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The role of foreign direct investment in local economic growth: Evidence from Say Nha Bu Ly Province, Laos

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Abstract--Foreign Direct Investment (FDI) has become an increasingly important driver of economic growth and structural transformation in developing economies. In recent decades, many developing countries have implemented investment liberalization policies to attract foreign capital, promote industrialization, and enhance regional development. In Laos, FDI has played a significant role in supporting economic modernization, infrastructure development, employment creation, and international economic integration. Against this background, the Lao government has increasingly emphasized the importance of attracting foreign investment to stimulate local economic development and reduce regional disparities. This study examines the role of FDI in promoting local economic growth in Say Nha Bu Ly Province, Laos, during the period 2010–2025. The research employs a mixed-methods approach combining statistical analysis, comparative analysis, and secondary data analysis based on provincial reports, national statistics, and international databases. The study evaluates the contributions of FDI to regional economic performance and identifies the major limitations affecting investment effectiveness. The findings indicate that FDI has contributed positively to Gross Regional Domestic Product (GRDP) growth, employment generation, industrial restructuring, infrastructure development, and government revenue in Say Nha Bu Ly Province. Foreign-invested enterprises have become important contributors to industrial production and economic expansion. However, the study also reveals several challenges, including uneven sectoral distribution of investment, limited technology transfer, low labor quality, and weak spillover effects on domestic enterprises and local industries. The study concludes that improving infrastructure systems, enhancing human resource quality, strengthening local



governance, and implementing development-oriented investment policies are essential for increasing the effectiveness and sustainability of FDI in local economic development. The findings provide important policy implications for promoting high-quality and sustainable foreign investment in developing provincial economies.

Keywords---Foreign Direct Investment; Local Economic Growth; Regional Development; Laos; Say Nha Bu Ly Province; Economic Development.

Introduction

Foreign Direct Investment (FDI) has become one of the most important drivers of globalization and international economic integration in the contemporary world economy. In the context of increasing interdependence among nations, FDI not only facilitates the movement of capital across borders but also promotes technology transfer, managerial innovation, industrial restructuring, and international production networks. Over the past several decades, many countries have regarded FDI as a strategic instrument for accelerating economic growth, enhancing competitiveness, and improving socio-economic development. According to the United Nations Conference on Trade and Development (UNCTAD), global FDI flows continue to play a crucial role in supporting economic recovery, expanding productive capacity, and fostering sustainable development, particularly in developing economies (UNCTAD, 2023).

For developing countries, FDI serves as an important external source of capital that supplements limited domestic savings and investment resources. More importantly, FDI contributes to economic development not only through financial inflows but also through the transfer of advanced technologies, management expertise, production skills, and access to international markets. Numerous empirical studies have demonstrated that FDI can stimulate economic growth by increasing productivity, creating employment opportunities, enhancing export capacity, and encouraging industrial diversification (Borensztein et al., 1998; OECD, 2022). In addition, foreign-invested enterprises often generate spillover effects that improve the efficiency and competitiveness of domestic firms through knowledge diffusion and technological learning. Consequently, many developing countries have implemented economic liberalization policies and investment incentives to attract foreign investors and integrate more deeply into the global economy.

Within Southeast Asia, the Lao People's Democratic Republic (Laos) has increasingly recognized the strategic significance of FDI in promoting national economic development. Since the adoption of the New Economic Mechanism in 1986, Laos has gradually shifted from a centrally planned economy toward a market-oriented economic system. The government has implemented a series of economic reforms and open-door policies aimed at encouraging foreign investment and international economic cooperation. The promulgation of the Foreign Investment Law and subsequent revisions created a more favorable legal and institutional framework for foreign investors, allowing greater participation of

international capital in sectors such as hydropower, mining, agriculture, tourism, infrastructure, and services.

Over the past two decades, FDI has made significant contributions to the economic development of Laos. Foreign investment has supported infrastructure construction, expanded industrial production, increased export earnings, generated employment opportunities, and improved government revenue. Furthermore, FDI has played an important role in promoting economic modernization and facilitating the integration of Laos into regional and global economic systems. The expansion of investment projects in energy, transportation, and manufacturing has contributed to economic growth and improved living conditions in many areas of the country. As a result, FDI has become an essential component of Laos's national development strategy and a key driver of socio-economic transformation.

However, despite these achievements, the distribution and effectiveness of FDI across different localities in Laos remain uneven. Most foreign investment projects are concentrated in provinces with relatively favorable infrastructure, natural resources, and market accessibility, while many local areas continue to experience limited investment inflows and insufficient economic spillover effects. In several provinces, the contribution of FDI to local economic development has not fully met expectations due to inadequate infrastructure systems, limited human resource quality, weak institutional capacity, and insufficient linkages between foreign-invested enterprises and local economies. These challenges indicate that attracting FDI alone is not sufficient to ensure sustainable economic development; rather, the quality and effectiveness of FDI utilization are equally important.

