

From Plan to Market in Laos, 1975-95: a Study of Transition and its Aftermath

Report for Sida

(Draft)

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Ways of saying the same thing:

To teach your grandmother to suck eggs (English)

To teach a crocodile to swim (Lao)

To wave an axe in the face of a craftsman (Vietnamese)

The author would like to thank those people in Laos and elsewhere who have helped him to carry out this study, which remains unfinished. He would like to thank in particular the State and Party School and the Swedish Embassy. He apologises for any mistakes that remain.

Summary and Recommendations

1. The process of transition in Laos has predominantly been of a 'top-down' nature, with the main areas of contest and initiative centred around the senior leadership levels of the party and state. This has combined with a concentration of political power and authority at the same site, so that when conditions were right it was possible to adopt programs of reforms that rapidly led Laos away from the old neo-Stalinist system.
2. Whilst economic interests played a role, these were mainly to do with various patterns of trade; limited external trade was liberalised first, followed later by inter-provincial trade.
3. Lao party dogma has been radically revised and re-theorised. The shift away from a stress upon 'relations of production' appropriate to neo-Stalinism has seen adoption of a rather holistic and open-ended approach to institutional change. In this the party no longer pretends to possess prior knowledge about the detail of social and economic institutions; instead, it sees itself and the Lao socialist project as constructing a frame within which social practice will evolve. This frame involves various ideas, including the need to maintain party rule, the importance of Rule by Law and above all the need to develop the country. There is a clear stress on rural development as being of top priority, which implicitly aims to create a political counterweight to the rising influence of urban and foreign capital.
4. The survival of a culturally distinct Lao state is of great importance at present; this can be seen as an adaptation to the expanding and many-sided external relations with China, Vietnam and Thailand.
5. Foreign policy advice, of which the World Bank is taken as the main example, tends to be on the one hand both confident in its stance and on the other less holistic and pragmatic than the party's current position. Policy dialogue therefore risks becoming based upon unshared assumptions, and therefore less productive. There is a clear tendency towards a macro-economic bias in external analyses. A crucial area is the discussion regarding the changing participation of Lao farming families in the wider society and economy. The Bank's position tends to view product markets as a 'black box' (here given to mean a rather mysterious process by which things simply happen) with little focus upon either the cultural or cognitive factors influencing the 'supply side', or the interaction between 'state' and 'civil society' required to ensure that markets are of high quality. Evidence of the strongly matrilineal and matrilineal structure of lowland Lao families may point to a slower rather than faster pace of supply-side change in the rural economy, but has not, in a good example of 'gender blindness', so far as can be told, been integrated into the general policy debate.
6. The Lao party's analysis is very similar to certain positions taken by the Vietnamese party. However, processes of change in the two countries are very different. The liberal and 'open-ended' view of the emergence of social institutions is perhaps more appropriate to societies where these come up with vigour, which is not on the whole the case in Laos. Vietnamese experience of the transition to a market economy has been strongly characterised by 'bottom-up' processes. The Lao population appears to exploit opportunities at a slower pace than the Vietnamese.
7. It follows that the Lao are likely and correctly to want to use their state power and scope for initiating change to attempt a wide range of development policy initiatives. These will be

influenced by external advice (some of it misguided) and by the underlying sense that institutions will evolve and emerge more or less spontaneously (also to a certain extent misguided). In addition, rural conditions in Laos are extremely diverse, and the capacity (but not the authority) of the Lao state subject to distinct limits. Some of these policies will therefore come adrift. At that point it will be highly advisable that lessons learnt be as good as possible, and that intellectual ownership of the process remain Lao. It would therefore perhaps be useful if the following were to occur:

- ◆ regular analysis 'summings-up' (**tong ket**) of the situation that point out the different philosophical positions in the discussion; nobody, apart from the spiritual amongst us, has access to absolute truth.

- ◆ more discussion of the nature of dynamism and initiative, indeed its measurement (**do do chu dong**) in the rural areas, and to what extent increased market participation is connected with education, welfare services, market quality, consciousness and so on.

- ◆ more discussion of the quality and meaning of markets, so as to get away from the assumption that they are a 'black box', requiring a neutral stance from both the state and the population.

8. Finally, it is important to bear in mind that the Lao party appears to have gone through a profound rethink, and now possesses a rather powerful sense of what is happening to Laos. It is aware of the limits within that of any a priori thinking about the direction social institutions will take. This is clearly a heuristic and open-ended view. It will require corresponding efforts to exploit the great diversity within Laos, and the resulting wide variation that will arise in ways of exploiting the opportunities offered by the new economic system.

Preface

This paper presents preliminary findings. The study commenced formally in mid 1993, and a number of planning visits were necessary before real work could begin in mid 1994. During this time the importance of some of the six particular issues identified in the original proposal has declined, and a further refinement should occur as a guide to fieldwork.

The paper concentrates upon the process of transition in Laos in general, and in particular upon:

- ◆ Lao understanding of this process, and how that understanding has occurred;
- ◆ an 'analysis' of the transition that tries to learn something from its history;
- ◆ conclusions that may be of importance to understanding the present 'post-transitional' situation.

In doing so, the paper has to deal with two areas that contain ideas and terms that may be somewhat unfamiliar:

- ◆ the way in which Marxist-Leninism understood the old 'Stalinist' system, and understands what is now happening.
- ◆ the nature of 'transition' - that is, what happens during the period between the old system and the emergence of a market economy.

The author is acutely aware that these two areas can, and often do, create difficulties for the reader. He has tried his best to make these sections as easy to understand as possible. To some extent problems that remain are due to his own shortcomings and lack of clarity. To some extent, however, they simply reflect the distance between some parts of Lao reality and the world of Western industrialised societies, a gap that we are trying to bridge somewhat in order, we hope, to help the Lao people to develop their society.

As the saying goes - "understanding is limited but misunderstanding limitless."

Adam Fforde

Introduction - Observations on 'Conservative' Transition Processes

It is almost trite to point out that the period since the early 1980s has seen two quite different types of transition to market-oriented economic systems: those of Eastern Europe and the ex Soviet Union, where major political changes have occurred prior to attempts to change economic systems, and those that could be called 'conservative' transitions in countries that are still ruled by Communist Parties, of which China, Vietnam and Laos are the obvious examples. Without any overt acceptance of any variant of capitalism as a desired outcome, in these countries the shift of economic mechanism was of its necessity an explicit process of *transition*. That is, that it was, for various reasons, impossible to countenance a sudden discrete shift to a market economy, and so the logical alternative - a 'step-by-step' process, had to be adopted. This meant that there had to be some sort of transitional system, which had, naturally enough, to blend elements of the old and new, of 'plan' and 'market' and that all three ruling Communist Parties had to acquire experience of such situations. A major argument of this paper is that this situation - quite apart from cultural tendencies to view reality in certain ways - has generated styles of social activity on the part of governments and ruling parties that are essentially to do with the management of change under uncertainty.¹

The economic underpinnings of these processes will be discussed below. However, the main point to be made from the outset is that certain key issues, which are not adequately discussed in much of the literature (especially the 'applied' literature of aid donors), are of importance:

- ◆ the key issue of pace: at what speed(s) will events unfold? Without a view of this, it is impossible to allocate scarce human and other resources to where they are most needed.

- ◆ what can reasonably be said about the way in which understanding and the ability to grasp events will change?²

- ◆ how will social forces evolve, changing the national polity and so the capacity for those working actively to develop institutions to marshal support and confront (or perhaps temporarily to avoid) opposition?

Such considerations are commonplace in historical discussions about comparable stages in

¹ The philosophical basis for this is discussed below; at root, it appears strongly linked to the effects upon those trained in neo-Stalinist Marxism-Leninism of the need to abandon the notion that revolutionary change to the relations of production (i.e. 'official institutions') based upon a priori conceptualisations is the basis of socialist construction. Instead, there is a return to a more dialectical view, within which institutions evolve as part of a relatively autonomous historical process, and are therefore not clearly known or understood before they emerge. This implies an 'open' approach to society, in dogmatic terms necessarily tolerant of social forces outside the party's control, for without knowledge what would such a control base itself upon?

² See footnote # 1. As Bertrand Russell pointed out in his popular works, Communism (unlike Fascism) is essentially rational in its self-criticism (even if many would disagree with the criteria applied), so that for ruling Communist Parties 'understanding' should not be separated from underlying philosophical issues.

the history of other countries;³ what is perhaps surprising is not that they should be part and parcel of what state-building is about in the above mentioned countries, but that such thinking should have been so easily abandoned (hopefully largely temporarily) in Central and Eastern Europe in the 'rush for the market' after the fall of Communist regimes. But that is another question that cannot be addressed here.

This paper will not touch further upon experiences in China. Its focal point will be Laos, with a comparative perspective focused upon Vietnam. This view is particularly interesting because of the continuing close links between the Communist Parties⁴ of both countries, the rather well-developed nature of Vietnamese and Lao thinking about processes of change and transition, and the very different conditions in Vietnam and Laos. As will be seen, these differing conditions have at times favoured Vietnam and at others, Laos. Moreover, as in any process, differences and similarities provide food for thought. There is a nice historical irony in the fact that by the mid 1990s these two countries, ruled by Communist Parties that had in the mid 1970s been thoroughly neo-Stalinist, should have become preoccupied with rather normal development issues: the 'transition' was over, and the two parties were still in power.⁵

The next section will discuss what appear to the author to be common elements to transition processes in such 'conservative' regimes. This should not be thought of as a 'theory' of transition, since such processes are far too diverse and hard to understand. The following section then draws upon this discussion to look at the post 1975 history of both countries in a comparative perspective. The penultimate section looks at the current situation in terms of the 'aftermath' to the transition, and covers various topics that are normally of importance to development. The final section draws conclusions from the above for likely future developments.

³ 'One of the most delicate tasks that faced the Tudors, therefore, was the creation and education of a new ruling class and the retention of its loyalty. The new men had to be prevented from moving up too fast or too far. The drive and efficiency in economic matters which brought them their wealth and power also made them harsh to their tenants and contemptuous of the common people' - Christopher Morris 'The Tudors', London 1955 pp. 25-26. The Tudors ruled Great Britain and Ireland from 1485 to 1603, during the period of transition from feudalism to modern times; William Shakespeare lived from 1564 to 1616.

