



# Globalization, foreign direct investment, and urban growth management: Policies and conflicts in Vientiane, Laos



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## ABSTRACT

This research focuses on the conflicts between urban growth management (UGM) in urban planning policy and the growing influence of globalization and foreign direct investments (FDI) in Vientiane, the capital of Laos. In order to answer the question, “Does FDI affect UGM in the capital city of Laos, Vientiane?” the article explores significant decrees, mandates, technical reports, field surveys, and interviews. The results revealed that FDI has been an important instrument in Vientiane for boosting the economy and supporting urban growth. On the other hand, core conflicts emerged between government growth-management policies and the spatial impact of FDI regarding transformations of land use, the physical environment, sociocultural values, and collaboration stages. Moreover, globalization and FDI not only influence economic growth, but also affect the implementation of UGM in Vientiane. Although the urban planning sector has been rather strict, the investment sector prefers to encourage both FDI and domestic investments by giving incentives. Therefore, to achieve more balanced development for this “least developed country,” collaboration between similar relevant institutions (e.g., planning, investment, and land management) should be considered necessary long-term strategies.

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## Introduction

Globalization is the process of increasing interactions and interdependencies between economies, societies, and nations across large distances. Globalization has led not only to the expansion of the boundaries of markets and communications but also the spread of cultural awareness among consumers all over the world. In the first stage of globalization, social, economic, and political activities are distributed across boundaries, such as events, decisions, and activities. These movements have consequences for individuals and communities in distant regions of the globe (McGrew and Held, 2007). The negative effects of globalization can be explained through the historical and sociocultural changes from the movement of people from developing areas to underdeveloped regions (Mazrui, 2001). In addition, in the built environment of a city, the strong processes of globalization and localization clash (Mahgoub, 2004).

In general, one of the greatest impacts of globalization is foreign direct investment (FDI). The flow of globalization, particularly FDI concentrated in the core of an urban area, is a crucial instrument for building economic capacity. Additionally, population migration also results in a faster path toward urbanization. Indeed, the power of FDI can also be seen in the growth of regions and spatial transformation (Yee Ng and Tuan, 2006). However, such regional and economic growth affects the natural environment and causes pollution; their environmental effects have been continuously debated (Grossman and Krueger, 1995; Copeland and Taylor, 2004). Due to the associated environmental problems, it is common for governments to implement environmental protection strategies in cities through the processes of urban growth management (UGM). Alternatively, improper planning, poor implementation, and ineffective UGM tactics have resulted in environmental problems, traffic congestion, and other urban problems (Einsweiler and Deborah, 1992).

In recent decades, many scholars have examined the relationships between UGM policy and FDI. Logan and Molotch (1987) and Feagin and Parker (1990) proposed that the combined powers of government authority and business sector development represent the crucial components of city space formation and transformation. In short, FDI combined with the power of globalization function as core drivers of economic growth and development (Feagin and Smith, 1987). Regarding Laos, the government has promoted FDI

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since the open-door policy began in 1986. Consequent positive effects can be seen in GDP growth. In case of Vientiane, the side effects of globalization and FDI can be seen in the environmental, political, and social transformation processes. In 2010, an Official Development Assistance (ODA) study team from the Japan International Cooperation Agency (JICA) conducted a study and provided a master plan for the urban development of Vientiane. Through empirical study, JICA (2011, p. 2) defined the conditions of Vientiane as follows.

*The physical environment of Vientiane capital city has been ruined by the fragmentation development processes. In light of this situation, it is recommended that the local government of Vientiane as well as its citizens carefully examine the problems they encounter, and consider the best way to develop Vientiane until the year 2030.*

In order to sustain this master plan, it is necessary to consider both urban planning (Ministry of Public Works and Transport or MPWT) and managing sectors (Vientiane Urban Development and Administration Authority or VUDAA) as integral components of strong UGM strategies. UGM policy in Vientiane is designed to achieve urban growth while balancing economic development and ecological preservation. As such, there are many factors that affect balanced growth in distinctive communist countries like Laos. For example, because of insufficient funds for development, the Lao Ministry of Planning and Investment (MPI) has driven an investment promotion policy to encourage FDI (MPI, 2010). However, urban spatial management is needed to achieve sustainable goals. The conflicts between FDI and UGM occur in Vientiane daily, but it is hard to find any solution and article regarding the relationship between the spatial impact resulting from FDI and UGM policies in Laos. Therefore, the conflicts between FDI and UGM are considered the main research question of this paper.