Say Nha Bu Ly Province is one of the localities in Laos that possesses considerable potential for attracting foreign investment. The province benefits from favorable geographical conditions, abundant natural resources, and opportunities for developing agriculture, energy, tourism, and processing industries. In recent years, Say Nha Bu Ly has gradually participated in the process of attracting foreign investment and has achieved certain positive outcomes in economic development. Several FDI projects have contributed to local production activities, infrastructure improvement, employment generation, and economic restructuring. Nevertheless, compared with its development potential and strategic advantages, the scale and effectiveness of FDI in the province remain relatively limited. Investment projects are still modest in size, concentrated in a limited number of sectors, and have not generated strong spillover effects for local industries and communities. In addition, the province continues to face challenges related to labor quality, infrastructure development, investment management, and institutional coordination. These issues raise important questions regarding the actual role and effectiveness of FDI in promoting local economic growth and sustainable development in Say Nha Bu Ly Province.

Although FDI has attracted significant scholarly attention worldwide, studies on the relationship between FDI and local economic growth in Laos remain relatively limited, particularly at the provincial level. Existing studies mainly focus on

national economic performance, investment policy frameworks, or sector-specific analyses, while fewer studies examine the multidimensional impacts of FDI on local economies. Furthermore, limited research has been conducted on how FDI contributes to regional economic growth, employment creation, structural transformation, and socio-economic development in specific provinces of Laos. The absence of comprehensive studies on Say Nha Bu Ly Province represents an important research gap that requires further investigation. Therefore, this study seeks to contribute to the existing literature by providing empirical evidence from a provincial context and by evaluating both the positive contributions and limitations of FDI in local economic development.

This study aims to evaluate the role of FDI in promoting local economic growth in Say Nha Bu Ly Province, Laos. Specifically, the study analyzes the positive contributions and major limitations of FDI in the province and proposes policy recommendations to improve the effectiveness and sustainability of foreign investment in local economic development. Through this analysis, the study contributes to a better understanding of the relationship between FDI and regional economic growth in developing economies.

To achieve these objectives, the study addresses the following research questions:

1. How has FDI contributed to local economic growth in Say Nha Bu Ly Province?
2. What are the major limitations of FDI in the province?
3. What policy measures can improve the effectiveness of FDI in promoting local economic development?

Literature Review

Concept of Foreign Direct Investment

Foreign Direct Investment (FDI) is widely recognized as one of the most important forms of international capital movement in the contemporary global economy. Unlike short-term financial flows, FDI reflects a long-term investment relationship in which foreign investors establish lasting interests and exercise a certain degree of managerial control over business activities in the host country. According to the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), FDI occurs when an investor acquires at least 10 percent of the voting power in an enterprise located in another country, thereby obtaining significant influence over its management and operations (OECD, 2022).

FDI is not limited to the transfer of financial capital alone; it also involves the movement of technology, managerial knowledge, organizational practices, and production expertise. Through multinational corporations and foreign-invested enterprises, FDI contributes to the integration of national economies into global production and value chains. In many developing countries, FDI has become a strategic instrument for promoting industrialization, economic restructuring, export expansion, and employment creation.

FDI is often distinguished from portfolio investment, although both represent forms of international capital flows. Portfolio investment generally refers to the purchase of foreign financial assets such as stocks, bonds, or securities without

direct participation in management activities. In portfolio investment, investors primarily seek short-term financial returns and can easily withdraw capital in response to market fluctuations. By contrast, FDI involves long-term commitments and direct managerial involvement in productive activities within the host economy. Consequently, FDI is generally considered more stable and development-oriented than portfolio investment because it creates tangible economic activities, production facilities, infrastructure, and employment opportunities in the host country.

In the context of developing economies, FDI is frequently viewed as an important catalyst for economic modernization and integration into the global economy. Nevertheless, the actual effectiveness of FDI depends on various factors, including institutional quality, infrastructure development, human capital, investment policies, and the absorptive capacity of the host economy. Therefore, understanding the role and impacts of FDI requires not only conceptual clarification but also a comprehensive theoretical and empirical analysis.

Theoretical Foundations

Dunning's OLI Paradigm

One of the most influential theoretical frameworks explaining FDI is Dunning's Eclectic Paradigm, commonly known as the OLI framework. Developed by John Dunning, this theory explains why multinational enterprises choose to invest abroad rather than export products or license production to foreign firms. The OLI paradigm emphasizes three major advantages that encourage firms to engage in foreign direct investment: Ownership advantages, Location advantages, and Internalization advantages.

Ownership advantages refer to firm-specific assets that provide competitive superiority in international markets. These advantages may include advanced technologies, managerial expertise, brand reputation, intellectual property rights, organizational efficiency, or financial capacity. Multinational corporations possessing such advantages are more capable of competing successfully in foreign markets and overcoming the additional costs associated with international operations.

Location advantages relate to the attractiveness of host countries or regions for foreign investment activities. Factors such as natural resources, market size, labor costs, infrastructure quality, political stability, investment incentives, and geographical location influence investors' decisions regarding where to establish production facilities. In the context of developing countries, provinces or regions with favorable investment environments are generally more successful in attracting FDI inflows.

Internalization advantages explain why firms prefer direct investment instead of licensing or outsourcing production to foreign partners. By internalizing operations within their own organizational structures, multinational enterprises can reduce transaction costs, protect proprietary technologies, maintain product quality, and increase operational efficiency. Consequently, the OLI paradigm

provides an important theoretical foundation for understanding the motivations and determinants of FDI at both national and regional levels.

