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## 主 論 文 の 要 旨

論文題目

Can Global Value Chains (GVCs) Promote Local Small and Medium-sized Enterprises (SMEs) and Pro-poor Development in Laos?

グローバル・バリュー・チェーンはラオスの現地中小企業振興およびプロプアな開発に資するのか？

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## 論 文 内 容 の 要 旨

### 1. Introduction

All development aspects should be responsive to inclusive development, especially for poor people and local contexts. For example, they may maximize pro-poor benefits through economic integration schemes to spur socio-economic development such as Global Value Chain (GVC) participation. However, there are tremendous challenges, in particular, income distribution, local SMEs, and working conditions. GVCs can bring about benefits and detriments in developing countries. The benefit of GVCs depends on the absorptive capacity of the local firms, the local business environment, and the type of GVC.

The Government of Laos (GoL) emphasizes the attraction of domestic and foreign investment to accelerate economic growth through economic integration against poverty. Green Growth and Green Industry policies are adopted to promote high value-added products with sustainability. SMEs desire outstanding growth and links with large firms and MNCs in Laos. However, only 12.10% of Lao businesses could access financial institutions, and approximately 10.05% of firms utilize computers for information and technology (IT); thus, there is low productivity along with a lack of local institutional support. As a result, less than 2% of businesses in Laos can integrate into global markets. Therefore, studies relating to the optimization of economic integration are still vague and require further study to ensure local benefits.

This dissertation aims to address four main research questions. (1) Can GVCs promote local small and medium-sized enterprises (SMEs) in several dimensions and pro-poor development in the case of Laos? (2) How and when do GVCs promote SMEs? (3) How can SMEs participate in GVCs and climb up to high value-added activities to maximize benefits? (4) What could be the patterns of business integration that can serve as excellent samples of GVC participation to bring about pro-poor and sustainable outcomes in Laos? The data sources are derived from two parts. The first part is derived from the author and team survey of 135 firms with case studies as a result of the original data collection. The second part comes from the Economic Census conducted in 2013 with 124,873 firms accounting for 75% of the total businesses in Laos.

## **2. The roles of GVCs in promoting SMEs and enhancing gains from GVCs**

The impact of GVC participation on business performance, in particular, SMEs, is examined consisting of productivity, total sales, current assets, employment, innovation, and internal firm capacity (human capital) by applying 2SLS to 135 firms. The results indicate that GVCs have a positive impact to total sales, assets, employment, innovation, and human capital. However, labor productivity cannot be explained by GVC participation with a dummy in both OLS and 2SLS regression. This reflects the reality that SMEs with relatively large employment size engage in low-productivity and labor-intensive work. However, firms' experiences in GVCs are very significant in explaining adjustments and improvements among SMEs' productivity. These positive changes are triggered by innovations and learning-by-exporting that enables them to acquire competitiveness and international standards.

Innovations are imperative for local firms to gain competitiveness in the global market and to ascend the ladder for higher value-added activities. Crucial factors for the local firms' innovation capacity improvement are influenced from externalities; namely, local institutional support, training, and technology transfer, rather than internal factors such as firm size and firm absorptive capacity.

## **3. The determinant of SME participating in GVCs**

How SMEs can participate in GVCs is questionable for developing countries, especially Lao SMEs. Therefore, the determinant of SMEs engaging in GVCs is examined by applying a logit model with the author's survey (135 firms). The findings show that firm size matters for GVC participation along with ownership, but they are not the full solutions for SME internationalization. The quality of local institutions is one of the fundamental factors for SME participation in GVCs. Furthermore, the specific knowledge of CEO, sector, and good connection with business partners constitute factors for SMEs' tapping into global business.

## **4. The roles of GVCs in promoting pro-poor development**

This study employed a nation-wide data set to examine the impact of GVCs on worker's wages and health care accession by applying the Mincer earning function and a logit model. The finding shows that most businesses have limited access to health care service (HCS), while firms participating in GVCs and a form of the joint venture and foreign firms are more likely to be involved in health care service and offer higher wages. The results suggest that the main sectors that have good working conditions, in terms of average wages and health care are the following: financial business, utilities, science and technical service, mining, ITC, construction, health service, logistics, education, and public service. In contrast, accommodations and restaurants, industries (food, beverages, and tobacco), husbandry and fishery, along with textile and apparel, have poor working conditions. The finding also indicates that formal businesses have better working condition relative to informal businesses. Meanwhile, firms with a higher proportion of female workers seem to have unfavorable working conditions.

