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LAOS IN 1981

Economic Prospects and Problems

Martin Stuart-Fox

Nineteen eighty-one was a significant year in the economic history of the Lao People's Democratic Republic (LPDR), as it saw the commencement of the country's first five-year plan for economic and social development. The plan was presented to the annual plenary session of the Supreme People's Assembly meeting in Vientiane on 6 January 1981 by Lao Prime Minister and Secretary-General of the Lao People's Revolutionary Party (LPRP), Kaysone Phomvihane. Two days later it was unanimously adopted.

Although Laos is not a member of the Council for Mutual Economic Assistance (COMECON), the first Lao five-year plan was timed to coincide with those of COMECON member states, particularly the Soviet Union and Vietnam, and was drawn up largely through the assistance of experts from these two countries. The plan outlines the economic and social goals of the Lao Government during the first half of the decade of the 1980s. In essence it is a balanced, pragmatic, and not overly ambitious document. However, in light of the government's failure to achieve its stated targets over the course of the interim 1978-80 three-year plan, which was designed to lay the economic foundations for the 1981-85 plan, and given the dire social, political, and above all economic problems which the country faces, it seems likely that even these modest goals will not be met.

This article sets out to examine the LPDR's economic prospects over the next few years, and to identify some of the major problems facing the government in the economic field.

It will begin by tracing some of the more important economic developments which took place during the period of the interim three-year plan — especially the failure of the agricultural co-operativization programme, and the subsequent decision to encourage a mixed private-state economy in Laos — in order to demonstrate the weakness of the country's economic base for implementation of the five-year plan. The provisions of the plan itself will then be assessed in relation both to the kinds of problems generally encountered in centralized economic planning by underdeveloped socialist states, and to the specific difficulties faced by the LPDR.

The 1978-80 Interim Three-Year Plan

The main provision which the interim three-year plan hoped to achieve was to make Laos self-sufficient in food grains, most notably in rice. Drought in 1977 had reduced rice production to around 517,000 tons and forced the government to import over 100,000 tons. However, floods in 1978, the first year of the three-year plan, meant that the target figure of 838,000 tons total production (of wet season, dry season, and upland rice combined) was nowhere near met. According to official Lao Government figures supplied to the Asian Development Bank, production amounted to 695,000 tons; another 150,000 tons had to be imported.¹ Production in 1979 and 1980 registered

¹ These figures are taken from the Bank's restricted report no. LAO/EC. 4 of May 1980 entitled "Economic Report on Lao People's Democratic Republic", especially tables appendices 16 to 23, pp. 92-100.

significant improvements, but the deficit still stood at an estimated 11% of domestic production in 1980.

As an integral part of its three-year plan, the Lao Government had intended to increase agricultural and livestock production through the formation of village-based agricultural co-operatives. The co-operativization programme was officially launched in May 1978, though a number of co-operatives were already operating in former Pathet Lao controlled areas. It was hoped that the change from individual modes of production to co-operative farming would lead to increased production through the opening up of new land, communal construction of irrigation projects, the use of improved agricultural techniques, and more efficient utilization of labour. Just as important, the programme was seen as furthering the LPRP's political goals in line with pursuit of the three revolutions (in relations of production, science and technology as applied to the economy, and the cultural and ideological formation of the Lao people).

Almost immediately, however, the co-operativization programme ran into popular opposition. Preparation on the part of the authorities to explain putative benefits in improved technology and living standards had been quite inadequate. Peasants objected to pooling their land and means of production (buffaloes, ploughs, and so forth) on the mere promise of compensation, and there were reports of cattle butchered and even crops destroyed to prevent them reverting to communal ownership. In retrospect it is clear that the government seriously underestimated peasant attachment to traditional life-styles and ways of working. The programme was premature in that there was an acute shortage of trained cadres who understood and could implement government directives. Instead poorly educated cadres resorted to coercion to ensure that co-operativization targets were met. In addition only minimal material support was forthcoming from the government; even essential consumer items were in short supply.

By mid-1979 it was clear that opposition to the co-operativization programme was having a serious effect, both on agricultural production, and on internal security. Anti-government resistance groups were actively exploiting peasant distrust of government motives in pressing co-operativization. At the same time the government was seriously concerned over increasing Chinese support for tribal insurgents in northern Laos. On 14 July 1979 the Central Committee of the LPRP abruptly issued a directive effectively curtailing all further co-operativization. Provisions were made for peasants who had joined co-operatives under duress to withdraw. Many nominal co-operatives were abandoned, and the government has since pursued a policy of consolidation of the relatively few remaining functional co-operatives.

The decision to terminate the attempt to co-operativize Lao agriculture was a victory for pragmatism over ideology. Production was to be accorded first priority in order to overcome the country's food deficit and reduce imports. More important, coming as it did half way through the interim three-year plan, the decision heralded similar rethinking on the broader economic front, rethinking which was given expression in the Seventh Resolution of the Supreme People's Assembly in December 1979.

