

LAOS: Towards Subregional Integration

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## LAOS

### Towards Subregional Integration

*Martin Stuart-Fox*

For Laos the opening on 8 April 1994 of the first bridge across its Mekong river frontier with Thailand was more important for its symbolic significance than for any immediate economic impact it can be expected to have. The Mitaphap ("Friendship" in both Lao and Thai) bridge carries two lanes of road traffic and can accommodate an extension of the Bangkok–Nong Khai railway to Vieng Chan (Vientiane). Its 1.174 kilometre length spans the river channel 23 kilometres downstream from the Lao capital. Construction by Australian engineers began in October 1991 and was completed in September 1993, six months ahead of schedule, at a cost of US\$30 million.<sup>1</sup>

A bridge across the Mekong was first suggested in the 1960s when the former Royal Lao regime enjoyed friendly relations with the then military-dominated government in Bangkok. In 1969 the Japanese Technical Cooperation Agency produced a report for the UN Mekong Coordination Committee that estimated considerable long-term benefits from bridging the Mekong. The following year an Asian Development Bank (ADB) assessment cast some doubt on the Japanese findings, and interest in the project lapsed. Strained relations between Laos and Thailand over the decade following the declaration of the Lao People's Democratic Republic (LPDR) in December 1975 prevented any resuscitation of the project until the late 1980s. Then a series of political developments — Gorbachev's accession to power in the Soviet Union, the introduction of market mechanisms in Laos, progress towards a peaceful resolution of the conflict in Cambodia, withdrawal of Vietnamese forces from both Cambodia and Laos, and election of a civilian government in Thailand — all contributed to creating the necessary conditions to go ahead. In 1989 Australian Prime Minister Robert Hawke offered to build a bridge. Construction was eagerly accepted by the Thai, and welcomed with some subsequent misgivings by the Lao. For Australia the gesture reinforced a commitment both to the peace and prosperity of the region and to greater Australian involvement in Asia.

On the face of it, construction of the Friendship Bridge made good economic sense, both for Thailand and Laos. Improved relations following their brief

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border war of 1987–88 had by the early 1990s led to an influx of Thai investment capital. Restrictions on the importation of goods transiting through Thailand had been fully lifted, and Laos had reverted to an earlier pattern both in foreign relations (as a buffer state on good terms with both Thailand and Vietnam) and in trading relations (the greater part of trade with and via Thailand rather than Vietnam). An easing of the formerly close “special relationship” with Vietnam has been encouraged by China; and Hanoi has been in no position to object. Moreover, the LPDR needed to do everything possible to encourage trade and investment. The bridge seemed like a good idea.

Only as construction progressed did some Lao begin to have second thoughts. Thai businesspeople were the first to take advantage of the liberalized investment environment in Laos, and their business methods were widely believed to be responsible for the rising level of corruption among underpaid Lao civil servants. Lax morals and dissolute lifestyles among young Lao tend to be blamed on Thai influence, purveyed more by Thai television watched in preference to the single rather dreary Lao channel by most Lao wealthy enough to possess TV sets than by any increase in the number of Thai tourists. Prostitution and the spread of HIV/AIDS have also become of increasing concern as young Lao, girls and boys, are lured to and return from Thai brothels. Lao worry that these social scourges will multiply now the bridge is open; that “traditional Lao culture” will be swamped by cruder Thai ways; that Laos will become not just an economic, but also a cultural appendage of Thailand. Some Lao fear that the forces of change unleashed through the New Economic Mechanism (NEM), with its reliance on the market and foreign investment, will be uncontrollable in the longer term and thus threaten to destroy not only what little remains of socialism in Laos, but also the very identity of the Lao people. Such fears are not, however, universally shared. For many Lao, economic liberalization has offered new freedoms, if only in terms of economic rather than political choice. For the lucky few, opening to the capitalist world has brought unexpected opportunities for education, for themselves or their children, while the influx of foreigners has opened up new avenues for employment. Those with a larger vision think in terms of national development: for them Thailand is more a model than a threat.<sup>2</sup>

For both sides in this debate, the Friendship Bridge serves as a symbol of threat or hope, depending on perspective. That the Mekong river had never been anything but a very porous border is hardly relevant to either side. Whether the bridge exists or not, Laos will still find it impossible to isolate itself from the changes now occurring in mainland Southeast Asia. Thailand has become the economic powerhouse of the region. China wholeheartedly and Vietnam with some reservations have both embraced rapid, market-driven economic development. Sooner or later both Cambodia and Myanmar will follow suit, when they set their political and economic houses in order. Given its strategic position, Laos can hardly avoid being propelled along by the dynamism of its neighbours.

### **Subregional Integration: Challenge and Response**

The impetus for "subregional economic co-operation" has come mainly from the Asian Development Bank. In November and December 1991, Bank officials sounded out the governments of six countries: Laos, Thailand, Cambodia, Myanmar, Vietnam, and the People's Republic of China (PRC). China was included because in the view of the Bank, the province of Yunnan formed a natural northern extension of the "subregion" comprising mainland Southeast Asia. Between August and October 1992 a Bank Study Team consulted with each government to draw up a Framework Report to be submitted to the First Conference on Subregional Economic Cooperation in Manila in October. This conference endorsed a set of "Initial Possibilities" published by the Bank in February 1993,<sup>3</sup> and follow-up conferences were held in Manila, Hanoi and Bangkok to prioritize and refine projects and to review progress.

Integration was envisaged in six sectors: transportation infrastructure, telecommunications, energy, management of the environment, human resource development, and trade and investment. To these tourism was subsequently added as a separate sector. Of those seven sectors, the most important for subregional integration are provision of transportation infrastructure for the movement of people and goods, on which both tourism and trade depend, and energy production to power the economic development of the region. Once these are achieved, integrative co-operation will require agreement on such matters as regulations and procedures affecting trade, control over prohibited items to reduce smuggling and organized crime, exchange of information, agreement on standards, etc.

