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The Response of Lao Government to Chinese Investments in the Service Sectors of Namtha District, Luang Namtha Province, Lao PDR

Supitcha Punya



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Chinese Investments in the Service Sectors
of Namtha District, Luang Namtha
Province, Lao PDR**

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December, 2012

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List of Abbreviations

ASEAN	:	Association of Southeast Asian Nations
GMS	:	Greater Mekong Sub-region
KTV	:	Karaoke Television
LPRP	:	Lao People's Revolution Party
NSEC	:	North-South Economic Corridor

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Abstract

Luang Namtha, a province of Lao PDR, shares borders with China. Hence, Chinese investment has been expanding to Luang Namtha province in agricultural sector and service sector. Even though, there are five districts in Luang Namtha province, Namtha district is enjoying the most active investment and was chosen to be the bureaucratic center. Hence, this article focuses on investment in service sector especially Chinese investment in Namtha district and on determining the response of Lao government on both central and local government to Chinese investment. The data was collected through participant observation by being a customer in Chinese investment places, by semi-structural interview, and by reviewing involved documentaries and researches.

The result showed that there are key factors that considerably affect the investment decision of the Chinese investors in Namtha district. These factors are as follows: first, the political factor that is the Chinese government policy to northern Lao PDR as the opium replacement policy; second, the economic factor that is higher income from the investment and cost reduction because of changes in location; third, social factor that is infrastructure development and peaceful community in Namtha district; fourth, geographical factor that is the distance between Namtha district and China where Chinese investors can import products from China to Namtha district through international checkpoint and local checkpoint; and lastly, the fact that import products from China are exempted from tax. Since Chinese investment in service sectors have been expanding in Namtha district, this has positive and negative effects. There are more income resources for local people but it has changed their way of life, especially that of teenagers in local community. Teenagers, even younger than 18 years old were allowed entry to the clubs which generated a lot of noise pollution affecting residential areas.

From these impacts, the response of Lao's government is a strategic plan formulated through the 5th Socio-Economic plan and an investment law. It also allowed the local government to make a decision on general investment in order to lower difficulties. The roles of local governments allow Chinese investment in general business, registering legal entities, supporting one-door policy in provincial level, and withholding the general business. For the future trend on Chinese investment in service sector, there will be a continuing expansion as long as Lao's government supports Chinese investment in agricultural sector and tourism. However, Lao's government faces some challenges such as the lack of budget to divide land

between Chinese investors. This is also a negative impact towards natural resources and in the preservation of Lao culture from globalization.

1. The Problem and Its Scope

1.1 Introduction

Since the R3E road was established in 2008, it has connected three countries: Thailand, Lao PDR, and China. Luang Namtha is a province on the road, bordered by China in the north-east, Myanmar in the north-west, Udomxai province in the south-west, and Bokeaw province in the south-east and having a route to Boten, the Special Economic Zone well-known as the Chinese Casino Town. There are two checkpoints in Luang Namtha province, both local and international checkpoints. Luang Namtha province has been promoting eco-tourism through trekking, camping, and visiting ethnic groups' villages having almost 20 ethnic groups in habitation. Tourist statistic information points out that investment in service sector have been increasing every year. There are five districts in Luang Namtha province but Namtha district is enjoying the most active investment and was chosen to be the bureaucratic center. Furthermore, Namtha district is mostly invested in service sector such as hotels, guesthouses, restaurants, places of amusement, and tourism companies.

1.2 Research Questions

1. What are the key factors (Pull and Push) factors that encourage Chinese investors to invest in the service sector of Namtha district?
2. What are the roles and positions of central government of Lao PDR toward Chinese investment in service sectors?
3. What are the impacts of Chinese investment in service sectors to political and socio-economic conditions of local Namtha residents?

1.3 Objectives

1. To identify the key factors which influence/encourage Chinese investment in service sector in Namtha district;
2. To study the roles and positions of central and local Lao government to Chinese investment in service sector in Namtha district;
3. To study the impacts of Chinese investment in service sector to local people in Namtha district.

1.4 Scope of Area

Although Luang Namtha province consists of five districts – Namtha, Sing, Long, Vieng Phouka and Nalae, this research focuses on Namtha district because of the higher concentration of Chinese investment in service sector.

Table 1. Chinese Investment in Service Sector in Namtha District from 2010 to 2011

Name	Type of Investment	Value investing (KIP)
Huongjing	Hotel	38,000,000,000
Thailue	Guesthouse	100,000,000
Lao-China	Guesthouse	550,000,000
Dragon	Guesthouse	Value investing not occur
Shenjeuter	Guesthouse	1,500,000,000
Jingseing	Restaurant	150,000,000
Chinese	Restaurant	20,000,000
Jampy	Restaurant	70,000,000
Thailue	Restaurant	73,000,000
Lao-China	Restaurant	35,000,000
Chianghoong	Restaurant	Value investing not occur
Wangsue	Restaurant	256,086,000
Dragon	Restaurant	Value investing not occur
Jine Xiang	Restaurant	Value investing not occur
Vacation	Tourism Company	800,000,000

Source: Department of Tourism, Luang Namtha province, Lao PDR

Moreover, Namtha district is the most developed district in the province having a domestic airport, Chinese market, and infrastructure development. It is also the center of transportation providing many public buses and private cars.

2. Theoretical Considerations and Review of Related Literature and Studies

2.1 International Relationship between Lao PDR and China

In order to understand the international relationship between Lao PDR and China, this research focuses on documentary and research from related studies such as historical background and present foreign policies from China to Lao PDR and Lao PDR to China.

Gradually, Lao foreign policy developed good relations with China. Lao PDR, a small country which has shared borders with China, a big and active neighboring country, was influenced by the changing international environment especially due to the conflicts between major powers as well as the Vietnamese invasion of Cambodia. Lao PDR used to have a close relation with Vietnam and came into conflict with China. After the international condition changed and the Cambodia problem was solved, Lao PDR again shifted foreign policy toward better relationship with China and made China a significant influence in Lao PDR through bilateral cooperation and multilateral cooperation (Vongphosy, 2009). Since China gave a loan without interest to Lao government to recover their economic system (Phraxayawong, 2009), it has continually aided Lao PDR as a developing country. Therefore, Lao PDR has been supporting Chinese foreign policy through developing national and provincial development plan.