Endogenous Growth Theory

Endogenous Growth Theory offers another important perspective for analyzing the relationship between FDI and economic growth. Unlike traditional neoclassical growth models, which emphasize external technological progress, endogenous growth theory argues that technological innovation, knowledge accumulation, and human capital development are generated internally within the economic system and serve as key drivers of long-term growth.

Within this framework, FDI contributes to economic growth by facilitating technology transfer, improving productivity, and stimulating innovation. Foreign-invested enterprises often introduce advanced production technologies, modern management techniques, and efficient organizational practices into host economies. These factors enhance production efficiency and create opportunities for local firms and workers to acquire new knowledge and skills.

Moreover, FDI can support human capital development through training programs, skill upgrading, and labor mobility. As workers gain experience in foreign-invested enterprises, they may transfer acquired knowledge and expertise to domestic firms, thereby improving overall economic productivity. In addition, competition from multinational corporations may encourage domestic enterprises to innovate and improve operational efficiency. Consequently, endogenous growth theory highlights the dynamic role of FDI in promoting sustainable economic development beyond simple capital accumulation.

Spillover Theory

Spillover Theory further explains the indirect effects of FDI on host economies. According to this perspective, foreign-invested enterprises generate positive externalities that extend beyond the boundaries of individual firms and contribute to broader economic development. These spillover effects may occur through various channels, including technology diffusion, labor mobility, demonstration effects, and business linkages.

Technology spillovers arise when domestic firms adopt advanced technologies and production methods introduced by foreign enterprises. Local firms may imitate foreign business practices, improve product quality, or modernize production processes in response to competitive pressures generated by multinational corporations. Labor spillovers occur when employees trained in foreign-invested enterprises transfer their skills and expertise to domestic firms or establish their own businesses.

Managerial spillovers are also significant because multinational corporations often introduce modern governance systems, organizational structures, and management techniques. Domestic enterprises may learn from these practices and improve their operational efficiency and competitiveness. In addition, spillover effects may strengthen supporting industries and encourage the

development of local supply chains. However, the magnitude of these benefits depends largely on the absorptive capacity of local economies, including education levels, technological readiness, and institutional quality.

Empirical Studies on FDI and Economic Growth

A substantial body of empirical research has examined the relationship between FDI and economic growth across different countries and regions. Most international studies suggest that FDI has a positive impact on economic growth, particularly in developing economies with favorable institutional environments and adequate human capital. Borensztein et al. (1998) found that FDI contributes significantly to economic growth when host countries possess sufficient absorptive capacity to utilize advanced technologies effectively. Similarly, Alfaro et al. (2004) emphasized that the positive effects of FDI depend on financial market development and institutional quality.

In ASEAN countries, many studies indicate that FDI plays a crucial role in industrialization, export expansion, and economic modernization. Countries such as Vietnam, Thailand, Malaysia, and Indonesia have successfully utilized FDI to accelerate manufacturing development and integration into global value chains. Nevertheless, several studies also highlight concerns regarding environmental degradation, unequal regional development, and limited technological spillovers in certain localities.

In Africa, empirical studies generally reveal mixed results regarding the effectiveness of FDI. While foreign investment contributes to infrastructure development and resource exploitation, the benefits are often constrained by weak institutions, political instability, low human capital quality, and limited industrial linkages. These findings suggest that the developmental impact of FDI varies considerably depending on local economic and institutional conditions.

In Laos, existing studies on FDI mainly focus on national investment policies, macroeconomic growth, or specific sectors such as hydropower and mining. Although several studies acknowledge the importance of FDI in promoting economic growth and international integration, research examining the impacts of FDI at the provincial level remains relatively limited. Furthermore, few studies have comprehensively analyzed the multidimensional effects of FDI on local economic growth, employment, industrial restructuring, and socio-economic development in specific provinces of Laos.

Research Gap and Analytical Framework

The existing literature demonstrates that FDI can significantly contribute to economic growth through capital accumulation, technology transfer, productivity enhancement, and spillover effects. However, most previous studies primarily focus on national-level analyses or large developing economies, while limited attention has been given to provincial contexts in Laos. In particular, empirical evidence regarding the role of FDI in local economic development within Say Nha Bu Ly Province remains insufficient.

This study differs from previous research in several important aspects. First, the study adopts a provincial-level approach to analyze the relationship between FDI and local economic growth in Laos, thereby providing a more localized and context-specific perspective. Second, the study utilizes updated data and examines multiple dimensions of FDI impacts, including economic growth, employment generation, infrastructure development, industrial restructuring, and local revenue contribution. Third, the study integrates theoretical perspectives from the OLI paradigm, endogenous growth theory, and spillover theory to provide a comprehensive analytical framework for evaluating the effectiveness of FDI in local economic development.

By addressing these gaps, the study contributes to the existing literature in both theoretical and practical terms. The findings provide empirical evidence regarding the role of FDI in regional economic growth and offer policy implications for improving the effectiveness and sustainability of foreign investment in developing provinces of Laos.

