
LAOS IN 1988

In Pursuit of New Directions

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The Lao People's Democratic Republic (LPDR) took a long step in 1988 down the route of economic reform at home and openness to the Western bloc abroad that had been charted by the Fourth Congress of the Lao People's Revolutionary Party (LPRP) in 1986. Under the so-called New Economic Mechanism (NEM), the Lao economy has been progressively decentralized and opened up to market forces. At the same time Laos has looked to the west, particularly to Thailand, for increased private investment, transfer of technology, and trade. After more than a decade of failure, the leaders of the LPDR have at last recognized the impossibility of moving directly to socialism "bypassing the capitalist phase," and instead have become enthusiastic converts to "economic restructuring" and "the broadening of multiform economic cooperation with foreign countries."¹

Economic Strategy and Results

The thrust of the LPDR's economic development policy in 1988 focused on three main tasks: transformation of the family economy, extension of trade, and improvement of communications. These priorities marked a major change in economic direction. To the previous five sectors of the Lao economy—individual subsistence, collective, private capitalist, joint state-private, and state socialist—was added "the economy of small goods." Rather than move directly from subsistence to collective farming, peasant families are now encouraged to enter this small goods economy through trading surplus production for commodities. According to LPRP Secretary-General Kaysone Phomvihane, 82% of all Lao families are en-

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1. Kaysone Phomvihane, Radio Moscow interview, transcript in *Khaosan Pathet Lao (KLP) News Bulletin*, October 3, 1988.

gaged in farming, and all are now being urged to become small-scale private capitalists and consumers. State land is being distributed to individual families "in proportion to their actual labour" to encourage "the private economy of farmers and handicraft workers." Public land so allocated can be utilized "on a long-term basis" and even passed on "as an inheritance for their offspring," Kaysone promised in his general political report in February to the Supreme People's Assembly.² Only after family production is boosted by these means will collective production be encouraged. In fact, collectivization is now envisaged as coming about not through collectivizing the means of production, but through linking individual farming families in "trading cooperatives" to channel surplus production into the national economy. Higher level collectives in the form of production solidarity units and agricultural cooperatives would be introduced only later.

Extension of the new autonomous management policy was also vigorously promoted during 1988, to include more than half of Laos's 377 state enterprises. By midyear, 186 firms had switched to "socialist business accounting." Of those, 139 published statements showing that almost two-thirds had succeeded in raising income and productivity, though under half had increased tax returns to the government.³ Incentive to perform is sharpened by the threat that those state enterprises which fail to show a profit may be sold off to private investors. Even so, change was slow and painful, for as Kaysone admitted, "the effects of old thinking, old mechanisms and old habits are still heavy . . . [and] the capability of cadres . . . limited."⁴

Additional economic reforms include effective control of inflation, introduction of a single exchange rate of 350 kip to the dollar, and a single price system. Provincial checkpoints have been abolished to promote regional trade, and a major banking reform is being implemented to permit the operation of autonomous commercial banks to loan to private and joint private-state enterprises. Since Lao industry does not have the capacity to produce the goods needed and the Vietnamese economy is in shambles, the Lao have turned to Thailand both for goods and investment. A new liberal investment code has been published, allowing 100% foreign ownership for a period of fifteen years, or joint ventures with a minimum of 30% foreign capital. The code provides guarantees against nationalization, per-

2. Kaysone Phomvihane, Annual Political Report, in BBC Summary of World Broadcasts (SWB), February 25, 1988, p. C1/11.

3. Marcel Barang, "Perestroika in the Vientiane Style," *South*, July 1988, p. 40; Economist Intelligence Unit (EIU) Laos, no. 2 (1988), p. 24.

4. Kaysone, Political Report, p. C1/7.

mits remittance of salaries and profits, and allows for special tax concessions. Company tax has been set at 35% on profits of wholly foreign-owned firms, as against 20–30% for joint ventures.