In the two basic sectors of transportation and energy, the LPDR occupies a key strategic position, as a glance at any map of the region immediately reveals. Laos is the only country to share common borders with each of the other five states. Transport routes and other communications between the principal member states — Thailand, China, Vietnam — cannot help but pass through Laos if long and costly detours are to be avoided. Moreover Laos with its mountains and rivers has both the greatest potential and lowest internal demand for hydropower, and is thus in the best position to supply neighbouring states. Vast hydroelectric projects will displace fewer people in Laos than elsewhere in the region. From the Lao perspective, therefore, subregional integration flowing from rapid economic development promises to turn the disadvantages of being landlocked, isolated, mountainous, and underpopulated into positive advantages. Laos may even revert in the twenty-first century to what it was five centuries ago — the heart of the region, the crossroads where trade routes intersect. Perhaps not surprisingly, Laos is said to be "an especially enthusiastic supporter of subregional cooperation".<sup>4</sup>

Subregional integration is likely to proceed at a pace that will pose considerable problems for all states, though more for some than others. Thailand is eager to exploit its advantage in economic development, and provincial authorities in Yunnan want to open up trading opportunities with

neighbouring states. Myanmar and Cambodia both look to increased regional co-operation to help solve some of their intractable internal political problems. Laos and Vietnam share some reservations about the impact, both social and in the case of Laos cultural as well, of closer subregional integration. Yet both states have signalled their intention to join the Association of Southeast Asian Nations (ASEAN), and both appreciate the economic advantages that will accrue from membership.

### *Transport and Communications*

Some idea of the strategic importance of Laos for a regional transportation network is evident from the fact that two of the three high-priority and two of the three "second-tier" road projects endorsed at the Third Conference on Subregional Economic Cooperation pass through Laos. One high-priority road will connect Bangkok, Phnom Penh, and Saigon, but the other two will link northeastern Thailand with central Vietnam across central Laos, and create a ring road between Chiang Rai in northern Thailand, northwestern Laos, southern Yunnan and Shan State in Myanmar. Of the second-tier projects, apart from the Kunming-Hanoi road, one will connect southern Yunnan with northwestern Laos and northeastern Vietnam, while another will connect Ubon in eastern Thailand with Qui Nhon on the south-central coast of Vietnam via southern Laos and northeastern Cambodia, opening up the Bolovens plateau in Laos and the Vietnamese central highlands.<sup>5</sup> Both high priority road projects will require construction of new bridges across the Mekong, in the north at Ban Huay Sai and in central Laos either at Savannakhet (the route preferred by the Thai via Xepon to Quang Tri on Route 9, and so to Danang) or at Thakhaek (the route preferred by the Lao via the Napae pass on Route 9 to Vinh and the port of Cua Lo; or possibly via the Mu Gia pass on Route 12 to a new port to be built at Hon La). The second route from Thakhaek would be shorter but more costly. To overcome Lao-Thai differences, a French-funded study will examine both alternatives that, it was agreed in Hanoi, "should not be considered mutually exclusive".<sup>6</sup> The Lao Government is in no hurry to begin construction, however, and only budgeted funds in 1990 for completion of a southern bridge by 2002.

These are ambitious projects whose construction will continue well into the twenty-first century. When completed they will create a network of roads crisscrossing the region, which will open up Laos as never before to the influence of powerful neighbouring states. The danger for Laos in all this is that the regionalism that has always been evident will be exacerbated, with northern Laos being drawn into the orbit of Yunnan while the northeast looks to Vietnam and the centre and south to Thailand. While the government recognizes that trade with neighbouring countries will be as important as internal trade for poorer and more remote provinces, for the country as a whole subregional integration must be balanced by national integration.

Thus it is not in the interests of the LPDR to prioritize construction of routes that simply serve the transit of goods across the country between neighbouring states. Far more important is construction of roads that link northern, central and southern Laos. At present there is only one such road: Route 13 and its extension running parallel to the Mekong from the Cambodian border to Vieng Chan, then north to Luang Phrabang, and so on to connect with the Chinese-built northern road network at Udomxai. Only part of this is surfaced; elsewhere gravel turns to mud under monsoon rains. Work is progressing on the untarred sections with Swedish, Vietnamese and Chinese assistance, but it will be some years before an all-weather highway is available from north to south.

More ambitious is the construction of new roads envisaged by the National Transport Study that will run up the centre of the country, from the Bolovens plateau in the south across the central Khammuan plateau then to Paksan and on to Xieng Khuang on the Plain of Jars. A US\$33 million loan from the ADB is being used to upgrade roads on the Bolovens linking the provincial capitals of Champasak, Attapeu, Xekong, and Saravan.<sup>7</sup> Proposed Route 23 from Saravan north to Meuang Phin, Nhommarat and Khamkoet exists as little more than a track in parts: from Khamkoet to Pakkading it will have to be constructed from scratch, as will the greater part of two other proposed links from Paksan north to Xieng Khuang (Route 22) and from Ban Namon on Route 13 north of Vieng Chan to Thathom on proposed Route 22 (Route 5).<sup>8</sup>

Almost as important for national integration and development of a sense of national identity are rural feeder roads to reach more of the estimated 50 per cent of the population with no current road access, expenditure on which is targeted to rise from US\$6 million in 1995 to US\$20 million by the year 2000.<sup>9</sup> Road access to remote villages is essential to the government's rural integration and development programme for everything from improved education and health facilities to providing markets for new crops to replace opium. Without such roads, economic differentials between urban Lao and rural ethnic minorities can only increase, leading to growing dissatisfaction on the part of the latter.

