the first-time value such as the private value when a land taking does not take place. However, public value happens less than the investment cost. Thus, no compensation is being carried out.

There had been many debates concerning compensation and land taking. The central question that usually arises is, “Why is compensation important to be discussed in land taking?” Various scholars have provided different analysis and arguments in addressing the question. However, there were similar themes that kept emerging from these scholars, which were property right and eminent domain. As the compensation has concerns with the constitution of each country give the property right to their people and Eminent Domain concern in land used for publican (Durham, 1984). In order to explain about compensation in land taking, Kelly (2006) also mentioned about the constitution and try to explain that there are many ways for the government or eminent domain to choose to compensate. As the government can choose to compensate either through zero or full compensation. Another method is through partial compensation as well as, negative compensation which could only be found in some country’s regulation.

## 2.1 No Taking

The term ‘No Taking’ refers to the idea that the government should not take private land for public use. Pareto efficient theory argue that development should take place without making anyone else worse off which means that in terms of taking land no one should lose out, and that everyone should gain benefits from the development (Smith, 2014). This supports the idea that government should not take any property such as land for the public use.

## 2.2 Full compensation

Full compensation is generally understood as Just payment. Full compensation serves as a reminder of the government’s limited power in Eminent Domain. The purpose of this is to safeguard and protect the private property owner’s right in terms of land taking. Moreover, Durham (1984) also emphasized that fairness and efficiency are needed for the full compensation of land seizure by eminent domain.

Full compensation is also concerned with legal matters such as the rules in the constitution. Gdesz (2006) mentioned in his study on the importance of constitutional rule and the international convention in terms of full compensation in the post-communist Poland. As he discussed the protection of the property rights rule based on the constitution of Poland which means that all people in the state have the equal right to ownership, other property right and the right of secession. In terms of the broader interpretation of academic class, this rule in the Polish Constitution could be compared with the term "taking" used in the Fifth Amendment to the United States Constitution. However, this regulation does not support full compensation because full compensation requires more than just protecting property right. Full compensation need to cover more than the income they could receive from the land.

To support the idea of full compensation, as cited in Ellerman (2008), Marshall, Pigou, Kaldor, and Hicks (MPKH) used the concept of cost-benefit and welfare economic to explain the compensation which the compensation should pay cover the opportunity cost. According to Pareto, improvement is categorized into two parts. First, the proposed project or change and second, the compensation of the losers that would make the total project out of compensation into a Pareto superior change. The scholars’ argument is used to represent the project with an increase in the social pie measured by money metric and thus as something that can be recommended by economists on the efficient ground. In redistribution of social pie, compensation is a question of equity and not efficiency. To support Pareto’s improvement and the MPKH theory, a positive view of the investment should be extracted in order to compensate the affected residents in order to make the cost-benefit and welfare economic efficient. Which means that the government could take land for public use by compensating the land over its market price in order to accomplish social welfare.

In the economic perspective, the full compensation denotes that the government must provide compensation to the landowner at all events of land taking. However, this is not just limited to land taking but to all the activities that the land user has conducted in all event before the calculation of the real price in the present which concerns wealth. Three dimensions of wealth were identified: material wealth embodied wealth, and relational wealth (Wang, Wolf, Lassoie, & Dong, 2013). However, in relation to land taking, material wealth is the only identified factor which pertains to farmland, houses, livestock, crops, forests. This class of wealth can be measured by using prices as proxies.

### 2.3 Partial compensation

Partial compensation means that the operator or government gives compensation in only in some part aspects. It is given that all investments concerning land possess different types and value in the market. Aside from the land's actual use, the profit is also considered. Thus, prompting the investors to be prudent before investing in a property. A supporting evidence of this notion could be found in Blume, Rubinfeld, and Shapiro (1984) who explained, when the compensation should be paid and how much compensation is due. As partial compensation is sufficiently large compensation rate on 1) land value or 2) lost profit, but no compensation on lost capital.

Based on the constitution of the U.S.A's Fifth Amendment, the 'Just' compensation in taking property right is requested to be paid. However, in this 'Just' compensation require land to be paid at fair price in the market (Wyman, 2007). It means that all event for land taking need to compensate for the loser, but 'Just' compensation is still recognized as partial compensation because in term of compensating in full price have to consider the opportunity cost as well as the benefits that they could receive from the land. Supported by Vietnamese constitution, the citizen can own the land, but in term of the emergency case or national interest, the government has to compensate proportionate to the price of land in the market.

The study done by Gdesz (2006) also mentioned about "Expropriation", that is any public action that reduces property value beyond a specified minimum percentage and requires payment by the public for "lost" value above this level. Hence, for partial compensation, the rules and constitutions should be taken into consideration during the compensation of land taking. Moreover, it was clarified that 'Just' compensation rule uses the fair market value to estimate the property token because there is animosity in distinguishing the real value of compensation. From this study, it is understood that partial compensation in land taking means that the constitution has to give property rights to the landowner in order to estimate their losses from taking land by the full price in the market value.

Mokorosi and van der Zaag (2007) argued that projects give an opportunity for affected residents with the intention of improving their overall livelihood in normal circumstances which is often neglected by the government. The benefits, on the other hand, includes community services, skills training, and access to construction jobs and improvement of housing which normal people in society could not get access to. It is important for the planner to consider how to improve the lives of the affected people once the process of land taking takes place. Therefore, Mokorosi and Van der Zaag argued that despite the problems that arise in the compensation policy, the benefit is far more enormous that should influence the affected residents to be open to such proposal.

## 2.4 Zero compensation

Zero compensation is a term in land taking, a policy that pertains to the scenario where landowners are not granted compensation despite their land’s suitability for public use.

According to The China constitution Amendment in 2004, the land belongs to the state in the city area and collective in rural and suburban accordance with law. However, the individual or organization can use land though lawful. And in case the government appropriate land for national interest have to make compensation. However, it still seems unclear in terms of zoning between city and rural place.

The principle of no compensation is also related to the land no improvement tax. With that, this study found that the general exception of the principles of no compensation. Renard (2006) also applies the principle of this in his studies including his study on “Restrictions on Vested Rights”. According to Renard, all landowner could only develop their land if they have been granted a permit to build, hence having the opportunity to ask for compensation when their land is put to public use. The second principle vested in no compensation is the modification in the state of the property resulting in direct, material, and certain damage that has been used more frequently. However, these basic principles also concerns with zone restrictions. Renard also discussed the decrease in property values in the compensation rights due to the planning decision based on the urban regulations in France. It is important to distinguish that the principle of land use in France is different to that of the U.S: “no compensation has to be paid for the restriction of development rights.” Thus, this issue has been continuously debated since 1935 with regard to town and country planning.

## 2.5 Negative compensation

Negative compensation in land taking pertains to the situation wherein the landowner has to pay tax to the government in order to receive the benefits from the development project such as railway, sky train or airport. This pattern is also called, “Windfall tax” which is a concept that had emerged originally in

developing countries. This situation actually happened in the United Kingdom in 1997 wherein it was enforced by law to serve particular interests given the absence of constitutional, federal or judicial constraints overriding the concept of parliamentary supremacy which means that any legal recourse can only be conducted through the external sources of Law (Waelde & Kolo, 1998).

However, this scenario only happens if the landowner might have benefited from the development project which will make the price of the land increase. Regardless whether the landowner decides to sell the project or stay in that land which is near that development site, the landowner still has to pay the windfall tax to the government in order to maintain ownership. For the case of Thailand, the people who own land more than 50 million baht has to pay around 5% of the price of land. However, for the management of storage, the person who has received the results from the development of the system and the building of the foundation of the state must have the exceptions particularly in the case of a foreigner or the owner of the premises not having to sell the land, the same as the land where the land is obtained (Peinthid, 2017).

### 3. Land-taking for dam construction and compensation

The big issue that this paper will discuss delves into the compensation in land taking specifically on dam construction. Historically, right after the World War II the number of hydropower dams have increased to approximately 3,700 (Lumsdon, Tydecks, & Tockner, 2014). In order to build a dam, the need of land also matters and this affects the local people such as to build Manwan dam in China there are about 10 million people were affected (Jiguo, 2002), and there are 2700 people were affected from the Houay Ho and Xepian-Xenamnoy hydropower projects in southern of Laos (Green & Baird, 2016).

It is evident that dam construction requires a lot of land. Hence the compensation in land taking should be discussed. This only denotes the importance of the topic given the increased in the number of cases concerning the development of dam constructions. With high demand on electricity in the market, the expansion for compensating will be sufficient. Hence, dam projects are important for the industrialization and modernization to develop the country.

### 4. Compensation schemes on dam construction

This section provides an overview of the different compensations in land taking conducted in other countries. The table below provides information that caters specifically to dam constructions which is the main focus of this study. The purpose of the table is to make the reader understand how each cases on dam construction is being compensated in different countries once land taking is being carried out. This paper has chosen some case studies as determined by the researcher with the consideration of countries

having the potential to build dams in the world, as well as the countries interested to operate dams in Laos.

| Country  | Partial compensation in (***) | Partial compensation in (**) | Partial compensation in (*) | Zero compensation |
|----------|-------------------------------|------------------------------|-----------------------------|-------------------|
| China    | ✓                             | ✓                            |                             | ✓                 |
| India    | ✓                             | ✓                            |                             |                   |
| Japan    | ✓                             | ✓                            |                             |                   |
| Malaysia |                               | ✓                            | ✓                           |                   |
| Thailand | ✓                             | ✓                            |                             | ✓                 |
| Russia   |                               |                              |                             | ✓                 |
| U.S.     | ✓                             |                              |                             |                   |
| Vietnam  |                               | ✓                            |                             |                   |

Note: - (\*\*\*) which means that given compensation to affected people around 75-100 present  
 - (\*\*) which means that compensation is given to the loser is around 40-74 present  
 - (\*) which means that the compensation is given to the loser is around 1-39 present

The table in above is a summary of the literature review on the pattern of compensation on dam construction in another country. The case of partial compensation in land taking occurs often in every country. All country also uses this type of compensation to compensate for their people in terms of dam construction. This can happen through regulations given that this issue is concerned with the balance between the public and private use of land. The table above shows how popular this type of compensation has been used for dam construction. Specifically, this can be found in countries such as China, India, Japan, Malaysia, Thailand, and Vietnam which will be addressed in the following paragraphs as there are three levels to discuss about this pattern. Moreover, the type of negative compensation has ever happened in taking land for dam construction as well. The explanation about this will be provided below. However, there are no cases that these country use the full, negative, and no taking land for dam construction yet. The paragraphs below explain how each type of compensation affected people.

#### 4.1 Partial compensation in (\*\*\*)

It can be seen in the figure above that there are many levels for partial compensation in land taking on dam construction. The partial compensation is considered as high standard because the loss experienced



by the victim is nearly paid in full compensation. It also happens in many countries such as China, India, Japan, Malaysia, U.S, and Thailand.

From the study done by Wang et al. (2013), China's implementation of the compensation which has the significance given the price of land in its market. The study found that after China opened the market of the country, the compensation policy also developed. In fact, the policy was changed during the transition which is the reason why the compensation on dam construction has improved to full price since 2002. The development of compensation policy included the government allowing the community to join in decision-making processes in order to negotiate on the price of compensation. This shows the positive signs of transition on compensation in land taking. The study delves into the case of the Manwan dam wherein the affected people around the area was relocated far from their old place. These people have received various amount of money for houses which were sufficient to build new homes which also included farmlands as a monetary compensation for forests. It can be seen here that the affected people in this case were granted a fair compensation. The Dachaoshan dam faced the similar situation wherein the affected people were given the same benefits although the farmland given were low in quality. However, in the case of Xiaowan dam the compensation was said to be full for both who was relocated near the dam and for those who were relocated far from dam construction were given better houses which can be considered as fairly compensated for the loss in farmland given the inadequateness in the relocation site.

There had also been numerous cases of this level of partial compensation in India. Ghosh (2006) discovered that since the start the compensation policy in 2002, the government have compensated land for land which means that displaced families would receive land of their choice, or equivalent to their loss or a minimum of two hectares in the irrigable command of the project. Japan also offers the same benefit of land compensation such as India wherein they also give the loss of land by counting the market price which was set by the standard as the resettlers received money for their material loss, and the compensation on a land-for-land basis, but if the affected people want to move to another place, they are given the option of receiving cash compensation instead (Nakayama, Fujikura, & Yoshida, 2002).

In the case of Thailand, some houses that were affected by the project can also receive the full price of compensation from dam constructions. This has been evident in the case of Kwai - Noi Dam which 70% of the affected residents received the full price in terms of land lost. It is the important to note that in the case of Thailand, the government is the main actor responsible for the compensation (Phingsouk, 2010). Based on the theory of partial compensation in land taking and the case studies discussed in the literature review, has been shown that the level of partial compensation has many levels and this level represent the good sign of partial compensation should be the full price in order to compensate for the loss. The

main aspect of this study is the market price as each place might have the different price for land. Moreover, other factors related to this study should be considered such as the operator and actual policy used in helping the affected people in receiving the full price of compensation.

#### 4.2 The partial compensation in (\*\*)

As there are many levels of the partial compensation. And this level also occurred in China as well. In this country, the affected people are given new land to build a new house. However, in this level of partial compensation, the government does not compensate for farmland, but for the total distance of the affected resident from their original house site. In case that the government was not able to clear the farmland, they will provide monetary compensation for such shortcomings. If there are many people who are affected by the dam construction, different people will receive different compensation thus causing inadequate compensations for farmland or given new clear land with lower quality as a replacement for the cleared farmland. It can be observed in China’s case that the partial compensation means the recipients do not receive full price compensation for their lost, instead of receiving only some part of it.

India had also faced similar issues where in some cases compensation only took place by giving money to victims for some of the parts that they lose (Wood, 1993). Likewise, Japan, in terms of selling land to dam construction do not receive a large sum of money on a single occasion, which effectively prevents the wasting of compensation given in monetary form and resettlement sites were offered at lower prices than the value of adjacent lands and ‘gratitude money’ was paid to the resettles (Hattori & Fujikura, 2009).

#### 4.3 The partial compensation in (\*)

Lastly, the case on Malaysia were discussed in various literatures which generally pointed out that there are many ways to compensate in land taking on the dam which is either compensated by partial patterns, but here, will represent as the lower payment of the partial compensation such as compensation payments in cash and new houses were provided or promised. However, this has been widely regarded as inadequate for affected residents. Moreover, even though it provides land and house, there is already a decrease in the total value to be received and value of farmland given that such compensation is only 10 percent of the total, whereas the government provides a new land and promise to give 30 percent of the logging revenues (W. C. Lee, Viswanathan, & Ali, 2015).

#### 4.4. Zero compensation

The scheme of this type of compensation is written here because, in terms of land taking for dam construction, zero compensation could also occur. Zero compensation refers to the situation whereby the affected people do not receive any compensation when their land is taken. This is evident in several cases

throughout the world. There are some cases such as China that proves this claim despite having full compensation policy. In order to take land for dam construction, the affected people had been displaced in which the government had only requested for the people in the site to move out about 500 km upstream from their original location in Sanmenxia Dam in 1950s without being compensated (Wang et al., 2013). Moreover, the zero compensation in land taking happens in such a way that it does not affect property right. For example, in terms of constructing a dam in some places, the location site should have no residents so that the compensation in land taking is not needed, which is also called as zero compensating. An important factor in understanding this is by considering the geography of a particular country in which they choose the place to build dam such as the Chirkey Dam in Russia which constructed the hydropower on the mountain wherein seem there are no residents living in the area (Marchuk, Savich, Malyshev, Durcheva, & Radkevich, 1993). A similar case can also be found in Thailand wherein they also need zero compensation to consider in order to take control of the land which was never used by the public before such as the Kwai–Noi dam. Hence, in this case, the committee of compensation need to consider the dam construction site.

Therefore, the two characteristics of zero compensation in land taking is that the affected people did not receive any compensation for their land lost, and in other cases, it can happen as if the land does not belong to any residents thus being an independent land.

The importance of zero compensation in land taking is needed to be considered. The case in Malaysia provided compensation payments which are conducted through cash payments and providing of new houses to displaced villagers who held legal titles to their land. However, it does not provide compensation to the customary land (Aiken & Leigh, 2015).

After reviewing the different compensations in land taking being conducted in other countries, it can be learned that the zero compensation in land taking can happen in order to ask people to move to another place wherein no compensation is given to the affected families and in another case, is that the development project may also not affect any property rights of landowner which should be both considered for this research.

### 5. Lesson learned for Laos

Recently, the hydropower industry has dramatically grown. With that, the compensation is not only to accommodate the complete material, social, or cultural losses of resettlement. In order to find out what and how to provide the commodities on the compensation in short term and long term, the government has to intervene in conducting and implanting the compensation policy.

Hence, the lessons from this paper will be applied in this study that will be applied to Laos case in order to understand the concepts and patterns of compensation on dam construction in Laos. The geographical characteristic of Laos as a country is also different which makes it different compared to other places. Given that reason, it is very important for the operator of the dam to understand which pattern is suitable for compensating the affected people. Hence, this paper uses the lessons above to educate the Lao government that compensation on dam construction should be considered on a case by case basis because the loss of land in each place is different.

It can be realized from the literature above that there are many ways of compensating land taking concerning dam construction. Moreover, there are many conditions to be considered in which dam construction should be compensated by full price or zero compensation. And another most popular pattern that all countries identified in this paper is the partial compensation which is an important aspect of the analysis of this study. Another interesting aspect of the study is the negative compensation in which the affected residents had lost their place and paid compensation to the government. Although this is not really happening yet, it may do so soon, potentially in Thailand given the application in its law. Although it is not certain yet whether it will be applied to dam construction. However, from the analysis in this study, it could be understood that the factors that make the compensation in each dam different are due to the differences in the regulations that make the process of compensation in land taking.