Methodology

Research Design

This study employs a mixed-methods approach that combines both qualitative and quantitative research methods to examine the role of Foreign Direct Investment (FDI) in local economic growth in Say Nha Bu Ly Province, Laos. The integration of qualitative and quantitative approaches allows the study to provide a more comprehensive understanding of the economic impacts of FDI while also identifying the major limitations and challenges associated with foreign investment at the provincial level. The mixed-methods design is particularly appropriate for studies on regional economic development because it facilitates both statistical evaluation and contextual interpretation of economic phenomena. The quantitative component focuses on analyzing statistical indicators related to FDI inflows and local economic performance. This approach enables the study to assess the relationship between FDI and key economic variables such as Gross Regional Domestic Product (GRDP), employment generation, government revenue, and sectoral economic growth. Quantitative analysis also helps identify long-term trends and changes in economic performance during the study period.

Meanwhile, the qualitative component supports the interpretation of empirical findings and provides deeper insights into the broader socio-economic implications of FDI. Through qualitative assessment, the study examines issues such as investment effectiveness, industrial linkages, infrastructure development, labor quality, and institutional conditions affecting FDI performance in the province. The combination of these approaches enhances the reliability and comprehensiveness of the research findings.

In addition, the study adopts a case study approach focusing specifically on Say Nha Bu Ly Province. The case study method is suitable because it allows for an in-depth analysis of a particular locality within its specific economic, institutional, and geographical context. Rather than examining FDI only at the national level, the study emphasizes local economic dynamics and regional development conditions. This approach provides a more detailed understanding of how FDI

contributes to economic growth in a developing provincial context and enables the identification of locality-specific opportunities and constraints.

Study Area

The study focuses on Say Nha Bu Ly Province, located in the northwestern region of the Lao People's Democratic Republic. The province shares geographical connections with neighboring provinces and possesses relatively favorable conditions for economic cooperation, trade, agriculture, and investment activities. Its strategic location contributes to regional connectivity and creates opportunities for economic interaction with surrounding areas.

Economically, Say Nha Bu Ly Province has experienced gradual development in recent years, particularly in agriculture, natural resource utilization, tourism, and small-scale industrial activities. Agriculture remains one of the dominant sectors of the provincial economy, employing a significant proportion of the local labor force. At the same time, the province possesses considerable potential for hydropower development, agro-processing industries, mining activities, and tourism-related services due to its natural resources and geographical characteristics.

In terms of investment potential, Say Nha Bu Ly has increasingly attracted attention from both domestic and foreign investors. The province offers opportunities for investment in agriculture, renewable energy, infrastructure development, transportation, and manufacturing industries. Moreover, the local government has gradually improved investment promotion policies and administrative procedures in order to enhance the provincial business environment. However, despite these advantages, the province continues to face several development challenges, including inadequate infrastructure systems, limited human resource quality, relatively small market size, and weak industrial linkages. These conditions make Say Nha Bu Ly an appropriate case for examining the role and effectiveness of FDI in local economic development within a developing regional context.

Data Collection

This study primarily relies on secondary data collected from various official and institutional sources. The use of secondary data is appropriate because the study aims to analyze long-term economic trends and evaluate the contribution of FDI to local economic development over an extended period. Secondary data also provide a reliable basis for statistical and comparative analysis.

The main data sources include reports and statistical publications from the Lao Statistics Bureau, which provide information on economic growth, employment, industrial production, population, and regional economic indicators. Additional data were collected from the Ministry of Planning and Investment of Laos, particularly regarding FDI inflows, investment projects, investment sectors, and investment policies. Provincial socio-economic reports and annual development reports issued by the authorities of Say Nha Bu Ly Province were also utilized to obtain locality-specific economic information.

Furthermore, the study incorporates data and reports from international organizations such as the World Bank and ASEAN statistical databases. These sources provide broader economic indicators and comparative regional information that support the interpretation of Laos's investment environment and economic development trends.

The study covers the period from 2010 to 2025. This period was selected because it reflects an important stage in Laos's economic integration and investment expansion process. During these years, the country experienced significant changes in investment policies, regional economic cooperation, and infrastructure development, all of which influenced FDI inflows and local economic performance. The selected timeframe also allows the study to examine both short-term and long-term economic impacts of FDI in Say Nha Bu Ly Province.

Analytical Methods

To achieve the research objectives, the study employs several analytical methods, including statistical analysis, comparative analysis, and descriptive analysis.

First, statistical analysis is used to examine the relationship between FDI and local economic growth indicators. The study analyzes data related to FDI inflows, GRDP growth, employment generation, government budget contribution, and sectoral economic performance. Through statistical analysis, the study identifies major economic trends, evaluates the contribution of foreign investment to local economic activities, and assesses changes in economic performance over time.

Second, comparative analysis is applied to compare economic indicators across different periods and economic sectors. This method allows the study to evaluate changes in local economic performance before and after significant increases in FDI inflows. Sectoral comparisons are also conducted to examine the distribution of FDI across industries and to identify which sectors have benefited most from foreign investment activities. Comparative analysis helps clarify the uneven distribution of investment and the varying impacts of FDI on different economic sectors within the province.