Luang Namtha

Luang Namtha province is not only rich in natural resources but it is also rich in cultural values. Therefore, Lao government has been encouraging eco-tourism through sustainable development and community-based tourism. The famous eco-tourism programs are trekking, kayaking, hiking, and visiting ethnic groups' villages to learn their culture and ways of life. The Tourism Department in Luang Namtha province was established in 2002. In 2007, Night Market was established to sell local souvenirs and foods to the tourist. Eco-tourism in Luang Namtha province attracts tourists who have a taste for traveling in natural tourism or cultural tourism. In 2000, the number of tourists was over 24,700 people (Lyttleton and Allcock, 2000). In 2011, the number of tourist was over 201,500 people (Kamonthong, 2012). These numbers show that tourism is obviously increasing each year. Presently, there are 149 eco-

tourism programs in 189 villages based on sustainable development and community-based tourism in order to encourage local people's right to preserve, protect, and conserve local natural resources and their culture. Thus, the department was organized as a guide training program to local people. In the future, the Tourism Department intends to encourage Luang Namtha province to be a center of tourism in the Mekong sub-region.

Development of Infrastructure in North-South Economic Corridors

The R3E road is one of the NSEC (North-South Economic Corridor) projects intended to develop infrastructure for each country in the Mekong sub-region, reducing the cost of transportation and alleviating poverty through improving rural livelihood and development for tourism. After the R3E was finished, it had a direct effect on Namtha district that was analyzed by the Department of Planning and Investment, Luang Namtha province.

Positive Effects

- The product transportation has been increasing while reducing the cost of it.
- This road accommodates tourists, labors, and investors.
- Investment in service sector was expanding because of the increasing tourist number that could be observed with the number of hotels, guesthouses, restaurants, and tourism businesses.
- More foreign investors are interested in investing.

Negative Effects

- Sometimes, Luang Namtha province is just a route to pass by to the other countries.
- Product transportation investment did not occur in Luang Namtha province.
- The R3E road finished but needs improvement. Car accidents usually happen because of bumpy road.

From these effects, the Department of Planning and Investment prepared to improve production technique, increasing educational opportunity to local people, and advertising to get more attraction from investors. This process occurred in provincial strategic plan that was developed by the department. Although Namtha district does not share borders with China

directly, after the road was finished it became easier for transportation activities. As a result, most people stayed at Namtha district before leaving for other countries which lead to investment in service sector expanding, from both Lao investor and foreign investor as seen in the table below.

Table 2. Number of Hotels, Guesthouses, Resorts, Restaurants and Entertainment Establishments

Years	Hotel	Guesthouse	Restaurant	Place of Amusement
2005	3	32	29	0
2006	3	34	33	0
2007	3	34	31	0
2008	4	33	64	0
2009	4	38	82	2
2010	5	38	111	1

Source: National Tourism Authority of Lao PDR

Internal Factors in Namtha District

The opium replacement policy from China to northern Lao PDR as contract farming made Chinese investors decide to invest in Luang Namtha province for reducing cost of production. Also, there is now a main office built in Namtha district. At the same time, Chinese investors in service sector followed in making economic investments.

2.2 Theory and Concept

2.2.1 Foreign Direct Investment

From the context of globalization, the flow of capital is important in the borderless world. In this research, to analyze the aspects involved, OLI (Dunning, 2010) advantages have been applied:

O – Ownership advantage is advantage by ownership through capital flows such as Coca-Cola.

L –Location Advantage is advantage from the location which makes investors decide to invest in each area.

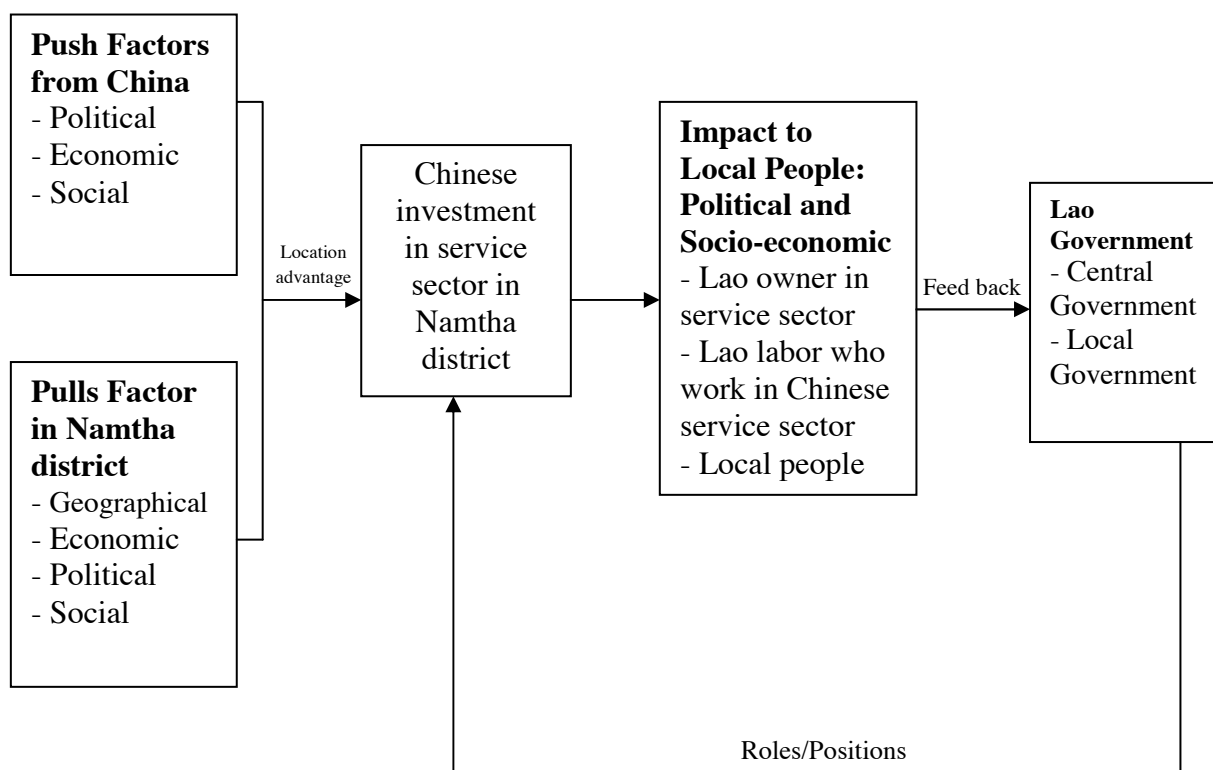
I – Internalization Advantage is advantage from internal market and people for reduce cost of production and tax. Although, there are three kinds of advantages, in this research the focus on L-Location advantage as a factor in Namtha district attracts the Chinese investors.