By any account the Seventh Resolution was a remarkable document. While candidly admitting a number of the regime's shortcomings, it announced sweeping economic reforms to deal with problems which had arisen as a result of earlier policy decisions. In it, Kayson Phommvihane admitted that political consolidation had been slow and ineffective, living conditions had not improved, and the economy was being undermined by inefficiency and corruption. "In guiding economic activities, we have failed to firmly grasp and implement the details of the economic line, plan, and policy of the party and state," Kayson stated bluntly.²

²For the Seventh Resolution, see *Foreign Broadcast Information Service: Asia and Pacific, Daily Report* (hereafter cited as *FBIS:AP*), 18 January and 8 February 1980.

The reforms embodied in the Seventh Resolution touched upon virtually every aspect of the economy. Kaysone declared that at the current stage of Lao economic development, recourse would have to be made to capitalist as well as socialist economic laws to promote economic growth. Five economic sectors were recognized — the subsistence, private individual, capitalist, collective or co-operative, and state of socialist sectors — all of which had to be developed for the welfare of the nation as a whole. In other words private enterprise by small traders would be encouraged; so too would the investment of private capital in larger enterprises either privately managed, or run in conjunction with the state.

In accordance with the overall objectives of the interim three-year plan, the Seventh Resolution placed primary emphasis upon agricultural production. A point was made of encouraging each province to become self-sufficient in food production, to promote industrial crops, and to meet any deficits through trade with neighbouring provinces, including those in neighbouring countries, Thailand and Vietnam. This policy seems likely to encourage a degree of provincial autonomy surprising in a socialist state, but for Laos this is a matter of necessity, rather than choice. Internal communications are poor, and transportation expensive.

Probably the most important measures introduced to stimulate production and distribution of goods were those liberalizing restrictions on private participation in the manufacturing industry, commerce, and internal trading. Conditions for joint private-state enterprises were spelled out, and individuals were encouraged to develop small-scale light industries and produce handicrafts. Private involvement was also called for in the field of communications and transportation in order to circumvent bottlenecks in state procurement and distribution services. Private transport operators were to be encouraged, and even private road construction contractors would be employed by the state, Kaysone said. Major concessions were also made in the field of internal trade, where earlier government regulations had been particularly restrictive. There was even to be room for private involvement in import-export trade activities, either through joint private-state activities, or by fulfilling state contracts.

Pricing, finance, and economic management were three other important areas where reforms were introduced. In effect the government admitted that it was unable to control prices. The pricing policy introduced in 1976 had proved "irrelevant to the present situation", and there was nothing for it but to let market values decide prices. At the same time state subsidies for basic food items were to be greatly reduced, and salaries increased. Financial policy was also to be overhauled with the aim of better utilizing scarce resources. Budgeting was to be made more flexible, with financial resources being channelled to those ministries and enterprises most able to make effective use of them. The banking sector was to be more responsive, and economic management was to be reformed through the "vigorous and thorough implementation of the theory of value and utility". In other words, profit was to be the criterion for efficiency.

Finally, two further measures were separately introduced designed to boost agricultural production, reduce inflation, and bring about an improved economic climate. Previously progressive taxes on rice were reduced to set rates according to yield and were frozen at these levels for five years in order to provide new incentives for peasants to produce more. And the currency was changed from the former "liberation kip" to a new "National Bank kip", representing an effective devaluation of 60% at the official rate of exchange against the U.S. dollar.

These reforms were remarkably far-reaching, especially for a centrally planned socialist economy. But their extent was in itself an indication of the parlous state of the Lao economy after four years of communist rule. The loss of foreign aid, both Western, especially American, and Chinese, and the massive flight of almost the entire educated, technologically proficient middle class not undergoing forced political re-education,

were probably the two factors which had had the most serious effect, exacerbated by repeated unilateral closure of the border by Thailand after every incident along the Mekong. Peasants had avoided paying rice taxes, preferring to smuggle their produce illegally into Thailand, or sell in the black market. Government restrictions had stifled petty trading and deprived urban markets of produce. And government enterprises had been hopelessly mismanaged by men appointed for their political reliability instead of their economic expertise. Something had to be done.

During 1980 one encouraging sign that the reforms of the Seventh Resolution were having some effect was that locally produced food supplies and consumer goods imported from Thailand began to appear in urban markets in Vientiane and other Lao towns. Unfortunately, however, prices were often beyond the pockets of most Lao, especially those on lower government salaries. To be able to afford even minor luxuries people had to hold two jobs, or carry on a little private commerce on the side — which only encouraged inefficiency and corruption. Thai closure of the border in July 1980 had an immediate adverse effect in Laos. Shortages in consumer goods were exacerbated by the lack of any Chinese replacements; prices rose sharply, and inflation again sapped the buying power of the Lao currency. The movement of supplies from Vietnam placed an added strain on the transport system. In addition, even given the political will to carry out the sweeping reforms of the Seventh Resolution, their implementation required time. Bureaucrats do not adapt easily to a reversal of accepted policies. Some of the financial and managerial reforms required specialist training to put into effect. Others depended on such intangible factors as confidence in the regime's bona fides. Thus many of the hoped for benefits from the economic reforms of the Seventh Resolution were not immediately forthcoming.