The full compensation in land taking is considered in the case that the affected people have the license to use their land base on the regulation of the country and pay to them in over full price in the market. Hence, in terms of Laos, the land is still belonged to the state because of this reason. It is not easy for Laos to discuss this type of compensation.

However, in the case of dam construction having no effect on any property rights as similar to the case of Russia, the compensation in land taking can be considered as zero because it does not need to relocate anyone. There are instances that the dam construction is built on mountains, thus the compensation could be considered as zero compensation. This is what Laos could learn from Russia where it could be applied to use this pattern in order to understand how zero compensation can be of work. Moreover, it can also be realized above that the case of compensation in land taking in China and India which asked people move to another place has also benefits. Sometimes, this pattern can be used in a case which the new place for relocating is better than the old place. However, in the case of customary land, Laos still needs to consider it by itself.

In terms of partial compensation in land taking, the compensation is just in some loss or it will be lower more than the market price or in the market price. The study of partial compensation from other countries above showed that it can also be applied in Laos' situation in which dam construction is necessary to be compensated when a large number of people is affected. Based on the partial compensation scheme, it is usually important to consider the decrease in the amount of investment cost and the reason why there are instances that the compensation is given the full price, but just some part of the lose. Perhaps Laos could learn this from Japan in order for the dam operator to buy the land from the people directly or the government may find ways in providing some parts of the total land to them in order to take their land as seen in the case of Malaysia given their regulation of giving compensating back at least 10 presents of their lost.

In the case of the negative compensation, the affected people have to compensate the government in order to receive the benefits from the development project. As it can be seen in the case of Thailand, normally they use this scheme with the construction of trains or roads, however, this paper's study pertains to dam construction. It is not suitable yet to build a dam in Laos.

Finally, the case of 'no taking' land for dam construction is still an important lesson for Laos to understand in order to develop the country in a sufficient way as some place might be not suitable for dam building or that project might give negative impact more than positive impact hence this lesson can apply in some time.

From the study in this paper. Not only it is applicable in dam construction in order to compensate for taking land, but it might be useful for another program as well such as mining project, railway, land lease for agriculture and industry in order to consider to compensate for land taking.

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## Regional Distribution of Foreign Investment in Lao PDR

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### Abstract

The surge of distribution of investment particularly the Foreign Direct Investment (FDI) is considered as the main source in supporting economic development in Laos. This becomes an essential factor to inspire an economic growth. This paper aims to identify the pattern of distribution of investment in Lao PDR especially in regional development and to examine their implementation in attracting foreign investment. This has been done by analyzing in both primary and secondary data to see some patterns in some regions. Also this paper used difference of such data to predict major factors that influence economic growth from 1988 to 2016. The study found that the regional distribution of investment was affected mostly by the external factors which played a crucial role in supporting FDI inflows depending on certain countries in different time period. Nevertheless, upon the examination, the research also found that the provincial policy especially concerning investment has failed to attract sufficiently in FDI that could lift up the socio economic conditions of the country. This can be seen from the kind of investments approved which consequence on economic growth in Laos.

Keywords: *pattern of investment, regional distribution, FDI inflow, economic growth*

### 1. Introduction

Since Laos introduced the New Economic Mechanism (NEM) in 1986, Laos has pursued its Open Door policy for adopting foreign trade and investment. In order to achieve the national goal, the government set a strategy for regional development by focusing on infrastructure improvement, human resources, productivities and the promotion on Foreign Direct Investment (FDI) (Bourdet, 2000). In the Lao Development construction is purposely to release the country from the least developed countries (LDC) by 2020 (Kyophilavong & Toyoda, 2008b). Therefore, in the implement of New Economic Mechanism (NEM), the Lao government counted on Foreign Investment as an essential source for social economic development.

Lao People's Democratic Republic (Lao PDR) as a land-locked country mostly covered by mountainous region which is one of group of least developed countries; the government has initiated the National Growth and Poverty Eradication Strategy (NGPES) (Kyophilavong & Toyoda, 2008a) particularly in rural region to stimulate the growth in regional development by appropriating the incentives investment policies in order



to inspire the foreign direct investment and created a necessary conditions to attract Foreign Direct Investment (FDI) to the country. However, as rural development is the main strategy of the government, they have set a strategy for agriculture, natural resources, and rural development strategy. By far, the government purposes to promote more foreign investment in agricultural, hydropower and mining sector to raise growth, lessen poverty and improve the agriculture sector in a range of Millennium Development Goals (MDGs) (Pravongviengkham, 2000).

After Laos promulgated the first law on foreign investment promotion and management in 1988, the FDI inflows to Laos has increased dramatically by the major foreign investors from China, Vietnam and Thailand and FDI inflows mostly to agriculture, industry and mining sectors. However, as the context of Lao government emphasized on regional development but in the practice, the trend of FDI flows are mostly benefiting to urban areas which it did occur in local communities. Whether the law on promotion and management of FDI or national policies will stimulate the FDI to Laos and where FDI is distributed regionally are interesting. This paper aims to identify the performance of government policy and to analyze the pattern of regional distribution of foreign investment in Lao PDR by focusing on the provincial pattern of foreign investment distribution and the sources of investors.

## 2. “Open Door” Policy

Since Lao PDR has introduced the New Economic Mechanism (NEM) in 1986, Laos has attempted to open its door for foreign trade and investments and national policies has identified the quality investment to drive sustainable development and a diversified economy which included the National Socio-Economic Development Plan (NSED) 2011-2015 that focuses on the quality of economic growth emphasizing on sustainable land and resource use. Furthermore, to achieve the target of NSED, the government has to reduce the restrictions on import and export by enacting some laws as they issued the first investment law of 1988 to open many sectors for foreign to join in, which included agriculture, industry, and forestry. Later, the investment law has been revised significantly such as the law on promotion and management of foreign investment which endorsed in 1994, then amended in 2004, 2009 and 2016 particularly, the latest amendment composed in the combination of laws on domestic and foreign investment (Chansomphou & Ichihashi, 2011).

### a. Evolution of Foreign Direct Investment law in Lao PDR

The government has proclaimed the law on foreign investment promotion in 1988, as the beginning of implementing the first investment law, the provision allowed 100% for foreign ownership of investment. And the term of foreign investment enterprises relied on natural resources, size, and the demand for business project. But basically, it could not extend more than 15 years for 100% foreign ownership and 20% for the joint venture. Later, the law was revised in 1994, 2004, 2009 and 2016 (amended).

The first revision of the law on foreign investment in 1994 had provided foreign investors to invest in Lao PDR in two forms proposed as a joint venture with domestic investors and a wholly foreign-owned enterprise. But foreign investors have to pay 20% of the annual profit tax, whereas the investment term was retained its expiration relatively at 15 to 20 years for all sectors. Moreover, they shall pay 1% of import value on materials, equipment, and others spare part of production used (Phommahaxay, 2013).

The second revision in 2004, there are three forms for a foreign investor may invest in Lao PDR such as business cooperation by contract, joint ventures between domestic and foreign investors, and 100% foreign-owned enterprises. However, the term of investment for the foreign investment enterprise is considered in nature, size, and the condition of business activities. However, the business project shall not exceed 50 year and maximum 70 years and may extend with the authorization of the government. For the profit tax, 20% for all sectors which depends on several zones based on conditions of social-economic and geographical locations.

The new feature of the revision of investment promotion law in 2009 are reduced procedures to open the new business; no term of investment; allowed foreign investors to have the right and property on land; the top priority of investment incentives are education and healthcare sectors; plus the good facilities from official services. Moreover, foreign and domestic investors may invest in all sectors and zones of investment with a few exceptions by following three type of investment as a general business, concession business, and development activities of special economic zones. However, the term of concession business refers to type, size, value, and condition. But it shall not exceed 90 years and can be extended by the approval of the government or provincial authorities<sup>2</sup>.

The latest development of the law on foreign investment in 2016, it is enacted under the Department of Domestic and foreign Investment by serving the foreign and domestic investors the packages of the land lease, as they may transfer leasehold interest and have the right to build. So the key point of the changing in the new laws is the provision permitting foreigners to own land. Moreover, the law determines to protect the investors as setting the term of investment in the law to protect the assets and business activities of foreign investors (MPI, 2016).

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<sup>2</sup> Law on Investment Promotion, 2009 [http://www.investlaos.gov.la/images/sampleddata/pdf\\_sample/IPLaw2009\\_Lao-English.pdf](http://www.investlaos.gov.la/images/sampleddata/pdf_sample/IPLaw2009_Lao-English.pdf)

Table1. Investment policy evolution

| Year | Features   | Target Industries  | Target Regional  |
|------|--|--|--|
| 1988 | Allowed 100% foreign ownership (15-20 years); the term of investment activities depend on size, nature, and conditions for business activities.  | Not specified  | National wide  |
| 1994 | The law described the procedure for foreign investment and designated the outline areas that foreign investment is encouraged and those areas where foreign investment is not allowed  | All sectors  | National wide  |
| 2004 | One key of this revised law was embarking on structural on decentralization of foreign investment management power by allowing local authorities to attract investment to their regions.   | All sectors  | National wide  |
| 2009 | Combination of foreign and domestic law on investment promotion, shorten procedures to open new business, no term of investment but shall not exceed 90 years; and promote the development of Special Economic Zone (SEZ) and industrial park. | Agricultural<br>Education<br>Health care<br>Tourism<br>Industry<br>Electricity<br>Generation<br>Mining | Local development:<br>Special economic zone<br>Export processing zone<br>Industrial park<br>Tourism zone<br>Duty free zone<br>ICT zone |
| 2016 | Allowing both domestic and foreign investors to own land; protect the rights of investors including the assets and investment of investors; moreover they classify the investment in 5 forms such as:  | Agricultural<br>Industrial<br>handicraft<br>Service  | Regional development:<br>apportion the economic development of the North, Central and the South  |

Source: Ministry of Planning and Investment (MPI), 2016

### b. Implementation of Foreign Direct Investment policy

The Lao government decentralized the investment management authority which classified into two levels: central and locals levels. at the central level is consisted of the Ministry of Planning and Investment (MPI), the Ministry of industry and commerce, the national Steering Committee for Special Economic Zones, and others central ministries relevant under the regulation of the government; these relevant ministries are

responsible on the macro management, stimulate and supervise the implementation of the investment promotions exertion at the local level, special economic zones (SEZ) and specific economic zones. At the local level, the authority is performed by the Planning and Investment Division, Industry and Commerce Division and others local agencies that relevant<sup>3</sup>, which are responsible on manage and assess the investment areas that are under their responsibilities, plus the projects or activities approved by the central authority situated in their area that relevant in the provinces (WTO, 2011). In short, the government authorizes the provincial the rights and capabilities to device their own investment promotion to suit their development need without interfering from the national government (Decree No.64/PM, 2003).

Nevertheless, the government determined the incentive of investment promotion by referring to investment activities authorities and others rights of the government, which includes the right on land concession, minerals, airline, electric power, and financial institutions. The approvals of investment activities are conducted by the government or provincial authorities. Regarding to the article 8 of the law on investment promotion in 2016, the incentive investment offers in three sectors such as incentive by business sector, incentive by zone and incentive on tax, duty, land used. Plus, in the investment promotion law is focusing in 4 promoted sectors such as agriculture, industry, handicraft and service.

Table 2. Incentive of investment promotion of Lao PDR

|  | Profit tax exemption  |         |         |
|--|---|---------|---------|
|  | level 1   | level 2 | level 3 |
| Zone 1                                   | 10 years  | 6 years | 4 years |
| Zone 2                                   | 8 years   | 4 years | 2 years |
| Zone 3                                   | 4 years   | 2 years | 1 year  |
| Import duty fee procedure (working days) | Raw material, equipment, spare parts and vehicle are directly used for production |         |         |
|  | 10-45   |         |         |

Source: Law on investment promotion in Lao PDR, 2016

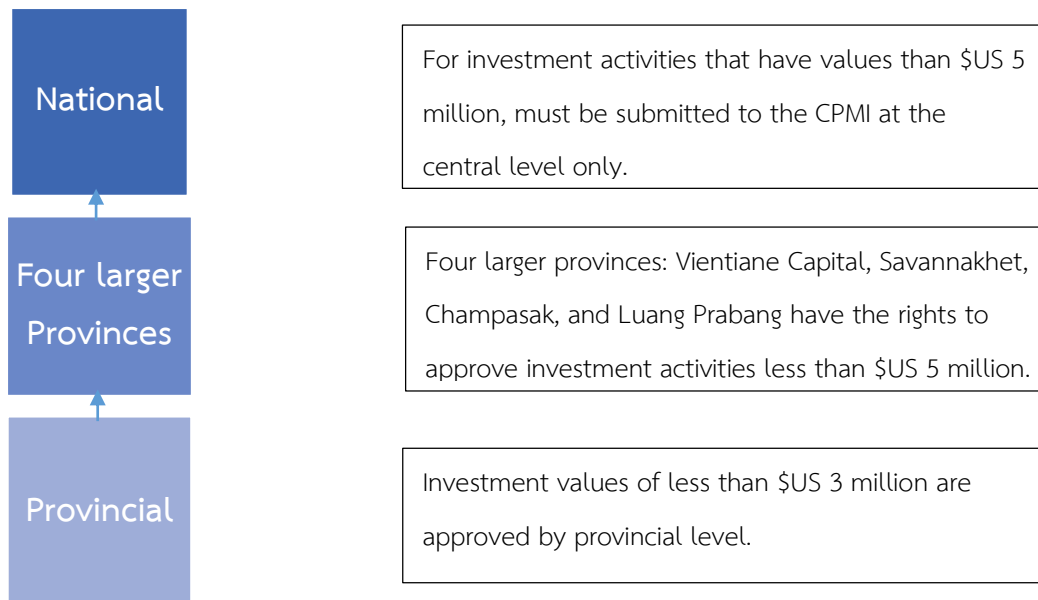
According to the table, the implementation of Foreign Direct Investment policy has specified the zones for the incentive of investment promotion of Laos which classify in three zones of promotion with three level

<sup>3</sup> Article 59-60. Investment decentralization of Decree on The Implementation of the Investment Promotion law Number 301/PM [https://www.wto.org/english/thewto\\_e/acc\\_e/lao\\_e/WTACCLAO24A1\\_LEG\\_1.pdf](https://www.wto.org/english/thewto_e/acc_e/lao_e/WTACCLAO24A1_LEG_1.pdf)

of profit tax exemption (appendix 1)<sup>4</sup> such as zone 1 is the zones of least socio-economic infrastructure development in supporting investment that range the profit tax exemption from 4 to 10 years. Then the second zone is having as the moderate socio-economic infrastructure zone in facilitating investment, so the profit tax exemption is ranged from 2 to 8 years. Lastly, the third Zone is the areas of good socio-economic infrastructure development with ranging from the profit tax exemption from 1 to 4 years<sup>5</sup>.

Furthermore, the government has determined the authority at the provincial level which all provinces has capability to conduct the investment policy in order to attract more foreign investment by approving FDI equal to or less than \$US3 million, especially in the four larger provinces such as Vientiane Capital, Luang Prabang, Savannakhet and Champasak can approve less than \$US5 million<sup>6</sup>.

Figure1. Investment Approval Procedures.



Source: Decree Number 300/PM, Decree Number 301/PM, 2005.

<sup>4</sup> The list of Investment Promoted Zones is attached as Annex 2 of Decree [http://www.investlaos.gov.la/images/sampled/Annex2\\_Decree\\_Eng.pdf](http://www.investlaos.gov.la/images/sampled/Annex2_Decree_Eng.pdf)

<sup>5</sup> The classification of each zone is attached as Annex 1 of Prime Minister’s Decree on Domestic Investment Number 300/PM and Decree on Investment Number 301/PM.

<sup>6</sup> US Dept. of State, 2015 Investment Climate Statement – Laos <https://www.state.gov/e/eb/rls/othr/ics/2015/241626.htm>

In addition, as we can see that recently Laos is enjoying with the foreign investment inflows but it did not mean that Laos has success in attracting the foreign investment. Speaking of investment policies, law, and regulations of the Lao government, it can say that they have not done enough about doing things to inspire the foreign investment, particularly in the regional development. Meanwhile, the tax incentive of investment promotion that offered to investors was as a tool to attract the foreign investment. In fact, the incentive of investment is last thing that investors will consider to because mostly investors will look into the location where has natural resources offering and the location where is near a good infrastructure environmental in order to transfer production easily.

Besides, as the implementation of foreign investment policy emphasizes decentralization authorities in both central government and local government, which may lead to the bottom of regional distribution of foreign investment, due to the purpose of the government expects to accomplish the promoted sector in each region by attempting to convince the foreign investors to invest at the place that they plan to improve. On the other hand, the result of this performance did an opposite route of the government objectives, the reason was that foreign investors decided to invest in a region that can offer them a good profit and response for a condition of their business activities for instance, the large land for agriculture plants, mineral resource for mining, and water resource for hydropower. Thus, it can be implied that its implementation did a cross-purpose with the government objectives because in term of control the foreign investment distribution, the Lao government has failed to get it consistency.

### 3. Provincial Pattern of Foreign Investment Distribution

To see the wave of the pattern of foreign investment distribution, the research divided the data from 1989 to 2016 into four periods as follow: Period 1: the FDI inflow from 1989-1994, period 2: 1995-2004, period 3: 2005-2009, period 4: 2009-2016. The main purpose of the research is to examine the pattern of foreign investment distribution during the country shifted a centrally planned economy to a market economy. The data on foreign direct investment (FDI) inflows into Laos had been gotten from the Department of Domestic and Foreign Investment of Lao PDR (DDFIL), Ministry of Planning and Investment (MPI). This focuses on 17 provinces by recording in U.S dollars.