Other forms of transportation are of less interest to Laos. The Lao Government has not even budgeted for construction of a rail extension from Nongkhay to Vieng Chan via the Friendship Bridge in its "Outline Public Investment Program 1994–2000". Proposals by the Chinese to extend their rail network south to link up with the Thai system seem at present costly and unnecessary. The Chinese envisage the construction of a new rail line from Dali following the Mekong south to Jinghong and Mengla, where it proceeds southwest to Huay Sai and to the Thai railhead at Chiang Rai. An alternative suggestion would be to build a narrow gauge line from Kunming to Mengzhi and so to Mengla and Huay Sai.<sup>10</sup> Either way, the short section through Laos will bring very little benefit to the LPDR. (The only other railway project endorsed will extend the Bangkok–Phnom Penh line to Saigon.) Two of the

three endorsed inland water transport projects also involve the LPDR. A project to improve navigation on the upper reaches of the Lancang-Mekong between Jinghong and Huay Sai by clearing the channel (dynamiting rocks and rapids) and providing navigational aids was given the go-ahead. This will enable larger vessels to be used, both for shipment of cargo between China and northern Thailand, and for tourism.<sup>11</sup> A second project will examine the feasibility of water transport links between southern Laos and northeastern Cambodia.

### *Energy*

Of great interest to the LPDR is development of subregional co-operation in energy production, since Laos stands to gain as a substantial net exporter. Already Lao and Thai distribution grids in the Mekong basin are inter-linked, and fully 70 per cent of current Lao production is exported to Thailand (accounting for as much as a fifth of total Lao exports). At present the government estimates that only about 17 per cent of the population has access to electricity. This is set to increase through rural electrification, but so too will the proportion of power exported as Laos pursues its ambitious power generation programme.

Lao authorities have already signed a memorandum of agreement for Thai purchase of 1,500 megawatts of power by the year 2000, or more than seven times current Lao production. Several large projects are already under way to meet the growing demand for electricity, not only from Thailand, but also southern Vietnam and Cambodia. Eight projects due for completion by 2000 at a cost of around US\$3 billion will bring total installed capacity above 2,500 megawatts. Twelve more projects costing a further US\$3.5 billion could increase that figure to over 7,000 megawatts by 2010, of which at least 90 per cent would be exported.<sup>12</sup> Of course, Laos has neither the necessary funds to invest in such vast projects nor the technical expertise even to monitor their construction. Nevertheless, bilateral and multilateral assistance have been made available for conducting feasibility studies, and tenders have been evaluated from international consortia prepared to invest the sums involved on a BOT (build-operate-transfer) basis. Even so, planned expansion seems at present "overambitious".<sup>13</sup>

Of the six hydropower projects given priority in relation to regional economic co-operation, four are in Laos. These include the Xe Kong river flowing from Laos into Cambodia in the south, a complex of projects in the Nam Theun basin in central Laos including high power transmission lines to both central Vietnam and northeast Thailand, and a power station on the Nam Tha river in the north to supply northern Thailand. An Electric Power Forum is also to be established for the region to oversee planning, investment, pricing, watershed protection, and water management.

### *Environment*

Of increasing concern to all countries in the region is the environmental impact of rapid economic development. It was agreed in Hanoi that environmental

issues should receive high priority, especially the need to strengthen relevant institutions, control hazardous wastes, and manage natural resources. Of these, the first is up to individual governments, though some training programmes will be shared, while the second concerns mainly marine pollution. The third concern, natural resource management, is of greatest interest to Laos, given the likely impact of energy, transport, mining and tourism. Some of the problems likely to occur include deforestation, soil erosion, water pollution, and ecological degradation.

Several large multinational companies are presently prospecting for minerals, including notably gold and oil, both potentially polluting industries. The huge coal-fired power station planned to exploit coal deposits in the Xieng Hon-Hongsa special zone could have a potentially devastating impact on the local environment unless adequate rehabilitation clauses are written into the contract, and enforced. In fact, given the vast hydroelectricity resources possessed by the LPDR, it is difficult to see why this project was ever given the go-ahead. Hydro-power stations also, however, have considerable environmental and human impact through the inundation of valuable agricultural land (scarce enough in northern Laos), and displacement of population. Then there are problems associated with altered water flow. Not only may the dams themselves silt up, as is reportedly already happening to the Nam Ngum dam, but siltation may also occur downstream due to reduced flow, especially during the monsoon season when dams are filling.

Deforestation, however, presents the greatest threat to the environment in Laos. Though the proportion is set to fall, timber exports made up 38 per cent of foreign earnings in 1992, the last year for which complete figures are available. Forests still cover 47 per cent of the country, though half are commercially inaccessible. Long-term contracts have already been signed with Thai, Chinese, Vietnamese and Malaysian timber interests, most including processing and training provisions. For 1993, the government set an export target of just over 500,000 cubic metres, of which more than 55 per cent was to be dead timber extracted from the Nam Ngum reservoir. Officially annual extraction of living timber is not to exceed 300,000 cubic metres, but the figure is considerably higher due to illegal extraction passed off as timber in transit from Vietnam or Cambodia, cutting for fuel, and slash-and-burn cultivation by highland ethnic minorities (affecting as much as 70,000 hectares annually).<sup>14</sup>

Deforestation presents a particular threat to the abundant wildlife of Laos. The former "Land of a Million Elephants" has but a few hundred left. Animal as well as human life suffered from the destruction of the Second Indochina War. Trapping and hunting also take their toll, as animals living and dead are illegally exported to Thailand to cater to the disgraceful rare meats restaurant trade in snake, deer, monkey, pangolin and other species.<sup>15</sup>

In March 1993, the Lao Government moved to protect the country's dwindling wildlife resources. Provincial authorities were instructed to register all hunting rifles. Meanwhile, the Ministry of Agriculture and Forestry issued a "circular" classifying wildlife into three categories: prohibited, protected, and

“general” for species not at risk. Among those animals whose slaughter will now incur fines of between 5,000 kip and 1 million kip (US\$7–1,400) are tiger, leopard, rhinoceros, elephant, gaur, several kinds of deer and antelope, tapir, gibbon, langur, eagles, parrots and iguana. A total ban on hunting was imposed during the Buddhist Lent from August to October, which happens to coincide with the breeding season for most species.<sup>16</sup> To issue a proclamation is one thing, but to police it is quite another, given the level of corruption. It remains to be seen if this valuable resource can be preserved for sustainable eco-tourism, or will disappear to boost the declining libidos and stimulate the jaded palates of wealthy Chinese.