Despite this, however, the government put on a brave face when it celebrated with much fanfare the fifth anniversary of the founding of the LPDR. According to Kaysone, the government had achieved a number of important economic successes over the previous five years. The area of irrigated arable lands, he said, had increased fivefold; rice production topped the one million tons mark for the first time in 1980; 40% of farmers were in co-operatives; livestock numbers were up 32% compared with 1976; and there had been a 30% increase in forestry production.³ Kaysone was much less specific when it came to industry, saying only that through "the wise investments of our state" and "the active aid of . . . fraternal socialist countries" old factories had been re-established and new ones installed. Electricity production from the Nam Ngum hydro-electric dam had tripled since 1976, and the production of light industries was sufficient to meet popular demand and allow increased exports. In addition 3,000 kms of roads and 450 bridges had been built or repaired, and numerous schools, hospitals, warehouses, and public buildings had been constructed.

A Vietnamese report on Lao economic achievements during the first five years of the new regime added a few more details to this official picture. State enterprises were said to be producing 70% of industrial output, and a number of new enterprises were listed — including factories undertaking mechanical repairs, building materials, farming implements, "transport and communications hardware", transmissions, pharmaceutical products, food processing, and animal feeds. Mineral extraction had increased, and a new gypsum mine opened. Transportation was up to 120 million km tons for freight and 190 million km persons for public transport. And retail trade turnover was up 11% during the period of the interim three-year plan. Numerous dams and reservoirs had been built, and the area of land under industrial crops had more than doubled, with the most important increases registered by tobacco and soya beans.

³Kaysone Phomvihane, *Speech at the Grand Rally Marking 5th Founding Anniversary of the Lao People's Democratic Republic*, News Release, Embassy of the LPDR, Canberra, Australia, 6 January 1980.

Co-operative rice production showed marked increases over individual production (the Tha Ngon co-operative near Vientiane produce 2.5 tons/ha on its 600 hectares of irrigated paddy land, up 700 to 800 kg/ha on production by individual households).⁴

These official claims must, however, be treated with suspicion. To suggest that 2,000 co-operatives and "tens of thousands of mutual aid teams" were functioning is an obvious exaggeration. U.N. officials in Vientiane told the author in December 1980 that probably no more than sixty co-operatives could be said to have any real organizational basis. And mutual aid has always been traditional in Lao farming communities. As for the figure of one million tons for rice production, this was of unhusked rice and was still insufficient to meet internal demands. Claims that production had surpassed the planned target for 1980 were only true because the target itself had been scaled down. In the case of industrial production, the lack of any figures told its own story.

But the overall economic situation at the end of 1980 as the government prepared to launch its first five-year plan was not entirely bleak. Domestic rice production had been increasing. So had the production of industrial crops. Timber production was up from 83,000 cu m in 1977 to around 190,000 cu m in 1980. Electricity generation *had* increased threefold, most of it for export to Thailand.⁵ Mining showed promise, and at least an attempt was being made to increase the efficiency of the manufacturing industry.

On the financial side, government revenues were increasing slowly, while expenditure was being kept within bounds — though expenditures were still more than double revenues. The domestic money supply was being kept under control. Exports were up, though imports were also rising, leaving a current account deficit of around double the total of exports — a sum which had to be made up through foreign aid. Still foreign debt servicing stood at no more than a manageable 7% of total exports, thanks to the non-refundable nature of much financial aid, and gross international reserves were about 28% of annual imports.⁶

Even so, despite enthusiastic government pronouncements, the picture was not very encouraging as Laos prepared to commence her first five-year economic development plan. The programme would be entirely dependent upon foreign aid, would begin from a pitifully low starting point (Laos is among the poorest countries in the world with average annual income of about US\$90), would face a lack of skilled technicians to put it into effect, and would meet internal opposition from a still active resistance movement. Nevertheless the government was optimistic that by formulating a new plan, real if modest improvements could be made to individual living standards, and to the overall economic welfare of the state.

The First Lao Five-Year Plan: 1981–85

The five-year plan which Kaysone outlined to the Supreme People's Assembly is incorporated in a document which is now known as the Eighth Resolution. It sets out in broad terms the economic priorities of the Lao Government for the first half of the 1980s.⁷ After outlining the achievements of the regime over the previous five years, and especially during the interim three-year plan, in the face of what he called the counter-

⁴Ky Son, "Initial Achievements after Five Years under the New Regime (2/12/1975–2/12/1980)", *Vietnam Courier*, no. 1 (1981), p. 18.

⁵For a recent survey of Lao electricity exports, see Marcel Barang, "Laos: Electric Sales", *South*, December 1980, p. 58.

⁶This summary is based upon a restricted International Monetary Fund report entitled *Lao People's Democratic Republic — Recent Economic Developments*, SM/80/174, 22 July 1980.

⁷The text of the Eighth Resolution was published in the LPRP official newspaper *Sieng Pasason* on 14 January 1981, and was broadcast over Radio Vientiane on 16 and 17 January 1981 (for a translation, see *FBIS:AP*, 26 January, and 2 and 13 February 1981).

revolutionary alliance between U.S. imperialism and Chinese international reactionism, Kaysone concluded that

our economic and financial successes in the past five years have positively contributed to normalizing the people's living conditions, and have created important fundamental conditions for our socialist transformation and construction. (*FBIS:AP*, 26 January 1981, p.17.)