⁴ The Lao Party is called the Lao People's Revolutionary Party; that in Vietnam the Vietnamese Communist Party.

⁵ Thus Yves Bourdet, 1994, p.20 - 'The persistence of dualism in Laos and, on the other hand, the rather satisfactory macro-economic results suggest that the problems faced by Laos today are more of a development than transition character'.

1. Transition and its Characteristics

Basic processes

The starting point

Communism and Marxism-Leninism are as much ideas as anything else. Systematic unimplementability of policies have been endemic issues in most developing countries that have adopted Communist ideologies.⁶ It is therefore useful at the start to make a distinction, on the one hand between the development *program* adopted by most Communist developing countries, and on the other the *result* in terms of the 'real institutions' (*the che*)⁷ that arose. The former would have been embodied, perhaps with some modification, in the 'official institutions' (*thiet che*) laid down in the formal documents of the party and state. The latter may be described as 'reality' (*cuoc song*), and is often perceived by party theoreticians as operating according to 'laws of motion' (*quy luat*) that are ignored by the authorities and the party at their peril.

In more conventional (or rather European) Marxian terms, neo-Stalinism referred to a set of institutions that changed the relations of production in the attempt to create subsequent change in the forces of production. 'Misunderstanding' of the nature of the relationship between these two meant that in practice, because of the 'backward' state of the forces of production in developing countries, outcomes were not as intended. This poses the question as to just what, in these ideological terms, actually happened in Communist developing countries that adopted the then orthodox development program. This has not really yet been answered in detail, but one answer seems to be that there was a systematic tension, or misarticulation, between the 'official institutions' and 'underlying reality'.⁸ This is a perception of some significance for just how national social and economic development will occur once the old orthodoxy has been abandoned.

It is also useful to make a distinction between the 'old system' (*co che cu*), as understood in terms of the development program, and the 'old way' (*cach lam cu*), understood as the results of the attempt to implement that program 'in reality' - 'all is not as written in the text books'.

The neo-Stalinist 'model'

The textbooks of the mid 1970s, for those Communist developing countries that did not embrace the extremes of Albania or Maoist China, were reasonably straightforward. They combined adherence to a simplistic identification of development as being the absolute absence of fixed industrial assets with the particular position that the institutions created

⁶ Thus the perhaps apocryphal statement attributed to a Soviet diplomat that the Lao Road to Socialism was a 'long one'.

⁷ The author does not speak Lao; much of the theoretical discussions held in Laos were carried out in Vietnamese, whose technical terms are given here for clarity. Most are Chinese in origin.

⁸ This point of view started to emerge in Vietnam with increasing force in the late 1980s and is now quite widespread in certain party circles.

during the Stalinist period in the Soviet Union were the best way of overcoming that constraint. It is perhaps worth noting that the former idea was common in many capitalist countries after the Second World War, with 'gap' models of growth, Hicksian Keynesianism and the Marshall plan all placing little stress upon what later became known as 'supply-side' arguments. However, it was the institutions of neo-Stalinism that really made the difference. These combined two main elements:

- ◆ profound change to the micro level production system: nationalisation of large-scale industry; collectivisation or otherwise directly controlling small-scale industry; collectivisation of rural producers. These units were subject to strong control from above, so that what they produced, what they used to produce it and what they did with resulting output were all largely outside their control.
- ◆ administrative rather than market based distribution of a large part of current production, investment goods, foreign aid, trade and labour within the state sectors. The macro system was thus one of central planning.

As is well known, this apparatus could then be used to concentrate resources upon priority areas, which, given the definition of under-development, meant state industry. This meant that exchange ratios were usually set by planners to reduce state industrial input costs and create high reinvestable profits in the state sector: thus low real wages, low agricultural prices, an overvalued exchange rate and so on. The system had therefore to rely upon a certain degree of compulsion. Also, since the underlying exchange ratios within the economy were set at levels far from those that would have pertained in a market system, those on the 'short' end of the system usually spent much time and effort pushing suppliers - through queues, 'stroking', screaming down telephones (if they existed) and so on. As the economy became more complex, and the division of labour greater, so the bureaucratic mechanism required to allocate resources became more and more complicated. This 'central-planning' machinery, which had to replace the market, had to balance inputs and outputs for units within its sphere; the agricultural collectives were usually given procurement targets, perhaps with fertiliser or other input allocations through the plan.

However, whilst compulsion of this type was inherent in the system, a choice could be made as to whether and how much force would be used to enforce and protect the administrative resource allocation system. In the pure Stalinist form, extreme violence could be used against those who traded freely in goods (dollars, food etc.) for which the plan claimed a monopoly.⁹ In others, where for whatever reason the attitude of the authorities was 'softer', a greater emergence of parallel, 'grey' or 'outside' transactions could occur. The term 'neo-Stalinist' helps to encompass this range.

However, whatever the extent of the use of violence to implement and then enforce the neo-Stalinist programme, countries adopting this approach to development were almost always 'closed' politically and socially. Leninism was the norm, implying the prohibition of alternative political organisations to the Party. The orthodox array of mass organisations

⁹ Other names are etched in the history of this particular unpleasant human experience - Pol Pot, Kim Il Sung and Mao amongst them.

combined with more or less strict ideological control through various mechanisms was designed to insulate the population from contact with the capitalist world.

External forces

For developing countries, the most important external force was clearly the availability of economic development assistance. Also, the form that this took, which was part of the state resource allocation system in the donor countries.

Thus whilst bilateral donor agencies in the West are essentially part of the donor state's disbursement system, albeit operating in areas subject to a second sovereign power, economic assistance within the socialist bloc was channelled through state planning agencies. Any recipient of aid had therefore to possess appropriate mechanisms, in the form of a state plan, administrative resource allocation procedures and so forth. These had to be staffed with officials who were versed in the techniques involved, with language competence and political reliability. Close party-to-party links made the relationship perhaps more similar to those that held between the United States and close allies such as Taiwan and South Korea in the 1950s than to typical donor-recipient relations as they later evolved in the West.¹⁰

Diversity within the socialist bloc was also of importance. Reformists could draw upon inner-party dissident thinking as a source of arguments and tactics in debate, as well as to access high-level trends in dogma.¹¹ The Sino-Soviet split again offered opportunities for developing particular local approaches to socialist construction. In the case of Indochina, Vietnam's peculiar position up until the late 1970s as a recipient of aid from both camps exemplifies this.

Stages and mechanisms of transition

The rapid sketch above of the nature of the neo-Stalinist system points to an important implication of its economic rationale - the creation of distributional relations designed to channel resources into priority areas. Various groups would come to depend upon these:

- ◆ state workers in economic units - SOEs, state farms, state forestry enterprises.
- ◆ state officials in the apparat.

A transition from central-planning would need, if it were not to run up against opposition, to address the interests of these groups. A sensible reform package would take account of what was possible.¹² Elsewhere, we have argued that central planning creates a particular type of

¹⁰ The difference can be seen in the particular tactics employed by multilateral agencies attempting to have similar influence but with far less power. To this extent the market-oriented institutions now emerging in Laos and Vietnam are more endogenous - more dependent upon domestic conditions.

¹¹ Throughout this report the term dogma is used without any pejorative intent; the party, like any organisation that maintains a unified and theoretically-founded position, uses certain formal procedures to establish and articulate that position.

¹² See Roland, 1994.

economic distortion, which we called 'plan distortion'.¹³ In this sense, human capital and other factors of production are allocated in ways that are distant from the positions they would occupy under a market system. It follows that if 'plan distortion' is large, then more of a reallocation of capital, land and labour will be needed.

In addition, the system created economic 'rents' *which could be accessed by other agents*. A typical example would be the theft by state workers of raw materials supplied at low prices by agricultural cooperatives to the state material supply system. Sold on the free market, high profits could be made. Another might be the illegal export onto world hard currency markets of mineral or other natural resources extracted by units within the state economy (e.g. state farms).

From this point of view the 'Leftist' fear that capitalism would grow 'hour-by-hour' from within the neo-Stalinist system if extreme caution was not exercised can be seen to have had some basis in truth. It is possible that these resources could form the basis for a 'primitive accumulation' of capital within and outside the socialist economy. Depending upon the political consequences, there could then be various outcomes, for example:

- ◆ active initiation of pressure for market-oriented reforms;
- ◆ support for market-oriented reforms initiated by other political powers;
- ◆ outright opposition to continuing Communist rule, perhaps in alliance with foreign powers;

The political forces referred to could include such groups as: state businesses reinvesting proceeds from 'extra plan' activities; foreign business groups in alliance with domestic state interests aimed at natural resource extraction; a partially decollectivised peasantry; and so forth. Much would depend upon the characteristics of the situation. However, it is possible to look at issues arising from the systematic appropriation of rents created by the old system in terms of a transition sequence.¹⁴

- ◆ the Pre-Stage - what happened before the 'official institutions' started to change?
- ◆ the Beginning of Transition - what happened to start the process off?
- ◆ the Transition itself - what were the main mechanisms of change? How did it end?¹⁵

¹³ De Vylder and Fforde, 'From Plan to Market: the Transition in Vietnam, 1979-94', forthcoming.

¹⁴ This is discussed further in De Vylder and Fforde, *op. cit.*

¹⁵ This paper follows the definition used in De Vylder and Fforde, which holds that in analytical terms the transition (in the strict sense of the term) is over when direct administrative resource allocation stops. I.e. when

- ◆ The 'Post-stage' - what were the dominant characteristics of the society and economy once the transition had been made? What is the 'path-dependence' - to what extent is the nature of the post-transition economy dependent upon the way in which it got there?

To these general points should be added important issues concerning the particular situation of each of the countries. For both Vietnam and Laos, 1975 saw the end of a long period of armed conflict. During that period the countries had both been divided, and the conflict was in some ways a civil war. This meant that the losers were in both cases those whose intellectual formation was in the ways and procedures of a market economy. For the newcomers to state power, debates over reform were often bound up with the issues of personal position and the value of personal knowledge under the one or other system. More fundamentally, blood had been spilt.