2.2.2 State as Market

Globalization not only changed the economic and social aspects but it also changed the political, especially the role of State which has affected from globalization. Chai-Anan Samudavanija (2001) explained that globalization supports capitalism that made the meaning of the Nation- a state which collects people who have the same language, culture and race.

2.3 Conceptual Framework

Context: Globalization



This conceptual framework aims to explain the factors from China and Lao PDR: pull factors and push factors. These factors consist of political, economic, geographical, and social factors which has an influence to the decision of Chinese investors.

3. Research Methodology

This research makes use of a qualitative research focusing on the response of Lao government to Chinese investment in Namtha district with elaborate information from literature reviews, semi-structural interview from people around Namtha district, and participant observation by being a customer in Chinese service sector places.

3.1 Data Collection

3.1.1 Documentary Research

The data in documentary research are classified in three groups:

1. Lao information: historical background, general information, socio-economic information, Luang Namtha information and statistic report from Lao PDR's officials;
2. Chinese information: economic policies, foreign policies and policies in the GMS;
3. Theories and concepts to explain phenomena such as factors in Namtha district that attract Chinese investment and the role of central and local Lao government.

3.1.2 Field Research

This research chooses Namtha district to be an area study and collects data through semi-structural interview method by applying snow balling technique. There are three target groups:

1. Chinese investors in service sector such as hotel owners, restaurant owners, tourism company owners, and place of amusement owners were chosen by random, one person per one type of service sector. The researcher hired an interpreter to communicate in Chinese especially with the employers.
2. Central and local officers responsible for Chinese investment in many departments. They explained their roles in the government. The researcher sent letter from Mekong Institute to interview Lao's officers.

3. Various local people who live in Namtha district as they have different occupations:
 - a) Lao PDR' laborers in Chinese service sectors chosen by random, one person per one type of service sectors. The researcher applied snow balling technique.
 - b) Lao PDR's service sector owners chosen through participant observation, one person per type of service sector.
 - c) Local people who live in and outside of Namtha district chosen by application of snow balling technique.

3.1.3 Field Observation

The observation method has three categories: participant observation, non-participant observation, and planning observation (Jumpol Nimpanich, 2010). This research used participant observation wherein the researcher participated and observed as a customer.

3.2 Data Analysis

The researcher gathered sufficient data then analyzed it using the theoretical framework.

4. Research Findings

4.1 Characteristics of Chinese Investment in Service Sector and Types of Investment

There are five types of investments: hotels, guesthouses, restaurants, places of amusement, and a tourism company.

Hotels

Namtha district has three hotels: Udomsin and Dorkjampa hotels are from Lao investors while Huang Jing is a grand hotel from a Chinese company. Huang Jing hotel is a 3-star hotel and it is the largest hotel in Namtha district and Luang Namtha province. This hotel was by the Boten Dan Lao Corporation. Its cost of investment is approximately 38,000,000,000 KIP or 5,000,000 USD. It is the second branch with the first hotel established in Boten for supporting customers of the Chinese casino. It was supported by Luang Namtha provincial

administration for international standards for tourists and big events. The hotel also has KTV and pub for customers outside the hotel.

Most hotel customers are Chinese tourists who travel to Thailand, China, or other provinces in Lao PDR using the R3E road including Chinese investors and central government officers. The grand banquet room and conference room customers are often occupied by customers of local or central government, the KTV and pub customers by teenagers or local people. Most laborers in the hotel are Lao living in Luang Namtha province. Lao laborers developed the ability to communicate with Chinese people. From an interview with Ms. Pak, head of general department, all laborers have to work 6-8 hours per day using the time zone in China. Laborers could avail of welfare from the hotel such as free residence, free food, and one holiday per month.



Figures 1. Huang Jing hotel (left side) and labor resident (right side)
Source: Field work on 15th March 2012

Guesthouse

There are five Chinese guesthouses in Namtha district. All of Chinese guesthouses have cost investment of less than 5 million USD. Hence, Chinese guesthouse is a general business. Meanwhile, some guesthouses also sell Chinese food like restaurants. Each guesthouse has a different customer such as Chinese tourists and Chinese investors from the opium replacement project. Chinese investors who invest in general business rent the land or building from local people, and then they create contract to set a rent duration. Workers in the guesthouses are local people who are provided with free accommodations.



Figures 2. Tai-Lue restaurant and Guesthouse, Sheunjeuter Guesthouse
Source: Field work 15 September 2011

Restaurant

Investing in restaurants has similar procedures as with the other businesses. All of Chinese restaurants rent lands from local people after that they have created a contact to set duration. Most customers are Chinese investors in the agricultural sector, Chinese immigrant laborers, and Chinese tourists who are using the R3E road to other countries. They also cater to Chinese agricultural company meetings providing them with sufficient income.



Figures 3. Chinese restaurant in Namtha district

Source: Field work on 16 May 2012

Places of Amusement

Places of amusement consist of pubs, KTVs, and restaurants that sell alcoholic drinks. Most of them are family investments by the Chinese who have made home in the district. Hence, they have a land and capital to invest. The laborers are local people who are entitled to the same benefits except for obtaining tips from customers.



Figures 4. KTV room and labors' residence
Source: Field Work on 24 March 2012

Tourism Company

Namtha district has only one Chinese tourism company, Vacation Lao Company which is a corporation between Lao investors and Chinese investors. There are five branches in Lao PDR and the main branch is in Yunnan province, China. Most tourism programs include traveling to provinces in Lao PDR. Chinese tourism has increased ever since the R3E road was finished because Luang Namtha shared border with China and is close to Boten international checkpoint. The tourism company provides salary, tips, gasoline, and food allowances to their laborers.