Table1. Foreign Direct Investment (FDI) inflows to Laos.

|                      |                         | 1988-1994   | 1995-2004     | 2005-2009     | 2010-2016      | Total<br>(Million US \$) |
|----------------------|-------------------------|-------------|---------------|---------------|----------------|--------------------------|
| Vientiane<br>Capital | Million \$US            | 654,552,111 | 2,715,342,920 | 9,567,821,210 | 10,307,288,859 | 23,245,005,100           |
|                      | FDI capital Inflows (%) | 2.82%       | 11.68%        | 41.16%        | 44.34%         |                          |
| Champassack          | Million \$US            | 299,746,938 | 42,362,147    | 2,400,957,021 | 2,047,024,543  | 4,790,090,649            |
|                      | FDI capital Inflows (%) | 6.26%       | 0.88%         | 50.12%        | 42.73%         |                          |
| Bolikhambxay         | Million \$US            | 18,100,000  | 24,336,091    | 467,456,618   | 245,841,234    | 755,733,943              |
|                      | FDI capital Inflows (%) | 2.40%       | 3.22%         | 61.85%        | 32.53%         |                          |
| Khammuan             | Million \$US            | 2,530,000   | 1,132,230,940 | 1,028,899,059 | 1,491,663,507  | 3,655,323,506            |
|                      | FDI capital Inflows (%) | 0.07%       | 30.97%        | 28.15%        | 40.81%         |                          |
| Luang Prabang        | Million \$US            | 11,864,285  | 22,762,624    | 323,526,162   | 613,234,748    | 971,387,819              |
|                      | FDI capital Inflows (%) | 1.22%       | 2.34%         | 33.31%        | 63.13%         |                          |
| Savannakhet          | Million \$US            | 2,507,268   | 17,305,363    | 557,078,792   | 998,570,312    | 1,575,461,735            |
|                      | FDI capital Inflows (%) | 0.16%       | 1.10%         | 35.36%        | 63.38%         |                          |
| Huaphan              | Million \$US            | 300,000     | 9,561,896     | 112,980,210   | 1,302,709,624  | 1,425,551,730            |
|                      | FDI capital Inflows (%) | 0.02%       | 0.67%         | 7.93%         | 91.38%         |                          |
| Oudomxay             | Million \$US            | 835,714     | 10,278,001    | 102,505,528   | 120,075,635    | 233,694,878              |
|                      | FDI capital Inflows (%) | 0.36%       | 4.40%         | 43.86%        | 51.38%         |                          |
| Xiengkhuang          | Million \$US            | 50,000      | 159,673,513   | 81,690,716    | 963,817,524    | 1,205,231,753            |
|                      | FDI capital Inflows (%) | 0.00%       | 13.25%        | 6.78%         | 79.97%         |                          |
| vientiane            | Million \$US            | 665,000     | 20,893,610    | 434,550,392   | 844,948,256    | 1,301,057,258            |
|                      | FDI capital Inflows (%) | 0.05%       | 1.61%         | 33.40%        | 64.94%         |                          |
| Luangnamtha          | Million \$US            | 250,000     | 6,727,683     | 100,241,596   | 747,300,016    | 854,519,295              |
|                      | FDI capital Inflows (%) | 0.03%       | 0.79%         | 11.73%        | 87.45%         |                          |
| Attapeu              | Million \$US            |             | 7,883,428     | 95,817,373    | 1,515,255,724  | 1,618,956,525            |
|                      | FDI capital Inflows (%) |             | 0.49%         | 5.92%         | 93.59%         |                          |
| Salavan              | Million \$US            |             | 30,065,396    | 67,782,312    | 39,687,588     | 137,535,296              |
|                      | FDI capital Inflows (%) |             | 21.86%        | 49.28%        | 28.86%         |                          |
| Xayyabouly           | Million \$US            |             | 681,000       | 163,072,004   | 75,826,038     | 239,579,042              |
|                      | FDI capital Inflows (%) |             | 0.28%         | 68.07%        | 31.65%         |                          |
| Phongsaly            | Million \$US            |             | 1,228,000     | 26,511,993    | 86,291,339     | 114,031,332              |
|                      | FDI capital Inflows (%) |             | 1.08%         | 23.25%        | 75.67%         |                          |
| Xekong               | Million \$US            |             | 10,720,655    | 30,029,668    | 72,853,428     | 113,603,751              |
|                      | FDI capital Inflows (%) |             | 9.44%         | 26.43%        | 64.13%         |                          |
| Bokeo                | Million \$US            |             | 308,319       | 170,392,964   | 49,199,283     | 219,900,566              |
|                      | FDI capital Inflows (%) |             | 0.14%         | 77.49%        | 22.37%         |                          |

Sources: Author's calculation based on MPI, (2016)

### 3.1 Period of 1988-1994

The Lao government adopted the first law on foreign direct investment in 1988 by permitting 100% foreign ownership, the trends of FDI inflows to Laos started emerging from 1991 to 1994. However, the FDI inflows mostly distributed in urban areas especially in Vientiane Capital and others nearby provinces. As this period

was a beginning of shifting the country to an economic market system, which is why the FDI performance was incomprehensive all over the regions (see Table1). Moreover, the implementation of the first investment law was still lack of proficiency. As a result, it can be said that the implementation of investment law was not accomplished in attracting the foreign direct investment in regional development.

### 3.2 Period of 1995-2004

After the first amendment investment law in 1994, in the following year the data indicate that distribution of investment has fluctuated throughout provincial, the FDI inflows has been gaining rapidly due to FDI policy has been revised in 2004 by providing foreign investors a longer investment term for 50-75 years, when comparing to before that was between 15-20 years. This means the Lao government efforts to attract FDI over the past decade. Then the flows of FDI expanded significantly to the regions which have the factor endowment that could response to the investment needs. However, in 1997 the capital of FDI has suddenly declined this is mainly because the Asian Financial crisis causing FDI flows out the country. This can be said that the investment distribution in Laos has been driven by the exploitation of natural resources but still has corruption at all level behind its implementation.

### 3.3 Period of 2005-2009

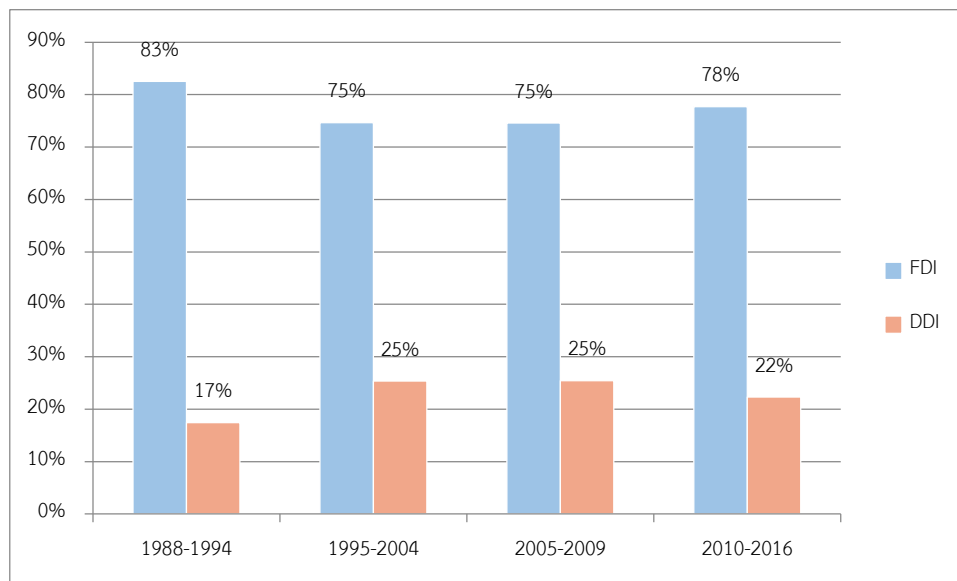
The capital of FDI inflows was continuous rising in this period due to the economic situation in the region improved after the Asian financial crisis in 1997 and Laos recreated the FDI policy by extended a longer land concession up to 99 years for both mining and hydro projects. In short, the pattern of investment distribution in this period indicated that the implementation of investment policy was effective on attracting the FDI from neighboring countries but the composition of FDI significant showed in natural resources of the country such as mining and hydro projects (Nolintha & Lau, 2015)

### 3.4 Period of 2010-2016

Over the past decades, Lao PDR officially welcome both domestic and foreign investment by adopting the law on investment promotion in 2016 and attempt to use a “one-stop service” model for general business activities in local level in order to build more facilitated for the investment activities. In term of investment policy seems very improved and the flows of FDI are well developed in all regions; however, in term of practicing the investment policy did not show any significant effect on attracting FDI to the country but the external factor and foreign investor’s need are more significant effect on regional distribution of investment in Lao PDR.



Figure2. Foreign and Domestic Direct Investments values in percentage.



Sources: Author's calculation based on MPI, (2016)

According to table 1 indicates the total value of the foreign investment by dividing into 4 periods of adapting the investment laws; it can see what has been changed about the distribution of foreign investment in almost all provinces in Laos and totally had the differences the foreign direct investment inflows. Actually, the Lao government began to encourage FDI outside Vientiane Capital since the mid-1990s. This was a process of government's regional development strategy. The data available here is varying distributed across the regions. The minority of foreign business is situated in the central region of Laos and in the municipal area of Laos, including the manufacturing and services industries sectors (Gunawardana & Sisombat, 2009b). Furthermore, it can be seen that FDI flows gradually grown particularly in the 1990s, but DDI inflows are still remain low because the growth of technology development in Laos is relatively low and the country still lack the capital to create the business activities. (See Figure 2). However, it can notice a remarkable of the FDI world has increased In addition, FDI flows have positives affected to the country in term of its influence to the socio-economic development, technological advantage, foreign exchange rate earnings, increased gross domestic product and employment creation as result of the government provided attractive tax and non-tax incentives in recognizing the need to promote inward FDI in rural areas.

#### 4 Discussion of Investment Pattern

##### 4.4 Decentralization of authority to region, Decree No. 64/PM, 2003

This decree defined the role, responsibilities, and right of the Committee for investment management and the cooperation between foreign and domestic investment at the central and local levels. The aim of the government is to decentralize the foreign investment management power by allowing local authorities to attract investment to their regions (Gunawardana & Sisombat, 2009a).

This is one key to investment law that they concentrate significantly in regional development by drawing the responsibilities and the right to the local. This sounds great to decentralize their power to the local, but the missing point that the government has not considered about the corruption behind this legal authorities because in Laos has these kinds of situation that haven't completely solve especially at the rural regions.

#### 4.5 The 7<sup>th</sup> five-year National Socio-Economic Development Plan for Regional and Local Development 2011-2015

In order to build favorable conditions for each different regions and help those local regions to become more competitive, the Lao government has created economic zones by starting to develop the core cities in different 3 regions to increased socio-economic development in specific zones and regions, for instance in the North are Luang Prabang City and Xai district (Oudomxay Province), in the Centre are Vientiane Capital and Kaysone Phomvihanh District (Savannakhet Province), in the South is Pakse District (Champasak Province). These cities will spread the development of industrialization and modernization infrastructural through another region by attempting to transform the potential of production into commercial production and to ensure this approach will support investment and trade with others countries in the region<sup>7</sup>.

##### *Northern Region*

*“Develop one economic center in the northern part, in Luang Prabang; three industrial zones in three provinces: Vientiane, Xiengkhuang and Oudomxay Provinces; three economic corridors: Boten-Vientiane, Houayxai-Taichang and Muang Ngeun-Nonghat; four border economic zones: Boten, Huayxay-Tonphuang, Nonghat and Kanthao.”*

##### *Central Region*

*“The aim is to develop an economic center Vientiane Capital, industrial zone in Savannakhet, tourist service center in Khammuane, and four economic corridors in East-west and North-South length. This also extends to develop special economic zone (SEZ) in Savanakhet-Seno area and at the Lao-Vietnam border.”*

##### *Southern Region*

*“An economic center will be established in Champasack; industrial zones will be set up in Attapeu, Sekong and Saravanh; and develop 4 economic corridors which will be initiated at Champasack-Veunkham (Cambodia border), Vangtao-Champasack-Saravanh (Vietnam border). The aim will also to develop border economic zones: at Vangtao in Champasack Province, Phoukeua and Phouvong in Attapeu, Darktaork in Sekong, and Lalai in Saravanh.”*

(Organization, 2011)

In conclusion, as discussed the pattern of investment above, those are a crucial method to lead the country in the competitive level. As a result, there had some region in some sectors of economic development that can achieve and was aligned with the National's plan especially in the central region such as Vientiane

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<sup>7</sup> The 7<sup>th</sup> five-year National Socio-Economic Development Plan <http://www.wpro.who.int/countries/lao/LAO20112015.pdf>

Capital and Savannakhet. Apart from this, the others local areas still had the shortage of foreign capital flows because in the implement terms, both center and local haven't done enough to encourage the FDI to the regional development particularly in the northern part where is the poorest areas in Laos. Thus, it becomes clear that the pattern of investment distribution in Lao PDR is not aligned with the country's purpose, as their previous plan; the 7<sup>th</sup> five-year National Socio-Economic Development plan determined the target for 3 regions of Laos in order to support the FDI. Nevertheless, its implementation has shown in opposite way of its National plan, so the thing which can say is that the Lao PDR is deemed to be fastened to develop the country without preparation herself especially in practice term which not response with its government policy and the procedure of investment activities approval are still complicated.

#### 4.6 Investment Promotion Law, 2016 (Amended)

The new feature of this law was followed by the law on Investment Promotion in 2009 which combined the domestic investment law and Foreign Direct Investment law into one to make a “*level playing field*” for both domestic and foreign investors. Moreover, the law determined to shorten the procedures to open new businesses; the term of investment shall not exceed maximum 75 years, foreign investors can access to local financial and can own a piece of land for running their firms.

Indeed, it's good that the government amended the law, the context deems more clear and lenient for both foreign and domestic investment which is compatible with the recent economic situation in Lao PDR. Moreover, the property of the law can attract the foreign investment to expand foreign capital to the regional development. In addition, it can be said that the amendment law on foreign investment in 2016 has set into the line of National Treatment<sup>8</sup> which is appropriate to World Trade Organization (WTO) principles of the Trading system.

Besides the situation described above, there are some others factors which are involved in the contribution of investment in Laos. Those were from the external factors such as the foreign investor's conditions, the infrastructure of economic cooperation with neighboring countries and the influence of the global economic boom. The reason where and why distribute of investment was mostly in some region with good natural resources supplied because recently investment activities are more related to natural resources such as

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<sup>8</sup> National Treatment: “*Treating foreigners and locals equally imported and locally-produced goods should be treated equally — at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents. This principle of “national treatment” (giving others the same treatment as one’s own nationals) is also found in all the three main WTO agreements (Article 3 of GATT, Article 17 of GATS and Article 3 of TRIPS), although once again the principle is handled slightly differently in each of these.*” [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact2\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm)

power energy, mining, land concession activities, for example, the mining project in Khammuan, Xayabouly Hydropower project.

To examine the purpose of foreign investors, this research was looking after the theory of Dunning (2000) which explained the decision of a firm to invest in the country which has three 3 advantages such as the ownerships (O), the location (L), and the Internalization. Also, the studies of Mottaleb (2007) and Ranjan and Agrawal (2011) found that a high focusing on specific investment, less infrastructure development, and unattractive investment law bring a negative effect on economic growth.

Hence, there is no doubt why most of the investors want to invest in these sectors, significantly during the period of 2009-2016 FDI flows show a small fluctuation above \$US 2 billion. It can be seen that FDI distribution increased in mining and hydropower sectors. Which means most of the investors decided to invest in the region where have good conditions supplied such as in Northern part (Luang Prabang and Oudomxay Provinces)

#### 4.7 concluding remarks

As can be seen from the analysis of the Laos policy performance above, the result of decentralizes the authorities between central government and local government has become as a behind reason of these matter due to perhaps the inequality of foreign investment distribution in some areas increased the corruption at the regional level. Thus, they could not say that whether it would become the conflict between the central and regional or not because there is no evidence to prove. However, Lao's decentralization system seems very unique, and it

### 5. Conclusion

This research attempted to analyze the pattern of distribution of investment significantly in regional development by using a primary data from the Ministry of Planning and Investment (MPI). The study found that the pattern of distribution of investment in Laos has affected by the main neighboring investors from China, Vietnam, and Thailand. However, some parts of investment policy still do not meet the demands of investors, particularly the working system which seems to be complicated by responsibilities between communities.

As can be seen the performance of FDI policies, the primary data from the Ministry of Planning and Investment (MPI), which has shown the capital inflow of Foreign Direct Investment in each province. According to the data sources in Table.1, it can say that all province can attract the foreign investment depends on their different advantages. Whereas, those practices did not come from the central or provincial policies, surprisingly, the investment in Laos is mostly affected from the external factors such as

infrastructural, foreign investor's needs, and their own advantage in each province. Consequently, this case brings the disparities after their investment activities which created a loophole and inefficient government institution that concern about the national interest and socio-economic development.

In summary, the study demonstrates unbalancing of policy implementation of these the distribution of investment which has reflected the real situation of the Lao economic. There still have many factors that need to be improved. Therefore, the government has to adjust and change some points of its policy significantly the legal system, the law on promoting and encouraging investment and business activities specifically in regional development should be the first priority to improve. Besides these factors, the human resources is also important factor that should be improved because to response the needs of investors, the country should preparing the skilled workers to keep up with the FDI, thus these are the main aspects to interest investors into the country and to enhance the role of government's implementation to be more efficient.