Kaysone did not elaborate on what he meant by "normalizing" living conditions, but it was a theme which was to recur. He admitted that the country faced a number of serious economic problems. These he listed as poor management experience, a shortage of educated cadres, poor use of labour, and failure to implement economic policies. As a result the economy had "failed to make progress". In particular there were difficulties involved in the stage of transition to socialism in which Laos found itself. Kaysone drew three lessons from past experience: that there was a need clearly to understand the party line, to improve economic management, and to promote international socialist solidarity (that is, with Vietnam, the USSR, and other Soviet bloc states).

According to Kaysone, the nation's strategic tasks remained those of national defence, socialist transformation, and economic construction. In the light of these goals, he announced that the orientation of the five-year plan would be:

To enhance unity among the masses and people of all nationalities; to firmly grasp the proletarian dictatorship; to further enhance and develop the right to mastery of the labouring people of all nationalities; to continue to simultaneously carry out the three revolutions; to promote economic transformation and construction and cultural development in conjunction with stepping up and consolidating national defence and public security work; to develop and enhance the potentials of our country in all areas; to closely co-ordinate the assistance provided by the international community; to step up all-round co-operation with Vietnam, Kampuchea, the USSR and the fraternal socialist countries; and to consolidate and restore organizations and promote their economic management capabilities with the aim of introducing new clearcut changes in agriculture and forestry work. At the same time, a vigorous effort must be made to gradually build the material and technical bases of socialism and to guarantee the speed and consistency of special production so as to normalize the living conditions of the people of all nationalities. (*FBIS:AP*, 2 February 1981, p. 111.)

The fundamental objectives of the plan, according to Kaysone, were to "normalize the material and cultural life of the people", and to "concentrate on building those enterprises which are strategically important to our economy and national defence". The seven priorities of the plan were listed as: to promote agricultural production; build strategically important enterprises; consolidate the economic bases of state enterprises; train economic managers and technicians; complete the literacy campaign; consolidate and restructure "organizations which manage the economy and state"; and acquire and efficiently utilize foreign economic assistance. Thus the government slogan in support of the plan calls on the people to "fulfil the two objectives and the seven priorities".

Actual targets for the five-year plan had been published earlier as percentage increases over unstated production figures of 1980. These targets were given in Ordinance 408 of the LPDR Council of Government, issued on 28 November 1980.⁸ There it was stated that gross social product is expected to increase by 65 to 68% over the five years from 1981 to 1985 while national income from domestic production will grow by 38 to 40%. Increased production will, it is hoped, increase funds for the budget derived from domestic revenue by 1.7 to 1.8 times the 1980 figure. This is to be achieved

⁸This Ordinance was published in *Khaosan Pathet Lao, Bulletin Quotidien*, 29 November, and 1 and 2 December 1980. For an English translation, see *Asian Almanac* 19, no. 11 (21 March 1981): 10563-4. In some cases, references to this document have been translated directly from the French.

by introducing a new structure of taxation to reflect "the true class nature of the political and social changes taking place in the LPDR", together with new financial controls and a co-ordinated system of financial accounting and inspection "to prevent overpayment and extravagance".

Total agricultural production is to increase by between 23 and 24% over the five years. Crops are to increase by 24%, and livestock numbers by not less than 24%. Rice production is to be regarded as the main task in the agricultural sector. The goal is for each person to produce 350 kg of paddy or "other starchy foodstuffs" per year, leading to at least a 20% increase over the 1980 harvest by 1985. Peasants are to be paid a reasonable price by state procurement agencies, with basic consumer goods made available for barter against paddy.

Irrigation is to be extended, industrial crops promoted, and forestry production emphasized. Of food crops, maize production is due to be increased by 60%, together with soya beans and peanuts by a similar amount. Over the same period such industrial crops as tobacco and coffee will rise by 89 and 53.8% respectively. Much of the increase in non-grain crops the government intends to export. Article 9 of Ordinance 408 calls upon the Ministry of Industry and Commerce to draw up plans in order to guarantee that agricultural production will meet export targets "in accordance with different agreements and contracts already entered into". Such commitments have never been made public, but presumably they are partial recompense for aid received. Exports of Lao agricultural produce to the Soviet Union were due to begin in 1981 (Eighth Resolution, *FBIS:AP*, 2 February 1981, p. I 17).

The principal strategic enterprises to be undertaken under the plan will be completion of route 9 as an all-weather highway linking Laos with Vietnam, construction of a network of oil pipelines from Vietnam, building of a cement factory with a capacity of 200,000 tons per year at Vangvieng, north of Vientiane, and the setting up of a motorized transport unit responsible for import and export of goods (particularly via Vietnam at times when the border with Thailand is closed). Clearly all these projects are aimed at lessening Lao dependence upon Thailand for the purchase or trans-shipment of goods.

Gross industrial production is due to be increased by between 2.0 and 2.2 times the 1980 figure. However, as production during 1980 is believed to have registered only minimal gains over 1977 during the course of the interim three-year plan, and the 1977 figure was well down on 1974, the year before the communist take-over, a doubling of production by 1985 is not as significant as might appear. A striking example of reduced industrial production since 1974 is provided by wood-processing, a priority area for the present government. According to the Asian Development Bank report cited above, actual production of sawmills in 1977 was less than 10% of the 1974 figure of 500,000 cu m. Plywood and parquet factories were operating at as low as 25% capacity (pp. 58-59). Thus increases envisaged by the five-year plan may do little more than restore industrial production to around 1974 levels. Emphasis will be given to encouraging light import replacement industries, such as clothing, salt, fish sauce, beer, soft drinks, flour milling, cigarettes, and the processing of agricultural products, and to increasing productivity and improving quality controls.