In both countries, these problems were also related to regional differences, and in Laos to ethnic matters. National reunification was therefore bound up with important social issues.

A second matter concerns the attitude taken towards the mass of the population, and the advisability of the use of pressure to attain socialist construction, when there is the possibility of further armed conflict. The hostility of the West, the application of the Brezhnev doctrine to Afghanistan, the position of China and Cambodia and so forth were all relevant points. Did they encourage a softer approach to the population?

Top-down or bottom-up?

To anticipate what is to come, it is widely accepted that whilst in Vietnam the transition to a market economy was primarily a 'bottom-up' process, in Laos it was the reverse.¹⁶ The question is of fundamental importance to the philosophical conclusions reached by the participants. However, it is not necessarily one's own experience that is drawn upon when conclusions are reached.

To this should be added the possible importance of personalities. The two men who occupied key leadership positions for important periods of the transition were the two party secretaries, Le Duan and Kaysone Phomvihane. Le Duan died in 1986 and Kaysone Phomvihane in 1992. Le Duan was subject to competitive political pressure from other powerful figures which became stronger as his extreme commitment to neo-Stalinism in the immediate post-war period became more and more contentious. The run-up to the important VIth Congress in 1986 cannot be analysed without reference to the political processes that saw Truong Chinh ascend temporarily to the post he had lost in the late 1950s before losing it to Nguyen Van Linh at the Congress. No comparable events surround the IVth Lao Congress of 1986.

the state no longer directly allocates economic resources to producers and orders them to deliver output. Once this has happened there is no longer central-planning and the key distinguishing element of neo-Stalinism no longer exists. On this criteria, Laos was the first Communist country to make the transition to a market economy (in 1987), followed by Vietnam (in 1989), whilst China has yet to do so.

¹⁶ To quote an aid worker with experience in both countries: 'in Vietnam reform comes from the people, in Laos from the government'.

Big Bang or Little Bangs?

An issue that is insufficiently discussed is the extent to which transition should be viewed as primarily the result of reform (thus attributing the main thrust for change to the party and government), and, relating to this, whether abrupt shifts in policy are preferred to discrete steps - a 'Big Bang' or a series of 'Little Bangs'.

This point is not intended to be at all sophisticated or theoretical. The point is, that the great importance attached to policy formation in Western social science tends to focus attention upon it. However, policy may be irrelevant to explaining the main thrust of events. This gets tangled up with the tendency to think in terms of 'models' (such as a 'market economy'), whose implementation stems from access to, and the use of, state power. This approach may, under conditions not hard to imagine, spectacularly miss the point, which is that the nature and reality of state power may be part of the problem. Here the comparison between Vietnam and Laos becomes of particular interest, for (to run ahead of the argument), in Laos state power appears to have been better suited to implementation of top-down reforms, thus permitting a more rapid and effective 'reform' process, a la 'big bang'. However, in such a society, the transition to a market economy requires profound and therefore lengthy changes and adaptations on the part of the population, which the state can do little to effect in the short term. In Vietnam, on the other hand, interest groups and ideological questions were such that state power was rather weak, so that the transition process was very much 'from below'. With an active population, once policy started to push in the right direction, change would be even faster. One way of putting this might be that, compared with Vietnam, for Laos 'reform' was a far more important part of the transition. It follows, or so it appears, that the pace of change post transition is slower.

2. From there to here - from plan to market

Introduction

Basic Conditions

'What are you complaining about - you guys have a country'¹⁷

Modern Laos, as a nation state, is an ethnic sub-group of the T'ai, of which the Lao, the Assamese and the Thai nation-states are the main modern expressions. Understood as a linguistic sub-group, there are perhaps ten times as many Lao in north-eastern Thailand than there are in Laos itself.¹⁸ At some time in the past, 'empires' based upon unquestionably Lao leadership have probably been as important in the region as any other. Modern Laos, however, is the mountainous area east of the Mekong that contains sufficient lowland wet-rice areas for the 'lowland Lao' to maintain a foothold. This permits them the dominant role in the Lao PDR nation-state within which they form the governing ethnic group, and which contains the large upland area whose forestry and mineral resources probably contain the developmental potential of the country.

The 'lowland Lao' have therefore to live with the need to maintain control over 'their' nation-state under both advantageous and disadvantageous conditions. Points in their favour are:

- ◆ the competition between the powers in the region - the Thai, the Chinese and the Vietnamese;
- ◆ the lack - as yet - of anything much worth conquering in the area they rule, and the costs involved for anybody else in ruling it;

Running against them, however, are:

- ◆ their weakness - the lack of a developed economy and the resources that come from it;

However, since Lao PDR now exists, and is internationally recognised, it is unlikely that the international community would permit it to be absorbed into another state (compare, for

¹⁷ Richard Prior, black American comic, in reply to heckling Jews in audience, from the film - 'Richard Prior Live in Concert.' Personal recollection.

¹⁸ Keyes (1967 pp. 59-62) argues that the population of the 'Isan' (now numbering over 20 mn.) saw their political existence as being very much a minority *within* the Thai state. According to this analysis, primary education and internal migration had had a strong role to play in developing this view.

example, the experience of Tibet).

This state rules over a large area which has been described many times in reports. Along the Mekong delta can be found most of the low-lying wet rice areas as well as major towns. These are dominated by the Lao Loum, who are characterised by a strongly matrilineal and partially matrilineal social system.¹⁹ The three-fold typology of ethnic groupings associates different heights of place of habitation with the extent of wet-rice cultivation. Thus the so-called Lao Theung (or e.g. Iinuma 1992:2 'midland' Lao 'who inhabit plateaus (sic) and mountain slopes') are differentiated from the Lao Soung (idem - 'upland' Lao who 'inhabit mountain tops'). Whilst the broad population proportions of these three groups are around 55%:27%:18% (idem), considerable mixing and evolution of economic and social practice has occurred.²⁰

State organisation and the party

'Inner party debates are now very open; we argue a lot'²¹

The organisation of party and state in Laos is highly idiosyncratic, with no clear boundary between the two at any level. However, the degree of centralisation is impressive and the basic administrative framework has been standardised. Recent reforms have stripped away the local people's committees and councils, replacing them with centrally appointed chiefs of province, district and village units. However, even prior to that date central authority was rather strong, backed up by both technical and social factors:

- ◆ the traditional need to maintain control over the periphery resulted in adroit use of kin and personal links. The centre's 'writ ran' in areas where it was deemed to be important. Whilst delegated local authority was often extensive, localisation of authority without reference to high levels was far weaker. This meant that Laos has often appeared to be far less centralised than in fact it was.²²

¹⁹ Ireson (1992) is a clear overview of the different interactions between family characteristics and the emergent market economy typical of the major different ethnic groupings in Laos.

²⁰ Naive personal observation on field trips in Luang Prabang province revealed, in an extremely interesting discussion with a Hmong (Lao Soung) Deputy District Chief, Khmu groups (at around 500,000 the largest member of the Lao Theung) who had already in the mid 1980s started to adopt active measures to group villages so as to facilitate primary school operations for their children (i.e. grouping villages to ease both the construction of school houses and the pooling of resources to support teachers' salaries), which had placed them better to exploit the new markets that emerged in the early 1990s (Muong Ngan, interview 7/10/94 - note that the district borders on Vientiane prefecture and thus is rather 'close' to the centre). The Deputy District Chief was well aware of the interesting point that endogenous cultural development had occurred *before* increased market participation. The stereotypical view of the Khmu is that they are relatively unresponsive to new opportunities. Note that the Khmu minority in Vietnam are in some areas more active, and have reportedly changed in response to exposure to the more 'active' Vietnamese '**kinh**' group (personal communication, '**kinh**' commune party secretary, Lang Son province; ex People's Army of Vietnam captain with seven years experience in Laos).

²¹ Party member, Vientiane, 1994.

²² The issue was also confused by the period of extreme (and temporary) delegation of authority and economic responsibility to the provinces in the mid and late 1980s.

- ◆ the existence of inter-provincial air links, which could be used to 'rap knuckles' when needed.

Traditional Lao patterns of social behaviour tend to frown upon public disagreement and lack of deference to superiors. The history of reform argues that it was a change of mind 'at the top' which started off the process. However, there is every indication that the process of de-Stalinisation has created a more open and liberal atmosphere for debate within the ruling party-state group. Access to the very diverse Russian, Thai, Western and Vietnamese intellectual traditions is quite commonplace amongst Lao intellectuals, who therefore enjoy the wide range of approaches on offer.

Rural society

'You should understand that the Lao live well'²³

As mentioned above, Lao rural society is diverse and rather mixed. It is striking how so many reports from major donors and observers start off by stressing the high degree to which Laos remains a country of rural producers, many if not most of whom as yet participate rather little in the wider world. It is also conspicuous that many reports - especially those by economists - then find little to say about this, the 'dominant fact' of the Lao people's lives, and instead discuss topics familiar from other societies - foreign trade regimes, financial systems, governance etc. Given the high degree of professionalism involved, this is clearly not for want of trying. More likely it is that it is extremely hard to assess the trajectory and nature of such 'participation' by rural individuals and families. Certainly if the market economy is to play a major role in improving rural conditions, then this will result from a combination of pure 'supply-side' factors with the effects of the overall environment. State policy will play its role beside such factors as secular shifts in prices, the tactics and strategies of foreign traders (and governments²⁴). However, the argument remains that there are important 'non-economic' factors at work in influencing family attitudes.²⁵ Here a more 'holistic' approach to institutional change is more rewarding, and perhaps more appropriate to a 'mass' party such as the Lao party.

Recent macro-economic studies have shown that the growth of the Lao rural economy has been rather slow. Bourdet (1994:1-14) places great explanatory force upon the role of 'reform'. He reports stagnant rice production 1986-93 (0.1% annually), with, however, far more rapid growth in certain other crops - sweet potatoes (5.6%), vegetables (41.8%), tea (33.2%) and cotton (13.3%). Matthew Ma's summary of selected World Bank studies (1994:131-146) takes a very hard line against rice self-sufficiency as a national policy, but

²³ Le Van Hien, onetime Vietnamese Ambassador to Laos, first Minister of Finance of the Democratic Republic of Vietnam. Personal Communication.