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### Appendix1. The List of Investment Promoted Zones

| Provinces/Capital    | Investment Promotion Zones   |                                       |  |
|----------------------|--|---------------------------------------|--|
|                      | Zone 1   | Zone 2                                | Zone 3   |
| Vientiane Capital    | Sangthong District   | Pakngum District                      | Chanthaboury District<br>Sikhottabong District<br>Xaysettha District<br>Sisathanak District<br>Hadsaifong District<br>Nasaithong District<br>Xaythany District |
| Phongsaly Province   | Nhod Ou District<br>Samphanh District<br>Khua District Mai<br>District             | Bounneua District<br>Bountai District | Phongsaly District   |
| Luangnamtha Province | Long District<br>Nalae District<br>Viengphoukha<br>District                        | Sing District                         | Namtha District  |
| Bokeo Province       | Mueang Mueng District<br>Pha Oudom District<br>Paktha District                     | Tonphueang District                   | Huoixai District   |
| Oudomxay Province    | La District<br>Namor District<br>Nga District<br>Beng District<br>Pakbeng District | Houn District                         | Xay District   |
| Houaphanh Province   | Viengthong District  | Houamueang District                   | Xamneua District   |

| Provinces/Capital     | Investment Promotion Zones   |   |  |
|-----------------------|--|---|--|
|                       | Zone 1   | Zone 2  | Zone 3   |
|                       | Xumtay District<br>Viengxay District<br>Xiengkhor District<br>Add District<br>Sopbao District          |   |  |
| Luangprabang Province | Phonxay District<br>Viengkham District<br>Phoukhoun District<br>Pakxeng District<br>Phonthong District | Ngoi District<br>Nambak District<br>Chomphet District<br>Xiengngeun District<br>Nan District  | Luangprabang District  |
| Sayaboury Province    | Xayxathan District<br>Xienghon District<br>Boten District  | Paklai District<br>Kenthao District<br>Thongmixai District<br>Phieng District<br>Nguen District<br>Hongsa District<br>Khop District | Sayaboury District   |
| Xiengkhouang Province | Moak District<br>Phaxay District<br>Thathom District   | Nonghaed District<br>Kham District  | Paek District  |
| Vientiane Province    | Houm District<br>Xaysomboun District<br>Muen District  | Hinhub District<br>Kasy District<br>Sanakham District   | Vangvieng District<br>Keo Oudom District<br>Viengkham District |
|                       | Maed District  | Feuang District   | Thoulakhom District<br>Phonhong District                       |
| Bolikhamxay Province  | Xaychamphon District   | Pakkading District  | Paksun District  |



| Provinces/Capital    | Investment Promotion Zones   |  |                           |
|----------------------|--|--|---------------------------|
|                      | Zone 1   | Zone 2   | Zone 3                    |
|                      | Viengthong District<br>Borikhun District   | Thaphabad District<br>Khamkherd District   |                           |
| Khammuan Province    | Boulapha District<br>Nakai District<br>Xaybouathong District   | Nongbok District<br>Hinboun District<br>Xaybangfai District<br>Mahaxay District<br>Yommalath District  | Thakhek District          |
| Savannakhet Province | Nong District<br>Sepon District<br>Phin District<br>Vilaboury District<br>Thapangthong District<br>Thaphalanxay District<br>Sonboury District<br>Adsaphon District | Outhomphon District<br>Songkhon District<br>Champhonh District<br>Adsaphangthong District<br>District<br>Xaybouly District<br>Xayphouthon District | Kaisonphomvihanh District |
| Salavanh Province    | Samouy District<br>Ta Ouy District<br>Tumlan District  | Khonphapheng District<br>District Khongsedon<br>District Vapee<br>District Laongam District  | Salavane District         |
| Sekong Province      | Kalum District<br>Dakchung District  | Thateng District   | Lamam District            |
| Champasak Province   | Soukhomma District<br>Bachieng District<br>Mounlaphamok  | Paksong District<br>Phonthong District<br>Khong District   | Pakse District            |

| Provinces/Capital | Investment Promotion Zones                                |   |                     |
|-------------------|---|---|---------------------|
|                   | Zone 1  | Zone 2                                      | Zone 3              |
|                   | District<br>Phatoumphone<br>District                      | Champasack District<br>Sanasomboun District |                     |
| Attapeu Province  | Sanamsay District<br>Phouvong District<br>Sanxay District | Xaysetha District                           | Samakhisay District |

## Women and Career Advancement in Brunei Darussalam: A Case Study of Women Working in Brunei Public Service

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### Abstract

Brunei Darussalam society offered a unique and interesting aspect to do in-depth study on women. From outside perspective, Brunei seemed to be a patriarchal society but at closer look, the women of Brunei were seen to be working their way up to higher positions in the workforce. Thus, career advancement plays a significant role in women's career life because career life reflects their productivity at work and serves significant meaning to their career life apart from their role as a mother, wife and daughter. The problem was that, the representation of women at the top-level positions in Brunei government sectors remained low despite the outnumbering of females over males in the managerial pipelines. The aim of this research was to show that further improvements were required to improve women's career advancement. This study was done through interview-based qualitative research to examine the factors that facilitate and hinder women's career advancement from the perspectives of women working in Brunei government sectors. The interview revealed that societal, organizational and individual factors significantly influence women's career advancement. The organizations that the women worked with had created an empowering environment for them to advance in their career life through the practice of equal opportunities in promotion based on merit, skills and work experiences. This became incentives for women of Brunei to develop high aspiration to pursue further progress in their career. The data also revealed that women's family obligations had also influence their career progress. This paper showed that Brunei government had implemented good foundations for women in their workplaces to empower them to pursue career advancement but women desire for more improvements to help women succeed and manage their roles in both family and work institutions efficiently including flexible working hours, improvement on availability of facilities such as nursery and breastfeeding room in the workplace as well as to open up more opportunities for women to participate in discussions and decision-making processes especially for those at the lower levels.

Keywords: *Career advancement, facilitators, barriers, Brunei, women, empowerment*

## 1. Introduction

The progression of women in all aspects of life has taken place at a rapid phase and this is evident in the context of economics. Globally, women's participation in paid labour market has increased over the years with more women entering what was once male-dominated sphere of work (Tharshini, Kumar and Rathnasekara, 2016). Their progression has been remarkable to the extent that the world is witnessing the rise in number of female in positions of authority, leadership and female breadwinners. Brunei government acknowledged that empowering women to be involved in public service is significant to Brunei's economy and national development because women in Brunei make up almost half of the population with 48.1 percent of total population (Government of Brunei Darussalam, 2016). Furthermore, women can bring in different perspectives and diversity into their workplaces especially in decision-making, communication, leadership styles and management of the organization, which could contribute to overall improvements in the performance of organizations (OECD, 2009). Having more women in the workforce allows the workplace environment to be gender-friendly whereby men and women can cooperate to drive the organization towards achieving its goals and milestone. Thus career advancement is significant to women's career life because having more women leaders in organizations help in ensuring other women have more opportunities to enhance their capabilities in the workplace. However, women could only go as far as senior officers (Division Two) while key positions in most of Brunei government sectors are still held by men.

## 2. Problem statement

Women remain underrepresented at top-level, Division One, positions across all Brunei government sectors despite the increase in educated females, women's higher level of achievements in comparison to male and their continuous investment in human capital. Large number of women in Brunei government sectors remained stuck in managerial pipeline while the top-level positions remained dominated mainly by male. Women only occupy 31.9 percent of positions in Division One where as men occupy 68.1 percent (Government of Brunei Darussalam, 2016).

### a. Research Objectives

This research aims to explore the perspectives of women working with Brunei government sectors on career advancement as well as their perception on factors facilitating and hindering their career advancement. This study could address the limited research on women and gender studies in Brunei. It could also serve as a guideline for policymakers to improve their existing policy for women in the workplace.

### b. Research Questions

This paper aims to examine the factors that influencing women's career advancement by questioning:

- What are the existing factors that facilitate and hinder women's career advancement?

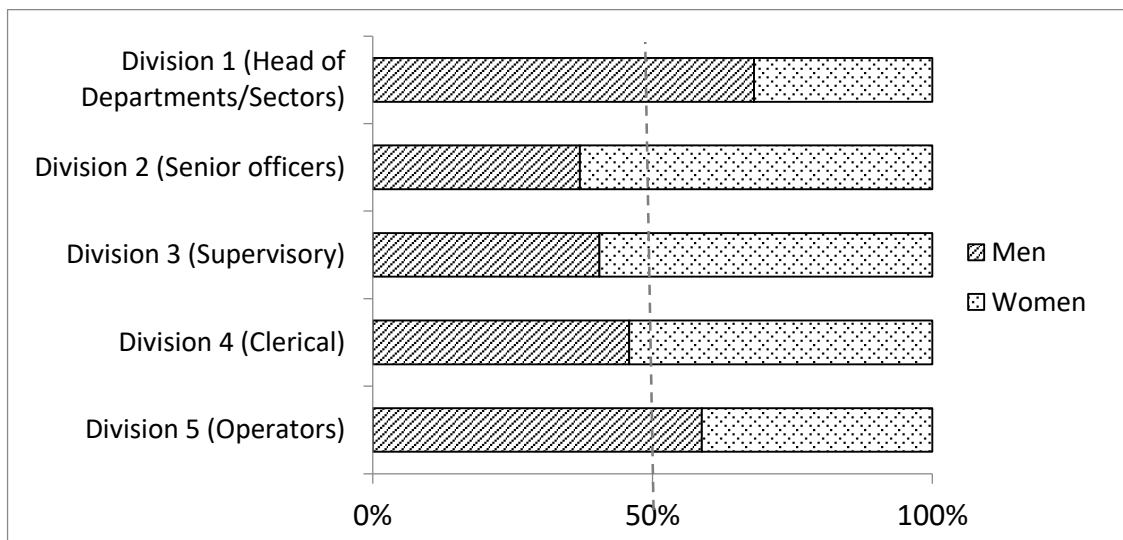
### 3. Literature Review

#### a. Background of Brunei

Brunei is a small country located on the island of Borneo that has been blessed with oil wealth that contributed to the development and improved the welfare system of the country. As a welfare state, Brunei has invested its wealth in free education and healthcare, accessible to both male and female citizens. Economic growth had also led to the expansion of public sectors, which required more labour participation. Furthermore, Brunei has developed a long-term development plan that included strategies to diversify its economy. In order to accomplish this, the government needed the females to be engaged in the labour market thus the increase in demand for female workforce participation in the country.

Apart from providing equal access for females to attain higher education, other incentives from the government to attract more females into the workforce also included equal practices in terms of hiring, promotion, trainings and skill development. The government also extended maternity leave from 56 days to 105 days to support women’s work-life balance as well as to promote gender equity in employment. As a result, more women are aspired and motivated to pursue career advancement. According to statistics, female labour force in the country has gradually and consistently increased from 42.1 percent in 2011 to 43.2 percent in 2014. Females have also outnumbered males in educational achievements and in most of the levels of Division in Brunei government sectors except those in Division One and Division Five.

Figure 3.1 Ratio of male and female participation in the workforce according to different Divisions in year 2015



Source: Brunei Darussalam Statistical Yearbook 2016

The chart above shows that women seem to have moved up the levels of Division with ease yet, over time, their progression to the highest Division remain slow and seem to have been hindered. Thus this study will examine the factors that influence their career advancement from the perspective of women working with Brunei government sectors.

**b. Women and career advancement**

Career advancement is generally defined as individual’s access to promotion opportunities as well as their ability to move up managerial ranks and ability to acquire higher pay (Miner, Chen and Yu, 1991). In the context of Brunei Darussalam, employees are eligible for promotion regardless of gender and that promotion or career progress take place within three to eight years, provided that they meet the standard requirements for promotion; quality of work performance, work experience, succeed in written and interview tests (Prime Minister’s Office of Brunei Darussalam, 2012). Although organizational policies clearly states that both men and women have equal access to promotions, there seem to be an invisible barrier or ‘glass ceiling’ effect that hinder women from moving higher to Division One in Brunei government sectors. Most literatures on women’s career advancement suggest that women’s career is influenced by external and internal factors. External factor include societal and organizational factors whereby internal factors focus on individual or personal factor.

**c. Factors influencing women’s career advancement**

**i. Societal expectations of women’s roles**

Women’s involvement in the workforce has caused a shift in ‘gender order’ in terms of gender roles (Connell, 1987) and the traditional family system as a whole. Women’s roles were no longer limited to household activities but had extended to the role as one of the contributors to household income in a dual-earner family. Even with the growing importance and the active role of women in the public sphere, women are still expected to perform the cultural expectation of their gender roles. West and Zimmerman (1987) argued, the social construction of gender created differences in gender roles and expectations. This meant that regardless of women’s position in the workplace, they needed to fulfill the socially constructed concept of ‘womanhood’ through the role as a wife, daughter and mother. In addition to that, family commitments remained the primary responsibility of women. This affects women’s career life because the society still expects women to prioritize their family more than their career. Firestone (1972) argued that women’s biological functioning impede women from attaining key positions in society. They were chained to carry out their reproductive function, making them primarily responsible for childcare and family welfare. The persistence of this socio-cultural value is evident in Southeast Asian countries, particularly in Malay society. Malay society is described as highly patriarchal where men dominate the positions of authority and power. Radical feminism also argued that the position of men in a patriarchal society allows men to exploit

women into doing unpaid work at home. Women also unconsciously accepted this due to socialization that boxed them into socially constructed ‘femininity’ rather than to challenge male domination (Schaefer, 2012). This creates inequality in division of work that put more burdens and responsibilities on women (Haralambos and Holborn, 1990). This caused women to experience role strain and role overload in order to meet the demands from the two ‘greedy institutions’ of home and work (Coser, 1974). Thus, women need to constantly negotiate their dual roles in order to allow them to succeed in their career without neglecting their family responsibilities.

## ii. Organizational factor

### 1. Work-life balance

The conflict between work and life is often the main reason women choose not to desire for career progression for fear of threatening the balance of work and life (Murniati, 2012). The role of organizations is significant in empowering and helping women manage their conflicting demands from both home and work institutions, which could be done through organization’s policies and programs (Lim *et al.*, 2013). This balance could help enhance their career progression, mobility and job satisfaction.

### 2. Organizational structural theory

Organizational structure could affect women’s career advancement. On one hand, according to Kanter (1977), the organizations could help women climb to higher positions by providing equal access to social and human capital accumulation to improve their productivity and efficiency at work through mentoring, networking, trainings and development of skills. On the other hand, organizations could also prevent women from climbing the corporate ladder through invisible barriers termed as ‘glass ceiling’ effect. Acker (1990) argued that leadership positions were often reserved for employees who were fully committed to their work whereas employees with divided commitments were placed at the lower positions. This stereotype in the workplace indicated that men were usually preferred to occupy leadership positions rather than women. The reason was that women were not seen as committed as a result of career interruptions that they often experience due to their multiple responsibilities at home and at work. Furthermore, the concept of ‘career success’ was constructed based on male model of hierarchical mobility (Gallos, 1989; O’Neil, Hopkins and Bilimoria, 2008) through promotions, increase in salary and improved in socioeconomic in the workplace (Abele *et al.*, 2011). Women, however, experienced maze-like route to attain top-level positions, which may take longer journey than males due to their career interruptions.

Lack of support from organizations also affects women’s productivity and efficiency at work. Kargwell (2008) and Broadbridge (2008) argued that absence or lack of available facilities that could help women balance their dual responsibilities could contribute to the problem of scarcity of women at the top levels. Kargwell (2008) further argued that some organizations were unwilling to invest in facilities such as childcare provision

that could help women manage and succeed in their dual responsibilities at home and at work, and at the same time improve their work performance. Furthermore, lack of female mentors contributed to slower mobility of women to achieve key positions in the company. Colley (2002) stated that male leaders often preferred to assist male than female to leadership positions to reserve those positions as male-dominated.

### iii. Personal factor

Vianen and Fischer (2002) argued that the lack of progress among women to top-level positions was due to their tendency to 'self-stereotype'. Women often compare their personal traits as to that of males' leadership styles. This resulted from the socialization process that reinforces traditional concept of gender roles and gender stereotype that females were best suited for the role in household production whereas men's primary role was in work sphere. This created a culture of low self-esteem, lack of confidence, motivation and career aspirations (Leach, 1988). Women also found it difficult to meet the 'ideal worker' (Acker, 1990) due to time constraint resulting from multiple responsibilities thus hindering them from progressing in their career. On the other hand, women who managed to occupy top-level positions had to assume male style of leadership - assertive, decisive, assume more responsibilities and less emotional in their professional life (Murniati, 2012). This caused women to experience struggle in balancing their dual identities.

## 4. Research methodology

### a. Sample

The target respondents of this research were women from each of the five Divisions in Brunei government civil or public sectors. In total, 22 women had been interviewed. Two from Division One, twelve from Division Two, four from Division Three, two from Division Four and two from Division Five. The reason for more respondents from Division Two in this study was that, these respondents were at the level, ready to advance to Division One, the highest position in Brunei government sector yet they appeared to be stuck at Division Two. Thus their perspective on career advancement is significant for this study.

The preferred criteria for respondents in this research included:

- Females working with or retired from Brunei government
- Married and have children
- Age range between 25 to 65 years old



**b. Methods of data collection**

**4.2.1 Primary data**

The author conducted fieldwork research in July and August 2017 to obtain in-depth and rich data from each respondent for this research. The fieldwork was carried out in Brunei, within the compound of Brunei government sectors. The author used qualitative method by conducting interviews on women working in Brunei government sectors. Interview is the best method for this research for its strength to capture women’s voices firsthand.

Through purposive sampling, the author interviewed a total of 22 women from five Divisions in Brunei government sectors. The author used two sets of questionnaires; one set was specifically designed for management levels, from Division One to Division Three. Another set of questionnaire was designed for operational level, from Division Four to Division Five. The author conducted the interviews using both Malay and English as medium for communication, which later on were translated into English during transcribing process.

**4.2.2 Secondary Data**

The sources for the secondary data were obtained through texts and documents analysis on Brunei statistics and Brunei government policies mainly from Brunei Government National Development Plan and Government of Brunei Darussalam Statistical Yearbook.