### *Human Resources*

Subregional co-operation will also be extended to cover education and training in such areas as languages, communication of information and technology, and higher education. A health component will concentrate particularly on control of HIV/AIDS and malaria.

For Laos, where the development of human resources lags behind neighbouring countries, the priorities in education are to raise primary school enrolments from the present 61.5 per cent to 100 per cent by the year 2000, with a completion rate of 60 per cent (twice the current figure), and increase secondary enrolments from 29 to 39 per cent, with a similar increase in the completion rate.<sup>17</sup> This will depend on the success of the current ADB-funded programme to improve the initial and in-service training of teachers. The Bank is also funding a programme to upgrade Dong Dok teachers’ training college outside Vieng Chan to university status as part of the reorganization of tertiary education.

In the health field, the Lao fear that increased subregional integration will result in a more rapid spread of infectious diseases, especially those related to the “social ills” of drug addiction and prostitution, and that health services will be inadequate to cope with the problems. Cases of girls sold by their parents to agents for Thai brothels have been given wide publicity, and substantial fines imposed. The spread of HIV/AIDS in particular causes alarm. Fear that the Friendship Bridge will assist in the spread of the disease is misplaced, however. The disease has long since crossed the Mekong, spread as much by Lao returning from Thailand as by visiting Thais. Nevertheless, the government is concerned, and Australia is funding a US\$3 million AIDS awareness campaign focusing on education, prevention and care.<sup>18</sup>

In April 1994, the Lao National Commission for Drug Control and Supervision, set up in 1990, released details of its National Master Plan to tackle what Lao authorities now admit is a serious problem. Laos produces an estimated 125 tonnes to 130 tonnes of raw opium annually in its ten northernmost provinces, half of which is consumed in the country. In some villages in Phongsali province, addiction rates are reported to be as high as 10 per cent of the total population. Some 42,000 addicts consume opium on a daily basis, and

many more are economically dependent on its cultivation, distribution and preparation.<sup>19</sup> The Plan identifies sixteen priority projects requiring US\$35 million in external funding to the year 2000. These include crop substitution to replace opium poppies, prevention and law enforcement, and development of new institutional structures. Assistance is already coming from the UN Drug Control Programme, which sponsored a detoxification and rehabilitation centre in Vieng Chan province, and an American-backed integrated rural development programme in Huaphan province. In November 1993, Laos, Myanmar, China and Thailand signed a subregional Memorandum of Understanding on co-operation in drug law enforcement.

#### *Tourism*

Co-operation in tourism will concentrate on, in order of priority, training of trainers in basic skills, promotion of the region, establishment of a subregional tourist forum, conservation management (in eco- and cultural tourism), and drawing up of a Mekong River Tourism Plan.

Although tourism is encouraged as a major foreign currency earner and there has been rapid investment in necessary infrastructure and services, sheer numbers threaten to overwhelm facilities. Since 1990, tourist arrivals have increased from less than 15,000 to over 100,000 in 1993. Most came from neighbouring countries, mainly Thai following in the footsteps of Princess Maha Cakri Sirindhorn on day trips to Vieng Chan. International arrivals also more than doubled to over 11,000, mostly from France and the United States, and numbers are expected to increase fourfold by 2000. A joint government-private Lao Tourism Development Coalition (LTDC) has been set up to act as a forum for co-operation, both to direct tourism development and to advise on the preservation of the cultural and natural heritage tourists come to see. The LTDC aims to promote a "middle way" for Lao tourism between the extremes of almost total exclusion that prevailed during the early 1980s and mass tourism Thai-style, and calls it "responsible tourism", which in the Lao context means "small-scale cultural and environmental tourism". It has also drawn up a strategic plan calling for Unesco World Heritage listing for Luang Phrabang, preservation and restoration of monuments in Vieng Chan and Champasak, and designation of national parks to encourage eco-tourism.<sup>20</sup>

Particular concern has been expressed over Luang Phrabang. The prospect of the former royal capital becoming a truck and tourist bus stopover on the way from Bangkok to Kunming horrifies the Lao. The fragile beauty of the town with its delicate temples, narrow streets and charming atmosphere could so easily be destroyed by heavy traffic and hoards of tourists. In March 1994, a committee was established to draw up a town plan, control new construction and preserve historic buildings. This was reinforced by a presidential decree designating principal historical and natural sites as part of the national heritage.<sup>21</sup>

Controlling the anticipated influx of tourists will, however, become increasingly difficult. New international entry points were established in the past year at Savannakhet and Lao Bao to facilitate travel between Thailand and Vietnam along Route 9. Instead of taking days to obtain in Bangkok, tourist visas can now be issued on the spot at international entry points. Moreover, to coincide with the opening of the Friendship bridge all restrictions on internal travel, except for designated "dangerous areas", were lifted for foreign tourists and Lao alike. Only diplomats must still obtain permission to venture further than six kilometres from the capital.

### **Economic Development**

Many of the projects contributing to subregional integration will have a significant impact on economic development in the LPDR, and form part of the government's planning to the year 2000. This was set out in two documents presented to the Fifth Round Table Meeting of aid donor nations held at Geneva in June 1994 — an "Outline Public Investment Program 1994–2000", and associated "Socio-Economic Development Strategies". Together these provide a clear indication of government intentions and priorities, while the current state of the economy and the need for further economic reform are discussed in a confidential World Bank Country Economic Memorandum on Laos released in March 1994.<sup>22</sup> The following account draws on all three documents.