Figures 5. Chinese travel program brochure and Vacation Tourism Company
Source: Field Work on 14 May 2012

4.2 Types of Investment

Concession

Although Namtha district has a concessional investment, most are agricultural investments as contract farming and rubber plantation. However, concession in service sector appeared only in Huang Jing hotel owing to the cost of investment upper 5 million USD. Moreover, the

hotel was supported by Luang Namtha provincial administration to improve hotel standards in Luang Namtha province, because the grand hotel has bigger accommodation capacity than local hotels. Hence, local government was exempted profit tax and reduced land rent cost to the hotel for make an incentive to Chinese investors to expand their branch from Boten to Namtha district. However, the concession project in Namtha district has an effect to local community whether environmental effect, economic effect or social effect. Thus, Department of Planning and Investment has a role to examine these effects before approving it.

Rent Land or Building from Local People

Most of Chinese investments in service sectors in Namtha district rent the land or building from local people rather than constructing a new building. The investments in service sector were established due to the boom of Chinese investments in agricultural sector. It was an opportunity to support Chinese investors and Chinese immigrant laborers in Namtha district. The procedure always starts from Lao owners who give an announcement through the sign 'Land/Building for rent' on the board that attract Chinese investors who want to invest in there. After that, both Lao land owner and Chinese investor have created contract to set duration. Each contract has different rules and duration, some contract give a right for the investors to renovate the building.

Cooperation between Lao Investors and Chinese Investors

This type of investment was appearing in the tourism company, the Vacation Company. This company is between Chinese investors and Lao investors as partnership and has been expanding to Vientiane, Vangvieng, Luang Prabang, Udomxai and Luang Namtha. There is a main branch in China. Although this company has cooperated with Lao investor, the company has registered in China national company because Lao investment law gives an equal right to both local investor and foreign investor.

These information shows that mostly Chinese investment in service sectors is general business through renting a land or building from local people, cost of investment less than 5 million USD. Only Huang Jing hotel is concession project. Chinese investment in service sector was followed by Chinese investment in agricultural sector to gain better income. Moreover, income from Chinese tourists was becoming another source of income to Chinese

investor in service sector after the R3E road was finished. Regarding laborers in service sectors, they are provided with welfare.

4.3 Factors Affecting Chinese Investment

Push Factors

Push factors from China are both investor's personal decision and Chinese government policy to export Chinese investor to the Mekong sub-region countries via economic cooperation as the Greater Mekong Sub-region. This part has three factors from China; political factors, economic factors, and social factors.

Political Factors

After the Asian economic crisis called the "Tom Yum Kung" financial crisis, Lao was heavily affected because it was dependent on Thai currency. Hence, China gave a loan without interest to Lao PDR to recover from economic crisis. So, China became the second influential country to Lao PDR (Phraxayawong, 2009).

Recently, the priority policy from Chinese government is the opium replacement policy that encourages Chinese investor to invest in agricultural sectors in Myanmar and northern Lao PDR for reducing poppy plantation since drug abuse is a social and economic problem in China and in its neighboring countries. This policy has expanded to both Myanmar and northern Lao since these countries are large markets for drug sellers and served as middle man to transport drugs to the other countries. For reducing poppy plantation, Chinese government created the opium replacement policy. This policy is not only for Chinese investor but also provides incentive as promotion to Chinese investors of the many project such as subsidence, reducing VAT, providing market to loyal Chinese company to sell their product and has more credit loans from Chinese government (Shi, 2008). While Chinese investors in agricultural sectors have been expanding to Luang Namtha province, the investment in service sector followed by supporting them and to gaining more income.

Economic Factors

Economy is the main factor to invest in service sector of Namtha district. Most of Chinese

investors have invested there because of economic opportunity. According to a Chinese investor, all investment is expected to gain profit and gain better income. Another factor from Chinese government is the bilateral and multilateral cooperation between Chinese and Lao government especially in sub-region level in the Greater Mekong sub-region. There are many development projects from this cooperation based on economic corridor concept. The R3E road is a project of NSEC. After construction, Luang Namtha province improved according to the Department of Planning and Investment information.

Social Factors

Though Namtha district is a small and peaceful community, it has such as domestic airport, local market, and a Chinese market; and there are routes to connecting other provinces in Luang Namtha province and Boten international checkpoint. Chinese investors made a decision to invest because of these facilities and the local people in Namtha district are trustworthy. According to an interview with Mrs. Thao who has lived in Namtha district for 4 years, she is satisfied with the local way of life and said that it is easy to live in Namtha district. Nowadays, she is able to communicate fluently with Lao people, she could buy fresh vegetables from local market while Chinese ingredients from Chinese market, and she could go back to Xishuangbanna as frequently as she wants.

Moreover, Luang Namtha province shares border with China. It is easy to travel from China to Namtha district, just 2 hours from Boten international checkpoint and Pang Thong local checkpoint in Sing district.

Pull Factors

Pull factor is factor in Namtha district that has an influence to Chinese investor to invest in service sector. This part is divided into 4 factors; political factors, economic factors, geographical factors, and social factors.

Political Factors

After the revolution in 1975, Lao PDR changed political regime from absolute monarchy to people democratic or socialist. Presently, Lao PDR is a socialist single-party socialist republic, controlled by LPRP (Lao People's Revolution Party) (Evans, 1999, pp.1-7). Hence,

political conflict has not occurred in Lao PDR for quite some time. Political stability made it easy for the investors.

Nowadays, Lao government is promoting foreign investment in each province. Luang Namtha province was chosen to be a special economic zone for supporting investment in agricultural sector and tourism in the 5 years national socio-economic plan, issue 4th. Lao government is also improving foreign investment law to give incentive to Chinese investors. The law is giving equal rights and promotion to both Lao investor and foreign investor. Moreover, Lao government is also supporting the opium replacement policy from China.

However, in latest 5 years National Socio-Economic Plan, issue 7th points out that the development strategies in Luang Namtha province. Presently, Lao government has been promoting investment in agricultural sector such as contract farming, rubber plantation and improving infrastructure in Luang Namtha province such as airport, road and electricity to rural area. As long as Lao government promotes agricultural sector and foreign investment, Chinese investment will expand to Luang Namtha province. Furthermore, Lao government has been promoting eco-tourism based on sustainable development and community-based tourism due to the increase in tourists. Chinese investment in service sector has been increasing from this context.