**5. Findings and discussion**

The interviews with women working with Brunei government’s public sector highlighted the importance of having career as part of their life and identity. Their career advancement was indeed influenced by societal, organizational and individual factors. Societal factors have indirect influence to organizational structure. Organizational factors have direct influence to women’s career advancement and their career life overall whereas individual factors are influenced by both societal and organizational factors. The findings will be organized in the same pattern as the literature review. The author will first analyze the environment that respondents in this study were exposed to at societal level, then analyze women’s organizational environment and lastly, analyze respondents’ personal motivation and aspiration.

**i. Societal factors**

The findings of this study revealed that Brunei women were given equal opportunity to participate in the public sphere. This explained the constant increase in the number of female participation in the workforce. Respondents also explained that career life had significant role in shaping their identity. Women in this study did not just want to succeed in their domestic role but also in public sphere. This challenged the traditional structural-functionalist view on social arrangements in terms of gender differences. Structural-functionalist argued that men and women should specialize in two different domains to maximize the

function of the society (Hattery, 2001). Men were expected to specialize in the sphere of work hence they should develop skills to help them succeed at work. Whereas women were expected to specialize in home sphere therefore they should develop skills to allow them to succeed at home (ibid). Hence, respondents did not just want to specialize and develop skills in their roles at home but also wanted to specialize in skills that would allow them to succeed at work simultaneously.

One of the major findings in this study was the role of extended family on respondents' career life. On one hand, family hindered their career progress but on the other, family was also a factor that influenced women to pursue career advancement. Respondents stated that their extended family provided them with assistance and support in terms of childcare and motivation to pursue achievements in their career life. Respondents also stated that their family also empowered and assisted them in challenging patriarchal norm and express their own potential and capabilities in the public sphere. Hence these women displayed high commitment and determination to achieve their goals in their career life.

However, based on the response from the respondents, cultural bias still persisted despite the influence of Western ideologies in the society. According to women in this study, the reason for the low representation of women in leadership positions were first, women's entrance to the workforce was a new phenomenon thus the representation of women at the top still seemed low. Second, Brunei was governed by its national philosophy of Malay Islamic Monarchy (MIB) that served as a form of social protocol in the society whereby leadership positions were mainly reserved for men thus reinforced the image of Brunei as a patriarchal society. This is evident when it comes to religious events or national events where men were placed in a more privileged position of power and authority in social, cultural and economic context (Cranny-Francis, Waring, Stavropoulos and Kirkby, 2003). In reference to this study, the author observed that respondents accepted this and opted to negotiate with patriarchy rather than to challenge it because not only that patriarchy existed in cultural context but also in Brunei, it had somehow been upheld at formal national ideology. Thus undermining women's involvement and capabilities in the public sphere.

Culture also had strong influence in women's adulthood, decision-making and life choices particularly relative to marriage and career (Gallos, 1989). The findings of this study revealed that respondents, being born and raised in Malay customs and culture, were socialized to have strong preference towards family rather than career or else they would be subjected to moral sanction while men were still expected to occupy the position of authority. Respondents also noted that society still held high expectation on women's role at home and at work and that they were still expected to be primarily responsible for family welfare and management. Based on author's observation, it is evident here that Brunei Malay culture had strong influence in respondents' decision and life choices that affect their career life. This meant that

regardless of the respondents' position in the workplace, they had to fulfill their 'feminine' role in order to fit into the social concept of 'womanhood'.

This affected their career development because women often experience career interruptions to fulfil their family obligations and responsibilities (Schwartz, 1989). Among the Divisions, Division Two's respondents were more likely to experienced role strain because most of them were at a phase of life whereby family required more of their attention and that motherhood was quite a struggle that needed to be constantly managed. Based on the interviews, four respondents from Division Two and one from Division Four mentioned that their family commitment slowed down their career progress. One respondent from Division Two captured the changes and adjustments she had made as she transitioned into the new world of motherhood. She noted that her priorities changed when she had her child. She developed high tendency to put off her pursuit for career advancement to give more room to focus on her child until she grew more independent. The findings also found that when work and family obligations overlapped, respondents had to take time off work, come in late to work late or leave work early, causing them difficulty in completing the standard number of working hours. This created the stereotype that women were seen as not committed to work as well as minimizing their opportunities to take higher positions in their workplace (Anker, 1997). Hence, this study also examined how well the respondents were integrated in their workplaces and how it influenced their career advancement.

**ii. Organizational factors**

Overall, the findings show that the respondents' workplaces have implemented work policies and practices that promote gender equity in recruitment, promotion and training. Respondents from different public sectors added that promotions were based on quality of work performance and merit. Apart from their qualifications, their work experience and skills on the job also facilitated their advancement. Those who managed to get to the highest position in their workplaces stated that hard work, determination, competency on the job and patience had contributed to their success at work and at the same time balance their dual roles.

Although the government had created an empowering environment to encourage women to succeed in their dual roles through access to education as well as organizational policies and practices, the problem identified in this study was that organizational structure was still socially constructed based on male model. The traditional belief that men were better leaders than women still existed in the organization. The subtle and unconscious effect of gender stereotype still influenced people's perception towards having female leaders in the workplace. This meant that cultural bias that favoured men over women at societal level was also reinforced at the organizational level. Furthermore, since promotion to the top-level positions was based on recommendation, there could be bias against females. Women in managerial levels were often

subjected to questionable work commitment, leadership capabilities and decision-making quality. Correll, Bernard and Park (2007) argued that working mothers often experienced ‘motherhood ceiling’ that hinder them from advancing further in their career. They further argued that due to societal and cultural expectations on women’s role, women were seen as less committed to their work especially when their family obligations interrupted their time at work thus, their affecting their career advancement. Although respondents in this study rejected the existence of glass ceiling, gender stereotype still lingered within their workplaces. Based on the findings, women’s biological function and their gender roles could also influence people’s perception towards having females in leadership positions. One respondent from Division One explained the possible reason women were less favoured for leadership position. She said that women were considered as a liability to an organization when they give birth. The reason was that when a female leader was absent from work for her maternity leaves, it would be detrimental to the organization because the organization could not run without a leader. Hence, according to respondents from Division One, they had to perform masculine traits such as being assertive leader and work hard to retain their value at work and to be recognized for their competency, credibility and capabilities at work.

On the other hand, respondents from lower, operational levels experienced ‘sticky floor’ phenomenon that hindered them from progressing further in their career. Berheide (1992) argued that women at such levels were most likely to be trapped in low-mobility jobs. This is aligned with the findings in this study. Respondents at the operational levels described the nature of their tasks as less motivating. In addition to that, they were not exposed to decision-making tasks and were often sidelined in decision-making processes in the workplace. Thus their voices were often silenced which again, reinforces the nature of their less motivating and less challenging jobs.

Another problem that had been identified with organizational culture was that majority of the respondents’ workplaces lacked the facilities that could help them balance and meet the demands their dual responsibilities mainly on childcare provisions and mothers’ or breastfeeding room. Although majority of these women outsourced their household duties to domestic helpers and seek help from others such as family and friends with childcare, respondents, particularly those at lower operational levels, who could not afford to hire domestic helper, were more likely to experience role strain in managing their dual roles. Furthermore, having these facilities could help women improve their work productivity and give their best at work knowing that their children were nearby. Breastfeeding or mothers’ room could greatly help women meet the demands of motherhood.

However, regardless of the social and cultural limitations as well as enabling environment created in the workplaces, women’s agency had a significant influence in determining women’s career advancement; how they internalized social norm or cultural expectations of their roles and their balance them with their own

desire. The next part of this paper will explore the respondents' personal or individual motivation relative to their career.

### *iii. Personal factor*

When comparing with women in other Malay Muslim majority country such as Malaysia, the author saw a striking difference that made Brunei women unique. Like any other Malay Muslim countries, Brunei society is highly conservative whereby the importance of Islamic values are placed at the top priority and practiced in every aspect of life; women were expected to perform their traditional roles, socialized to prioritize their family and obey their husband. However, regardless of the restrains that the structure and culture, including family obligations that constantly demand their attention, had on limiting Brunei women's capacity to be involved in the public sphere, Brunei women show high level of independence. Upon observation, the author found a compelling and unique essence among women in this study. These respondents shared the belief that structural and cultural limitations were just a perception. By changing the perception on their roles in public, helped shape their career aspiration. Furthermore, they used their achievements in career as a medium for them to express their independence from traditional roles and that their contribution to the society was more than just reproductive function. Through their achievements in career they could elevate their socioeconomic status to be alongside men. This also influenced a culture of respect towards women in Brunei society. This supports Marie-Sybille de Vienne's (2015) analysis in her book "*Brunei: From the Age of Commerce to the 21<sup>st</sup> Century*". Based on her analysis, mass education was a new phenomenon as means to form modern intellectual elites in Brunei. However, the formation of intellectual elites took a surprising outcome whereby the new elites were dominantly females despite the resistance they had met in accessing education in the early days. Today, women's aspiration to succeed in the public sphere continuously persists and workforce is one of the means to express their capabilities and potential.

In reference to this study, the author argues that, women's agency, perception and attitude about work, played a bigger role in influencing their career advancement. Agency, according to Anthony Giddens refers to individual's freedom to act against or provide alternative action towards the constraints that derive from social structure and culture (Loyal and Barnes, 2001). Uppalury and Racherla (2014) also stated that agency allowed modification as well as changes in certain social structure. Agency in this study refers to how women constantly negotiate with the cultural expectations of their roles to allow them to succeed in their career life.

In this study, majority of the respondents believed that career benefitted them greatly because it can fulfil their needs. Thus they displayed high aspiration and determination with regard to their career life except for those in lower Divisions, mainly Division Five. This study revealed that respondents at different Divisions displayed different levels of career aspiration with respondents from Division One displayed higher level of aspiration compared to other respondents. The author used Maslow's pyramid model on human hierarchy

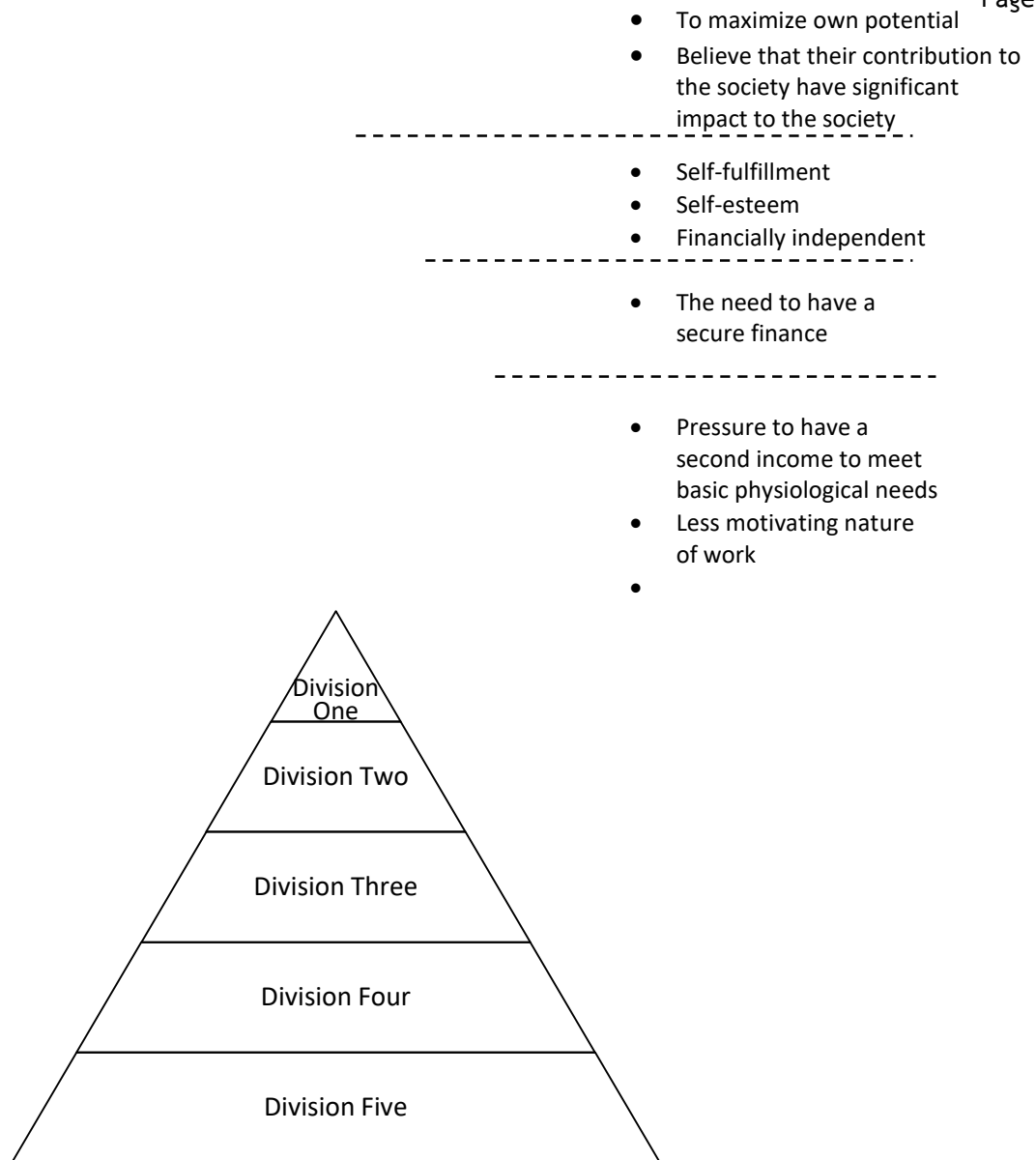
of needs theory to understand the differences in their aspiration. Maslow explained that human needs are arranged in five levels of hierarchy of priorities, which differs for every individual. In this study, the priorities that the respondents want to fulfil influence their career decisions and shapes their career aspirations.

The basic layer of Maslow's pyramid for collectivist society such as Brunei is social belonging. The reason is that in a collectivist country, individual's identity is most often associated with their social system (Gambrel and Cianci, 2003). From the author's observation, sense of belonging is important in empowering women who chose to pursue fulfilment outside the private sphere because as more women succeed in their career life, more women will also be aspired to follow their path.

In reference to the pyramid model above, the study revealed that the underlying cause for low career aspiration among respondents from the lower operational Divisions were first, the intention that pulled them into labour market. Their motivation to work was only due to the pressure to have a second income for the family to provide adequate basic physiological needs, without resorting to debt. They also needed to contribute to household income to ensure that the family had extra savings to have better life chances. Second, the nature of work they were exposed to was less motivating. They only received orders from their authorities and were often sidelined from decision-making processes in the organization. Third, while the culture of 'self-stereotype' was less common at the upper managerial levels, it was found to be more common at these lower operational levels. The author found that this resulted from the environment that respondents from lower operational levels grew up in, and the socialization they were constantly exposed to, that reinforced the belief that they were not capable to be leaders. Thus explained their lack of career aspiration.

Respondents from managerial levels had higher needs than those in operational levels. Since their earning was higher, their income covered more than just the basic needs and deprivation from those needs. Respondents from Division Two said that their motivation was to seek security and safety. They needed to at least be financially independent from their husband or family and have freedom to choose the kind of lifestyle they want to live in. The author saw a similar pattern among those in managerial levels, especially in Division Two. Their career aspiration was not just to be recognized for their skills but also relate to their conspicuous consumption. From these respondents' perspectives, they seek progression in career because it was self-fulfilling. It gave them a sense of self-confidence, self-esteem, which is the second highest level in Maslow's pyramid model, and more control in their life when they were able to achieve their career goals. Furthermore, the respondents in Division Two and One had the habit of reflecting their achievements through luxury materials. To these women, it was fulfilling knowing that they could afford to have a lifestyle through their own hard work. Thus motivated those to seek for more career advancement as long as they their career did not affect their work-life balance.

Figure 5.1 Different levels of aspiration for women from different levels of Division in Brunei government sectors



Source: Author's own analysis.

Division One respondents were among those individuals who achieved self-actualization stage in Maslow's hierarchy. They said that even when they have succeeded in securing key positions in their workplaces,

they had the desire to continuously expand their goals and achievements to further maximize their potential. They held the belief that their work performance and contribution have a significant impact in national development as well as to the society as a whole. As a woman, they could offer a different perspective to development and simultaneously they believed that they could be role models for other women to pursue advancement without neglecting their family responsibilities. According to them, although family obligation remained their first priority, they made certain adjustments and utilizing every resources they could including outsourcing their household responsibilities to allow them to succeed in their career life. Furthermore, these respondents were socialized in an empowering environment consisting of highly motivated individuals where they learnt and observed the strategies used by successful women to overcome the perceived barriers in the workplace and pave their way up to be one of them as well. Thus, the socialization process and the environment that the women were exposed to had strong influence in shaping women's career aspiration and how they perceive their limitations.

## 6. Conclusion

The study draws a major conclusion that women in Brunei show exceptional aspiration towards their career life and family. Even when the structure of the society, its cultural practices, as well as the structure of the organizations whereby subtle gender stereotype still exist that influences workers' perception towards female leaders thus hindering their mobility to the top positions, they did not view these limitations as a barrier that prevent them from having the desire to succeed in their career. Instead, majority of the women held a strong belief that limitations only lie within own perception. Women also use career life as means to negotiate with patriarchy, fulfil their needs and to justify that their significance in the society was not just limited to their reproductive function. Thus, majority of the women continuously develop the desire to excel in their career regardless of certain social, cultural and organizational constraint. Family also assisted and encouraged women to tolerate the constraints they faced, provide support with childcare and challenge the norm of patriarchy through their career aspiration and expand their potential in the workplace. This shows that even though women are underrepresented at the top-level positions, they continuously develop high aspiration to succeed in their dual roles. With the encouragement, moral and practical assistance from their family, majority women believe that their role and contribution to their career life have a greater impact to national development. Brunei was thus a blessed country to have been filled with highly motivated women who are willing to succeed at their dual roles even at the expense of their time and energy. Hence further improvements in their workplaces would further help women in balancing their dual roles.