Overall, the New Economic Mechanism programme of economic liberalization and reform has been remarkably effective in moving the LPDR from a centrally planned to an open market economy. Its very success, however, caused the pace of reform to slow, largely because of the scarcity of trained professionals — managers, accountants, engineers — to staff the new institutions and maintain the pace of economic growth. Since 1988, average growth in Gross Domestic Product (GDP) has been of the order of 7.5 per cent, while inflation has been reduced to a manageable 6 to 8 per cent through limiting the budget deficit. At the same time, improved trade performance reduced the current account deficit from 18 per cent of GDP in 1989 to less than 10 per cent in 1993. Yet these successes have come at a price. Even though revenue collection is up, thanks to a new tax regime, government expenditure has been reduced both for infrastructure development and social services. Infrastructure maintenance, health and education have all suffered.

The government has committed itself to continue along the present path of reform through further reducing the budget deficit, encouraging financial markets and the private sector, reforming the civil service, and strengthening legal and administrative institutions. In doing so it is building both on reforms already introduced, and on the country's improved economic performance. Reforms introduced in 1993 included adoption of a land tax in place of agricultural taxes on production to be collected at the village level, and tariff reform designed to assist new export industries such as textiles and motor cycles requiring imported raw materials and parts. Measures adopted by the National

Assembly in 1994 include notably a Labour Law specifying legal protection for employees and a new Foreign Investment Law simplifying investment procedures. Flat rates will now apply for corporate tax (20 per cent) and import duties (1 per cent for all goods required for production). Other measures under consideration include permission to recruit foreign labour (where trained Lao nationals are not available), tax holidays, and establishment of a "special economic zone" north of Vieng Chan.

Investment to date has been encouraging. Approvals for the first four months of 1994 were more than double the amount for the same period the previous year. By then Thailand led the way with 167 projects valued at US\$190 million, followed by the United States (24 projects worth US\$82.5 million), Australia (29 projects worth US\$29.4 million), China (39 projects worth US\$24 million) and France (42 projects worth US\$17.8 million).<sup>23</sup> Domestic private investment is also being encouraged to tap into private savings currently estimated at 1.7 per cent of GDP (or US\$20 million). To this end, banking services are being improved, credit provided, training upgraded, infrastructure developed and the economy further deregulated.

Despite these positive indications, three matters continue to give cause for concern: the budget deficit; the trade imbalance; and corruption. The 1993-94 budget was the first to test the decentralized collection of revenue. In the past, tax revenue has steadily increased through imposition of income, commercial, and land taxes in place of transfers from state-owned enterprises (SOEs), though evasion remains a problem. Non-tax revenue has fluctuated as assets are privatized, but the deficit has declined as a percentage of GDP, with the shortfall met through international lending. Though the government still has to meet the costs of loss-making SOEs that it has been unable to privatize and an overlarge civil service, it can now expect revenue to cover current expenditure, thus freeing all foreign aid and loans for public investment.

Public investment is expected to grow by around 18 per cent per annum to just below US\$300 million by 2000. This is predicated on revenue rising to 17 per cent of GDP (from the current 12.9 per cent) and a corresponding increase in the current balance to 4 per cent of GDP, and increases in real GDP averaging 8 per cent per annum. If all goes as planned, a total of US\$498 million will be spent on transportation, US\$96 million on other infrastructure projects, US\$77 million on telecommunications, US\$263 million on agriculture and forestry, US\$139 million on education and US\$112 million on health. Over the same six-year period, US\$230 million will be drawn from these various sector budgets to fund integrated rural development beneficial mainly to rural ethnic minorities. Major new programmes will include medium scale irrigation systems and reafforestation.<sup>24</sup>

Turning to the current account balance, while exports more than doubled between 1990 and 1993 to US\$203 million, imports increased fourfold to US\$353 million, leaving a deficit of US\$150 million. More than half of the total two-way trade is with Thailand. The overall trend, however, is in the right

direction, as exports have increased and imports decreased as percentages of GDP. Thus, there has been a reduction of the deficit as a percentage of GDP, with reserves increasing to cover two months of imports. Increasingly the deficit is covered by private capital inflows, remittances from overseas Lao, and direct foreign investment, rather than bilateral or multilateral aid.

In the medium term, the outlook is even more encouraging. Exports of electricity, forest products, manufactures, and livestock and agricultural products can all be expected to increase. Electric power is the most promising in the longer term, but if major mining projects go ahead these too could be major export earners. The government is encouraging value-added processing of timber to replace the export of logs. Also the informal trade in food crops and an estimated 30,000 to 40,000 head of livestock per annum from central and southern Laos to northeast Thailand can be expected to increase. Re-exports are another growth area.

The third area of concern is the level of corruption, which reaches into every sector of the economy, from revenue collection where systematic tax evasion is abetted by officials for a suitable consideration, to the massive smuggling of timber, often by provincial authorities. In March 1993, Prime Minister Khamtai Siphandon decreed the setting up of an Anti-Corruption Committee with substantial technical support to tackle the problem nationwide. The task is made more difficult by the ubiquity of corruption, partly due to low salaries paid to civil servants, low levels of respect for and trust in the police and the legal system, and to greater opportunities available as the Lao economy opens up to foreign investment. In May 1994, President of the Control and Inspection Board of the Party, Maichantan Sengmani, reported embezzlement of state assets amounting to a massive US\$30 million, only half of which had been recovered by investigators.<sup>25</sup>

The principal areas of what had become systematic corruption, however, are in the forestry industry and the provision of services. In May 1994, Khamtai issued yet another order to control illegal logging. In the future, ministerial approval will be needed to cut any timber above assigned quotas, processing companies will no longer have the right to cut their own timber, provinces will require central government permission to export whole logs, and quotas will operate for all timber in transit to a third country.<sup>26</sup> This last measure is to prevent Lao timber being passed off as imported timber in transit, thus attracting a much lower duty, and to limit smuggling of non-Lao timber, particularly from Cambodia. It is doubtful, however, whether these regulations will be any more effective than previous ones. Not only do provincial authorities habitually ignore central government instructions, so too do some ministries, particularly Defence which enjoys its own concessions.

