

Abstract of Doctoral Dissertation

Domestic Savings Mobilization: A Tool for Closing Investment-Savings Gap in Lao PDR

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Although the country has experienced high economic growth over the past decade, the growth has been fragile owing to substantial external financial resources and capital to accommodate current account deficit which allows I-S gap to be filled. Too much reliance on external capital and financial resources, especially short-term capital flows, is not only sustainable but also highly vulnerable to the crises. Laos' domestic savings rate has been relatively low, and the investment-savings gap has been largest compared with other ASEAN countries.

This research investigates the potential sources of domestic savings mobilization and how the savings are mobilized based on institutional framework and lessons drawn from experiences of Japan, Singapore, and Malaysia. This is the first attempt for Lao PDR to shed light on mobilizing domestic savings and allocating the mobilized savings to prioritized investments. Additionally, impacts of different categories of foreign capital net inflows on economic growth and domestic savings are examined. Therefore, this research examines the impact of different categories of foreign capital net inflows (FDI, Portfolio investment, and other investment) as well as domestic savings on economic growth in 6 ASEAN countries, namely Indonesia, Malaysia, Philippines, Singapore, and Thailand, and Lao PDR for the periods 1990-2015 and 2000-2015, based on regression analyses, utilizing Panel and Cross-section data. The results point to the importance of domestic savings to be effectively mobilized and channeled into productive and prioritized investments to attain sustainable economic growth.

Mobilizing domestic savings in Lao PDR is not easy feat. Government should take initiatives and actions on a broad range of areas, including improving access to formal financial services, providing appropriate financial services for the rural poor and cheap credits to SMEs, the core sector of the economy. Moreover, greater efforts are needed to establish the policy-based financial institution for the development of prioritized investments in each phase of development. Besides, necessary regulatory and enforcement frameworks are required to ensure that any mobilized financial resources are channeled into specific national priorities that will advance inclusive and sustainable economic growth.