## 7. Recommendations from this research

The existing policies implemented by Brunei government in the workplace have been successful in empowering women in the workforce, which contributed to the number of women outnumbering men in



the workplace. Further improvements in practices in the organizations could further help in empowering more women to take up key positions in the workplace thus address the imbalance of male and female in the top-level positions. Improvements that could be made include:

- 1) Enhancing the role of Human Resource Management. Human Resource Management could enhance their roles by providing more visible career planning and briefings that could help women and other employees to plan ahead their career and develop their own goals to achieve their desired positions. Human Resource Management could help women by offering strategies that could help women improve their efficiency, productivity and quality performance at work that could employees achieve their desired career goals. This would also increase their motivation and career aspiration.
  
- 2) Provide more competency-based leadership and work-life balance training programs. Development programs have known to be efficient in assisting women to develop their skills and improve their self-confidence. These training programs could also help women build more support network whereby women can observe and learn from one another on strategies that successful women utilized to secure continuous advancement in their career life which led them to occupy key positions in the workplace. In addition, government sectors need to identify the skills that employees at different levels of Division need to improve such as computer and other technology-related skills as well as time management. By identifying the areas that needed improvements would help the overall performance and productivity of the whole department or government sector.
  
- 3) Establish or improve existing facilities that could significantly improve women’s career advancement and work-life balance. Considering the difficulties that some working mothers experienced in juggling their domestic and career responsibilities, majority of respondents seek assistance from their family for childcare in order to help them progress in their career. Women also outsource their household duties by hiring domestic helpers to reduce the heavy workload of their multiple roles. However, this option was not always available for all women because some families could not afford to hire assistance. Thus, providing monitored, safe, quality and affordable child care services in the workplaces would help women focus on their work knowing that their children are in nearby and in good care. Also, to ensure this facility is greatly utilized, dissemination of information and knowledge regarding the quality and efficiency of the childcare services would be important. Providing mothers’ room such as a room for breastfeeding in the workplace would also greatly help women in bridging their career and motherhood responsibilities. Thus improve her efficiency in managing dual roles and at the same time positively improve their job satisfaction and productivity.

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# The Relevance of Gross National Happiness (GNH) On Environment Conservation

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## Abstract

Recognizing the importance of environment, the government of Bhutan places highest emphasis on the conservation as one of its development paradigms under the realm of Gross National Happiness. Being a small developing country, wood is the primary source of energy for cooking and heating, hence, over the years this dependence has led to pressures on the use of resources sustainably and deforestation. Using Elinor Ostrom's theory, this study evaluates the policy, institutional and management changes that implies the use of common resources such as fuelwood within the forestry community following an increase in the use of fuelwood. The forest management of fuelwood for household purposes has seen three major changes. Prior to 1969 the management system was largely traditional and customary. Gradually it transitioned on sustainable development and participatory forest management. However, the policy that nationalized all forest lead to a disincentive towards long term sustainability of forest governance by communities. The findings emphasize the need to manage fuelwood based on Ostrom's guidelines. Policy implications and areas of future research are briefly highlighted as well.

*Keywords: Gross National Happiness, Environment Conservation, Forest, Rural People*

## 1. Introduction

A wide consensus regards the measurement of economic development by traditional approach, Gross Domestic Product which represents country's economic performance and development. Emerging from the time of neoclassical economist, happiness is defined in terms of material consumption. It also comes as a golden rule in economics that wellbeing is associated with the income with a notion "the more the merrier". But as complex and challenging it is, the need to factor "Happiness" or "Well-being" as an end of a human pursuit in policies has been recognized in the political agenda today. Against this backdrop, the paradigm of economic growth is gradually paralleled by other approaches to development that keeps people at the end as opposed to economic development.

Bhutan journeyed its interest in "Gross National Happiness" (GNH) when the fourth King Jigme Singye Wangchuck pronounced the term in 1972 with a bold questioning of the GDP's inability to capture happiness

and well-being of the society. Bhutan is a tiny Himalayan country in South Asia, sandwiched by two giants, India and China with a population of less than one million. It is a small and peaceful country but it is most definitely not an idyllic place filled with happy people. Like any other country, it is grappling with pros and cons of globalization. Nonetheless, the government of Bhutan has adopted a different approach than the traditional economic growth, a search to go beyond material fulfillment and settle on an intangible idea of happiness.

Bhutan transitioned into constitutional democracy in 2008 from monarchy and while considering policies and legislation, the constitution directs the leaders to consult the four pillars of GNH, namely Good Governance, Environmental Conservation, Socio-economic development and Cultural Preservation.

Even though happiness as a public policy is still at a nascent stage, Bhutan believes that since happiness is the ultimate goal for everyone, the government must enable conditions for happiness, under which, living in harmony with nature from environment conservation is one of the most important tenets (Thinley 2012). However, there are critics claiming GNH is just an empty slogan or too fuzzy for serious policy making (Nguyenokwu 2014) and with regard to GNH Survey questionnaire, critics warn that happiness is an intangible and subjective concept which is hard to measure (Khatiwada 2013). Despite that, happiness as inclusive in the public policy is readily embraced and gradually gaining ground not only in Bhutan but in some part of the world, cementing Aristotle and Jeremy Bentham's belief that purposes of the state can be gathered from the goal of its members by aggregation (Duncan 2010).

### 3. Happiness: Mean or End?

Pursuing happiness as a policy might come at the expense of whether it should be taken seriously or it is a meaningful goal at all. Understandably, happiness is an individual pursuit but this norm was once proposed by Bentham who envisioned a public policy guided by its effect on the happiness of its people (Bentham 1789). On the contrary, public policies have been biased towards economics and driven by political interests.

To pursue happiness and well-being as the goal of public policy obviously raises a lot of questions and criticism because happiness is a private realm. It is subjective and validity of how it can be measured is questioned. Moreover, it is a general human tendency to equate happiness with money. But it has also drawn some scholars such as Layard (2014), Easterlin (2004), and Veenhoven (2006) to look at it differently that conform to the idea that the happiness is not associated with the affluence and wealth, breaking the barrier of general perception of happiness being tied to the level of income.

Easterlin (1974), who introduced the 'Easterlin Paradox', was amongst the first few to study about the reported level of happiness in the United States. Studies have shown a striking revelation, showing that

increase in income in many countries have not translated into the rise in levels of happiness. The Easterlin Paradox was tested by Blanchflower and Oswald (2004) and their findings revealed levels of well-being over the last quarter of a century had decreased in the US and Britain which is consistent with the Easterlin Paradox.

Similarly, the Kingdom of Bhutan sees development not only through the economic lens but provides a more important input into policymaking than the drive for material prosperity. Bhutan measures country's prosperity determined by the citizens level of happiness through nine domains and thirty-three indicators of GNH. Similar to the 'Easterlin Paradox' the government of Bhutan notes that after certain basic needs are met, furthering the consumption of material goods does not guarantee happiness (Centre for Public Impact 2015).

To pursue happiness and well-being as the end in public policy may not make it to every policymaker's agenda given that it is still at a nascent stage and based on various reasons. However, there are studies that show that happiness policy is not as futile a pursuit as it may seem. But despite the theories holding happiness in different perspective, the Utilitarian moral philosophy, "the greatest happiness principle" claims that happiness is universal, and that conditions for happiness appear to be similar across the world according to the study done by a veteran researcher of happiness Veenhoven (2010) similar claimant are also put up by Ng (2011) who mentions that to believe happiness depends on how individual perceives is a common mistake, he states that happiness in itself is universal not only amongst different individual but all species capable of enjoying and suffering.

#### 4. Relationship between Happiness and Environment Conservation

Out of the four pillars of Gross National Happiness, this paper focusses on environmental conservation. Bhutan is known for its strong commitment to conserving forest and it is evidenced by the mandate in the constitution to preserve 60 percent of forest cover at all times to come. Forest, under the realm of environment, are critical to human welfare, providing people with shelter, livelihoods, water, food, and fuel. Owing to the fact that a huge number of population are reliant on the forest in Bhutan, this paper examines how the government straddles in conserving the environment while recognizing the people's dependence on the forest.

The conservation of the environment and Gross National Happiness is closely linked on the basis of provisions like food security, fresh water, Energy, Shelter and rural income that contributes to the happiness of the people. Environmental Conservation pillar recognizes that human beings are intimately connected with the natural environment and all sentient beings therefore the pillar is also considered an important key to contributing to GNH (Schroeder 2015). Hence, "GNH is not the fleeting, pleasurable feeling that

happiness is generally associated with. Instead, Happiness is from serving others, living in harmony with nature and realizing our own innate wisdom and brilliant nature of our own minds” (Ura, Alkire and Zangmo 2011). It is important to trace the significance and links of environmental conservation and human well-being so as to either consolidate, justify or negate the relevance of environmental conservation pillar under Gross National Happiness.

The connection of human being and environment traces the work of Wilson (1984) who holds that humans are naturally affiliated to its surroundings, thus Wilson’s “Biophilia Hypothesis”, posits that connection to nature is rooted in our evolutionary standpoint. Hence, true to his hypothesis, studies show that the connectedness to nature plays a factor in making people happy. For instance, Capaldi, Dopko, & Zelenski (2014) find in their study “The relationship between nature connectedness and happiness: a meta-analysis” that nature and happiness has a significant relationship revealing that people living in close contact with nature are happier. Similar results are also shown by a study that concludes other than connectedness to nature, environmental conservation and attachment to nature can increase the level of peoples’ happiness (Tsurumi, Kuramashi and Managi 2012) so does a research by Adjei & Agyei (2014) who found a positive connection between the two.

In addition to that, MacKerron & Mourato (2013) also gives a compatible view of the connection between nature and well-being, revealing that participants in the study are notably happier in all natural or green habitat types, concluding his study that environmental quality does matter in relation to people’s happiness.

Coincidentally, Bhutan believes that happiness comes from protecting the environment and conserving it which is in line with the studies done by Wilson (1984) and MacKerron & Mourato (2013). Bhutan’s environmental policy is based on conservation. Therefore, recognizing the importance of environmental conservation, Bhutan has placed it at the center of its developmental strategy.

The qualitative literature on the connection between environment and happiness reveal a positive and significant relationship between the two. Wilson (1984) ‘Biophilia’ and Bhutan’s perception towards the environment is on the same lane, wherein both believes that there is an affiliation towards nature and building upon studies by other scholars, under the policy of GNH, living in harmony with people is one way to achieve happiness. Therefore, environmental conservation is placed as one of the pillars under GNH.

## 5. Importance of Environment Conservation and Policy

Nelson (2008) explains the term “Deep Ecology” invented by Norwegian philosopher Arne Naess, that nature has intrinsic value in itself, its richness and diversity. It advocates the spiritual connections to the

earth’s living system and a moral obligation to protect them. On the other hand, World Economic Forum (2015) states that the presence of environmental risk is more than economic ones, such as unemployment and fiscal crises. Such studies and propositions show that the need for stern environmental policy and the importance of conservation must be realized before it is too. Therefore, it is crucial to safeguard forest and environment to address the environmental issues as it is also a threat to human well-being, and if not taken necessary steps, the humanity will be inviting large-scale destruction.

Supplementing the “Deep Ecology” concept, Rinzin (2006) reports that the relationship between sustainable development and Bhutanese society is founded on a harmonious existence with the natural system, which is projected by beliefs that mountains and forests are a home of Gods and deities. Therefore, perturbing any pristine environment or wildlife would infuriate the deities bringing ill luck, sickness and death. Environmental Conservation was pointed as one of the bases of development under the paradigm of GNH, indicating the prominence of ecology and the environment within the country and implementation of policy and practice. Environmental Conservation just doesn’t mean safeguarding animals, trees or rivers. It comes down to an essential fact of our own survival.

At this point, it is important to note that there are countries that emphasize on ensuring better protection of the environment apart from Bhutan even without having public policies such as GNH as their guiding policy. Nonetheless, safeguarding forests, environment and the well-being of the people that are associated with the attributes of an environment is the running theme of any government that places importance on it. It is important to note that economic growth is vital but it should not be at the expense of an environment degradation. Hence, a policy that places environmental conservation a priority is crucial for the well-being of the people and the world at large.

## 6. Threat to the Conservation Policy: Tragedy of the Commons

Against the backdrop of Bhutan’s emphasis on environmental conservation, it has come at a time where the policy of conservation is at a conflict due to the fact that people’s livelihood is also hugely dependent on natural resources such as forest. Introduced by Garrett Hardin in 1968, the Tragedy of the Commons interprets a situation whereby natural resource that is shared by many continues to be used until there is no benefit left ultimately getting detrimental to everyone involved. Such incidences had occurred in England in the mid-1750s wherein overconsumption of grass both led to degradation and death of the sheep (Hannon and Ruth 1994).

Abundance of natural resources such as pastures, water or forests has a possibility of facing congestion or overuse. Such overuse could also lead to issues such as the tragedy of commons whereby the self-interest nature of human being will lead to the degradation of the resource in the long term. Forests experience



the tragedy of the commons via deforestation. A prominent example which is believed to be still happening today is the destruction of Amazon Rainforest through cattle ranching (Sayers 2015).

However, Elinor Ostrom effectively answers this popular theory which has been explained by Hardin that private property is the only means of protecting resources from depletion. In order to avert the tragedy of the commons, Ostrom offers eight principles in order for the local communities to govern the resources sustainably (Ostrom 2005). In a brief overview it posits that a clearly defined area to show who has the right to withdraw from a well-defined resource (Design Principle 1) that effectively assign cost proportionate to benefits ( Design Principle 2), Users design their own rules (Design Principles 3), that are enforced by the users or which is accountable to them (Design principle 4). The users also have graduated sanctions (Design Principle 5) That way, collective action and monitoring problems tend to be solved in a reinforcing manner. Moreover, there are rapid, low cost, local arenas to solve conflict among users (Design Principle 6), a minimal recognition of the right to organize by a national or local government (Design Principle 7). The 8th design principle may be present in robust systems whereby the common-pool resources are being managed by a large group (Ostrom 2005).

This paper adopts Elinor Ostrom’s Eight design principle to examine the relevance of Environmental Conservation on Gross National Happiness. This is because firstly, Ostrom’s theory and her eight design principles are considered one of the most coherent and influential in checking the effectiveness of institutions and sustainability of forests in a way that supports local livelihoods (Ostrom 1999). Secondly, as mentioned above, Ostrom provides design principles to avert the tragedy of the commons. In similar lane, Bhutan has abundance in natural resources such as forest, and 69 percent of the population in Bhutan are predominately made up of rural people who are reliant on the forest for their livelihood (RGoB 2009). Therefore, it is apt to adopt Elinor Ostrom’s theory and her principles to study how and where Bhutan’s Conservation policy fares well in line with Ostrom’s theory, which would inturn determine the coherence of the Environmental conservation pillar as well.

5.1 The table below shows a brief discussion on how Elinor Ostrom’s eight design principles fit well with Bhutan’s conservation policy.

| Elinor Ostrom’s Eight Design Principles   | Bhutan’s GNH on Conservation Policy |
|---|-------------------------------------|
| 1. <i>Clearly defined Boundaries - Individuals or households who have rights to withdraw resource units from the CPR must be clearly defined, as must the boundaries of the CPR itself.</i> | ★ ★ ★                               |

| Elinor Ostrom's Eight Design Principles   | Bhutan's GNH on Conservation Policy |
|---|-------------------------------------|
| <p>2. <i>Congruence between appropriation and provision rules and local conditions—Appropriation rules restricting time, place, technology, and/or quantity of resource units are related to local conditions and to provision rules requiring labor, material, and/or money.</i></p> | <p>----</p>                         |
| <p>3. <i>Collective Choice Arrangement – Most individuals affected by operational rules can participate in modifying operational rules</i></p>  | <p>----</p>                         |
| <p>4. <i>Monitoring - Monitors, who actively audit common-pool resource conditions and user behavior, are accountable to the users and/or are the users themselves.</i></p>   | <p>★ ★</p>                          |
| <p>5. <i>Graduated sanctions - Users who violate operational rules are likely to receive graduated sanctions (depending on the seriousness and context of the offence) from other users, from officials accountable to these users, or from both.</i></p>                             | <p>----</p>                         |
| <p>6. <i>Users and their officials have rapid access to low-cost, local arenas to resolve conflict among users or between users and officials.</i></p>  | <p>★ ★ ★</p>                        |
| <p>7. <i>Minimal recognition of rights to organize- The rights of users to devise their own institutions are not challenged by external governmental authorities.</i></p>   | <p>★ ★</p>                          |
| <p>8. <i>Nested enterprises - Appropriation, provision, monitoring, enforcement, conflict resolution and governance activities are organized in multiple layers of nested enterprises.</i></p>  | <p>★ ★ ★</p>                        |

★ ★ ★: Strongly Present

★ ★: Moderately Present

—: Not applicable or not recognized in the act and policies

### a. Compatibility of GNH Conservation Policy with Ostrom's Principles

As can be seen, some of the of the policies found in the acts and policies fit into some of the eight-design principles, while some are clearly missing. For the first design principle, it is reflected in the Identification and Selection of the area whereby people who want to establish community forest are being assisted for the selection of the area/site. Thus, Bhutan's conservation policy scores three stars for the strong prevalence of their right to withdraw from a well-defined resource. The Design Principles 2 is important for the users to consider the rules fair and legitimate and that both rules are well matched to local conditions is absent. The Design Principle 3 involves the users to involve in modifying the rules so that users won't cheat whenever they have the opportunity to do so (Ostrom 1999). This design is inapplicable because of the Forestry rules and regulations that are already implemented so as to be followed by the people.