In the vital area of communication and transportation, it is hoped that by 1985 the distribution of goods to state shops and co-operatives will increase by from 1.7 to 1.8 times, a figure which, given present low levels of supply, seems unlikely to meet demand. Motorized transportation is expected to increase by 80 to 85% to supply additional consumer items, while passenger transport will go up by at least 55%. This is, in part, to be achieved through the mobilization of "private transport enterprises to effectively fulfil the state policy". Another proposal is to set up trading co-operatives to effect the smooth exchange of goods between the towns and the countryside. This increased distribution

will require both additional vehicles and an improved road network. Maintenance and repair facilities will be enlarged, while the plan envisages construction or upgrading of 814 kms of roads, principally along route 9 from Vietnam and route 13 which connects Luang Prabang to Vientiane and then follows the Mekong south to the Kampuchean frontier.

Turning to construction of the "material and technical base" of the economy, Kaysone demanded stricter management and more efficient use of investment funds. In calling for a 47 to 50% increase in total investment in infrastructure construction projects over the duration of the five-year plan, Kaysone revealed that only a quarter of planned construction projects had been completed over the previous five years, with the result that each year domestic capital resources remained unutilized. To overcome such problems, a national construction planning organization is to be established to oversee the building of houses, schools, hospitals, factories, roads, and irrigation projects. As in other aspects of the plan, a place is reserved for private enterprise, particularly in providing construction materials such as bricks, tiles, lime, gravel, and timber, for state projects.

In the field of international trade, the Eighth Resolution foreshadowed a further easing of restrictions, though Kaysone maintained that state policy continued to be that "transactions with foreign countries must be conducted on the basis of the gradual [state] monopoly of foreign trade". Private trade would be permitted at border crossing points with Thailand, providing that government monopolies were respected, payment of the proper duties was made, and there was no hoarding. In a statement on trade issued in March 1981, the government reserved to the state the export of timber, mineral ores, rice, coffee, bezoar, and stick lac. Import monopolies were listed as machinery, raw materials for state enterprises, transport vehicles, buses, tractors, machinery and spare parts for state factories, cement, steel for construction purposes, fuels, rice, sugar, and salt. Banned items included firearms, medicines (though these were not mentioned as a government monopoly), harmful chemicals, and "printed documents including films and books and other [*sic*] which might be considered against the policy of the party and government". Any previous authorizations for the private import or export of products now a government monopoly were annulled, together with all previous restrictions on other items. Thus provincial authorities and private traders were free to trade in forestry products, traditional handicrafts and "other products" (including presumably agricultural produce) in return for consumer items from Thailand. These moves, the government announced, were "aimed at improving the trade along the [country's] borders and the private business sector".⁹ In August it was reported that traders crossing the Mekong would be required to carry only their identity cards (Lao or Thai).¹⁰

Internal trade was also liberalized, though state trading enterprises were called upon to step up both their purchases from individual farmers and co-operatives, and their sale of consumer and industrial goods (such as agricultural implements). On the crucial question of retail pricing, Kaysone made it quite clear that the government intended to continue its two-price policy. The prices of rationed goods such as rice and sugar made available to workers and state employees would be fixed by the government, though the level of subsidization would be limited in accordance with the decisions of the Seventh Resolution. Meanwhile an open market would continue to operate with prices varying according to supply and demand. Peasants would be expected to sell a proportion of their produce to the state at prices which maintained "a reasonable ratio" against state

⁹Radio Vientiane, 13 March 1981 (in English) (*FBIS:AP*, 13 March 1981).

¹⁰*Far Eastern Economic Review*, 14-20 August 1981, p. 6.

supplied industrial goods,¹¹ while free to dispose of the remainder on the open market.

Finance, banking and monetary policy were to be based firmly upon decisions already taken in the Seventh Resolution. Financial accounting procedures were to be undertaken by the Ministry of Finance in order to promote more efficient financial management of state enterprises. This would require the training of cadres at all levels to improve tax collection, control expenditure, and rationalize income distribution in co-operative enterprises. In addition, the Ministry has the task of drawing up new budgetary regulations, and of ensuring monetary stability in co-ordination with the Planning Commission and the National Bank. In particular foreign aid and overseas borrowing are to be closely co-ordinated with national budget requirements.

On the important problem of labour organization and salary levels, Kaysone admitted that many state employees did not have enough to do. Peasants worked no more than 100 days per year in their fields, leaving 150 days for "industrial work". There was need for technical training to improve the quality of labour and increase efficiency; and there was need for wage incentives and rewards for hard work. Over the period 1981 to 1985 the number of workers and state employees was expected to rise by between 40 and 45%, with the government's salary allocation rising 2.5 times to meet the wages bill.