²⁴ For example, in ensuring that natural Lao suspicions regarding external staples dependency are unfounded (given historical experiences, it is hard to ignore question marks placed around the potential risks attached to relying upon Vietnamese, Chinese, Thai or even Khmer protestations of attachment to free trade.

²⁵ Note the stress placed in the recent World Bank 'Economic Miracle' study upon women's education.

points out that there has been an acceleration in certain cashcrops since the late 1980s, and also in livestock. This is precisely the pattern that should be expected from a region now enjoying market access to regions with rather different land endowments and climatic conditions, and also extremely fast economic growth and industrialisation - South China, Vietnam and Thailand.

Both of these reports, which are professional expositions, do not touch the issues of market quality, traders' strategies and so forth. Ma puts it well:

'The role of the Government, as conveyed in the New Economic Mechanism, should be in promoting private sector trading and investment by providing an enabling environment in which individual, rather than centrally planned, decisions lead to the desired national goals. Private sector investment on a commercial scale is likely to spin-off technical benefits and provide forward linkages with the rest of the economy. The government should allow the market to reward effort while safeguarding and providing the common good and promoting public welfare' op.cit.: 143.

Now, if the market of its own does all these things, then all well and good. Modern economics does, however, point to consistent and well-understood areas of market failure, such as information asymmetry, moral hazard and so forth. Applied to the institutions of central-planning and the neo-Stalinist model, such analyses clearly reveal the efficiency losses that result in extremis from violating the requirements of economic efficiency. Such considerations should also be applied to the economic environment facing Laos' farming families, and also to their own economic decision-making.

What is striking here is how the tendency, or rather the risk, is to shift from a critique of central planning towards an uncritical acceptance of markets without asking the question 'What sort of markets?'. It should be repeated that modern economics argues strongly that markets do fail. Action may be needed to ensure, for example, that information asymmetries do not place traders in too powerful a position; that transitional disequilibria (for example through the selling-off of state transport facilities at low prices) are not exploited by incipient monopolists; and that inadequate subsistence entitlement does not place cash crop producers in a weak position because forced to sell commodities at a disadvantageous time. The source of that action can come from a multitude of sources - farmers' organisations, measures to encourage competition, state production of public goods such as market information and so on. Markets are not, and never have been, social activities that are independent of their particular origins.²⁶

Lao farming families are extremely diverse, operating in different economic and physical environments, with varying approaches to culture and cultural change. For many, life at subsistence levels is rather good; for many, it is not. What does seem to be the case, however, is that the question of 'participation' in the wider world across a wide range of activities is now a key issue, if not the key issue. It seems odd to separate decisions about family

²⁶ The market for health care in the USA is perhaps a good example.

strategies, gender aspects of the education of children and investigations of market possibilities. At the level of the family these must surely occur in an integrated way, not least because they involve trade-offs between the different ways of allocating the same resources - the time, effort and materials that are the family's capital. And in these choices, which will largely determine what happens to the rural areas of Laos, the nature of the environment is surely crucial. As was reported to the author by a Deputy-District Head - 'now, it is hard to cheat the farmers here; they know what prices are in various markets and what they should be paid'. The point is, that that institutionalised knowledge did not fall from the sky - it had to be created.

Ma's conclusions are thus logically consistent but arguably miss the point: he argues that Laos' 'potential comparative advantages in agriculture have not yet been realised'. Future prospects will rely upon four factors: 1. - delivery of essential public services by the government - research/extension schemes and irrigation scheme management; 2. - capability of agricultural research services to offer good ideas to farmers; 3. - better international relations so as to foster better international trade; 4. - clarification and liberalisation of the legal framework. This totally ignores the possibilities for farmer-level institutional change, in which is included changes in family perceptions and methods of operation. The great contradiction in this is that, in common with the old central planning system, the main active force in the equation is the state. This brings us to the question of the interests involved. These threaten to inhibit the rural economic development desired by combining the statist focus with calls for high levels of aid and state activity in an environment where it is NOT possible to assume that the 'state is neutral.'

Timing - a chronology of events, 1975-95

This is an attempt to present a parallel chronology of events in Laos and Vietnam.

Vietnamese events are in italics.

'VN' after an event signifies that there appears to be a close Vietnamese parallel;

'*VN' that there is NOT a Vietnamese parallel.

'?' means that the parallel is debateable

1975: Liberation

1976: *Vietnam Unified - 'hard line'*.

1978: May - Generalisation of Cooperatives - Regulations on Cooperatives issued #97; 'District-Building' (VN); Severe floods. Beginning of three year reconstruction plan. Vietnam invades Cambodia; China invades Vietnam. Western aid cuts. Laos and Vietnam shift to close alignment with Soviet bloc.

1979: Kaysone's speech (December) puts reform on the agenda. July - ending of cooperative drive; August - cuts in agricultural taxes; increase in procurement prices ('closer to border prices'); 'beginning of market oriented reforms'; increases in state salaries; Dec. - currency reform (*VN); farmers allowed to sell surplus to market (VN). *VN 6th plenum - liberalisation of political atmosphere (August-September); temporary halt to collectivisation of Mekong delta.*

1980: Inflation early in year - reopening of traders' shops in urban centres (VN). *Vietnam - first half year sees easing of pressure on free market, reversed in second half.*

1981-83: No pressure on traders (*VN). 'Seminars' start to prepare ground for top-down reform. *Vietnam - policy exerts increasing pressure on free market; crackdowns on local export-import companies.*

1981: July Decree # 11 on SOEs (introduces 3 experiments from August) (?VN - Jan 25-CP). *Two decrees in Vietnam (January) introduce hybrid economic system: CT-100 with household contracts; 25-CP with 'three plan' system in SOEs. Also partial price reforms.*

1982: Agricultural growth poor. April - IIIrd Congress. Renewed collectivisation drive (VN) - stress on paddy. Inflation. Mid year conference on the new SOE policy (*VN). IVth Congress.

1983: More SOE reform. Inflation. Again poor agricultural growth.

1984: More SOE reform. Price, money, wage reforms (?VN - predates VN 1985); Sept. - Decree # 61 . on 'Restructuring economic management' - SOEs - is this 'Socialist Business Accounting'?

- 1985: 'New start' to reforms - price, money wages. # 61 extended to 8 SOEs. Experiments ... 'Historical Starting Point' according to Lao historiography of early 1990s. *Vietnam - disastrous 'Price-wage- money' reforms destroy any remaining confidence in hybrid system.*
- 1986: *Death of Le Duan.* Devaluation of Kip (*VN - devaluation accompanied price/money/wages). Provinces made financially self-sufficient (*VN). 'New Reforms'²⁷. May - Business Conversion Committee set up (?). November - IVth Congress - self-criticism - emergence of New Economic Mechanism. 1st National Conference on Economic Restructuring. *NB Le Duan dies 6/86 - run-up to 'doi moi' and December 1986 VN VIth Congress; 'U-turn' in SOE policy from attempted recentralisation to liberalisation.*
- 1987: Fall in growth. 'One market, one price system,.' April - # 16 reduces controls on private trade ending state monopoly in many areas. June - price reform as market reform (*VN). Sept. - from 7 to 4 multiple exchange rates. Legalisation of all forms of economic association. Abandonment of province fiscal self-sufficiency. Sept. devaluation from 10 to 350 kip/\$. Price controls taken off all but 8 commodities.²⁸ Provincial staples companies made responsible for meeting local food requirements. *Vietnam - political de-Stalinisation; creation of national markets for staples and other goods.*
- 1988: Growth revives, helped by the private sector. Tax Reforms (profit tax now payable by SOEs); Jan. - goods procurement by the state now to be at market prices (*VN - would have been 'negotiated prices'). Jan. - Central Committee resolution on the New Economic Mechanism; Jan plenum - attacks conservatives and accelerates reforms, leading to the March '11 Decrees'; February - key speech by Kayson; March - 11 Decrees - # 19 on SOEs, # 9 on taxes on profits and turnover etc., # 17 permits private investment in SOEs, # 16 on the private sector, # 14 on 'one price'. March - Decision to set up two-tier banking system; March - Decree # 19 on SOE autonomy. Mid year - exchange market - single official rate now parallel to the free market. Aug/July Foreign Investment Code promulgated. *Vietnam - Decree # 10 initiates de-collectivisation.*
- 1989: Growth accelerates. Fall in SOE profitability, increase in state wages. Ending of rice rations. April - Decree # 17 permits privatisation (Vokes). June - New Deal of Agriculture - Decree # 6. March - 2nd National Conference on Restructuring; June - shift to single rate profit tax, increase in industry tax; Decree # 20 clarifies Foreign Investment Code. July - Decree # 47 cuts agricultural taxes and removes export taxes. August - real interest rates become positive. August-September - SOE leasing starts. Decree # 12 introduces natural resource royalties. *Vietnam, facing loss of Soviet aid, introduces unified price system, opens borders to trade; dollars now also 'single price' - real interest rates raised to highly positive levels.*
- 1990: Reduction in number of 'laws' being issued. Ending of provincial authority over local

²⁷ C.f. Vokes, 1992.

²⁸ Note that this was similar to but not identical with Vietnam VN in 1989 - there was no fall in ODA, and staples trade was liberalised subsequent to these changes rather than earlier.

branches of state bank. March - Decree # 17 allows privatisation of SOEs. May - Guidelines on implementation of privatisation decree. May - cash issue stopped. July - National Conference on Finance. *Vietnam - inflation returns after falling sharply in 1989; high interest rate subsidies to SOEs combined with tax breaks.*

1991: Early year - completion of two-tier bank reforms. February - Decree # 12 revises tax rates. March - Vth Party Congress. August - New Constitution. *Vietnam - VIIIth Party Congress reaffirms 'leading role' of state sector. Macro distortions remain.*

1992: Death of Kaysone. *Vietnam - interest rate reforms introduce period of relative macro-economic stability; domestic savings start to climb; private sector emerges; FDI accelerates. 'Civil society' co-opted through enhanced role of National Assembly.*

1993: *Vietnam - party plenum (June) supports relatively autonomous farmers' organisations.*

1994: Poor harvest. Multilaterals start to warn of 'slowdown' in pace of reform implementation. Tensions with IMF. *Vietnam - signs of emergence of widespread political support for Rule by Law project; Vo Van Kiet (Prime Minister) maintains his position at inter-Congress Party Conference. Rapid economic growth.*

Basic issues - the transition in hindsight

Attention to the economic interests involved in the process of both the creation and dismantling of central-planning points to some interesting aspects of Lao experience.