Economic Factors

In 1988, Lao government announced economic reformed policy known as The New Economic Mechanism. This policy reduced the role of government, supported foreign investment and reduced tax and barrier. Moreover, Lao PDR has joined economic cooperation both regional level like ASEAN and sub-regional level like the GMS. From this cooperation, Lao PDR has been a developing country under development project and assistance from developed country and international organization.

According to the interview with Chinese investment and Chinese officer, they found that Luang Namtha province is rich in both natural resource and labor which could reduce cost of investment. The factor from Namtha district that attracted Chinese investment is land, labor, and goods because it is cheaper than in China.

Geographical Factors

Luang Namtha province shares border with China. After both countries reactivated international relations, it became easier to travel to both countries. Luang Namtha province provides 2 check points; international check point and local checkpoint. Most Chinese tourists often use the latter. Most Chinese investors and their agricultural products container from China always cross the border from this checkpoint as well.



Figures 6. Boten international checkpoint, Pang Thong local check point
Source: Field work on 20 March 2012

Social Factors

Namtha district is the most developed district in Luang Namtha. The development in Namtha district has both positive and negative impacts on the local community. Although it could improve local livelihood and alleviate poverty, it changed social trend and value. Moreover, after globalization influenced Lao PDR, teenagers in Namtha district became more materialistic and seemed always interested in hanging out with friends in the pub. According to Ms. Anna's interview, the Dragon pub improved and modernized to attract teenage locals in the community.

4.4 Impacts of Chinese Investment on Namtha District

Positive Impacts

The Chinese investment in service sectors gave an economic opportunity to local people as well as job creation, and local people gained better income that lead to migration from other districts in Luang Namtha province to Namtha district. Moreover, small traders in Namtha district gained more income as well. For example, the sellers in local market could sell more food ingredients to the Chinese restaurant. Second, there is an incentive to competition

between the investors in service sector to improve their business that attracts the tourists from each country to have more options to stay and eat. Third, there are now more accommodations from the grant hotel in Namtha district such as the grant banquet room, conference room, and wide car parking.

Effect to Lao investors who invest in service sectors is rarely felt because each place has a different target group. Lao guesthouses, restaurants, and tourism companies earned from foreign tourists of western countries since they travel to Namtha district through R3E road wherever they travel from other countries or other provinces in Lao PDR and they prefer to stay in local guesthouse because of the distance. According to the customers in Lao tourism companies, most customers are western tourists because of difference between travelling program. For Lao tourism companies, their scope of tourism program is eco-tourism in Luang Namtha province whereas the scope of Chinese tourism companies is travelling program in Lao PDR.

Negative Impacts

Though Lao PDR is a socialist single party that is controlled by Lao People's Revolution Party, the people have no right to criticize their government. Local governments such as Department of Planning and Investment, Department of Industry, and Commerce and Department of Information and Culture play a role in permitting investment in service sectors. The challenge is mostly with the places of amusement and how it negatively affects Lao culture.

Another sample is from Chinese restaurant in Namtha district. Investment is less than 5 million USD whether Lao investors or foreign investors have to register in general business with Department of Industry and Commerce while investment upper 5 million USD has to register with Department of Planning and Investment. Most of Chinese restaurants always register according to their type of investment but some Chinese restaurants have other businesses such as selling food ingredient from forest while they opened restaurant. From these challenges, involved local government has a counsel to them. In case the investor has broken a rule more than 3 times or get counsel 3 times, provincial governor in Luang Namtha province has an absolute power to abrogate it.

Moreover, according to interview to 20 local people, western pub such as Dragon pub or Huang Jing pub were built inside local community have negative effects on teenagers and local people who live around this pub because of loud noise from the pub. However, in teenagers' perspective on pub, they're preferred to hold party and drink at pub since pub is like modern way of life's symbol and always plays popular songs. The effect on the pub is about customers who are under 18 years old. According to interview to local people, some customers are studying in High school while some customers are studying in college. Moreover, it's become social problem such as quarrel between teenagers, inappropriate costume and drug problem.

From previous information found that there are both positive impacts and negative impacts to Namtha district. However, some problems were solved by local government whereas some problems still exist. The next topic is focus on the response of Lao government both national level and local level in Chinese investment in service sector in Namtha district, Luang Namtha province, Lao PDR, and applying political economy theory to explain the response of Lao government.

4.5 The Response of Lao Government to Chinese Investment in Service Sector in Namtha District, Luang Namtha Province, Lao PDR

According to previous part, Chinese investment has been expanding in Lao PDR since 1990s until now; China became the second investment country to Lao PDR according to Ministry of Industry and Commerce information in 2012.

Table 3. International Private Enterprise Statistic Information in Lao PDR from October 08, 2008, – April 30, 2012

No	Countries	Total	The New Entrepreneurs	Improvement and Modification	Cost of Investment	
					KIP	USD
1	Lao PDR	81,630	45,587	36,043	35,550,126,526,598.10	16,017,697,437.23
2	China	749	380	369	1,660,631,845,115.00	1,803,605,273.50
3	Vietnam	704	294	410	656,341,894,790.00	1,907,776,035.55
4	Thailand	350	153	197	518,116,131,805.00	1,108,232,636.50
5	South Korea	165	71	94	328,682,376,948.00	192,152,333.82

Source: Ministry of Industry and Commerce, Lao PDR

At present, Lao government has been supporting foreign investment through the 5 years national socio-economic plan and has improved the investment law in 2009. Hence, this part has analysis all information from central government and local government to summarize the response of Lao government to Chinese investment in service sector. The response from Lao government was divided into 3 points that lead to Chinese investment explanation in Namtha district.