Despite the provisions in the plan for increased participation by private enterprise in a number of sectors of the economy, Kaysone summed up its goal as "the socialist transformation of capitalist industry, trade and agriculture". The five-year plan, Kaysone stated, provided "a method aimed at ensuring victory for socialism in the struggle of who is overcoming whom during the bypassing capitalism stage in our country". Capitalists still operating within the Lao economy would continue to be used, restricted, and transformed, while co-operative and state enterprises were systematically advanced. In particular agricultural co-operativization was to be encouraged, though not without careful preparation, state guidance, and the proper training of cadres. But while the work days of co-operative members were to be increased to at least 200 per year, members were also to be encouraged to develop a "secondary economy for each family" on their private plots. The mix of socialism and capitalism in agriculture, as in trade and industry, was to be a fine one!

Three further aspects of the five-year plan also deserve mention, though they impinge less directly on short-term economic development: education, culture, and public health. But as Kaysone frankly pointed out, "cultural, educational and public health work [will] contribute to promoting and expanding the superiority of the new regime at a time when the people still face some difficulties in their material lives". These pursuits would contribute both to "the task of normalizing the situation in all areas", and to creating the new Lao socialist men who will "know how to live in such a way that they are for everybody and everybody is for them".

To this end, therefore, illiteracy is to be abolished by 1985 for all those between the ages of 15 and 45. A fourfold increase in kindergarten attendance (to accommodate between 30 and 40% of pre-school age children) is envisaged, while primary school enrolments are to rise by 40% to a total of 635,000 pupils. The goal is to increase the number of those going on to a secondary education by 80 to 90%, with university entrance up 26%. A polytechnic university is due to be constructed in Vientiane, probably in 1983 or 1984. The number of those undergoing technical training will also increase, by about 60%, with a new category of "professional secondary schools" providing training in practical skills.

¹¹To be maintained by pricing state supplied goods in terms of kilos of paddy, and instituting a barter system for rice procurement, according to Dr Soumphanvong Inthavong, Deputy President of the National Planning Committee, in an interview with the author in Vientiane, 5 December 1980.

In the field of culture the stress continues to be on rooting out "the rotten, reactionary culture of neo-colonialism and feudalism". At the same time, however, "supernatural and vulgar culture must be gradually eliminated" — which presumably refers to unacceptable aspects of popular Buddhism and the animism of certain tribal minorities. The Soviet Union is constructing a 150 km radio transmitter, and a television station is planned. Plans are also underway to build a national theatre, library, and exhibition hall, together with cultural centres in each of the provinces. Printing capacity is to be augmented, and tourist attractions of cultural interest to be restored.

As for public health, services are to be improved and extended, with special attention being paid to the health care of the people of ethnic minorities. Sanitation and hygiene will be improved, and the number of hospital beds increased by 32% to a total of 13,000. Three times as many doctors and medical assistants are expected to be working in 1985 as there were at the end of 1980.

If there were any doubts as to the impact the plan was intended to have, they were expelled by Kaysone's stipulations on the rights and duties of state enterprises in implementing what he called "the system of balanced and profitable management". State enterprises are to be granted a considerable degree of autonomy in management, in financial expenditure for ongoing costs, in the hire of labour, in determining profit margins, and in marketing, though proper budgeting and accounting procedures will need to be followed. Only overall planning will require central government approval in terms of capital investment and production goals. The criteria of good management was to be efficient and profitable production. To this end, managers are to be encouraged to use what Kaysone called "economic levers", including pricing, salaries, bonuses, loans, financial policies, and profit margins, without interference from party or government functionaries.

The various management and administrative organizations such as ministries, [departments] and administrative committees . . . shall not directly interfere in production management work and the business of an enterprise. They must not violate the right to collective mastery of an enterprise as stipulated in the provisions on state enterprises, which are state law. (Eighth Resolution, *FBIS:AP*, 13 February 1981, p. I 18.)

Finally, Kaysone made it clear that the success of the plan would depend upon the international assistance forthcoming. Economic co-operation with "fraternal countries" was of "strategic significance" since it provided "sources of capital . . . for building the material and technical foundations of socialism". Thus solidarity with the USSR, on which Kaysone heaped fulsome praise, and with Vietnam and Kampuchea were essential to the success of the plan. But as Kaysone pointed out, Laos could not expect continued gifts of aid.

Now that peace has returned to our country, we must gradually adopt the form of economic co-operation on the basis of mutual assistance, mutual dependence, equality, mutual benefit, loans and trade transactions. Such practices are in line with the spirit of proletarian internationalism. (Eighth Resolution, *FBIS:AP*, 2 February 1981, p. I 16.)

Clearly the socialist bloc states were not prepared to provide limitless financial support for the Lao plan. "Diplomatic work" would be necessary to obtain contributions from elsewhere.

Problems and Prospects for the Lao Economy

It is not easy to analyse the likely effectiveness of the first Lao five-year plan. Almost all targets have been given as percentage increases over production for 1980, but these figures have not yet been published. It is therefore difficult to assess the likelihood that

goals will be met. Obviously a number of factors could intervene to set back any planned economic development. Another series of natural disasters like the drought and floods of 1977 and 1978 would have a severe effect on Laos' balance of payments, as well as reducing agricultural production. Thai blockade of the border would, despite Laos' increasing economic links with Vietnam, have a serious effect also by causing a scarcity of consumer goods and forcing up inflation.