First, the lack of any significant rural economic surplus in the very early stages meant that the intended link between a collectivised agriculture and an expanding urban industrial sector was never created. Instead, the cities and the state apparatus were mainly fed by aid. Cooperatives had therefore to be judged solely on their economic efficiency per se, which of course was compared with the pre-existing small-scale production and found lacking. A rapid abandonment of rural collectivisation was therefore rather easy.

Second, without any significant links between the state sector and the domestic economy, the state sector was dependent upon foreign aid. It did not participate in any process of domestic accumulation. The rents to which it had access were therefore mainly - aid, aid-fed labour, cheap foreign exchange and cheap credit. A distorted domestic price system was NOT of great importance.

Third, with rather good control over local authorities, and with coherent national leadership, it was possible to manoeuvre in the tactically advantageous space offered by 'material incentives'. This meant, however, not partial price reforms and a commercialisation of the state sector (as in Vietnam), but a series of liberalisations of the market: initially in cross-border trade and then in inter-provincial trade. This suggests strongly that the realities of economic life in the river-border cities in the early 1980s depended greatly upon imports of consumer goods, and therefore upon access to means of paying for them. The latter could be found in smuggling, logging, export of forest products, corrupt and non-corrupt access to aid, etc.

Fourth, once arguments had been won domestically, and the positions of aid donors had shifted, it was then rather easy to implement a programme of top-down reform. The key economic rents were those mentioned above, and these were not threatened by the transition to a market economy. Indeed, Western aid increased sharply as the reforms went through.

Fifth, the key political interest of the party was and remains maintaining its position in power. This was seen to depend upon various factors, of which control over the mountain areas was consistently important. Thus rural development policies were to become more and more important as the thinking behind the market economy became clearer.

Lao ideas - a history of reform in Laos

Origins

'It all started'²⁹ with the speech of Kaysone at the 7th Plenum of the IIInd Central Committee in December 1979. This brought reform onto the open agenda.

Through 1976-78 the 'old model' had been applied; this went right back to the Party line as stated in March 1955, and had been carried on after the end of the war in 1975. At that time, the two big tasks were understood to be national defence and construction. The international situation was difficult, with strong pressure from the West and tensions over border issues (which as of 1994 were still unresolved). Through 1976-77 great economic difficulties were added to the key issue of defence - the large US aid programme had been lost. Following the standard precepts, the government nationalised enterprises (many had been abandoned), along with the posts, banks and power system. Unlike Vietnam, a number of businesses, especially those belonging to people who had decided not to leave the country, were not nationalised. Free trade was basically forbidden during this period and many goods were simply not present in the markets; inter-provincial trade was severely inhibited. There was no acceptance of any positive role for commodities and money in the national economy. One important aspect of this was the particular nature of the economic situation facing the country - the loss of economic aid, the closure of borders (especially those with Thailand) and the role played by Vietnam and the Soviet Union in supplying resources. From an orthodox perspective, Laos was less 'ideological' in its position, using aid from the socialist bloc to support the urban population. The mechanisms used to channel these resources were the purchase and sale cooperatives and state trade. Cash had very little value, and it was very hard to use money to pay state workers. Production was weak and free market prices rising sharply, so that price controls were needed to improve state employee real incomes.

In this way it can be seen that the initial basis of the distributional control system in Laos was NOT domestic resource mobilisation. Rural collectivisation did not start until 1978, and food procurement was negligible. One key link in the neo-Stalinist system was therefore omitted from the economic system of the late 1970s - integration of the pattern of economic growth in the industrial sectors with the extraction of resources from the non-priority areas of the economy, in particular the agrarian cooperatives. This had various implications, one of which was that if foreign aid continued, there was no significant domestic material interest exerting pressure to maintain the collectivisation drive.

In dogmatic terms, it was important that Laos was accepted formally by Brezhnev in 1977 as being 'socialist'. It is perhaps worth pointing out that at this time certain other countries were kept at a certain distance by the Soviet Union - Mozambique was one example. This led on to the three year reconstruction plan of 1978-80 which saw the neo-Stalinist model again 'softened' in Laos. Factors relevant to this were:

- ◆ the absolute need to follow the dogmatic model if Laos was to receive aid from the Socialist bloc.

²⁹ This section relies heavily upon discussions with teaching staff at the Cadre School in Vientiane.

- ◆ the fact that the leadership lacked experience of any other system, and so adopted the model as an available option. However, there was no clear view of the road to socialism in Laos; the basic goals were good, but it was not at all clear how they were to be attained. The Lao economy was seen as being in an early stage of feudalism, with an uncentralised state apparatus and a predominantly subsistence economy. To a certain extent, the reality of the new order in Laos was mainly viewed as rule by the party.

- ◆ although Lao understanding of the nature of this model was not yet well developed, it was at once adapted, by avoiding any stress upon heavy industry.

Internal debates started in the late 1970s, but were quite 'general' in their conclusions. The discussions occurred at the top levels of leadership. Whilst aware of the particular nature of Laos - but perhaps not too sure of just what aspects of this particularity were most important - the question was just what was the Lao Way? What is interesting about this, amongst other things, is the stress upon diversity within the socialist bloc, and Laos' position as being different in some way, *without as yet being sure just what that difference was*. These early debates were not spread out through the party. They were fed by concern about the results of the attempt to implement the neo-Stalinist system in Laos. These concerns were:

- ◆ the lack of development of production - but the reasons for this were as yet still unclear;

- ◆ what successes were attained appeared to a great extent linked to simple post-war reconstruction, rather than any new factor or factors.

- ◆ again, although the reasons were as yet unclear, implementation of the new model was also seen as an issue - systemic unimplementability was there to be seen.

This situation led to the start of a process, aimed at convincing people that there was a need for change, and this came into the open with Kaysone's speech to the 7th Plenum in December 1979.

Reform on the agenda

Whilst the strategic issue was centrally related to the question of the orthodox system, the tactical focus was upon economic reform understood as having the aim of improving real incomes. This had emerged rather naturally in the 1978-80 period; political questions were certainly paramount, but material interests were crucial. Better living conditions could attract support for reform and enhance confidence in the leadership; if this could be attained then further advance was possible. Mass support for reform, if acquired through this tactical

perspective early on in the process would be appropriate to the normal Leninist 'mass line' of using the people as the source of revolution. It should also be stressed that the main success of the 1976-80 period was the maintenance of the independence of the Lao state under party control; the three year plan, despite considerable outlays, had led to poor results. Living standards remained low.

Thus the efforts made prior to the initiation of formal socialist construction in the form of the first Five Year Plan (1981-85) meant that the transition process could start. The 'pre-stage' was over. The concessions made to the free market meant that living standards for some had already improved; elements of the tension created by the 'hard' ideological position prior to Kaysone's 1979 speech had been removed; Vietnamese shifts had also eased foreign constraints. However, discussion and debate were to play an important role, since with the strong central control enjoyed by the Lao state, and the issue of timber and smuggling rents rather unimportant, there was no structured 'interest' pushing for relative autonomy and systemic change.

Thought

Through the first Five Year Plan, reform thinking was as yet far from dominant.³⁰ The IIIrd Congress held in March 1982 showed this. Both old and new thinking co-existed. The new ideas were coming up but were not yet entirely clear, so that the IInd and IIIrd Congresses were not fundamentally different in their outlook - they stated the importance of the dictatorship of the proletariat, the 'Three Revolutions'. However, there were shifts in the area of economic management. Tactically it was both the key issue but also not yet one that threatened fundamental dogma. The IInd Congress was seen as the first post-war Congress; it thus re-evaluated the past. However, it still argued that the way to develop the forces of production was to initiate changes in the relations of production; and stressed that the scientific and technical revolution was the key revolution within the three revolutions conceptualisation.³¹ Thus the 'old model' was preserved.³²

Economic liberalisation had occurred in two areas: a certain liberalisation of the free market and a 'softening' of the cooperativisation drive. These both dated from 1979 and there was a further liberalisation of trade in late 1982. Again, however, Laos' particular conditions applied - with very low pre-existing levels of trade, the neo-Stalinist institutions - in this case the purchase and sale cooperatives - could do little other than channel in aid supplies. They played little role in procurement, and so required and possessed only very limited relations with the agricultural producer cooperatives, which in any case were pushed far less hard than in other countries.

³⁰ Rattanavong (1991) refers to seminars held at this time to discuss these issues and the value of reform. The speed of change in 1985-86 suggests that this internal discussion below the level of the top leadership was rather successful. Note that the liberalisation of the free market in 1978-80 directly aimed at meeting the material interests of this grouping.

³¹ It is interesting to note that, like the Vietnamese, the Lao did not adhere to what might be termed an 'extreme' view on this matter: to quote Kaysone:

'The revolution in the sphere of production relations is of fundamental and crucial importance, but it cannot of itself lead to the formation of large-scale socialist production and cannot ensure the further development of [the] production relations it brings about' Kaysone Phomvihane 1980:91.

³² Fforde and De Vylder (forthcoming) uses the term 'Hard Reform Socialism' to describe the corresponding position in Vietnam, where the basic institutions of the neo-Stalinist system are still to be preserved.