In short, the central question is, “Does FDI affect UGM in the capital city of Laos, Vientiane?” This paper focuses on the steps that comprise urban development and implementation in Vientiane. The research methodology is based on theories from the literature and is supported by interviews done in June 2012, while secondary data were collected from the Lao MPWT and recent project websites. Moreover, we interviewed ten top officials from the Department of Public Works and Transport (DPWT) in Vientiane and five senior lecturers from the Department of Urban Environment (DUE) of the National University of Laos (NUOL), who specialize in housing, urban development, and urban land use regulation implementation in Vientiane.

This paper is divided into five sections. After the Introduction, the section “Globalization, Foreign Direct Investment, and Urban Growth Management” defines the problems of globalization, FDI, and UGM in general. The third section “Foreign Direct Investment and Urban Growth Management in Laos and Vientiane” discusses the flow of FDI into Laos and Vientiane. The section “Conflicts between FDI and UGM in Vientiane” discusses the conflicts between the power of FDI and the implementation processes of UGM in Vientiane. Finally, the Conclusion presents a summary and gives recommendations for future development.

### **Globalization, foreign direct investment, and urban growth management**

The effects of globalization and FDI are both positive and negative. Dreher (2006) and Dreher et al. (2008) stated that globalization affected negatively the growth policies, taxation management, and political environment of many countries. In addition, Beck (2000); Christmann and Taylor (2001) affirmed that countries faced various challenges regarding economic and environmental risks. Current environmental issues such as climate change and peak oil prices

will thus result in peak globalization (Curtris, 2009). In contrast, economic globalization has a strong positive effect on the living conditions of people, especially life expectancy and increased population growth rates. A high return on investment rate is also associated with a high level of productivity, which is displayed by the increase in globalization value (Bergh and Nilsson, 2010; Ming, 2007). Furthermore, international competition increases the need for developed technologies and investments (Looney and Frederiksen, 2004). Also, the flow of investment promoted by an economic growth policy is altered due to the dynamic power of FDI and other investment patterns with high incentives (Tuan and Yee Ng, 2004; Sonn and Lee, 2012). FDIs contribute to the process of agglomeration in market economies and can influence development policies. Therefore, the influx of FDI into a nation can increase GDP (Lipsey, 1999). On the other hand, job concentration and transition also affect the legislation of permanent and temporary employment (Gross and Ryan, 2008). The impacts of FDI can be interpreted variously based on the types and purposes of FDI. For example, one of the most significant entry modes that impact the pattern of increasing capital and the productivities of the host regions and nations is the Greenfield investment type, whereas the merger and acquisition mode is expected to transfer income from the host countries to foreign countries (Kim, 2008).

Significant evolution and development of economies are driven by FDI as an open-country policy, which brings new technologies, capital, and new economic structures to the regions (De Mello, 1997; Du et al., 2012). Therefore, attracting FDI is a top priority for many countries around the world. For example, with the flow of FDI from the processes of spatial agglomeration, regional GDP can grow (Tuan and Yee Ng, 2007). Obviously, many countries intend to increase their GDP. One method to increase GDP is for countries to favor foreign over domestic investments and provide more freedom and incentives to foreign investors, with various tax reductions, market priorities, public services, and other significant rights (Erdogan and Atakli, 2012). Kang and Lee (2007) found that the quality of labor and transportation infrastructure positively influenced the location decisions for South Korean FDI in Chinese economic zones, whereas labor cost and travel distance showed negative impacts.

FDI plays an important role mostly in urban regions and influences UGM directions. UGM is a significant tool in land use planning and economic development (Gihring, 1999). UGM involves a set of instruments applied by the government to control and manage the growth of cities. Population growth, either logistically or exponentially, represents a challenge for UGM and urban containment policy (Woo and Guldmann, 2014). Furthermore, land zoning regulations produced flexible conditions for increasing public facilities development funding. In contrast, agricultural land had been negatively impacted (Chaudhuri and Banerjee, 2010). In the development stage it is necessary to consider urban spatial authority organizations and development agencies. Private developers may also provide the needed infrastructure development in accordance with government regulations (Hannah et al., 1993). Regarding the public sector, the main public policy instruments for managing urban growth and for protecting open spaces at various governmental levels are considered a top priority, including the public use of land as well as regulatory and incentive-based approaches (Bengston et al., 2004).

There have been many debates recently on the effects of globalization and FDI on UGM policy. UGM policy has met some obstacles as FDI has emerged globally. The investments in developing countries have increased environmental problems and reduced the function of institutional development in city areas, especially in Chinese urban areas (Wang and Chen, 2014). In Wuhan, an inland city or intra-metropolitan area in China, it was found that the interaction among accessibility, urban spatial structure, and

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