4.5.1 Support to Chinese Investment as well as Foreign Investment

Nowadays, Lao PDR has been promoting foreign entrepreneurs to invest in Lao PDR. According to Law on the investment promotion in Lao PDR, the type of investment is divided into 2 types; general business and concession business. General business is an investment in the general business sector including business defined in the list of controlled business and it is not a concession business, investor who invest in general business shall submit application to the one-stop service of Ministry or Department of Industry and Commerce in order to register enterprise in conformity with Law on Enterprise and the total capital in general business shall not be less than one billion kips. Concession business refers to investment activities authorized by the government and utilize ownership and other rights of the government in conformity with regulations, for the purpose of developing and conducting business operation; these include right on land concession, minerals, electric power, airlines, telecommunication, insurance and financial institution, investor who invests in concession business shall submit application to one-stop service of Ministry or Department of Planning and Investment and the investor shall be selected on a case by case and go through a selection progress using methods such as comparison of tender bids or assessment by Ministry or Department of Planning and Investment jointly with relevant sectors and local authorities in conformity with the laws. However, both general business and concession business have got promotion from Lao government. The details of promoted activities under the sectors are determined into 3 different levels based on prioritized activities of the Government, the activities related to poverty reduction, the improvement of living conditions of people, construction of infrastructure, human resource development, job creation, etc. There are 3 levels of promotion: Level 1 is activities with highest level of promotion, level 2 is activities with moderate level of promotion and level 3 is activities with low level of promotion.

Moreover, Lao government also divided the promotion zone based on the socio-economic infrastructure and geographical conditions of the country, investment zones are classified into 3 promoted zones, as follows:

Zone 1: having least socio-economic infrastructure development in facilitating investments. The zones are mainly mountainous remote areas. The zones will enjoy highest level of investment promotion incentives.

Zone 2: having moderate socio-economic infrastructure development, enabling partial facilitation of investment, and having less difficult geographical situation compared to Zone1. The zones will enjoy moderate level of investment promotion incentives.

Zone 3: having good socio-economic infrastructure development which supporting investments. The zones receive lower level of investment promotion incentive.

These incentives related to profit tax exemption, the duration based on the zones. Namtha district was classified to zone 3 that has profit tax exemption related on sector promotion's level. In case of level 1, the investor has profit tax exemption for 4 years, 2 years for level 2 and 1 year for level 3. Hence, foreign investor has been increasing because of this policy, especially Chinese investor because of geographical factor. There are the other incentives related to other custom duty and taxes such as exemption from import duties for the importation for raw material, equipment, spare parts and vehicles which are directly used for production and exemption from profit tax in next accounting year, if the net profit derived from business activities is used for business expansion.

Moreover, Lao government has promoting One-Stop-Service for investment. One-Stop-Service provides broad services facilitating the investment particularly in providing investors information, considering investment application, issuing enterprise registration certificates or concession certificates and issuing investment notices. Regarding the other promotions, Lao government provides right for foreign investor on residence in Lao PDR and for investors with registered capital of 500,000 USD or above entitled to purchase land use right. The government shall allocate land to investors for duration consistent with the investment term with the consent of local authorities and according to prevailing regulation to build facilities

for residential or business purpose. Lao government also protects foreign investor as well as Lao investor. The law also gives an equal right to invest to both Lao investor and foreign investor.

These incentives show that Lao government has response to Chinese investment as well as foreign investment by promoting and facilitating to motivating economic system in Lao PDR and the incentives are also attracting to Chinese investor to invest in Lao PDR. Moreover, Lao government had signed bilateral treaties agreement with China in 1993 that make China become the second investment country in Lao PDR and has been expanding until now, because the law gives promotion to Chinese investor as foreign investor. Thus, Lao government has been promoting to Chinese investment in order to motivate economics in Lao PDR and makes economic opportunities to Lao people such as job creation and higher income.

Although, there are many foreign investors in Lao PDR but Lao government give a priority to Chinese investors. Since China is the superpower country in Mekong sub-region and Asia. Furthermore, China gives an economic assistance to Lao PDR for a long time and China is the second influence country in Lao PDR. Hence, Lao government makes a policy to support Chinese government and Chinese investor. According to Luang Namtha province, an economic zone for agricultural sector and rubber plantation on the 5 years national socio-economic plan, issue 7th, and there are some products promoted to profit tax exemption that encouraging to Chinese government policy to Lao PDR such as the go out policy and the opium replacement policy. Accordingly, Chinese investors in agricultural sector have been increasing because of the policy and Chinese investor in service sector was following them. In regards to Chinese investment in service sector in Namtha district, Huang Jing hotel is only concession business in Namtha district that was expanded from Boten border town. According to interview with Mr. Bouchana, deputy of section in Department of Planning and Investment in Luang Namtha district, the hotel was supported by local government because they want to improve hotel's standard in Namtha district with 3 stars hotel and has full accommodation. So, the hotel has rent the land from Lao government with tax exemption. Nevertheless, Department of Planning and Investment has a main role to evaluate its effect to local community and planning on provincial developing strategies. From these promotions, there are Chinese investments in service sector in Namtha district 1 concession

business and 14 general business and has a trend to increasing in each year as long as promotion on agricultural sector and rubber plantation still existence in Luang Namtha province from Lao government.

4.5.2 Promoting Eco-Tourism in Lao PDR and Luang Namtha Province

Luang Namtha province has many ethnic groups and rich in natural resources. Moreover, after the R3E was established that improved transportation and facilitating to tourist and people. Hence, tourist has been increasing particularly in western countries and tourist from other GMS countries that travel on the R3E road. So, tourism in Luang Namtha has been promoted through globalization, tourist in each country get to know Luang Namtha province as eco-tourism with richness of natural resource and cultural diversity through mass media such as Internet, Travelling Magazine and Television. Hence, Lao government has been promoting tourism in each province in order to gain more income from tourism sector.

Ministry of Information Culture and Tourism plays a main role in developing and promoting on tourism sector. There are strategic plans to development tourism in Lao PDR such as implement the open-door policy on the foreign cooperation on economic and culture with foreign nation, promote tourism and the tourism industry intending to improve local people livelihood, promoted integration from local product, promotes the arts culture in Lao PDR, provides new occupation and create opportunities for the ethnic people to gain better incomes and implement strategies on eco-tourism and community based tourism in order to alleviate the poverty. Namtha district has been promoting eco-tourism and these strategies were push forward local government to supporting eco-tourism in Luang Namtha province. Department of Tourism plays a main role in promoting eco-tourism in Luang Namtha based on sustainable development and community based tourism and supporting investment in service sector both Lao investor and foreign investor. The department has a responsibility to examine standard hotel such as cleanness, room size and accommodation. The mostly investment in service sector was establish in Namtha district because of infrastructure development.