The attitude taken towards rural collectivisation is very revealing. It is worth stressing that in the original neo-Stalinist system, cooperatives existed both to control production and to ensure procurement. Thus by taking land away from private producers, family labour could be directed into production of (for example) rice. This would belong not to them but to the collective, which would then deliver it to the state on terms of trade favourable to the logic of the rapid industrialisation drive. In Laos, where non-rural employment post-1975 relied mainly upon overseas aid allocated through the rationing system, this link was almost entirely lacking. Thus the cooperatives were inevitably viewed mainly in terms of their production capability rather than their capacity to participate in the changing national economic structure.

It was found that in many cooperatives output did initially rise. Labour efforts increased. However, violence and coercion had to be used. Continued use of such methods was clearly possible, but, where applied, did not lead to further increases in output. This was reportedly caused by poor management. Despite considerable training efforts, cadres were not capable of organising the resources conferred upon them in an effective manner. There was also bad weather and internal opposition. However, the key issue was (during this very 'hard' period) that local cadres could not cope. In many cooperatives farmers worked extremely hard, but this led to little if, as was often the case, managers were illiterate. The lesson drawn from this was the need for an appropriately trained rural cadre, operating within appropriate institutions.

Besides this, state farms were another clear lesson. They relied upon foreign assistance, made severe losses and accumulated large debts. The sums involved were often very large.

The main successes in terms of economic reform at this time were therefore:

- ◆ a 'softening' of the cooperativisation process in the rural areas. As in Poland, 'special conditions' permitted the party to ease off, but, unlike in Poland, this had to be concealed to some extent.
- ◆ trade liberalisation. Starting in 1979 with internal trade at the main towns (which meant in effect retail trade with Thailand), in 1982 this was extended to a more formal liberalisation of foreign trade. However, the domestic market, which would not initially have any major effect upon real incomes, was not opened up until 1984-85.

Towards the 1986 IVth Congress (1985-86)

From the end of 1985 until the holding of the IVth Congress in November 1986³³ there was a period of intense propaganda to set the stage for the economic reforms. This drew upon the success of the reformists' activities in the period 1982 to mid 1985, which was thus the

³³ That is, one month before the Vietnamese held their equally radical VIth Congress.

second key period in the process of reform in Laos (the first being 1978-79 when the first changes in thinking on the subject emerged at the level of the top leadership).

The successful outcome of the period 1982-85 depended upon a number of factors:

- ◆ changes in the Socialist world at the time. The 'atmosphere' had altered; but this should not be given too high a role in explaining what happened in Laos.³⁴
- ◆ the clear evidence in Laos of the enormous losses within the state sector and the general economic 'mess'.
- ◆ the sense that the liberalisation of 1979-82 was basically sound and positive.

Unlike Vietnam, however, internal participants did NOT see any new social forces emerge comparable to Vietnam's increasingly commercialised state sector. By the mid 1990s the IVth Congress was seen - in dogmatic terms - as the 'first step' in the formal reform process. A series of Central Committee Plena after the Congress focussed upon various elements of the situation, leading to a redefinition of the general situation whilst at the same time dismantling elements of the old system. Both of these processes are of great interest. Perhaps a key lesson drawn by some from the entire process was the need to be responsive to the flow of events.

Elements of the fundamental rethink

In assessing the position arrived at by the Lao party in the mid 1990s, it is worth reflecting upon various inputs to the process:

- ◆ the 'hard' ideological position taken in 1976-78, and its progressive abandonment.
- ◆ the relative importance of internal debate rather than the emergence of new social forces.
- ◆ the importance of Marxism-Leninism itself.
- ◆ the tangible, but hard to concretise, effects of national character. These can perhaps be illuminated by the frequent sense that whilst the Lao were often more successful and faster than the Vietnamese in implementing various key elements of the task of dismantling the old system, in some sense they did not have a similar success in analysing the meaning of what they had done - 'we would do it before

³⁴ Publication of an interview with Kaysone in Pravda on 13/11/86 setting out the (by Soviet standards) extreme reformist position of the Lao came 'like a bolt from the blue'.

Hanoi and then the Vietnamese would come over and tell us the meaning of our relative success.' Perhaps with a more centralised system, and with the resulting capacity to adopt and implement measures on pragmatic grounds, there was none of the need to argue fine points of theory that the Vietnamese, who had a more localised system and a far more complicated political economy, faced.

The basic explanation of what is happening can be put as follows:

'Thought' =>

'Economy' =>

'Society' =>

'Politics'

'Thought', as we have seen, changed in two stages: first, with the top leadership in 1978-79, and then later at the level of the mass and cadres, from around 1987.³⁵ The basic questions were unchanged - where are we going, and what are the basic contradictions. Under the 'old system', the latter was seen as that between the socialist and capitalist roads. Later they were seen as being the need to develop production and meet the material needs of the people in an area with poorly developed forces of production (i.e. capacity to produce). This redefinition arrived at the sense that the forces of production had to be developed in any way that was acceptable. The earlier conception led to the stress upon relations of production (as defining socialism as against capitalism), and paralleled the support for adoption of the institutions of neo-Stalinism (cooperatives, state factories, state control over trade etc.).

This change in 'thought', and the resulting 'open' attitude to the nature of the economy in terms of its institutional content, leads on to social policies. To start with, they should parallel the new nature of the economy; also, they should be implementable. Realism is a natural part of the new thinking, with its undogmatic view of the answer to questions as to what institutions are appropriate to Laos. Also, social affairs cease to be the sole responsibility of party and state initiatives, but become the duty of the population as a whole. Finally, and consistently, the state must focus upon key issues. Social policy therefore becomes more open, and the role of the state is redefined as part of the shift away from neo-Stalinism.

'Politics', and political change, are finally viewed as part of the overall issue of relations between state, party and society. The theoretical basis for the 'open' attitude to the nature of institutions has been discussed; in practical terms, 'Rule by Law'³⁶ is seen as the way of maintaining order in this area; new social organisations are then to be judged in terms of their legality, rather than their appropriateness to notions of 'socialist' production relations. It thus

³⁵ 'We could not say it at once'. Brezhnev died in 1983.

³⁶ This is perhaps a more valuable translation of the term than the more common 'Rule of Law'. The meaning appears to be to do with the basis upon which state officials make decisions, rather than the idea that these decisions should be universally subject to process of law. The point is often made that the contrast is with 'Rule by Line' - i.e. by state officials' adherence to the normative content of party prescriptions.

follows that 'civil society' - in some sense - is logically acceptable. There is, of course, a gap between the logical and the practical implications of this position.

This gap arises in the wide distance between the understanding of the situation as outlined above and the actual operation of the state apparatus and political leaders. What can be seen in Laos is a country ruled by a party-state apparatus which is attempting to attain various goals. Amongst these are changes to both the 'official' and 'real' institutions - to both the operation and content of the state and the wider social practices of the population.

This position lies behind the results of the Vth Congress held in March 1991 (see below). In comparative terms, what is interesting is its ideological rather than political basis: the ideas driving this appear to come more from reflection and debate than from the need to cope with rapid, profound *and autonomous* social change, as experienced by - and confronting - the Vietnamese party.

The current position? Just another post-transitional economy?

The 1991 Vth Congress

The Congress evaluated the period since the start of 'reforms' at the 1986 IVth Congress. Its basic conclusion was that they had got it right - the Line had been correct. The country was stable in political and social terms; living conditions had improved; rice production had risen to the point at which they no longer had to import rice; economic growth had been rather high at around 4% per annum and was showing signs of accelerating, to around 7% in 1993. With improved international confidence in Laos' order and stability, foreign assistance and private investment had been coming in in greater volumes.

The Line adopted at the Vth Congress had five basic elements, consistent with the schema outlined above. The aim was to build an independent, peaceful, democratic, united and prosperous country. Following orthodox methodology, these were then concretised into various 'positions' or 'points of view'.

The basic elements of the Line were:

- ◆ to continue with integrated and all-round reform.
- ◆ to strengthen the unity between the various ethnic groups within Laos on the basis of the alliance between industrial workers, farmers and the intelligentsia, under party leadership.

◆to stimulate a multi-sectoral³⁷ economy, aiming to shift from an economy predominantly based upon subsistence agriculture to a market economy, and to satisfy the material and spiritual demands of the population.

◆to develop democracy in all areas, increasing the roles of both the mass organisations³⁸ and social organisation,³⁹ and to construct a state apparatus that becomes (sic) 'of the people, by the people and for the people', operating in accordance with the constitution and the law. Also, to perfect the leadership role of the party in the political system, and strengthen national defence and security.

◆to expand international relations.

Two key elements are worth stressing in the above - the pragmatic attitude to economic system and structure; and the association of change in the activities of social organisations (both old and new) with the 'Rule by Law' project in as yet an undefined manner. Whilst the state apparatus has a clear task before it, the new 'social organisations' are only to see their roles increase as part of heightened 'democracy' and in association with a law-governed state apparatus. There is no mention, for example, of 'cooperatives of a new type', that might presage party involvement in controlling emergent farmers' associations.

Current 'Points of view'

The 'points of view' are, methodologically speaking, the link between the general position of the 'Line' and the concrete policies that are to be adopted: the term refers to important aspects of dogma. This formal practice is one distinctive element of Leninist parties, or those that have been influenced by Leninism. It requires a general analysis of the situation and the role of the party within it, which may or may not be correct but at least requires a discussion of the social and economic situation in Marxian terms. As we have seen however, once the neo-Stalinist position on the leading role played by the relations of production is abandoned, what remains can be remarkably 'open'. This will be brought up again later.

1. Economy

Compared with the IVth Congress the Vth took a far more advanced position, stressing the importance of *commodity production*. The earlier position had instead spoken of economic structure and management system. Rather than unbridled 'Adam Smithian' markets, the party line as expressed in law and state regulation should limit the extent of spontaneous activities

³⁷ That is, an economy with a range of different property forms - state, private, collective and so forth.

³⁸ The term used here is the technical one that refers to Leninist structures such as the Women's Union.

³⁹ The term used here is a non-technical one, literally translated.

and constrain social differentiation. However, giving such high attention to commodity production makes the point that the market economy is necessary.

It then follows that the question had to be answered - commodity production of what? The Vth Congress took the view that this should come from an all-round development all-round agricultural and forestry sector, supported by processing industry and services (such as transport and communications). The farmers' environment was thus crucial. Earlier Congresses had given far lower attention to the rural economy:

◆ the IIIrd referred to 'taking agriculture and forestry as the base'.