Illegal export of other products, principally wildlife, foodstuffs, and livestock, offer other opportunities for corruption, either through official involvement or pay-offs. Commissions and kickbacks for the provision of services or government licences are even more widespread. Anyone in a position to render

a service, and this means in particular members of the Lao People's Revolutionary Party (LPRP), can demand some "recompense". Vieng Chan is always rife with rumours about who has received how much commission for facilitating some project or awarding some government contract. The impact of widespread corruption is not just economic, however. It is also political, for it exerts a corrosive effect on the standing of the party and popular acceptance of its legitimacy.

### **Political Developments**

The political repercussions of the economic changes that have taken place in the LPDR over the past five or six years go well beyond the problem of corruption to throw into question the very way in which power should be exercised. In a one-party state, political power is the prerogative of members of the ruling party. It is membership of the party in power, rather than educational qualifications or popular election, that principally determines appointment to office. For anyone not a member of the LPRP, a glass ceiling operates just as rigorously as for women in the most patriarchal of societies. During the "thirty-year struggle" and immediately after the Pathet Lao victory in 1975, party affiliation alone determined who wielded power. Only slowly have professionally qualified personnel taken the place of those with "revolutionary" credentials in government and administration, and most of these have first been inducted into the Party, or come under strong pressure to join.

Power in a single-party state tends to become personalized in individuals who are all but free of institutionalized controls, especially in Laos where personal power has traditionally derived from family connections and clan patronage. Party instructions take the form of resolutions, supposedly binding on party members but lacking the force of law. They are open to interpretation. Transgression is an internal party matter, not something to be punished by an independent judiciary. Moreover, any discipline exerted by the party always takes account of the political standing of the individual concerned and the image of the party itself. Key individuals thus become virtually untouchable, able within some bounds to act as localized powers unto themselves. And this mode of exercising power in one-party states permeates the whole society, since it serves as a model for all in official positions, whether party members or not.

In Laos, as the LPRP leadership pursued its economic reform policy under the NEM, so it perforce had to institute corresponding legal reform. Remarkably, the country was without a constitution for fifteen years — perfectly possible when the party was the state, but no longer acceptable once private investors required legal protection. Relying on foreign legal advice, not least from the Harvard Law School, the LPDR has for the last five years been building up a corpus of internationally acceptable law, along with a body of trained legal prosecutors and Justice Ministry officials to interpret and enforce it.

The problem presently facing the LPDR is how to change the way in which power is exercised; how, in other words, to convince officials used to acting on

party instructions in their own way to accept that they should now act in accordance with a constitutionally based body of law. The matter is a delicate one, not least because the party still remains the principal source of power apart from the law (and the traditional sources of birth and patronage). Party members are none too ready to comply with the new party line that places them beneath the law. Besides, such an instruction, like others in the past, is open to interpretation. The matter is also delicate for another reason. Some of the worst abuses of power continue to involve the highest levels of the party, and lower echelon members take their example from their superiors.

Both the concern and the dilemma faced by the LPRP were evident in Saman Vinyakhet's closing address to the National Assembly's October 1993 sitting. There he stressed the need to "educate and instil a sense of responsibility" into the people, the party, and state and mass organizations for the law and constitution. A month later an extraordinary party conference was held in Vieng Chan bringing together representatives of more than 190 party branches from every province, the government departments, and the social institutions. The purpose was to set a "new direction" for the party in the context of current economic policies, and to reinforce the need to accept "all-encompassing" guidance from the higher party leadership.<sup>27</sup> It was, in other words, all about improving the internal discipline of the party, and revamping its increasingly tarnished image through reinforcing the political understanding and commitment of members.

The nexus between law and corruption, party legitimacy, and security was brought out in a number of speeches and articles over the past year. Warnings were given that corruption caused people to lose faith in the party and the government, and provided opportunities for "hostile forces" to focus "subversive" criticism on the party's monopoly of power. The military and police are also implicated in that their "shortcomings" have a similar effect. It was even suggested that in places the armed forces had been "ruthlessly dealing with the people" due to low levels of "political and legal knowledge" — a transparent reference to illegal activities. In his Army Day address, Prime Minister Khamtai expressed concern that the economic activities of the military and police were adversely affecting their primary responsibilities of national defence and internal security.<sup>28</sup> The leadership clearly fears that if the party and security forces do not uphold the rule to law, now that statutes are published for all to read, and corruption gets out of hand, popular resentment will undermine the legitimacy of the party and threaten its hold on power.

Both National Assembly deputies and members of the Lao People's Revolutionary Youth Union have been called upon to join the campaign against corruption and "other negative manifestations" in Lao society. Nevertheless, the new generation of Lao youth, in the eyes of the old revolutionary generation, lacks both discipline and revolutionary morality. Sons and daughters of high party officials join those of the new bourgeoisie that have benefited from new economic opportunities in the flourishing nightclubs of Vieng Chan. Memory

of the revolutionary struggle on which the party still bases much of its legitimacy grows dim as the old leaders die off. Former President of the LPDR, Prince Souphanouvong, died in January 1995 while Phoumi Vongvichit passed away in January 1994. In a long interview with the author barely two months before he died, Phoumi was highly critical of the morality of the new generation, which he blamed on Thai cultural influences. Perhaps not too much can be expected, then, from Lao youth. The party will have to depend on its own internal means to control corruption, and meet the political challenges that lie ahead.

### **Foreign Relations**

Though the LPDR has shown itself less eager than Vietnam to become a full member of the Association of Southeast Asian Nations, bilateral relations with ASEAN member states were actively developed over the past year. In February, Indonesian foreign minister Ali Alatas paid his first ever visit to Laos to discuss economic development and co-operation. He was followed in April by Malaysian Prime Minister Mahathir Mohamad, also for the first time, at the head of an 81-member delegation of officials and businesspeople. Agreements were signed to facilitate Malaysian investment in Laos, and to promote two-way trade, currently running at US\$18 million per annum. In July it was the turn of Philippine foreign minister Roberto Romulo to arrive and sign a new trade agreement. Speakers of the Thai, Malaysian and Philippine parliaments also visited Vieng Chan, clearly signifying ASEAN's acceptance of the somewhat questionable democratic credentials of the Lao National Assembly.