Although Chinese investment in service sector was followed by Chinese investment in agricultural sector but the investor could gain more income with tourism sector. Because Lao government has focus on tourism in country as another income to Lao PDR, if Lao government could gain more income from foreign investment that make Lao has more budget

to developing and improving infrastructure, human development and public utility. As long as Lao government supporting tourism through strategy plan, Luang Namtha province and Namtha district will continue developing to support tourism sector that could be another incentive to Chinese investor.

4.5.3 Protecting and Conserving National Culture and Resource

Although Lao government supports foreign investment in order to motivating economic system, after foreign investment has been expanding to Lao PDR, it has an effect to Lao people both positive and negative effects, some types of investment have affected to Lao culture directly, such as western pub in Lao PDR affecting Lao teenagers value and their way of life. Moreover, Globalization makes the World become to “Borderless World” that make western culture has influence to each country including Lao PDR.

Ministry of Information Culture and Tourism plays main role in conserving and protecting national culture. However, the ministry couldn't resist against Globalization that has affect to Lao culture. Thus, the ministry has permission to invest in place of amusement but was controlled by the ministry. The ministry has set a rule and regulation to place of amusement such as decoration inside the pub, playing Lao song and the customer shall wear appropriate costume.

There are 2 places of amusement by Chinese investors in Namtha district that have affected to local community. The Department of Information and Culture has a main role to control, checking with provincial committee, give a caution to place of amusement and report to Luang Namtha provincial administration. If the department gives a caution to place of amusement more than 3 times, the department can report to provincial governor to cancellation it. The main reason is for the conservation and protection of Lao culture.

From all information found here, the response of Lao government is supporting to Chinese investment as well as foreign investment and giving incentive to them by promotions, supporting agricultural sector, and encouraging tourism in order to government revenue. However, this response is along national interest, in particular economic interest. The economic interest is priority in Lao PDR to create development strategies and investment law to attract foreign investment to earn more income for improving infrastructure, public utility

and human resource development and to reduce poverty by 2020. Moreover, Influence from Globalization and Capitalism in this time makes each State realized economic interest than security interest. Accordingly, State is become to market to provide incentive to investor like investment's promotion for competition between States. Another response is protecting and conserving national culture from Globalization and Westernization.

5. Conclusions

Lao government has improved the investment law to support Chinese investments as well as foreign investments for both general business and concession business because of the profit it brings as well as livelihood to the people. Moreover, Lao government has supported Chinese policies through provincial development strategies that appear in the five-year Socio-Economic Plan of Lao PDR. In summary, the Lao government promotes foreign investors as well as Lao investors in order to alleviate poverty and aid development to each province as the ultimate goal.

For future trends, as long as Lao government continues supporting foreign investment and promoting tourism, Chinese investment in service sectors will continue to expand in Lao PDR and Luang Namtha province because Luang Namtha province was chosen to be an economic zone in agricultural sector and eco-tourism. However, Lao government has to confront difficulties and challenges as a developing country in order to support continuous inflow of people and investors such as the lack of budget to divide land to investors. Furthermore, Lao government has realized the significance of the protection and conservation of national culture to promote tourism via globalization, otherwise Lao culture will collapse.

Recommendations

1. Lao government should have stricter rules and clear guidelines in the pubs.
2. Lao government should apply mass media techniques to advertise tourism inside and outside the country to get income from foreign tourism.
3. Lao government should employ proper propaganda techniques to keep the pubs but at the same time, maintain the culture and values.

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Interviews

- Mr. Ai Zhen (艾真). Deputy Director, Foreign Affairs Office of Xishuangbanna Dai Nationality Autonomous Prefecture. Date of interview: 2012, March 21
- Ms. Anna (那那儿). Dragon Pub and KTV's manager. Date of interview: 2012, May 15
- Mr.Aphisid SENGSOURIWONG. Deputy Director, Bilateral Trade Policy Division, Ministry of Industrial and Commerce. Date of interview: 2012, May 11
- Ms.Arune (unidentified last names), Trainee in Lao Vacation Tourism Company. Date of interview: 2012, May 16
- Mr.Atit (unidentified last names), Guide in tourism agency. Date of interview: 2012, May 16
- Mr.Bounnong SAYASEN. Director, Cultural Conservation Division, Ministry of Information Culture and Tourism. Date of interview: 2012, March 29
- Mr.Bouchana KEOVUNGRAD. Deputy of section, Investment Promotion Division, Department of Planning and Investment, Luang Namtha province. Date of interview: 2012, March 15
- Mr.Bounsong KAEWMANEEWONG. Dokjampa hotel's owner. Date of interview: 2012, May 15
- Mr.Bountha (unidentified last names), Student. Date of interview: 2012, May 16
- Mrs. Bounthom DAENPRASERT, Nang Bounthom restaurant's owner. Date of interview: 2012, May, 17
- Mr.Daorong (unidentified last names), Student. Date of interview: 2012, May 17
- Mr. Debi. Vacation Tourism Company Manager. Date of interview: 2012, May 16
- Mr.Diem (unidentified last names), Tourism Company's owner. Date of interview: 2012, May 16
- Mrs.Fong (unidentified last names), Tourism Company's owner. Date of interview: 2012, May 17
- Mr. Feng SULIYAJIEWLOUY. Director, Statistic and Planning Division, Department of Industry and Commerce, Luang Namtha province. Date of interview: 2012, May 17
- Ms. Jan (unidentified last names), servant in Dragon pub. Date of interview: 2012, May 17
- Mr. Kamsao KONGJAMPA, Udomsin hotel's owner. Date of interview: 2012, May 17
- Mr.Kied (unidentified last names), receptionist in Thoulasith Guesthouse. Date of interview: 2012, May 15
- Mr.Kamphone (unidentified last names), receptionist in Zuela guesthouse. Date of interview: 2012, May 16