Apart from these external factors, among which might be included the willingness of donor states to fund the plan, there are serious weaknesses in the Lao economy which may prevent plan targets being met by 1985. These include both the kind of general problems of economic planning faced by underdeveloped socialist states,¹² and problems specific to the LPDR. Among the former are problems of investment planning, preparation and flexibility, quality control, and the need for imported finance and technology. In the latter category should be included the LPDR's debilitating loss of skilled workers, low levels of expertise, extreme dependency, and the effects of an externally supported insurgency.

Investment planning is the key to any economic development plan in a centralized socialist economy. Too often too many projects are begun simultaneously, thus "freezing" large amounts of capital which might otherwise be devoted to less prestigious, but more immediately productive projects. Laos largely escapes this problem because it is not in the position to embark upon such major projects as port or railway construction, large-scale mining, or heavy industry. The largest project in the country is the upgrading of routes 9 and 13 to provide an alternative access to shipping facilities. While this is a major project, it offers immediate economic benefits, and does not threaten to tie up an unacceptable proportion of the nation's resources.

Preparation through feasibility studies and flexibility in planning, are both problems more likely to affect Laos. There is evidence that past projects have been commenced without proper feasibility studies, especially as to the availability of trained manpower. Also Laos lacks experienced managers and planners capable of reacting swiftly to changed situations to modify plans and priorities.

Quality control, or the lack of it, is another problem which planners face in Laos. Above all, quality control depends upon levels of technical training and the commitment and motivation of workers. Both are problem areas for the LPDR. Manpower training is inadequate and manpower planning has been little understood or practised. As Limquenco and MacFarlane point out, "the human factor in production needs careful nurturing and . . . the planning system must tackle the problem of the workers' involvement in the planning process, in industrial management etc." (p. 16). Decisions of the Lao Government over the past five years have all too often alienated workers and peasants. Salaries are low in the towns, and incentives lacking in the countryside. Much lip-service is paid to the need for popular, or collective mastery over the means of production, but in practice cadres give orders and any attempt to question their rationale is actively discouraged. Any criticism of government economic policies or priorities is interpreted as trouble-making or disloyalty at best, or as pro-Chinese sabotage of the national will at worst — a most heinous crime in contemporary Laos. One result of such actions is to stifle initiative in all areas of the economy and to make even middle-level bureaucrats reluctant to take even minor decisions without either clearing them, or referring them to higher authorities. Not surprisingly, Kaysone pointed to manpower management as a key area in need of reform during the course of the five-year plan.

¹²As outlined in Peter Limquenco and Bruce McFarlane, "Problems of Economic Planning for Underdeveloped Socialist Countries", *Journal of Contemporary Asia*, 9, no. 1 (1979): 5-26. Limquenco and McFarlane's analysis will be used as a framework for the subsequent discussion.

The need for imported finance and technology is a problem which faces every underdeveloped country. The cost of such technology and problems of finance mean that underdeveloped states seldom have the opportunity to choose the best technology available to meet their requirements. Instead they must accept what is offered. Where contracts are let, questions of foreign exchange and the need to minimize costs are more likely to determine decisions than is a technical study of quality requirements.

A danger for all underdeveloped countries is that impatience to modernize will lead to an accumulation of massive and complex debts whose servicing requires an ever increasing percentage of export income to cover. Whether such payments are in the form of cash loans from international lending organizations or foreign banks, or whether, as in the case of Laos, they are in the form of barter agreements with socialist states absorbing an increasing percentage of agricultural exports, the effect is the same: to tie such states into a network of economic and political obligations from which they are unable to disentangle themselves, or reassert national independence. For Laos the problem of dependency is particularly acute, as will be discussed below.

Of the internal factors specific to the LPDR which are likely to influence the outcome of the first five-year plan, perhaps the most pressing are the continuing loss of trained personnel, economic and political dependency, and anti-government insurgency. The peculiar geographic position of Laos, the ease with which people could cross to Thailand from the country's major population centres, were factors apparently never considered by Lao communist leaders when imposing their policies on the country during the first years of the republic. Although the transition to socialism during 1975 was gradual in comparison with other such revolutions, the effect of more radical policies during 1976, and fear of political reprisal, of being sent to remote re-education camps, convinced thousands to flee the country. The liberalization of the Seventh Resolution at the end of 1979 came too late to prevent this exodus, and even did little to stem it.

Now Laos is desperately short of educated people, technicians, and administrators. The higher education system itself has been so badly affected that it will be years before the country can recover. The training of Lao abroad will help in the longer term, but not enough in the near future to ensure the success of the first five-year plan. Nor will the new policy of bringing experienced bureaucrats of the former regime back from political re-education camps do much to alleviate the problem. Many are only waiting for the first opportunity to join their relatives abroad. In fact, so great has been the flood of refugees from Laos that virtually everyone in the present administration has some members of his family in France, Australia, or the United States. Even a number of students trained in Soviet bloc countries have crossed the Mekong on their return to Laos. Those who remain know they have the option to leave at any time, and though they may be committed to serving the present government, the suspicion that anyone might leave at any time hardly promotes a healthy atmosphere.