◆ the IVth spoke of developing agriculture and forestry with no mention of services.

◆ the Vth saw much debate. Advocates of industry (hydro power exports ...), tourism and foreign trade entrepot activities all foundered in face of the argument that whilst all developed countries had well developed agricultures, 90% of the Lao population were farmers, producing 60% of national output. Industrial development required capital and skilled cadres and workers (who were lacking); mineral resource exploitation was very hard to control and monitor, and took time to develop; tourism would require hotels, roads and so forth which would also need capital. Agricultural development (such as increased rice production) was seen as being far faster to generate, and would require less capital.⁴⁰ The overall conclusion, therefore was 'agriculture and forestry with a stress on roads'.

The understanding of this position is largely in terms of peasant economy. Agriculture should develop in an integrated manner (i.e. not just rice); all regions should participate (i.e. uplands and hill areas, not just the lowlands); the basic unit of the rural economy should be seen to be the farming family. Whilst there were many types of family farm, initial efforts should focus upon those who were better placed - who 'knew how to make a living'. Agricultural development had to occur side-by-side with social development in the rural areas.

The understanding of commodity production within a Marxian framework gives this position added weight, for commodities, in that sense, are produced through the application of capital and labour. It follows, therefore, that it is 'incorrect' to talk of forestry as a resource. It should be termed a 'source of resources'. Exploitation should therefore be accompanied by reinvestment and ongoing upkeep. Also, processing then comes in as a way of further increasing the extent of commodity production; and also land and forest allocation. The latter led to considerable conflicts, in which the ideological position now taken by the party at the same time supported economically rationalist arguments from the Western tradition.

⁴⁰ It is perhaps here that an unexpressed desire to avoid excessive dependence upon external commercial capital can be seen, with the development of a prosperous and commodity producing rural economy seen as implying the emergence of a powerful social force relatively independent from foreign investors, which cannot be said for the urban joint ventures. De facto pressure upon potential inward investors to keep out of the rural areas has been reported (personal communication; overseas investor).

Specifically, provinces were forbidden to log *if they had no processing capacity*.⁴¹

The focus upon the environment facing farmers led to two main industrial concentration points: processing of agricultural and forestry products; and, with foreign assistance, stress upon revenue earners such as electricity and mineral extraction. Here what is notable by its absence is any other major industrial sector that is suitable for state attention.

2. Multi-sectorality

By this is meant the involvement of different property forms - state, private and so on. The basic position, again very simple, is that all (and also units of different scale - large or small) should be equal before the law.⁴²

The key issue here, if Rule by Law is to be realised, is the shift in the position of state enterprises and the role played by government Ministries and localities that had previously 'managed' SOEs. The private sector has to be given guarantees, but these become less relevant as the economy moves further away from 'transition' and the party's position as the governing force in a market economy becomes less odd (for it is, after all, a Communist party ...).

For reasons that are officially to do with the resolution of social problems and the widespread problem of SOE debts, SOEs are not dealt with through privatisation but through what is referred to as 'shifting the property form'. This can be understood as a change in the real meaning of the status of the SOE (in terms such as - who controls what it does and how are benefits and profits shared out?)⁴³This has been carried out on a unit-by-unit basis, without a programme implemented in a wholesale manner.⁴⁴

3. Economic management mechanism

It follows from the rhetoric of market economy that the system of state economic management must change. The precise way in which this occurs is one of the most conceptually difficult areas for Lao cadres to master.⁴⁵The new task of the state is simply (!)

⁴¹ This remains an area of great difficulty because of the interests involved. Some insight into the long-term perspective of party thinkers when confronted with the tasks of managing and developing a market economy, is that the participation of the Lao Army in apparently dangerous and perhaps illegal logging activities in 1993-94 could be seen as the least costly of various generally unpalatable alternatives. More interestingly, as a temporary price to be paid, the party's ongoing systems of control over the armed forces could permit a less fraughtful termination of such activities when conditions change. In caricature, it may be easier to separate the Army from deals made with Thai or Vietnamese business interests than emergent Lao business groups or local authorities ...

⁴² The Lao typology of property forms is more than slightly dazzling, and different from the Vietnamese: it encompasses - state, private, collective, foreign, state capitalist and (?) private household.

⁴³ This technique in fact strongly parallels that used in Vietnam; what is most striking is how in both countries the budget constraint facing SOEs has been hardened, contributing to macro-economic stability, without anything approaching a resolution of the nature of SOE ownership that would satisfy normal Western standards. In neither country is there a clear (in normal Western terms) answer to the question - who owns SOEs now? Yet in both inflation is basically under control, credits to SOEs are far from liberally granted and SOE efficiency has risen considerably.

⁴⁴ There are reportedly regular internal summings-up on the state of affairs.

⁴⁵ In the Cadre School, the hardest areas for students to understand are: the relationship between commodity

to create favourable conditions for all economic sectors to carry out business and production in accordance with the party Line. There is no longer to be the direct participation in the economy seen under the old system.

4. Expansion of international economic cooperation

For Laos, situated where it is, external relations are of great importance. In terms of principles, four ideas govern this area - equality and mutual interest; independence; use of Law; use of international 'laws and customs'⁴⁶

Following from this, Laos should seek to stimulate foreign investment (the Law on Foreign Investment dates from 1989). Foreign assistance should rise, but with an increasing proportion in the form of credits and finally, Laos should increase its study of foreign experience. The main problem in this area is that coordination between various Lao state organisations is 'weak' - for example, between the Committee on Planning and Cooperation, the provinces and cities, and the line Ministries. Also, Lao implementation capacity is generally inadequate, with poor planning and preparation. Finally, cadres are not yet properly trained or informed. The party plays an active and concrete role in this area.⁴⁷

5. Social issues

In a poor and backward country such as Laos there are enormous social problems to be addressed. However, the current position is that due to resource constraints they cannot all be solved or even tackled at once. Three elements of this are:

- ◆ the social policies adopted have to be related to the resources available to implement them.
- ◆ the general population must make active contributions to social programmes, and not just rely upon the state.⁴⁸
- ◆ social policies have to concentrate upon a small number of pressing tasks - education and health.

production and the monetary system; the role of the state in managing the economy based upon 'Rule by Law'; and the conceptual distinction between 'macro-cosm' and 'micro-cosm' in economic matters. This is all part of the shift from 'management by Line and Policy' to 'Management by Law' (personal communication, lecturer, Cadre School).

⁴⁶ This refers, for example, to situations where arbitration is required between Lao and foreign parties, for Laos has now Law on arbitration.

⁴⁷ Under some circumstances, prior attendance at short courses given by the Cadre School is required for those who will work in foreign projects and joint ventures.

⁴⁸ This position is close to that taken in Vietnam, where the slogan is that 'the state and the people act together'. This has very concrete meaning in the implementation of local infrastructure projects (such as village schools).

Conclusions

The dogmatic position of the party has been presented at some length above. It has a holistic and catholic view of the nature of institutional change. This contrasts with others, such as that reported by the World Bank in its latest Country Memorandum (which can fairly serve as an example of an important alternative approach).⁴⁹ The contrast between the two is revealing and in some ways cause for concern. This is discussed in greater detail below, but an important issue is the tendency for the World Bank's thinking to narrow the notion of institutional change to a statist and formalist position, within which, for example, rather little attention is paid to the social/institutional reasons for the reportedly rather slow pace at which many Lao farming families are exploiting the opportunities offered by their changing environment. To give a second example, increased domestic investment almost becomes identified with raising the volumes of mobilised domestic savings through formal institutions. Underlying this is the notion of product markets as a 'black box', whose qualities and appropriateness to Lao farmers in their great diversity are simply ignored.

Thus for the Lao party, concerned it seems to develop a prosperous family-farm based rural economy as a natural political support and counterweight to urban and often foreign capital, the scope for discussion appears strangely limited. The quote regarding Tudor history in footnote # 3 is relevant here. For their healthy development, 'civil society' and 'the state' are mutually necessary and problems with either pole of the opposition are almost certain to lead to great difficulties. In some ways the party's dogmatic position appears more mature and more sensitive to historical experience than that of the World Bank. This will be addressed further below, after some discussion of Vietnamese experience and of what is being defined as the Lao 'development question'.

A parallel process in Vietnam?

In Vietnam the process of change and transition was in many ways rather different from that in Laos. To start with, significant resources did come out of the domestic economy to feed the growing urban and industrial sectors. Although foreign aid during the war eased the burden, peasants provided important levels of rice supplies. However, as North Vietnam was so poor, and also because Vietnamese farmers proved themselves rather adept at avoiding excessive demands, the degree of control exercised upon the rural population was always rather less than required by the textbooks of the neo-Stalinist system. Furthermore, free market prices from the early 1960s had risen above state prices. One result was that workers' real wages fell; another was that central control was further eroded as state enterprises and agricultural cooperatives sought out ways of exploiting the opportunities offered them. The process of rent-creation caused by central planning and the subsequent use of such rents by units within the socialist economy was thus marked. Also, internal opposition and criticisms of the 'old way' mounted, but were kept well under cover by the continuing political supremacy of the neo-Stalinist programme.

In the second half of the 1970s, application of the northern system upon the now reunited country sought to exploit the large food surplus of the south. However, cuts in aid in the late 1970s associated with the international realignments of the time (Vietnam's invasion of

⁴⁹ World Bank, 1994.

Cambodia; China's invasion of Vietnam's northern provinces) initiated a period of spontaneous breakdown of the system. State factories and agricultural cooperatives started to go 'outside' the plan; 'civil society' emerged from within the socialist economy. Whilst the early 1980s saw concessions made that legalised such activities whilst attempting to restrict them and bring them under some degree of control, these eventually failed. It has been argued that capital accumulation from within the state sector helped to create a constituency for further reform that saw its open political expression at the 1986 VIth Party Congress.⁵⁰ The VIth Congress saw a new General Secretary, Nguyen Van Linh, who presided over a period of de-Stalinisation, the opening up of the internal market, liberalisation of the private sector, and the final removal of the residual element of central-planning in 1989 at a time when Soviet aid was falling away. This saw the macro-economy stabilise and rather rapid growth emerge by 1992-93.