Third, descriptive analysis is employed to assess overall development trends and interpret the broader socio-economic implications of FDI. This method is useful for explaining patterns of investment concentration, infrastructure development, labor market changes, and institutional challenges associated with FDI implementation. Descriptive analysis also supports the discussion of investment effectiveness, development limitations, and policy implications.

By combining these analytical methods, the study provides a comprehensive assessment of the role of FDI in promoting local economic growth in Say Nha Bu Ly Province. The methodological framework enables both quantitative evaluation and qualitative interpretation, thereby strengthening the reliability and analytical depth of the research findings.

Results and Discussion

Overview of FDI in Say Nha Bu Ly Province

Foreign Direct Investment (FDI) in Say Nha Bu Ly Province has played an increasingly important role in local economic development during the period 2010–2025. Although the province is not among the largest FDI destinations in Laos, it has gradually attracted foreign investment due to its geographical advantages, natural resources, agricultural potential, and opportunities in hydropower, processing industries, tourism, and infrastructure development. The available data indicate that FDI has become an important source of capital for the province, contributing to the expansion of production capacity and the modernization of selected economic sectors.

In terms of scale, FDI inflows into Say Nha Bu Ly have shown a gradual upward trend, although the growth pattern has not been entirely stable. Investment inflows increased during periods when local infrastructure, investment policies, and economic cooperation improved. However, fluctuations were also observed due to changes in the domestic and international investment environment, the limited absorptive capacity of the province, and the concentration of investment in a small number of sectors. This suggests that while Say Nha Bu Ly has made progress in attracting foreign investment, the overall scale of FDI remains modest compared with the province's potential and development needs.

Regarding sectoral distribution, FDI in Say Nha Bu Ly has been mainly concentrated in industries linked to natural resources, hydropower, agriculture, processing, and selected service activities. The industrial sector has received a significant share of foreign investment, particularly in activities related to energy, resource-based production, and processing. This pattern reflects the location advantages of the province, including natural resource endowments and opportunities for agricultural and energy development. However, the concentration of FDI in a limited number of sectors also indicates that investment diversification remains weak.

In terms of investment origin, foreign investors in the province mainly come from neighboring and regional economies with close economic relations with Laos. These investors are attracted by resource opportunities, low production costs, and the potential for regional connectivity. Nevertheless, the range of investing countries remains relatively narrow, which may limit technological diversity, management innovation, and access to broader international markets.

Table 1. *Suggested presentation of FDI inflows in Say Nha Bu Ly Province, 2010 – 2025*

Year	FDI Trend	Main Sectors	Major Investing Countries
2010	Initial stage of FDI attraction	Industry, agriculture	Thailand, Vietnam
2015	Rapid growth in investment activities	Energy, processing industries	Thailand, China, Vietnam
2020	Stable growth despite external economic pressures	Industry, hydropower, services	China, Thailand, Vietnam
2025	Expansion toward diversified investment sectors	Agriculture, energy, tourism	China, Thailand, ASEAN countries

Overall, FDI in Say Nha Bu Ly has contributed to the province's development process, but its structure shows several limitations. The investment base remains narrow, sectoral concentration is high, and the linkages between foreign-invested enterprises and local firms are still underdeveloped. These characteristics shape the actual contribution of FDI to local economic growth.

Contribution of FDI to Local Economic Growth

FDI has contributed to local economic growth in Say Nha Bu Ly Province through several main channels, including GRDP growth, employment creation, infrastructure development, industrial restructuring, and government revenue. First, FDI has supported GRDP growth by expanding the province's investment base and increasing productive capacity. Foreign-invested projects have provided additional capital for production, construction, energy, agriculture, and industrial activities. In a province where domestic capital accumulation remains limited, FDI has helped reduce the investment gap and supported economic expansion. The thesis data show that the province's GRDP and income per capita have gradually improved, with GRDP reaching approximately 12,339 billion kip and income per capita around 29.47 million kip per year, equivalent to about USD 1,734. This reflects the broader contribution of investment, including FDI, to provincial economic growth.

Second, FDI has contributed to employment creation. Foreign-invested enterprises have created jobs in construction, production, services, agriculture-related processing, and infrastructure projects. Although the number of jobs generated may not yet be large enough to transform the entire provincial labor market, FDI has provided employment opportunities beyond traditional agriculture. This is particularly important for a province where a significant share of the population still depends on agriculture and natural-resource-based activities. Through employment, FDI contributes not only to income generation but also to the gradual improvement of labor discipline, technical skills, and exposure to modern production methods.

Third, FDI has supported infrastructure development. Some foreign-invested projects, especially in energy, transportation, and production-related sectors, have contributed to improving local infrastructure. Infrastructure development has direct and indirect effects on economic growth. Directly, it increases

construction activity and investment output. Indirectly, it improves connectivity, reduces transaction costs, and creates better conditions for future investment. In developing provinces, infrastructure is often both a condition for attracting FDI and an outcome of FDI. This two-way relationship is clearly relevant in the case of Say Nha Bu Ly.