## **5. Conclusion**

This dissertation asserts that GVCs have a positive impact on a firm's total sales, current assets, employment, innovation, and internal firm capacity (human capital). However, it did not observe the impact of SMEs in GVC participation immediately on productivity differences between the two groups. This elucidates the reality that SMEs with relatively large employment size engage in low-productivity and labor-intensive work. Local SMEs can gain from GVCs, but it takes time. To optimize benefits and move up to high value-added activities, local firms should invest actively in **INNOVATION** and **GVC upgrading** (product, process, function, chain, and market). For faster SME development, local institute support is inevitable to facilitate firms being exportable, innovative, and able to overcome behind-border-trade barriers. GVCs, along with foreign firms, provide better wages and health care, but not in all sectors; it depends on tiers of chains (low or high stage of value added) and the development stage of industries.

## 6. Policy Implications

In the short term, SMEs cannot immediately increase firm capacity in term of the number of employees and assets. One option is to potentially increase firm size through cluster constitution by sharing information and thus creating a network-based scale economy. This solution can assist SMEs to bargain and negotiate with large firms for being a part of the business partnership.

In the long run, local firms should be eager to climb up to higher value-added activities and diversify by emphasizing more innovation and GVC upgrading. It is essential for policymakers and entrepreneurs to understand the GVCs' upgrading contexts. Firms, along with the government, should scrutinize what categories are appropriate in terms of process upgrading, product upgrading, functional upgrading, chain upgrading, or market upgrading.

The government should intervene in local SMEs' GVC participation during the initial stage with appropriate facilities. The GoL should ensure well-executed, effective programs and provide accessible innovation knowledge to all SMEs.

Workers' right must be protected with a better chance of upgrading skills to enhance sustainable development and productivity. Therefore, keen selective sectors for inclusive development and a pro-poor development strategy through SMEs, industry, and FDI are necessary to welcome firms offering good working conditions and shift from natural resource to non-resource sectors gradually.

In contrast, sectors that provide poor working conditions, namely, accommodations and restaurants, industry (food, beverages, and tobacco), husbandry and fishery, along with textile and apparel, which employ a significant amount of employees with a high share of female workers, must be improved. The GoL should reevaluate how to improve concerns and evaluate whether workers have been treated fairly with collective stakeholders to ensure Green Growth and Green Industry policies are well adopted. Simultaneously, firms themselves should undertake to follow labor standard requirements and regulations.

The GoL should play an important role to introduce best practice and well-guided cluster formation for SMEs. Behind-the-border issues, unclear corporate tax collection, high tariffs, lack of government support, inefficient cooperation among line-government-agency, and complicated import-export procurements need to be resolved. Finally, the finding indicates that formal businesses have better working condition relative to informal-businesses. In order to convince informal firms (65%) to become formal-businesses, GoL should improve the business climate by reducing procedures and costs of doing business according to the suggestions of this study along with the World Bank report.

### Summary of Findings and Policy Recommendations

Research Questions	Findings	Policy Recommendation
Can GVCs promote local SMEs and pro-poor development in Laos?	GVCs affect a firm's total sales, current assets, employment, innovation, and internal firm capacity (human capital).	Promote "Open-door" policy effectively.
	GVCs provide better working conditions in term of workers' wages and health care accession.	
	GVC participation cannot explain the difference between SMEs productivity in the two groups.	Ensure local workers are provided knowledge building capacity and training.
	Firms' experiences in GVCs are	

	significant in explaining adjustments and improvements among SMEs' productivity.	
How and when do economic integration as a form of global value chains promote SMEs?	Innovations and learning-by-exporting enables SMEs to acquire competitiveness and international standards	GoL should ensure effective well-executed programs and provide innovation knowledge with accessible information to SMEs.
		An efficient innovation policy must address SMEs' concerns.
	SMEs take time to gain from GVC participation, in particular, productivity improvement.	The government should intervene in the initial stage of GVC participation.
How can SMEs participate in GVCs and climb up to high value-added activities to maximize benefits from GVC participation?	Firm size, ownership, the quality of local institutions, the specific knowledge of CEOs, sector, and good connection with business partners enhance SMEs participating in GVC.	Remove behind-border-trade barriers.
		Facilitate cluster constitution.
	Innovations are imperative for local firms to gain competitiveness in the global market and to move up the ladder for higher value-added activities.	Local firms should be active innovate and upgrade themselves along with appropriate support from stakeholders.
What could be the patterns of business integration that can serve as excellent samples of GVC participation that bring about pro-poor and sustainable outcomes in Laos?	GVCs, along with foreign firms, provide better working conditions, but not in all sectors.	Select sectors require shifting from natural resource to non-resource sectors gradually.
		Workers' right must be monitored and protected in some sectors.
		Improve better business climate by reducing the number of procedures and costs of doing business.

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