- Mr.Lack (unidentified last names), Government officer. Date of interview: 2012, May 15
- Ms.Lai (unidentified last names), servant in Tai-Lue Guesthouse and Restaurant. Date of interview: 2012, May 17
- Ms.Linda (周应兰). Huang Jing Hotel's receptionist. Date of interview: 2012, May 16
- Ms.Mon (unidentified lastname), Servant in Pheun Mai restaurant. Date of interview: 2012, May 17
- Ms.Maneewan (unidentified last names), Student. Date of interview: 2012, May 16
- Mrs.Noy AMPAI, Nang Noi restaurant's owner. Date of interview: 2012, May 17
- Ms. Ornsri (unidentified last names), servant in Dragon pub. Date of interview: 2012, May 17
- Ms.Ornthas (unidentified last names), Student. Date of interview: 2012, May 17
- Mrs.Oun (依涛). Jin Sieng Restaurant's owner. Date of interview: 2012, May 16
- Ms.Pak XAYAKON, head of general division, Huang Jing hotel. Date of interview: 2012, May 17.
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- Mr.Phantalee (unidentified last names), Student. Date of interview: 2012, May 16
- Mr.Phonesavath KAMONTHONG. Director, Luang Namtha provincial tourism department, Luang Namtha province. Date of interview: 2012, May 15
- Mr.Sabaiporn (unidentified last names), Student. Date of interview: 2012, March 16
- Mrs.Saysamone JANPROM, Zuela guesthouse's owner. Date of interview: 2012, May 15
- Mr.Sirid (unidentified last names), receptionist. Date of interview: 2012, May 17
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- Mr.Somkiattisak KINGSADA. Director, Bilateral Cooperation Division Ministry of Information Culture and Tourism. Date of interview: 2012, March 29
- Mr.Somma (unidentified last names), Farmer. Date of interview: 2012, May 15
- Mr. Sonthasack (unidentified last names), Student. Date of interview: 2012, May 15
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- Mrs. Srisamorn JOMSAWAD, Fan Mai restaurant's owner. Date of interview: 2012, May 17

Mr. Sritha ANGKAMKRUA. Deputy Director, General Investment Promotion Division, Department of Industry and Commerce, Luang Namtha province. Date of interview: 2012, May 17

Mr.Suliwan DEANHUENSRE, Along the Namtha Travel's owner. Date of interview: 2012, May 17

Mr.Suree (unidentified last names), Government officer. Date of interview: 2012, May 16

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Mr.Thongda PETCHMANEEWONG. Director, Ministry of Planning and Investment

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Mr.Viengkham XAYAWONG. Head of sectional culture, Department of Information and Culture, Luang Namtha province. Date of interview: 2010, May 16

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Ms.Xay PANNASID, cleaner, Huang Jing hotel. Date of interview: 2010, May 17

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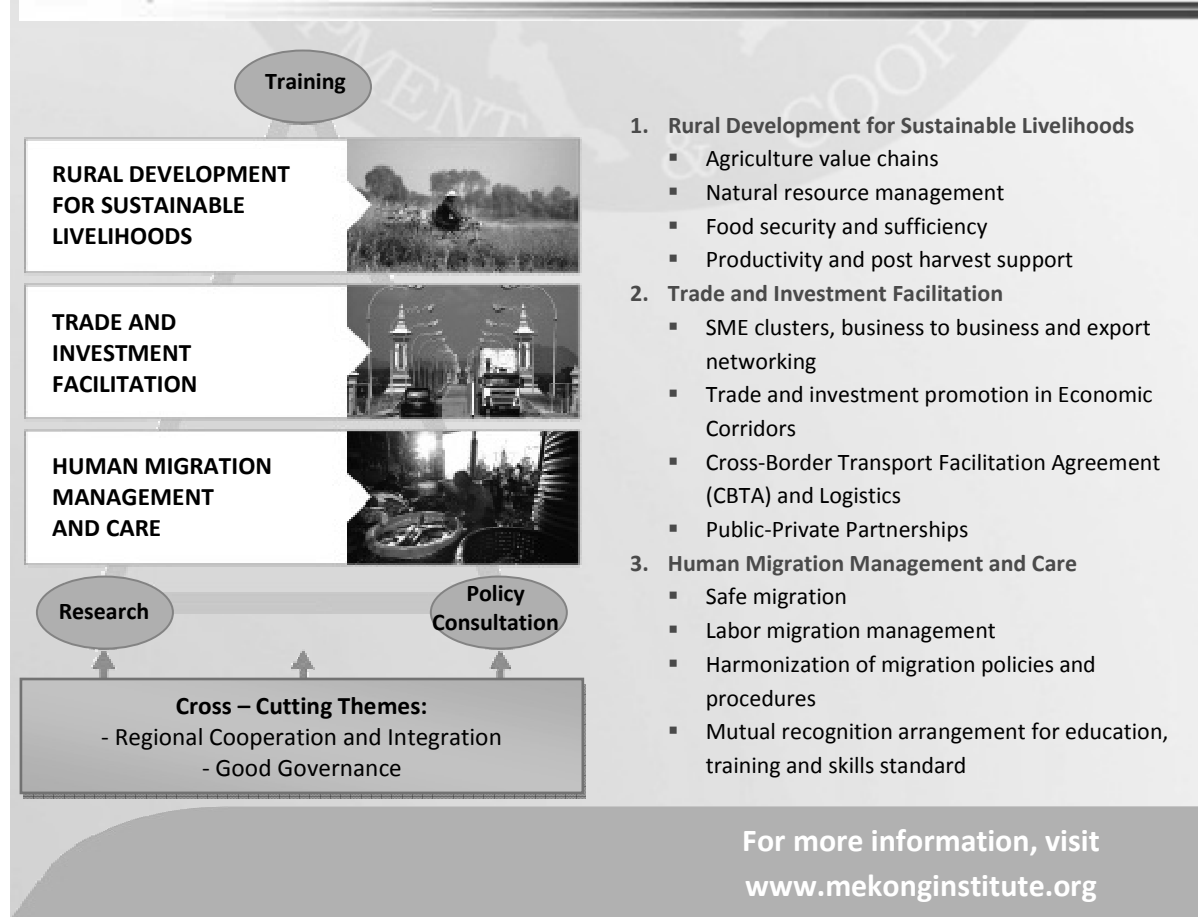
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