Fourth, FDI has contributed to industrial restructuring. The available data from the thesis indicate that FDI has played a major role in industrial production. The share of FDI in the province's industrial production value remained high during the 2010–2024 period, with FDI accounting for a substantial proportion of total industrial output. In some years, the FDI share in industrial production exceeded 70%, showing that foreign-invested enterprises were central to the development of the provincial industrial sector. This suggests that FDI has helped move the provincial economy gradually away from a purely agriculture-based structure toward a more diversified structure involving industry, processing, and services.

Fifth, FDI has contributed to government revenue through taxes, fees, land-related payments, and other fiscal contributions. Although the fiscal contribution of FDI depends on project scale, profitability, tax incentives, and enforcement capacity, foreign-invested enterprises generally expand the local revenue base. This revenue can support public investment, administrative capacity, infrastructure maintenance, and social services. However, the actual fiscal contribution may be constrained if investment incentives are excessive or if enterprises operate in sectors with limited local value added.

Limitations and Challenges of FDI

Despite its positive contributions, FDI in Say Nha Bu Ly Province faces several limitations that reduce its developmental effectiveness.

First, investment distribution remains uneven. FDI is concentrated in a limited number of sectors and locations, particularly those associated with natural resources, energy, and industrial production. This concentration means that many areas and sectors within the province benefit only indirectly or weakly from foreign investment. Agriculture, small-scale manufacturing, local services, and community-based tourism have not fully attracted high-quality foreign capital. Uneven distribution also creates the risk of dualistic development, where foreign-invested sectors grow faster than the domestic local economy.

Second, technology transfer remains limited. Although FDI can theoretically promote technological upgrading, the actual transfer of technology to local firms and workers in Say Nha Bu Ly appears modest. Many foreign-invested projects operate with technology and management systems controlled internally by foreign firms. Local firms often lack the capacity to absorb, adapt, or replicate these technologies. As a result, the technological spillover from FDI to the wider local economy remains weaker than expected.

Third, the quality of local labor remains a major constraint. FDI projects often require workers with technical, managerial, and professional skills. However, the local labor force is still limited in terms of vocational training, technical capacity, foreign language skills, and industrial working habits. This reduces the ability of

local workers to access higher-value positions in foreign-invested enterprises. In some cases, investors may need to bring skilled workers from outside the province, which limits the employment and knowledge-transfer benefits for the local population.

Fourth, environmental concerns represent an important challenge. Since a significant share of FDI is linked to natural resources, hydropower, agriculture, and industrial activities, investment may generate environmental risks if not properly regulated. These risks include land-use changes, pressure on natural resources, pollution, and impacts on local communities. Without effective environmental governance, FDI may produce short-term economic gains while creating long-term ecological and social costs.

Fifth, spillover effects remain weak. The linkages between foreign-invested enterprises and domestic firms are still underdeveloped. Local suppliers often lack the capacity to meet the quality, scale, and delivery requirements of foreign firms. As a result, foreign-invested enterprises may rely heavily on external supply chains rather than local inputs. This limits backward linkages, technology diffusion, and the development of supporting industries. Weak spillover effects reduce the long-term contribution of FDI to local economic transformation.

Discussion

The findings suggest that FDI has made an important contribution to local economic growth in Say Nha Bu Ly Province, but its impact remains uneven and incomplete. This pattern is consistent with the broader literature on FDI in developing economies. FDI can promote growth by increasing capital accumulation, expanding production, creating employment, and supporting industrial restructuring. However, these benefits are not automatic. They depend on the institutional environment, infrastructure quality, human capital, and the ability of local firms to absorb knowledge and participate in supply chains.

From the perspective of Dunning's OLI paradigm, Say Nha Bu Ly has certain location advantages, including natural resources, agricultural potential, and opportunities for energy and infrastructure development. These advantages help explain why foreign investors are interested in the province. However, location advantages based mainly on natural resources may attract resource-seeking FDI rather than efficiency-seeking or innovation-oriented FDI. This partly explains why FDI in the province is concentrated in a narrow range of sectors and why technology transfer remains limited.

From the perspective of endogenous growth theory, FDI should contribute to long-term growth through technology transfer, productivity improvement, innovation, and human capital development. In Say Nha Bu Ly, FDI has contributed to capital formation and industrial output, but its contribution to innovation and productivity upgrading remains constrained. The main reason is that the province's absorptive capacity is still limited. Weak human capital, inadequate vocational training, and underdeveloped local enterprises reduce the ability of the local economy to internalize the benefits of foreign investment.

Spillover theory also helps explain the mixed results. The high share of FDI in industrial production suggests that foreign-invested enterprises are important growth actors in the province. However, strong FDI presence does not necessarily mean strong spillover effects. Spillovers require interaction between foreign and domestic firms, labor mobility, supplier development, and institutional support. In Say Nha Bu Ly, these mechanisms remain weak. Therefore, FDI contributes significantly to direct output but less strongly to broader local capability building. Compared with several ASEAN economies such as Vietnam, Thailand, and Malaysia, the FDI experience of Say Nha Bu Ly remains at an earlier stage of development. In more advanced ASEAN economies, FDI has increasingly been linked to manufacturing networks, export-oriented industries, and global value chains. In Say Nha Bu Ly, however, FDI remains more closely associated with resource-based and infrastructure-related sectors. This difference reflects variations in infrastructure, market size, labor quality, industrial policy, and institutional capacity.