For the Fourth Design Principle, it is given two stars as the forest is monitored by forest personnel which is not accountable to them (Dorji, Webb and Shivakoti 2007). In addition, design principle 5 whereby it involves sanctions by robust governance in which the initial sanction is considered more of an information to the person who is caught violating (Ostrom 2005) is also absent. The sixth design principles whereby users have rapid and lowest Users and their officials have rapid access to low-cost, local arenas to resolve conflict among users are reflected as the gup (Block Leader) is the considered the low cost available in local arenas. Hence the three stars representing a strong presence.

The seventh design principle scores two stars because, although the right to organize their institutions are being recognized, it is not challenged as long as it does not challenge the government's program's goals. The eighth design principle scores three stars, because of the presence of legal, administrative system at district and national level nested under the Ministry of Agriculture.

The three important design principles, whereby it involves users taking up most of the responsibilities are either absent or not applicable due to the presence of strong government's role in it. In that regard, Ostrom (1990) mentions that collective action by local communities that are accountable for the mobilization of resources prevent free-riding and forest sustainability. Therefore, due to the absence of those three important design principles in Bhutan's forest policy, it is safe to assume that the degradation of forest could be as a result of that.

Owing to the fact that rural people are highly dependent on forest for their livelihood, the phenomenon of the tragedy of commons could have larger implications on the livelihood of the rural people. In this case, Bhutan's environment policy is met with a conflict between conservation and allocating natural resources properly in order to avert this phenomenon. The policy of Gross National Happiness is a top-bottom approach as opposed to Ostrom's bottom-up both aimed at conservation and wellbeing of

collective people. Evidently, forest policies especially community forestry under the realm of environment conservation does lack an aspect of bottom-up approach.

The evolution of forest policy from the nationalization of forest in 1969 to transferring the ownership to the communities in 1995 shows an attempt at bringing the local communities at a forefront of the policy. Even though studies have shown the conservation of environment to be helpful for people's wellbeing, the environmental policy in Bhutan lags in respect to giving the rural people the full right in terms of using natural resources, as it is mostly regulated by the government. A bottom-up approach, including community participation, is touted as a great approach to ensure a positive impact on the future of forest resources of a country (Chowdhury, Izumiyam and Koike 2014). This disempowerment of rural forest users refutes the principle of Gross National Happiness because it subtly affects the well-being of the people. Therefore, given the prioritization conservation of the environment, Bhutan has proven its commitment to conserving which is commendable, nonetheless, it further needs to shift its importance on the rural people in line with the Ostrom's Eight principles.

## 7. Concluding Remarks and Policy Recommendation

Firstly, the policy of happiness, as far-fetched as it may sound to some people, it has garnered a lot of attention from policymakers and scholars alike. In the contemporary world, happiness is widely associated with the level of income, but studies done refutes this perception. The Government of Bhutan believes that living in harmony with nature that comes from conservation of the environment is important for the happiness and the well-being of the people, hence environmental conservation is placed as one of the four pillars of Gross National Happiness. Nonetheless, the pursuit of conservation is threatened by the phenomenon of 'Tragedy of Commons' considering the fact that the huge settlement of people in rural areas are highly dependent on the forest, resulting in the deforestation and degradation of the forest.

Secondly, it is important to note that having GNH as a guiding policy is relevant with regard to environmental conservation because it is not only geared towards the wellbeing of the people, it also emphasizes the conservation of the environment. Moreover, against the backdrop of qualitative literature revealing a positive connection between environment and wellbeing it, even more, justifies the purpose of Gross National Happiness and the placing of environmental conservation as one of the pillars. Therefore, having environmental conservation as one of the pillars is well justified. However, the policy of GNH in pursuit of happiness in line with those belief influences the conservation policy strongly through these policies and Acts that indicates an imbalance, inadvertently or not, disregarding the rights of the people to use natural resources. But like any other nascent policy, it is not perfect, leaving room for improvement. In order to further consolidate the pillar, it is essential for the government of Bhutan to readdress the policy in line with Elinor Ostrom's eight design principle of managing commons. Bhutan's forest policy under the realm

of environmental conservation has come a long way and the conservation commitment is laudable but it still lags behind in some aspect of Ostrom's principles. How happiness is achieved while meeting the needs of the people while still conserving the forest may not only be a challenge but it may be even more important today than ever before.

Lastly, Bhutan's pursuit to adopt happiness of the people along with the conservation of the environment is commendable. But the balance to create a condition to make people live in harmony with nature and the peoples' basic necessities is at the juncture of a conflict. Bhutan's take on conservation as one of the factors to contribute to happiness does not seem to be a futile pursuit but in order for Bhutan to further both the environment and happiness policy, the policy has to be readdressed so as to uphold both the conservation policy and empower rural people at the same time.

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## Women Trafficking in Lao PDR: Conceptualizing the Reality of Government Policy & Intervention in Responding to trafficking of women in Lao PDR

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### Abstract

Lao PDR is considered as a source, transit and destination of human trafficking. Human trafficking is a serious crime and it affects vulnerable individuals regardless of gender, age and backgrounds. Many trafficking victims, especially women and girl are under 18 years old and are exploited in sexual industries in Thailand, and some in forced labor in domestic service. Men and boys tend to end up in forced labor in the construction areas, fishing and agriculture sectors. Lao PDR has made a significant progress to address the issue of human trafficking in various activities by issuing a number of laws and regulations including National Plan of Action Plan on Prevention and Combating of Human Trafficking 2013-2015 (NPA). NPA is a key guideline by the government as a respond to the problem. This research objectives aims to examine the government policy especially NPA which emphasize on prevention, protection and prosecution and explore ways to improve government policy and intervention to respond to human trafficking, especially women trafficking in Lao PDR. This research has been done by investigating NPA which focus on document analysis and in depth interview of key informants on both government agencies and international organizations. Upon investigation of this matter, it becomes clear that government faces some challenges to achieve its goals. The outcomes of the research will provide ways to improve government performance in this matter.

Keywords: Human Trafficking, Government Policy, National Plan of Action

### 1. Introduction

Human trafficking is a serious crime, taking place on a global transnational scale which affects vulnerable individuals regardless of gender, age and background. Human trafficking has become a lucrative market of modern slavery, wherein persons who fall victim to trafficking are coerced to work in servitude of ‘their owner’ until liberated by authorities. Victims are trafficked for different reasons such as for sexual exploitation, organ transfer, ransom, domestic work, or slavery in factories, fishing industries, and other sectors (U.S.TraffickinginPersonReport, 2016).

Lao PDR is considered as a source, transit route, and destination of human trafficking. Many trafficking victims are women who are under 18 years old who are exploited in sexual industries in Thailand. Some of the victims are forced into labor by entering the domestic services industry. Whereas men, on the other hand, tend to end up in construction, fishing and agriculture sectors. In addition, a number of young women are being sold as brides in China and trafficked in sexual industries after they have arrived in their destination country (U.S. Trafficking in Person Report, 2016). As noted, the majority of victim are women who migrated to work in foreign countries in search of better economic and social opportunities; a drive to escape poverty in various forms and increasing modernization, and the strong desire to migrate, are the main factors in the choice to migrate in search of work opportunities that can make individuals more or less vulnerable to trafficking (Haughton, 2006).

According to the Trafficking in Person Report (TIP) from 2010 to 2016, the *“Lao government does not fully meet the minimum standard for the elimination of trafficking in persons,”*<sup>9</sup>. The TIP report was seen as the leading global report based on government efforts to clamp down on human trafficking. Subsequently, the information of each country was used to rank them on one of the three tiers, which includes the Tier 2 Watch List. The TIP report received information through an open email, which was submitted by various agencies such as the US embassies, International Organization/Non-Government Organizations (NGOs), foreign government officials, media reports, academic scholars and news articles (Brunner, 2015). The TIP report showed that Lao PDR has not improved in their policy to eliminate human trafficking within the country.

Nonetheless, Lao PDR has made significant progress in recent years to address the issue of human trafficking in various ways, particularly on prevention, protection, and prosecution. However, Lao PDR is still lacking in institutions to respond as the situation is very complicated. Lao PDR has approved a number of Laws, i.e. Penal Law (2005), Law on Development and Protection of Women (2004), Law on Labor (2006), Law on the Protection of the Rights and Interests of Children (2006), Law on Preventing and Combating Violence against Women and Children (2015), Decree on Child Adoption (2014), and Law on Anti-Trafficking in Persons (2015). Additionally, Lao PDR also approved specific policy to address the issue, namely the National Plan of Action on Prevention and Combating of Human Trafficking (2013-2015), but these laws and policies are not yet fully operational. The consequence of this is that Lao PDR is lacking in adequate efforts to eliminate human trafficking in the eye of the international community.

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<sup>9</sup> U.S Trafficking in Persons (TIP) Report is a report produce yearly by the U.S. State Department's Office to observe and clamp down trafficking in person and helps to rank state/government of their performance in this matter. More information see website at <https://www.state.gov/j/tip/rls/tiprpt/>

## 1.1 Research Objective and Research Question

This research aims to examine the government policy that responds to the issue of women trafficking in Lao PDR, especially the National Plan of Action Plan on Prevention and Combating of Human Trafficking 2013-2015 (NPA), and also aims to explore ways to improve government policy and intervention. In order to achieve the objective, this research poses a key question as below:

- 1) How can government policy and intervention be improved?

This research addresses the problems concerning government policy in regards to interventions in human trafficking, specifically on women trafficking in Lao PDR. Without government enforcement and effective policy implementation, it is challenging to address the issue of human trafficking, either internal trafficking or transnational trafficking. Likewise, there is also a challenge posed in finding adequate means to counter them. Thus, the government should work to contribute strong efforts to implement policies in order to have more impact effective in terms of policy implementation in solving the case of women trafficking in Lao PDR.

## 2. Review of Literature

### a. Definition of Human Trafficking

The international community has agreed upon a definition of trafficking in persons within the Trafficking in Persons Protocol. The definition provides a common basis for the criminalization of trafficking in persons in national laws that will then favor greater international cooperation in enforcing these laws. According to Trafficking in Persons Protocol, Article 3 of the protocol defines human trafficking as:

*“(a) Trafficking in persons shall mean the recruitment, transportation, transfer harboring or receipt of person, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labour or services, slavery or practices similar to slavery, servitude or the removal of organs;*

(“Trafficking in Persons Protocol,” 2003)

The definition of human trafficking can be broken down into three main elements: *action, means and purpose*. Table 1 below shows the elements of identification of human trafficking.

Table 1: Identification of Human Trafficking (Process, Means, Purpose)

| Process   | Means  | Purpose  |
|---|--|--|
| <ul style="list-style-type: none"> <li>● Recruitment</li> <li>● Transportation</li> <li>● Transfer</li> <li>● Harboring</li> <li>● Receipt of person</li> </ul> | <ul style="list-style-type: none"> <li>● Threat</li> <li>● Force</li> <li>● Coercion</li> <li>● Abduction</li> <li>● Fraud</li> <li>● Deception</li> <li>● Abuse of power</li> <li>● Abuse of vulnerability</li> <li>● Giving and receiving of payments</li> </ul> | <ul style="list-style-type: none"> <li>● Exploitation which includes:                             <ul style="list-style-type: none"> <li>a) Prostitution and other forms of sexual exploitation</li> <li>b) Forced labor and services</li> <li>c) Slavery and similar practices</li> <li>d) Involuntary servitude</li> <li>e) Removal of organs</li> </ul> </li> </ul> |

Source: UNODC (2009), Anti-Human Trafficking Manual for Criminal Justice Practitioners, Available at [http://www.unodc.org/documents/human-trafficking/TIP\\_module1\\_Ebook.pdf](http://www.unodc.org/documents/human-trafficking/TIP_module1_Ebook.pdf)

As seen in the definition given above, human trafficking has a universal common understanding, and it is very important for the state to implement this concept and meaning in its domestic legal systems effectively. Lao PDR has been a member of the Trafficking in Person Protocol since 2003, and the Protocol requires states to demonstrate the use of the definition of human trafficking in national laws. Soon after, Lao PDR began translating and strengthening its legal framework to address the issue of human trafficking; the Law on Development and Protection of Women was established in 2004 and used a definition of human trafficking in Article 24. However, this Article has no provision to protect males over 18 years of age. Later on, Article 134 of the Penal Code introduced the definition of human trafficking to protect all citizens without gender discrimination.

In 2015, Lao PDR established its first single Law on Anti-Trafficking in Persons (TIP), and used a definition of human trafficking that complies with the Trafficking In Persons protocol. Article 2 of the Lao Law on TIP defines Trafficking in Person as follows:

*“Trafficking in persons shall mean recruitment, abduction, movement, transportation or transfer, harbouring or receipt of persons, by means of persuasion, recommending, deception, payment or giving benefit, inducement, incitement or abuse of power, the use of threat or other forms of coercion, debt bondage, concealed child adoption, concealed engagement, concealed marriage, pregnancy for other, forced bagging, producing, showing and publishing pornographic materials or by other forms for the labour exploitation, sexual exploitation, slavery, prostitution, involuntary prostitution, removal of organs for purpose of trade and other forms of unlawful conducts contradicting to the national fine culture and traditions or for other purposes to gain benefits.”*

(“The Law on Anti-Trafficking in Persons,” 2015)



Human trafficking can occur in the form of migrant smuggling. Human trafficking and migrant smuggling can use the same means and act but differ slightly in their purpose. Those who are smuggled are left to their own devices at the point of the destination country, while those who are trafficked remain under the control of the traffickers and end up being exploited at the destination country. In order to avoid confusion for practitioners, table 2 below is a key guideline for practitioners and relevant authorities to handling and identifying the difference between human trafficking and migrant smuggling.

Table 2: Key Difference between Human Trafficking and Migration Smuggling

|  | Human Trafficking  | Migration Smuggling   |
|--|--|---|
| Action(s)                                    | <ul style="list-style-type: none"> <li>Recruitment, transportation, transfer, harboring or receipts of a person by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position vulnerability or of the giving or receiving of payments or benefits</li> </ul> | <ul style="list-style-type: none"> <li>Procurement of illegal entry of a person into a country of which the person is not a national or permanent resident</li> </ul> |
| Transnationality                             | <ul style="list-style-type: none"> <li>Not required</li> </ul>   | <ul style="list-style-type: none"> <li>Required</li> </ul>  |
| Consent of the trafficked or smuggled person | <ul style="list-style-type: none"> <li>Irrelevant once the means are established</li> <li>For children, the consent is irrelevant regardless of the means</li> </ul>   | <ul style="list-style-type: none"> <li>The smuggled person consents to the smuggling</li> </ul>   |
| Purpose                                      | <ul style="list-style-type: none"> <li>Exploitation which includes:               <ol style="list-style-type: none"> <li>Prostitution and other forms of sexual exploitation</li> <li>Forced labor and services</li> <li>Slavery and similar practices</li> <li>Involuntary servitude</li> <li>Removal of organs</li> </ol> </li> </ul>        | <ul style="list-style-type: none"> <li>For financial or other material benefit</li> </ul>   |

Source: UNODC (2009), Anti-Human Trafficking Manual for Criminal Justice Practitioners, Available at [http://www.unodc.org/documents/human-trafficking/TIP\\_module1\\_Ebook.pdf](http://www.unodc.org/documents/human-trafficking/TIP_module1_Ebook.pdf)

Table 2 above highlights the key importance of similarities and differences between human trafficking and migrant smuggling. These two tables are important to use as legal instruments to assist states including Lao PDR to combat and prevent human trafficking.

**b. Women Trafficking in Lao PDR**

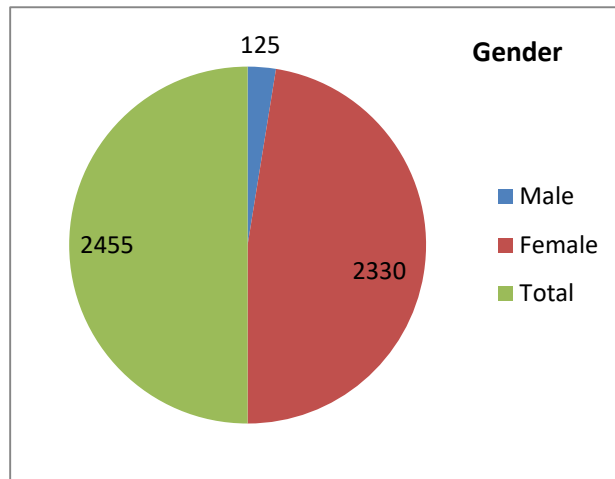
Lao PDR is a landlocked country that shares her borders with Thailand, Cambodia, Myanmar, Vietnam and the People’s Republic of China. Lao PDR covers an area of 236,800 km<sup>2</sup> and approximately 80 percent of its land features mountain and plateaus. Lao PDR’s population is estimated to stand at 6.8 million with a significant diversity of ethnic groups. There are 49 officially recognized groups and they are divided into four main ethnicities: "Lao-Tai, Hmong-Lu Mien, Mon-Khmer, and Chine-Tibetan". The official language is Lao-Tai and some of the ethnic groups do not speak this national language (UN, 2015).

Due to the geographical position of Lao PDR and its location at the center of regional development, it creates potential for the country’s development in the area of trade, tourism, and industry (Phetsiriseng, 2003). Laos’ socio-economic condition such as the urban-rural gap has become a key factor leading Lao people to migrate through formal and informal crossing points along the country’s borders, with a hope to access better life opportunities aboard. However, the vast majority of Lao migrants originate from the lowland of the country with low education, and are helplessly handed in their pursuit of a better life into the hands of illegal traffickers (UNICEF, 2004).