Establishment of diplomatic relations with Brunei in July 1993 had completed the network of relations required for Lao inclusion in ASEAN. Lao Foreign Minister Somsavat Lengsavat again attended the annual ASEAN foreign ministers meeting in Bangkok in July 1994 as an observer. However, Lao interest at present is concentrated on economic matters, investment and development. Somsavat told the Thai media that Laos was prepared to attend meetings on, and contribute to, regional co-operation, but needed more time before it formally joined ASEAN. The financial cost alone of joining will not be negligible for Laos. Membership requires not only an initial deposit of US\$1 million, plus annual dues of US\$700,000, but also entails costs for attendance of ASEAN's growing range of regional conferences on everything from agriculture to telecommunications, not to mention costs the LPDR will have to meet to host its share of such conferences.

Laos was just as keen to develop friendly relations with neighbouring states in the context of subregional co-operation. Of these, only Thailand is at present a member of ASEAN, with Vietnam to join in July 1995. Relations with Thailand, the leading source of private investment in Laos, were friendly but not without some tension. The Lao are determined not to become a mere economic and cultural appendage of Thailand. Indeed, the need to balance relations with Thailand by relations with the other states that share a common border with Laos must be seen as a factor in the LPDR's eagerness to take part in subregional

integration. Border demarcation remains an unresolved problem, the more potentially damaging as agreement has proceeded smoothly with all other neighbouring states. The Thai have shown themselves prepared to take decisive action to suppress "anti-Lao" resistance groups, mainly Hmong. Repatriation of refugees remains a problem, however, with Thailand determined to close down the last remaining refugee camp at Ban Na Pho, home still to some 12,000 Hmong, most of whom are resisting repatriation to Laos.<sup>29</sup>

While there remains some ambivalence in the attitudes of both Thai and Lao towards their mutual relationship, the sheer extent of contact and exchange continues to strengthen relations. The Thai royal family made an important contribution to better relations: three visits by Princess Maha Cakri Sirindhorn culminated in a two-day state visit by King Bhumibol and Queen Sirikit following the official opening of the Friendship bridge — their first visit outside Thailand since 1967, and the first by a Cakri monarch since the Thai destruction of Vieng Chan in 1827 — something the Lao media diplomatically failed to mention. The symbolic healing of historic wounds was probably as important as the symbolism of the link provided by the new bridge. Thailand is providing assistance in such areas as education and infrastructure development, and it donated US\$2 million to upgrade Luang Phrabang airport. Though fear of Thai cultural domination remains widespread in Laos, this has not prevented an agreement being signed with a Thai telecommunications company to provide services that include television broadcasting.

Relations with Vietnam continue to be friendly, though again there were minor annoyances caused by illegal Vietnamese migration and logging in border areas. Agreements on cultural and social development, and economic co-operation bind the two countries, with Vietnam providing assistance particularly in road construction. In November 1993, Vietnamese president Le Duc Anh paid an official visit, accompanied by foreign minister Nguyen Manh Cam. High level delegations from both the Vietnam People's Army and the State Planning Committee reinforced the closeness of the relationship in the key areas of defence and economic planning.

Laos also cemented relations with Cambodia and Myanmar, neither yet candidates for ASEAN membership. During the visit of first and second prime ministers Prince Ranariddh Sihanouk and Hun Sen to Laos in July 1993, Cambodia offered Laos free access to the sea and increased economic co-operation in the face of both Thailand and Vietnam. On a return visit in November 1993, Lao Prime Minister Khamtai Siphandon signed a wide-ranging Lao-Cambodia Cooperation Agreement. Meanwhile relations continued to be cordial with the State Law and Order Restoration Council (SLORC) regime in Myanmar. In June 1994, SLORC Chairman Than Shwe paid a five-day official visit to the LPDR during which the two countries signed an agreement defining their common border and covering use of the waters of the Mekong. They also agreed to set up a joint commission of bilateral co-operation and to promote tourism.

As for the LPDR's remaining neighbour, the People's Republic of China, Prime Minister Khamtai's successful visit in December 1993 seems to have set the seal on what can only be described as a warm relationship. A border agreement was signed, which the Chinese described as finally resolving the problems left over by history. Khamtai for his part took advantage of his visit to draw some political support from Chinese agreement on the need to maintain stable (read "one-party") government. Khamtai's visit capped a series of lower level exchanges that resulted in agreements on such matters as travel movement and road transport (which the Lao hope will limit both cheap Chinese imports and movement of Chinese nationals into northern Laos), and on aviation, scholarships for Lao to study in China, and repatriation of the last few Lao refugees remaining in the PRC.

Relations with industrialized states continued to expand. Japan remained the principal bilateral aid donor, followed by Sweden and Australia, but both France and Germany seem willing to provide more assistance. In December 1993, Prime Minister Khamtai paid an official visit to Australia, his first to a Western country. Australian Prime Minister Paul Keating's return visit prior to the opening of the Friendship bridge underlined how close the Lao-Australian relationship has become. Keating announced an aid package valued at US\$36 million over four years to fund a variety of projects from AIDS awareness to language training. More Lao students now study in Australia than in any other country, and Australia ranks third behind Thailand and the United States in investment in Laos (including hydropower, mining and transportation infrastructure projects).