By 1994 it is arguable that a strong consensus had developed, supporting a general 'Rule by Law' program. This consensus was in part built around a deeply entrepreneurial nation; with land access rights widespread amongst the now decollectivised rural population and the urban economies relatively oriented towards small-scale production and trade, there was a high level of property-holding. Also, the corruption and confusion associated with the unregulated market economy was seen as wasteful and inappropriate.

Vietnamese experience therefore tends to have the following characteristics:

- ◆ strong pressures to expand the boundaries of local autonomy and economic choice from within the formal institutions of the neo-Stalinist system: strong 'spontaneous forces';
- ◆ an initial resistance to such tendencies from a political leadership that was already subject to criticism from within the party for the inappropriateness of neo-Stalinist policies under Vietnamese conditions;
- ◆ a destruction of such political positions by the powerful lessons taught by economic and social reality - the authority and power was simply not there to enforce the orthodox models norms;
- ◆ an eventual successful outcome to the overall process, perhaps showing that spontaneously evolving institutions, within limits, offer a way forward.

Conclusions: Ideas from a Comparative Perspective

⁵⁰ Fforde (1994) in ed. Ljunggren (1994).

Whose ideas?

It is not possible to establish where ideas come from. The Lao and Vietnamese parties seem to share an approach which apparently makes sense for Marxist-Leninists who govern market economies. Abandonment of the 'relations of production' focus of traditional Leninism would appear inevitable; what replaces it should naturally be more open-ended and liberal-minded. However, there appear to be lessons to be learnt in both directions. The greater central authority in Laos did permit a more rapid implementation of policies once arrived at, and that is perhaps why Laos was more successful than Vietnam in terms of pace. It remains to be seen to what extent the greater localisation and base-level dynamism in Vietnam will inhibit implementation of the Rule by Law project there. It is noteworthy that the Lao have managed to implement a recentralisation of local state power (i.e. the appointment of provincial leaders directly by the centre, rather than through a system of local elections) which was impossible for Vietnamese reformers to attain in the run up to the 1992 Constitution.

Laos - strong state, passive population; Vietnam - weak state, active population

The tension between diversity and unity is not reconcilable. In Laos, which arguably has a strong state and a passive population, policies are somewhat easier to impose. In Vietnam the reverse is often true. What does appear to be the case is that if, as in Laos, the population is extremely diverse but as yet not capable of expressing that diversity through its participation in the wider sphere, then a greater load will be placed upon thinking at the centre. The centre will have to devise policies and modes of operation to suit the various cases, rather than setting a more general frame and then watching to see how spontaneous events develop.

Lao political structures are far more centralised than in Vietnam. Despite the orthodox IMF/World Bank stress upon the dangers of fiscal and financial decentralisation common in their writings on both countries, the real powers of the centre in Laos appear far stronger. Provincial bosses are, unlike Vietnam, **not** local men; and those who step out of line apparently risk losing their heads. There are no well-known examples of conflicts between centre and province over the appointment of local leaders, who appear to answer directly to the top. This leads, I feel, to a sense of underlying order in Laos, a 'direction from the centre' which in Vietnam is still quite lacking. The reasons for this may stem from such factors as: the small size of the population, the retention of important kinship links within the ruling elite, and the greater internal coherence of a ruling group of a very small country threatened on many sides by 'big powers'. Other factors may also be important, but the issue is critical in assessing the power of central government in its management of the institutions of the new market economy.

The political significance of the 'commercialised state business sector' in Laos is far less than in Vietnam. There appears to be no counterpart in terms of economic interests to the plethora of money-making activities within the Vietnamese state sector which hamstrung reform efforts in Vietnam over the period 1989-93. The Laotian state sector is, in comparison, much smaller - compared with the revenues from timber, opium, miscellaneous smuggling and Western aid (since ca. 1988), its profits cannot be very important. Also, there appears to be no counterpart in Laos to the rapid development of a pro-reform state commercial interest in Vietnam during the early 1980s. Socialist bloc aid to Vietnam was one of the main sources of

the resources that drove the emergence and growth of this group, who (some believe) were an important driving force behind the 1986 VIth party congress. In contrast, the **lack** of such an interest group in Laos suggests the relative importance of other forces.

The 'end-game' - Laos in the mid 1990s - just another post-transitional economy?

The Lao 'development problem' defined

'Ownership' of the development process in Laos is, if one reads the large number of reports available from multilateral organisations, inseparable from the different assumptions about the nature of development that participants bring to bear. This is unavoidable.⁵¹ As we have seen, the Lao party has gone through a major rethink and has arrived at a rather detailed position which, we argue, is holistic and open-ended.

The 'political economy' of Laos in the mid 1990s has not been deeply analysed in this report. The balance between different regions, ethnic groups and clans has not been assessed. Nor has the relationship between the party-state apparatus and the increasingly important businesses interests, both domestic and foreign. These are, however, of obvious importance. The study has argued that important elements of party dogma believe that a more rather than less stable and balanced development path will be one that has a strong focus upon rural development. Such rural development would create a political force within the country that could act to balance the increasing importance of urban - and often foreign - business interests. This makes sense, both in terms of notions of balance and in terms of those of complementarity - political power will be needed to ensure that market-oriented development will not lead to increasing income inequalities.

The 'Lao development problem' would thus seem to have something to do with the way in which two important forces - the state and the rural population - combine their initiatives in order to ensure that growth is accompanied by reasonable income distribution.

From this perspective, it is important to focus upon the changing capacity and attitudes of both. Here the highly professional position of the Bretton Woods institutions is extremely interesting. The limits of this position are clear, and obviously relate to a focus upon macro economics and a relative inability to access the interaction between social perceptions, politics and economic development (particularly in the area of a rural population emerging from a position of great isolation from the 'outside world'). Two examples can be given -

⁵¹ When asked what was the single most difficult thing he faced in explaining his country to foreigners, the Laotian cadre responsible for bilateral cooperation with Japan, Australia and Sweden replied:

'The attempt to impose a foreign model, appropriate to developed market economies, upon a country whose conditions were quite different'.

◆ 'blindness' to accumulation processes *within* the rural family economy. The 1994 draft Country Memorandum, for example the section 'factor markets in transition', essentially identifies aggregate investment with aggregate *mobilised* savings, and so spends much time discussing financial institutions. The point is, that as and if families start to broaden their horizons, there will and must be a substantial process of accumulation, investment and savings *within* the rural economy that will not necessarily have anything to do with the formal financial institutions.⁵²

◆ an identification of systemic change with structural and institutional change, with *the latter understood primarily if not exclusively as formal - or official - in character*. Thus chapter 4 of the same report (headed 'Overview of institutional reforms under the NEM') has this focus. Unlike the more holistic and process-oriented position of the party, there is no discussion of the important range of issues that could as well be labelled 'institutional', such as the cultural changes in the rural areas that must accompany the emergence of a 'commodity producing' family farm community or communities in Laos.⁵³

The Bretton Woods position is also similarly limited by its lack of open access to political economy issues. One example is that in 1994, discussions with the Lao government were hampered by the issue of civil service retrenchment (see also the 1994 Country Memorandum). That the party takes the issue of human resource development extremely seriously follows from the logic of its analysis as described above. However, it is arguable that this issue, like that of the SOEs, touches upon important issues of internal balance within the regime, which (granted the speed with which certain other 'reform' issues have been solved) is not simply a matter of 'socio-political consensus and administrative and technical skill'⁵⁴

This suggests, as do many other aspects of the policy discussions that occur in various fora, that there are important questions to do with the definition and 'ownership' of the Lao reform process that remain unresolved. Footnote # 51 argues that an important part of this is the co-existence of different philosophical positions on the part of the discussants.

Policy intentions and options

Laos in the late 1990s is not really 'just another post-transitional economy'. The main players in determining the course of events combine to produce an intriguing mixture. Amongst these, the most striking is the relationship between those who are now most concerned with the development potential of rural areas: the aid donors, the Lao party and state, and the rural

⁵² Thus - 'But to do this national factor markets - banking, labor and land - must function more effectively ...' op cit . p.39.

⁵³ The sub-sections of this chapter are: 'Civil service reform and government restructuring'; 'Legal Framework', 'privatization and public enterprise restructuring', 'Fiscal management and centralization', and 'Public investment planning and coordination of the budget'. A wider and possibly more modern definition of 'institutional' expresses the conventional distinction between institutional and constitutional order as being that between 'changing the rules' and 'changing the rules about changing rules' (e.g. Ostrom in Ostrom et al. 1988:120).

⁵⁴ The IMF resident representative in Laos, intervention at Geneva RTM, quoted in Yerofeyev, 1994: 8.

population. Granted the more sophisticated and holistic nature of the party's perception, it stands 'between' the two other groups. As such, it must operate primarily through the apparatus of the Lao state, which is naturally enough increasingly influenced by domestic and foreign business interests. Here the Bretton Woods institutions' great stress upon technical skills and macro-economic stability has strongly positive aspects - it attacks many systemic sources of economic rents and creates a certain operational potential. The danger is that this will shift the focus too far up the hierarchy, thus further inhibiting the state's capacity for carrying out what is already a difficult job. As discussed above, it is the combination of an 'active state' with a 'passive population' that most differentiates Laos from Vietnam, whose institutional and policy history has the greatest parallels with Laos.

In attempts to support the emergence of a developmental state in Laos, overseas aid donors may trip up in the the desire for too much haste and the inability to access processes going on within the hundreds of thousands of rural families who will impact strongly on Laos' future. This is a problem also facing Lao government workers, who are caught between the pressure from the party to secure results and the great diversity and frequent passivity of the rural population on the other. To the extent that this dilemma is unavoidable, it may well be that some of the most valuable aid work will be done by those who can accelerate the pace and effectiveness with which the inevitable mistakes are changed into valuable experiences and lessons for the future. In this it appears to the author that the party's current dogmatic position is part of the solution rather than part of the problem.

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