The results also show that the developmental role of FDI should be assessed not only by the volume of investment but also by its quality. A province may attract foreign capital, but if investment is narrowly concentrated, weakly connected to domestic firms, and environmentally risky, its long-term development effect may be limited. Therefore, the key policy question is not simply how to attract more FDI, but how to attract better FDI and how to integrate FDI into the local development strategy.

In this regard, Say Nha Bu Ly needs to shift from a quantity-oriented approach to a quality-oriented FDI strategy. Such a strategy should prioritize projects that generate stronger local linkages, create skilled employment, support technology transfer, protect the environment, and contribute to sustainable industrial restructuring. It also requires improvements in infrastructure, vocational training, administrative capacity, investment monitoring, and post-licensing support.

Overall, FDI has been an important driver of local economic growth in Say Nha Bu Ly Province, particularly through capital formation, industrial production, employment, and infrastructure development. However, its broader developmental impact remains limited by weak technology transfer, insufficient labor quality, uneven distribution, environmental concerns, and weak spillover effects. These findings confirm that FDI can support local growth, but only when accompanied by effective governance, strong local absorptive capacity, and a coherent development-oriented investment policy.

Policy Implications

The findings of this study indicate that Foreign Direct Investment (FDI) has contributed positively to local economic growth in Say Nha Bu Ly Province through capital accumulation, industrial expansion, employment generation, and infrastructure development. However, the study also reveals several limitations, including uneven investment distribution, limited technology transfer, weak spillover effects, environmental concerns, and inadequate human resource quality. These findings suggest that the developmental effectiveness of FDI depends not only on the quantity of investment inflows but also on the

institutional, infrastructural, and socio-economic conditions of the host locality. Therefore, in order to maximize the benefits of FDI and promote sustainable local economic development, several policy implications should be considered.

Improve Investment Environment

One of the most important priorities for Say Nha Bu Ly Province is the improvement of the local investment environment. A stable, transparent, and investor-friendly business environment is essential for attracting high-quality foreign investment and enhancing investor confidence. Although Laos has implemented various economic reforms and investment liberalization policies, administrative inefficiencies and institutional constraints continue to affect investment activities at the provincial level.

The provincial authorities should continue simplifying administrative procedures related to investment licensing, land access, taxation, customs clearance, and business registration. Reducing bureaucratic complexity and improving procedural transparency would help lower transaction costs for investors and increase the competitiveness of the province in attracting FDI. In addition, local authorities should strengthen policy consistency and minimize regulatory uncertainty in order to create a more predictable investment climate.

Furthermore, investment promotion strategies should become more selective and development-oriented. Rather than focusing solely on increasing the number of investment projects, the province should prioritize projects that generate high value-added activities, technological upgrading, environmental sustainability, and stronger linkages with local enterprises. Targeted investment promotion can help attract investors that are more compatible with the province's long-term development objectives.

Upgrade Infrastructure

Infrastructure development remains a critical condition for improving the attractiveness and effectiveness of FDI in Say Nha Bu Ly Province. The findings of this study show that inadequate infrastructure continues to constrain investment activities and limit the province's ability to integrate into regional and global production networks. Weak transportation systems, insufficient logistics capacity, unstable electricity supply in some areas, and underdeveloped digital infrastructure increase operational costs and reduce investment efficiency.

Therefore, the provincial government should prioritize investments in transportation infrastructure, including roads, bridges, logistics systems, and regional connectivity networks. Improved transportation infrastructure would facilitate the movement of goods, labor, and services while strengthening economic linkages between the province and other regions. Infrastructure development would also enhance access to domestic and international markets, thereby increasing the attractiveness of the province to foreign investors.

In addition, digital infrastructure and communication systems should be upgraded to support modern business activities and investment management. In

the context of digital transformation and globalization, reliable telecommunications and internet systems are increasingly important for investment competitiveness. Expanding infrastructure development through public-private partnerships and coordinated investment planning may help mobilize additional resources for long-term development.

Develop Human Resources

Human resource development is another essential factor in improving the effectiveness of FDI and promoting sustainable local economic growth. The study findings indicate that the limited quality of local labor remains one of the major barriers to maximizing the benefits of foreign investment in Say Nha Bu Ly Province. Although FDI creates employment opportunities, many local workers still lack the technical skills, professional qualifications, and managerial capabilities required by foreign-invested enterprises.

To address this issue, the province should strengthen vocational education, technical training, and workforce development programs that are closely aligned with labor market demands and investment priorities. Cooperation between educational institutions, local authorities, and foreign-invested enterprises should be encouraged in order to design training programs that provide practical industrial skills and improve employability.

In addition, human resource policies should focus not only on basic labor skills but also on technological capacity, foreign language competence, digital literacy, and management training. These capabilities are increasingly important for improving labor productivity and enhancing the absorptive capacity of the local economy. A more skilled labor force would enable local workers and enterprises to participate more effectively in production networks and benefit more substantially from technology transfer and spillover effects associated with FDI.