Relations with the United States continued to centre on the American fixations on those still listed as "missing-in-action" (MIAs) since the Second Indochina war, on drugs and on refugees. Over fifty sets of the remains of MIA personnel were discovered in Laos, leaving about 500 still unaccounted for. A new co-operation plan put into effect after the 1994 wet season is investigating another 119 cases. The U.S. National Drug Enforcement Agency is involved in a crop substitution programme in northeastern Laos, but the sentencing of the Lao director of the Lao-American Cooperation Project on embezzlement charges has not helped relations. Neither have hearings by the U.S. House of Representatives Asian and Pacific Affairs Subcommittee on the repatriation of Hmong refugees, where some strident claims were made accusing the Lao Government of persecuting returnees.<sup>30</sup>

### **Conclusion**

While 1994 must go down as a successful year for the Lao regime, the party faces some challenges in the future. No announcement yet has been made of the date of the Sixth Party Congress, but when it is held we can expect to see two more of the revolutionary old guard retire from the politburo, namely Nouhak Phumsavan and Phoun Sipaseut. Nouhak will almost certainly be replaced as state president by Khamtai, leaving the way open for his likely

successor to be installed as prime minister. The politicking that will take place in the run-up to the Congress is most unlikely, however, to split the party, if only because there is strong agreement on one point: it is in the interest of all members to ensure that the party continues to exercise a monopoly of political power.

Given the fear generated by the continued detention of three prominent critics of the government, the fact that there is no press freedom, and the paucity of civic institutions in Laos, the LPRP seems in no danger of losing its political dominance. Democracy does not seem to be an option, therefore, in the near future. Only in the longer term will the party come under pressure from an increasingly educated and informed middle class. This is provided the party does not decay internally, eaten away by cynicism and corruption to the point where it no longer enjoys any legitimacy.

Political decisions are no longer the really important ones, however. Laos has already embarked on an economic trajectory from which there is no turning back. The forces for subregional economic integration in mainland Southeast Asia are already irresistible as far as Laos is concerned. Economic prosperity must increasingly depend not on the bilateral aid donors and multilateral lending institutions that the regime presently relies on for advice and assistance, but on the economic dynamism of the region itself, which will sweep the LPDR along with it. And it will be these economic forces that will ultimately determine the political evolution of the Lao state.

#### NOTES

1. The opening was given front page coverage by all major Australian, Thai and Lao newspapers, including the newly launched *Vientiane Times*, the first English-language weekly to be published in Vieng Chan, in its first two issues of 1–6 April and 8–13 April 1994.
2. The value of the bridge was frequently reiterated as construction neared completion. *Khaosan Pathet Lao*, News Bulletin, 28 August 1993; 18 October 1993.
3. Asian Development Bank, *Subregional Economic Cooperation* (Manila: ADB, 1993).
4. ADB, op. cit., p. 42. Other reports suggest the Lao have some reservations; see Paul Handley's articles in *Far Eastern Economic Review*, 16 September 1993.
5. Third Conference on Subregional Economic Cooperation, Summary and Conclusions, mimeographed draft (of the "substantive consensus" arrived at by the six participating delegations), Hanoi, 20–23 April 1994, p. 3.
6. Third Conference on Subregional Economic Cooperation, Summary and Conclusions, p. 3. Cf. The Economist Intelligence Unit, *Country Report: Indochina*, no. 4 (1993), p. 42.
7. *Khaosan Pathet Lao*, News Bulletin, 8 February 1993; 28 June 1993; 13 August 1993.
8. Ministry of Transport, Lao PDR, "National Transport Survey Plan to the Year 2000", Vieng Chan, 1990. ADB, op. cit., p. 22.
9. Lao People's Democratic Republic, "Outline Public Investment Program 1994–2000", presented to the Fifth Round Table Meeting, Geneva, 21 June 1994, p. 13.
10. ADB, op. cit., pp. 152–54.

11. Paul Handley, "River of Promise", *Far Eastern Economic Review*, 16 September 1993.
12. Ministry of Industry, Lao PDR, "Power Development Plan 1991–2010", Vientiane, 1991.
13. Bertil Lintner, "Add Water", *Far Eastern Economic Review*, 13 October 1994.
14. Figures are drawn from Lao People's Democratic Republic, "Socio-Economic Development Strategies", prepared for the Fifth Round Table Meeting, Geneva, 21 June 1994, p. 18, and the Economist Intelligence Unit, *Country Report: Indochina*, issues for 1993 and 1994.
15. Summary of Sompoad Srikosamatara and Varavudh Suteethorn, "Wildlife trade in Lao PDR and between Lao PDR and Thailand", *Thai-Yunnan Project Newsletter*, no. 21 (June 1993), p. 25.
16. *Khaosan Pathet Lao*, News Bulletin, 29 March 1993; 9 August 1993.
17. LPDR, "Socio-Economic Development Strategies", op. cit., p. 40.
18. Results of blood tests for 15,525 people in 1993 revealed 34 HIV positive, and four with symptoms of AIDS. *Khaosan Pathet Lao*, News Bulletin, 15 March 1994.
19. LPDR, "Socio-Economic Development Strategies", op. cit., p. 19.
20. Boun Nhang Sengchandavong, "An Agenda for Promoting Tourism", *Dok Champa* 2, no. 1 (January–March 1994): 22–25.
21. *Khaosan Pathet Lao*, News Bulletin, 10 March 1994; 24 March 1994.
22. LPDR, "Socio-Economic Development Strategies", op. cit.; "Outline Public Investment Program 1994–2000", op. cit.; and World Bank, Lao People's Democratic Republic Country Economic Memorandum, Report no. 12554-LA, 24 March 1994.
23. The Economist Intelligence Unit, *Country Report: Indochina*, no. 2 (1994), p. 36.
24. LPDR, "Outline Public Investment Program 1994–2000".
25. The Economist Intelligence Unit, *Country Report: Indochina*, no. 2 (1994), p. 34.
26. *Khaosan Pathet Lao*, News Bulletin, 27 May 1994.
27. The Economist Intelligence Unit, *Country Report: Indochina*, no. 1 (1994), p. 37.
28. Ibid., p. 41.
29. *Khaosan Pathet Lao*, News Bulletin, 5 September 1994.
30. *Khaosan Pathet Lao*, News Bulletin, 2 June 1994.