The problem of dependency is one which Laos has always faced, and the transference of that dependence from Western capitalism (particularly the United States and Thailand) to Soviet socialism (particularly the Soviet Union and Vietnam) has done little to reduce it. The geopolitical reality is simply that Laos is underpopulated, militarily and economically weak, yet strategically vital to the interests of its neighbours. Consequently it is so vulnerable to outside pressures that the only realistic choice open to its leaders is which patron they prefer. But this is a choice which depends internally not on economic, but on political and ideological considerations, and externally on global and regional power balances. Laos is now locked into both the Vietnamese-dominated Indochina solidarity bloc (consisting of Vietnam, Kampuchea, and Laos), and the Soviet camp, with all this entails for Lao relations with China and the West, both of which could have provided considerable assistance for the Lao five-year plan.

On the more specifically economic level, Lao dependency has meant that envisaged

investment over the next five years is almost entirely dependent upon pledges of foreign aid. Revenues do not meet government expenditures for administration and services. Balance of payments support, and budget subsidies, either direct, or hidden through such provisions as the sale of donated commodities through government outlets, has continued to characterize the Lao economy. Despite claims that the 1980 budget was balanced after progressive reduction of the deficit since 1977,¹³ an important effect of Lao dependency continues to be the monetary instability which has plagued the regime. Two changes of currency, and three devaluations since 1975 have been unable to check inflation because of the country's underlying financial weakness and continuing world-wide inflationary trends. Should aid commitments at any time not be met, government expenditure could again further fuel the inflationary spiral.

Finally something should be said about the continuing anti-government insurgency. Though this is more of a nuisance than a menace at current levels, more determined support by the Chinese, with Thai connivance, could at any time pose an increased threat to the government. At present Vietnam bears much of the burden for Lao defence, but higher levels of insurgent activity in the form of sabotage, ambushes, and incursions by armed propaganda teams, would force the Lao authorities to commit more of their scarce resources to maintaining internal security, with a corresponding reduction of the funds available for economic development. As it is, local defence duties take up more time than they should for village youth who would be better employed in productive labour.

Taking the above considerations into account, it is difficult to be optimistic about the future of the Lao economy. Not that the targets of the five-year plan are overly ambitious. Given that the 1980 base figures for most sectors of the economy are still disappointingly low, production increases foreshadowed in the plan should be attainable. But the economy is in a parlous state at present and its structural weaknesses cannot help but persist for the duration of the plan. But there are some bright points. The plan eschews grandiose projects for smaller ones capable of realizing quick benefits. Priorities are firmly in favour of agriculture. Industry concentrates upon import substitution and value addition for exports. There is evident a pragmatic awareness of the need to reserve a place for small-scale private industry and commerce during the current stage of transition to socialism. Combined private-state enterprises are being encouraged, and there is a new realization that economic management requires special skills which do not necessarily correlate with political orthodoxy or ideological fervour.

Popular opposition to co-operativization of agriculture has forced the realization that collective mastery may mean something more than telling peasants what they are supposed to want. And the continuing insurgency has at least made the Lao authorities more aware of the need to offer farmers concrete benefits in order to offset propaganda against the new regime. The slow process of eventually freeing most political detainees and of offering them responsible positions in the bureaucracy promises at long last to give practical effect to calls for national reconciliation. These returnees and other Lao may be less eager to cross into Thailand now that the Thais are refusing to grant refugee status to Lao defectors. And as an added incentive for returnees to stay in Laos, the government is offering to fly back at state expense any families settled abroad.¹⁴

The small number of technical cadres will, however, continue to be a limiting factor

¹³Account of the 1981 budget deliberations broadcast over Radio Vientiane, 13 March 1981 (*FBIS:AP*, 13 March 1981). This success was attributed to the policies of the Seventh Resolution, and with an expected favourable harvest in 1981, more of the same is clearly envisaged. However, it was reported that "intensive discussion" followed Finance Minister Nouhak Phoumsavan's presentation of the 1981 budget, which may indicate that not everyone is happy about the direction of present policies.

¹⁴Information given to the author during a visit to Laos towards the end of 1980. The Thai have been segregating all Lao entering the country illegally since January 1981, and refusing permission for interviews for third country resettlement.

throughout the duration of the plan. This may mean that even some of the foreign aid available to the Lao Government may not be utilized. Manpower rather than finance is likely to be the most pressing problem over the next few years. But the most disquieting factor, and that which most directly threatens the success of the plan, is the possibility of increased international tension in the region. Stepped-up fighting in Kampuchea or more overt Chinese hostility could not help but have serious repercussions on the Lao economy.

In the longer term, however, Lao economic prospects are healthier than they would appear to be over the next five years. The country does have substantial natural resources, both agricultural (including extensive forests) and mineral. Industrial crops offer a major growth area which, as the Asian Development Bank report of May 1980 notes, "together with the country's hydroelectric and mineral potential, could represent a substantial base for developing industries and agroprocessing" (p. 68). But this is far in the future. Meanwhile, Laos' chronic trade deficit will continue, together with the country's chronic political and economic dependency. All that can be realistically hoped for in the next five years is that both may be slightly alleviated, and that the miserably low standard of living in the country can be gradually improved.

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