FDI, Economic Diversification, and Regional Trade Network Connectivity: The Case of LAOS

Presented by
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FDI, Economic Diversification, and Regional Trade Network Connectivity

- Foreign Direct Investment (FDI)
- Economic diversification
- Asia-Pacific trade network connectivity
- Food security
The Case of LAOS

- the only LLDC in Southeast Asia
- Significant FDI inflow from 1993 onwards
  - Hydropower dams
  - Copper and gold mining
  - Logging
  - China, Vietnam, Thailand, Australia
WHY

— Understanding drivers and enablers of international trade connectivity of LLDCs

— Understanding the impact of FDI in resources on LLDCs
  • *Understanding “Dutch disease” and the resource curse within the LLDC context*

— Policy development for improved economic and food security risk management in LLDCs
Foreign Direct Investment (FDI)  →  Economic diversification  →  Asia-Pacific trade network connectivity  →  Food security
Foreign Direct Investment (FDI) → Economic diversification → Asia-Pacific trade network connectivity → Food security
Economic Diversification Index

CAGR 0.65%
Foreign Direct Investment (FDI) → Economic diversification → Asia-Pacific trade network connectivity → Food security
Statistical Findings

- FDI
- GDP per capita
- total economic value add
- economic value add diversification

- diversification
- GDP per capita

*insignificant impact of Manufacturing Value Add*
Foreign Direct Investment (FDI) → Economic diversification → Asia-Pacific trade network connectivity → Food security
1990: Asia-Pacific Trade Network
2014: Asia-Pacific Trade Network
Foreign Direct Investment (FDI) → Economic diversification → Asia-Pacific trade network connectivity → Food security
## Activity vs Value Add By Sector
### 1990 - 2014

<table>
<thead>
<tr>
<th>Sector</th>
<th>Activity CAGR</th>
<th>Value Add CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agri</td>
<td>-2.95%</td>
<td>3.68%</td>
</tr>
<tr>
<td>Constr</td>
<td>1.37%</td>
<td>8.30%</td>
</tr>
<tr>
<td>Mftg</td>
<td>2.95%</td>
<td>9.98%</td>
</tr>
<tr>
<td>Mining</td>
<td>4.27%</td>
<td>11.40%</td>
</tr>
<tr>
<td>Othrs</td>
<td>-1.04%</td>
<td>5.73%</td>
</tr>
<tr>
<td>Trans &amp; Comm</td>
<td>0.89%</td>
<td>7.78%</td>
</tr>
<tr>
<td>Whole/ Retail/ Services</td>
<td>2.68%</td>
<td>9.70%</td>
</tr>
</tbody>
</table>

CAGR: Compound Annual Growth Rate
SUMMARY INSIGHTS

- FDI in resources has a positive relationship with
  - Economic growth
  - Total economic value add
  - Value add diversification

- Some evidence of Dutch disease in Laos (small manufacturing sector)

- Value added diversification has a minor impact on regional trade network position
  - Increase in imports (consumption power)

**Strategic policy intervention required to manage resources windfall**
POLICY INSIGHTS

Windfall from mining FDI to be channelled to

1. Investing in agricultural technology to improve efficiency and food security

2. Investing in economic diversification
   ✓ Services (e.g. financial services, education)
   ✓ Human capital skill diversification
   ✓ Transportation and communications infrastructure (to strengthen trade infrastructure)

Economic diversification is key to economic risk management and food security risk management among LLDCs
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