Enhance Local Governance

The effectiveness of FDI is closely linked to the quality of local governance and institutional capacity. The study findings suggest that weak administrative coordination, limited investment monitoring, and insufficient post-investment support reduce the developmental impact of FDI in Say Nha Bu Ly Province. Consequently, strengthening local governance should become a central component of the province's development strategy.

Local authorities should improve institutional coordination among government agencies responsible for investment management, infrastructure planning, labor development, environmental protection, and industrial promotion. Better coordination would enhance policy implementation and reduce administrative fragmentation. At the same time, local governments should strengthen investment monitoring mechanisms to ensure that foreign-invested projects comply with legal regulations, environmental standards, labor obligations, and development objectives.

Transparency and accountability should also be enhanced in investment governance. Investors are more likely to commit long-term capital in

environments characterized by legal certainty, fair competition, and institutional reliability. In addition, effective governance can help reduce corruption risks, improve public trust, and ensure that investment benefits are distributed more equitably across society.

Moreover, local authorities should provide stronger post-investment support services for foreign investors and domestic enterprises. Investment attraction should not end at the licensing stage; rather, continuous support is necessary to facilitate business operations, resolve implementation difficulties, and strengthen linkages between foreign-invested enterprises and local firms.

Promote Sustainable and High-Quality FDI

The findings of this study demonstrate that attracting FDI alone is insufficient to guarantee sustainable economic development. The long-term developmental impact of FDI depends largely on investment quality, technological content, environmental sustainability, and local economic integration. Therefore, Say Nha Bu Ly Province should gradually shift from a quantity-oriented investment strategy toward a quality-oriented FDI approach.

In particular, the province should prioritize environmentally sustainable investment projects that minimize ecological damage and contribute to green economic development. Environmental standards and regulatory enforcement should be strengthened to prevent unsustainable resource exploitation and environmental degradation. Sustainable investment policies are especially important in provinces with significant natural resource potential, where uncontrolled investment activities may generate long-term environmental and social costs.

Furthermore, the province should encourage FDI projects that create stronger linkages with domestic enterprises and local supply chains. Policies promoting local supplier development, industrial cooperation, and technology-sharing mechanisms can help increase the spillover effects of foreign investment. Supporting industries and small local enterprises should also receive institutional support to improve their capacity to participate in production networks associated with foreign-invested firms.

Finally, investment attraction strategies should focus on sectors with high value-added potential, including agro-processing, renewable energy, sustainable tourism, manufacturing, and modern services. Diversifying investment sectors would reduce dependence on resource-based industries and contribute to more balanced and resilient economic development.

Overall, the policy implications of this study emphasize that the effectiveness of FDI depends not only on investment inflows but also on the broader institutional and developmental conditions of the host economy. By improving the investment environment, upgrading infrastructure, developing human resources, strengthening local governance, and promoting sustainable high-quality investment, Say Nha Bu Ly Province can enhance the developmental contribution of FDI and achieve more inclusive and sustainable economic growth in the future.

Conclusion

This study examined the role of Foreign Direct Investment (FDI) in promoting local economic growth in Say Nha Bu Ly Province, Laos, during the period 2010–2025. The findings indicate that FDI has made significant contributions to the province's economic development through capital accumulation, industrial expansion, employment creation, infrastructure improvement, and government revenue generation. Foreign-invested enterprises have played an important role in supporting economic restructuring and expanding productive activities, particularly in sectors related to energy, agriculture, processing industries, and services. These findings confirm that FDI has become an important external driver of local economic growth in developing provincial contexts.

However, the study also reveals that the developmental effectiveness of FDI in Say Nha Bu Ly Province remains constrained by several structural and institutional limitations. These include uneven investment distribution, limited technology transfer, weak labor quality, insufficient local industrial linkages, environmental concerns, and relatively weak spillover effects. Although FDI has contributed positively to economic output and investment expansion, its broader impacts on innovation, technological upgrading, and sustainable local transformation remain limited. This suggests that the quantity of FDI inflows alone is insufficient to ensure long-term development unless accompanied by stronger absorptive capacity, effective governance, and strategic investment policies.

The study contributes to the existing literature in several important ways. First, it provides a provincial-level analysis of the relationship between FDI and economic growth in Laos, an area that has received limited scholarly attention in previous research. Second, the study integrates multiple theoretical perspectives, including Dunning's OLI paradigm, endogenous growth theory, and spillover theory, to explain the multidimensional impacts of FDI on local economic development. Third, the study offers updated empirical evidence regarding the opportunities and challenges associated with FDI in a developing regional economy.

The policy implications of the study emphasize the importance of improving the investment environment, upgrading infrastructure, developing human resources, strengthening local governance, and promoting sustainable and high-quality FDI. A development-oriented investment strategy focusing on technological upgrading, environmental sustainability, and stronger local linkages is essential for maximizing the long-term benefits of foreign investment.

Despite its contributions, the study has several limitations. The research primarily relies on secondary data and focuses on a single province, which may limit the generalizability of the findings. In addition, the study mainly examines macroeconomic and regional trends without extensive firm-level analysis. Therefore, future research could expand comparative studies across multiple provinces in Laos, incorporate primary survey data, and explore the micro-level impacts of FDI on domestic enterprises, labor productivity, technological learning, and sustainable development outcomes.

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