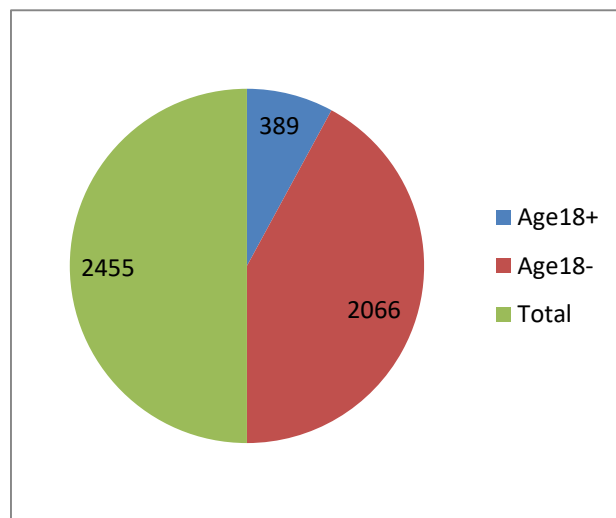
As the economy experiences rapid growth, a number of problems associated with this have been identified. Due to this phenomenon, women fall into the trap of wanting a better life as a factor in choosing to migrate. Greater economic links and integration increase both opportunity and risk. With such great economic development in neighboring countries, the desire for migration especially to Thailand increase as well. Taking this new development to their advantage, trafficking networks lure these innocent women and force them into sexual activities and domestic service (ADB&WorldBank, 2012; Mihyo, Siliphong, Al-Hamad, Phonyaphanh, & Brown, 2005).

Table 3: Number of all victims of trafficking returned from Thailand by year, 2001-2017

| Year         | Male       | Female      | Total       |
|--------------|------------|-------------|-------------|
| 2001         | 0          | 65          | 65          |
| 2002         | 3          | 73          | 76          |
| 2003         | 2          | 79          | 81          |
| 2004         | 1          | 65          | 66          |
| 2005         | 21         | 225         | 246         |
| 2006         | 9          | 249         | 258         |
| 2007         | 9          | 255         | 264         |
| 2008         | 1          | 234         | 235         |
| 2009         | 7          | 148         | 155         |
| 2010         | 7          | 138         | 145         |
| 2011         | 10         | 185         | 195         |
| 2012         | 26         | 169         | 195         |
| 2013         | 9          | 94          | 103         |
| 2014         | 2          | 155         | 157         |
| 2015         | 4          | 101         | 105         |
| 2016         | 13         | 86          | 99          |
| 2017         | 1          | 9           | 10          |
| <b>Total</b> | <b>125</b> | <b>2330</b> | <b>2455</b> |



Gender



Age

Source: United Nations Action for Cooperation against Trafficking in Persons (UN-ACT)<sup>10</sup>

Based on Table 3 shown above, it can be seen that majority of victims are women. It is worth noting that women tend to be more vulnerable to being trafficked than men. Moreover, the number of victims is continuing to increase as shown above, increasingly becoming a serious problem in Lao PDR. However, it is important to note that there is only official data from Thailand, due to limited of data collection in Lao PDR. In order to address human trafficking, the study suggests that laws and policies plays an important role in discussing the problem (Kosaidilok, 2015; Saad & Salman, 2014).

<sup>10</sup> This statistic is unpublished on UN-ACT’s website. However, the government also acknowledges this statistic.

### C. Government Policy to Respond to Women Trafficking in Lao PDR

Human trafficking is a global social phenomenon and it violates human rights and human dignity. The government of Lao PDR is alarmed by these issues and has established legislation to intervene in the problem. The National Plan of Action for the Prevention and Combating of Human Trafficking 2013-2015 (NPA) is a crucial instrument for government to intervene in the problem.

As noted, the government established NPA as a national guideline to respond to the problem. The Secretariat to the National Committee on Anti-Trafficking in Persons (the Secretariat) is leading this NPA (the Secretariat operates under the Ministry of Public Security), for managing, monitoring, implementing and coordinating the implementation of activities that are set out in the NPA ("Decree of the Prime Minister on the Endorsement of the National Plan of Action for the Prevention and Combating of Human Trafficking," 2013). The objectives of the NPA are mainly to protect the victims of trafficking, to prosecute traffickers and prevent human trafficking. According to the Decree of the Prime Minister on the Endorsement of the National Plan of Action for the Prevention and Combating of Human Trafficking (2013), the programs and activities set out in NPA 2013-2015 are as below<sup>11</sup>:

- **Policy and International Cooperation**

Both policy and international cooperation are the first step in implementing the NPA. For the part of the NPA, the government is focused on policy making and disseminating it to all relevant organizations. Therefore, governments also openly collaborate with international organizations and improve bilateral and multilateral cooperation with neighboring countries, focusing on victim assistance, and exchanging information on prosecution and law enforcement.

- **Prevention**

Lao PDR is considered as a source of human trafficking. Thus, the government of Lao PDR is prioritizing prevention. Prevention is focused on awareness raising of the negative impacts of human trafficking and strengthening the capacity of communities and other counter human trafficking measures. Therefore, it includes vocational training which provides job opportunities for marginalized and vulnerable groups.

- **Prosecution**

For the prosecution, it is focuses on strengthening the capacity for law enforcement officers to be able to identify victim of trafficking and prosecute cases complying with the laws. Therefore, it is important to enhance the coordination between law enforcement agencies and victim assistance providers.

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<sup>11</sup> This is snapshot from the NPA 2013-2015

- **Protection**

Human trafficking is a serious matter and directly affects the victim both physically and mentally. Hence, protection is focused on safe shelters, medical services, legal support, educational and vocational training support, including reintegration and repatriation.

### **3. Research Methodology**

The methodological approach of this research used is primarily qualitative in nature. To facilitate the study, this research employed both primary data and secondary data. Primary data has been obtained through the Delphi technique which focuses on in-depth interviews of key informants in both government agencies (Ministry of Labor and Social Welfare and Lao Women’s Union) and international organizations (Village Focus International, United Nation Office on Drug and Crime, United Nation Action for Cooperation against Trafficking in Person and victim and family members). The author carried out the data collection procedure from July – August 2017 in Vientiane Capital, and interviewed seven key informants who consist of two representatives of government agencies, three representatives of international organizations, one victim and one family member. The secondary data was obtained through extensive analysis of documents related to this matter. For example international laws, national laws and national plans of action on prevention and combating of human trafficking (2013-2015) including NGO/INGO’s report.

### **4. Findings and Discussion**

#### **a. Implementation of the NPA 2013-2015**

As mentioned above, this research objective aims to examine government policy and interventions in the case of women trafficking in Lao PDR and the emphasis on the National Plan of Action on Prevention and Combating of Human Trafficking 2013-2015 (NPA). The findings indicated that NPA 2013-2015 has been implementing various activities.

- **Policy and International Cooperation**

Human trafficking is a transnational crime and a serious problem in the region which requires states to share responsibilities and strengthen cooperation in responding to the problem. The government has a commitment to cooperate on anti-trafficking by signing a Memorandum of Understanding (MOU) with neighboring countries such as Thailand, Vietnam, and China. Notwithstanding, the fact is that the most active MOU amongst these is the MOU between Lao PDR and Thailand which is focused on victim protection and repatriation. However, it is worth noting that, the government should provide significant efforts to implement the rest of the MOUs; particularly the MOU between Lao PDR and China due to the fact that there are a number of women being sold as brides to China (Ministry of Labor and Social Welfare, August 2, 2017; U.S.TraffickinginPersonReport, 2016; UN-ACT, July 19, 2017).

- **Prevention**

According to data collection from interviews with key informants (CPCWC, August 3, 2017; UN-ACT, July 19, 2017; UNODC, July 19, 2017; VFI, July 19, 2017) and a government report (*National Plan of Action on Prevention and Combating of Human Trafficking (2017-2020)*, 2017), the author found that, government conducted various activities on prevention. For example: government organized the Ceremony on World Day against Trafficking in Persons in Vientiane Capital, conducted awareness raising along the Lao-Vietnam border, and Lao-Cambodia border, in accordance with the respective MOUs. Furthermore, the government also provides awareness raising at universities, factories, and local communities. Workshops for government officers to increase their knowledge on this matter have also been provided. However, the study found that many activities do not have monitoring and evaluation (M&E). Therefore, prevention activities especially along the Laos-Vietnam and Laos-Cambodia do not fully respond the problem of human trafficking. This is because the target communities are not a priority region in terms of high-risk human trafficking routes.

- **Prosecution**

According to NPA, the main objectives of prosecution are focused on strengthening the capacity for law enforcement officers, to enhance the coordination between law enforcement agencies and victim assistance providers, and prosecution of trafficking cases effectively and in compliance with the laws ("Decree of the Prime Minister on the Endorsement of the National Plan of Action for the Prevention and Combating of Human Trafficking," 2013). As a result of the study, the author found that, the government provided a number of workshops on capacity building for law enforcement officers and relevant organizations from the central level to the provincial level. Therefore, prosecutions have been successful in a number of case convictions. However, it is reported that government officers might have contributed to trafficking vulnerability by accepting bribes for the facilitation of immigration and transportation to neighboring countries. However, there is no report from the government about investigations, prosecutions or convictions of officers who contributed human trafficking (U.S.TraffickinginPersonReport, 2016).

Table 4 Statistics of Prosecution from 2010-2016

| Year          | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------|------|------|------|------|------|------|------|
| Investigation | 50   | 20   | 49   | 56   | 56   | 38   | 41   |
| Prosecution   | -    | -    | 47   | 69   | 24   | 31   | 9    |
| Conviction    | 11   | 33   | 37   | 35   | 35   | 21   | 13   |

Source: Trafficking in Person Report, 2010-2016

The number of cases shown in table 4 is likely low if compared with table 3 on the number of victims. There is no information provided about the cases because of limited of data collection either from international organizations or government agencies.

- **Protection**

In terms of protection, the government mainly aims to provide assistance with safe shelters and basic needs for victims. Currently, there are only two shelters operating under government agencies and they are located in Vientiane Capital (Ministry of Labor and Social Welfare and the Lao Women Union) which is not enough to meet the needs of victim protection, due to the fact that victims are from different places, and only 2 shelters is inadequate to provide for the number of victims of trafficking in Lao PDR. (CPCWC, August 3, 2017; Ministry of Labor and Social Welfare, August 2, 2017; UN-ACT, July 19, 2017; VFI, July 19, 2017). In term of victim identification, the findings also found that there is no systematic victim identification. This is because immigration officers or frontline officers are lacking awareness of human trafficking identification needs (U.S.TraffickinginPersonReport, 2016). Lack of victim identification is a serious problem and may leave victims unidentified, meaning they cannot access official protection that is provided by the government.

**b. Analysis of the Challenges of National Plan of Action for the Prevention and Combating of Human Trafficking 2013-2015 Implementation**

According to the data collection, the author found that there are numerous challenges in implementing government policy. Among the challenges that are found are those listed below:

**i. Ineffective of Coordination Mechanism**

According to Law on Anti Trafficking in Persons (2015) the assigned Secretariat leads the implementation of the policy, particularly NPA. As a result, the Secretariat attempts to establish a “one door service” to control all activities related to human trafficking, and it is unclear about the distribution responsibilities between relevant Ministries and organizations. This may lead to some challenges such as budget, resource persons, networking or coordinating between ministries, international organizations and other countries. Any Ministries or organizations that want to conduct a project or activity related to human trafficking are required to seek approval or report to the Secretariat in order to get a budget approval. This also includes international partners to get permission to implement their activities related to human trafficking. However, in terms of government procedure, it takes time to get an approval for any request. As a result, many projects or activities cannot be completed on time, according to NPA.

The Secretariat is responsible for managing, monitoring and coordinating relevant Ministries and organizations to implement the government policy. Thus, the Secretariat should facilitate collaboration between relevant Ministries and organizations in order to implement the government policy and intervention into human trafficking rather than try to control or manage everything itself. It includes coordination amongst ministry lines, international organizations and inter-state collaboration. Nevertheless,

without an effective coordination mechanism, the government cannot achieve their goals to eradicate human trafficking.

### ii. Challenges with Human Resource

Human resources play an important role in implementing the NPA. However, the study found that there is a limited amount of human resources devoted to working on this matter either at central or local levels (CPCWC, August 3, 2017; Ministry of Labor and Social Welfare, August 2, 2017; UN-ACT, July 19, 2017; UNODC, July 19, 2017; VFI, July 19, 2017). Firstly, the numbers of resource persons who work in these areas are limited and lack knowledge. Some law enforcement officers cannot provide an effective workshop or law dissemination program regarding human trafficking. Therefore, in term of prosecuted cases, some of them cannot identify the difference between human trafficking and other criminalized activities, and this affects directly the prosecution of traffickers and protection of victims that is described in the law (*National Plan of Action on Prevention and Combating of Human Trafficking (2017-2020)*, 2017).

Secondly, the issue rotating resource persons causes some problems. According to government policy, within two or three years of working experiences, the government will rotate persons to work in other positions (CPCWC, August 3, 2017). This is challenging because the government needs to build the skills of a new person to replace them, and it takes time to train a new person in order to understand the concept of human trafficking, build skills in identifying victims of human trafficking, and prosecuting traffickers according to the law.

Thirdly, there are concerns about the language barrier. Human trafficking is a cross-border issue and needs collaboration with neighboring countries and international organizations. For this reason, there is a strong need for resource persons who can communicate with others in foreign languages – especially English. However, there is only a small number of persons who can communicate in foreign languages and it makes it challenging to coordinate with them to combat human trafficking (UN-ACT, July 19, 2017; UNODC, July 19, 2017).

### iii. Ineffective Victim Identification

Strong victim identification procedures are important to assist a victim of human trafficking in order to access official assistance provided by the government. Victims who are able to access official assistance need to be identified and approved by authorities only (CPCWC, August 3, 2017; Ministry of Labor and Social Welfare, August 2, 2017; UN-ACT, July 19, 2017; UNODC, July 19, 2017; VFI, July 19, 2017). However, in practice, there is no system of victim identification, and this is causing a gap in victim identification as government officers do not identify migrants who were deported from Thailand as possible trafficking victims. Furthermore, data on internal victim trafficking is limited. The official data on victims of trafficking is mainly derived from Thai



authorities (U.S. Trafficking in Person Report, 2016; VFI, July 19, 2017). As a result, there are no exact statistics of victims of trafficking, and many of them are left behind and cannot access the victim assistance system. It is possible that they will be pushed back into re-trafficking if they cannot gain access to the official services with long-term assistance to ensure that they can reintegrate into communities.

#### iv. Lack of Monitoring and Evaluation

The outcome of NPA implementation is important in order to find out the impact of the interventions on women trafficking in Lao PDR; and in order to find out its impact, it is required to have strong monitoring and evaluation procedures (M&E). However, the author found that the government is failing to conduct M&E on government policy implementation. The study indicates there is no measure of the impacts of government policy intervention on women trafficking and human trafficking in general (UN-ACT, July 19, 2017; UNODC, July 19, 2017; VFI, July 19, 2017). For example, for the prevention activities, there is no M&E on its impact and whether it is helpful for communities or not. The government only counts the number of times and the number of participants who attended the prevention activities. This does not measure the real impact of this activity. Consequently, this cannot respond to the goal of prevention of human trafficking.

M&E is one of the necessary components for government policy implementation seeking good results. The government should establish real mechanisms to do M&E and collaborate with relevant Ministries and organizations in order to find out what has been done and what are the key challenges to implementing and intervening in women trafficking. By doing this, the government will find ways to improve their policy and intervention in this problem.

### 5. Conclusions and Recommendation

Government policy plays an important role in responding to women trafficking in Lao PDR. This study has explored the government policy implementations and seeks to provide ways to improve government performance in this matter. There are core elements that government needs to improve in order to strengthen its policies. These core elements include coordinating among relevant Ministries and organizations; increasing the human resources and providing training on human trafficking; increasing law enforcement, in particular, MOUs with neighboring countries; targeting high-risk communities in prevention activities, and establishing mechanisms on M&E.

Coordination mechanisms among relevant Ministries, organizations and international organizations need to improve. The government, especially the Secretariat, should facilitate and increase collaboration with other ministries, organizations and international organizations that are involved in this matter. Therefore, the Secretariat should have a clear picture of the division of responsibility between relevant Ministries and organizations in order to measure the NPA implementation at all levels.

Human resources are crucial for this matter. The government needs to increase numbers of personnel at all levels (central and local levels) and limit rotation of personnel who are responsible for this matter. Therefore, the government should provide training on human trafficking to officers' lines especially law enforcement personnel. The training should cover all necessary knowledge of human trafficking such the definition of human trafficking and smuggling, legislation on human trafficking, and victim identification procedures in order to ensure an effective enforcement of the law.

Law enforcement, in particular, the MOUs with neighboring countries needs to be enforced, especially the MOU with the People's Republic of China due to the fact that the number of women being trafficked to China has increased. Thus, the government should increase efforts to enforce this MOU by increasing collaboration with Chinese authorities, the Lao embassy in the People's Republic of China, and in partnership with local and international organizations, especially in the areas of victim assistance, repatriation, and prosecution of traffickers.

The prevention of human trafficking needs to shift towards targeted communities. The government needs to prioritize target communities where the problems are happening and there is a high risk, which is along the Laos-Thailand border, as those who migrate or are victims are mainly trafficked into Thailand. The government needs to increase efforts in prevention activities along this border region. Therefore, the government should consider the trends of human trafficking from the People's Republic of China and should increase prevention activities in the north of Laos as well. Without prioritizing the right target communities, the government cannot fully respond and prevent human trafficking.

Finally, the government should establish an M&E system. M&E is significant for government to find out the result of policy implementations and seek ways to improve such policy implementations. M&E should cover all programs and activities related to this matter. Therefore, the government should collaborate with other stakeholders, both government agencies, and international organizations on M&E in order to ensure an effective M&E system, which will support the government to improve the policies and interventions into the problem.

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