Results of the LPDR's economic restructuring have been somewhat disappointing to date. The drought cut agricultural production, especially rice, for 1987–88, and a shortfall of 70,000 tons of milled rice was expected. Forty thousand tons were donated by Western governments, private aid organizations, and international agencies, with enough from socialist states to meet the country's requirements. Increased production to cover such emergencies would come through bringing a half million additional hectares of land into production by the year 2000, a nationwide agricultural conference was told.⁵ Industrial production also fell, and Laos continued to run a massive trade deficit. Only timber production increased in 1987, but the reported annual loss of 300,000 hectares of forest through slash-and-burn farming, if unchecked, threatens the future prosperity of the industry. The outlook is thus mixed, but in all events Laos is embarked on a major reorientation of development strategy which takes as its immediate model not the socialist orthodoxy of Vietnam but the consumer capitalism of Thailand. In this it is moving further and faster than Vietnam, with the evident encouragement of the Soviet Union. Even the most serious conflict with Thailand since formation of the LPDR was not enough to impede more than temporarily the blossoming "multi-form" relationship between the two states. In fact, the "psychological victory" gained by Laos in successfully standing up to superior Thai forces appears to have given the LPDR a boost of national self-confidence in its relations with its neighbor.⁶

Turning to Thailand

Not since the exchange of visits between leaders of the two countries in 1979 have Lao-Thai relations been as positive as they became in 1988. Yet the year opened with heavy fighting along their frontier. As in the case of the 1984 "three villages" dispute, this conflict also erupted over differing interpretations of the 1907 treaty between Thailand and France defining the border between Sayaboury province in Laos and adjoining Thai provinces. The dispute arose when a Thai logging company working in the area apparently stopped bribing local Lao militia and began paying protec-

5. Kaysone Phoumvihane, Speech to National Conference on Agriculture, Forestry, and Cooperatives, Vientiane, June 10, 1988, in Foreign Broadcast Information Service, *Daily Report, East Asia* (hereafter FBIS, *DR/EA*), June 13, 1988.

6. "Thailand-Laos: Healing Strained Relations," *The Nation MidYear Review* (Bangkok), June 1988, p. 102.

tion money instead to a Thai paramilitary unit. When Lao forces attempted to curtail what was described as "illegal logging operations," troops of the Thai Third Army Region moved in to support the loggers. Beginning in mid-December 1987, the Thai began mounting increasingly massive artillery bombardments and air strikes against Lao troops dug in on the contested high ground, and in February two Thai fighter aircraft were shot down by Lao ground-to-air missile batteries. By then the cost to both sides was considerable. Thailand's military expenditure stood at around 2 billion baht (US\$80 million) and its casualties numbered 103 dead and 802 wounded. According to Thai sources, Laos had suffered 340 killed and 257 wounded. Both sides were ready for peace.

The ceasefire that came into effect February 19 was arranged between the LPDR chief of staff, General Sisawat Keobounphan, and the Thai army commander, General Chaovalit Yonghaiyut, after former Thai Prime Minister Kriangsak Chamanan made two secret visits to Vientiane to meet with Kaysone.⁷ Under the agreement both sides withdrew their forces three kilometers, effectively demilitarizing the contested area and preparing the way for a third round of the inconclusive border talks that have been going on since 1984. Preliminary talks between official delegations soon collapsed under the weight of mutual suspicion and recrimination. However, this did not prevent the exchange of friendship visits between Lao and Thai military officers and their wives. But while comradely warmth characterized relations between the two countries' armed forces, Vientiane radio continued to criticize the Prem government and the Thai foreign ministry, and to accuse Thailand of continued support for Lao insurgents. Not surprisingly, election of a new government in Thailand was welcomed in Vientiane.

But inability to agree even upon a *modus operandi* for delineation of their disputed common border was not permitted to interfere with burgeoning economic relations between the two countries. Thailand reduced from 273 to 30 the list of "strategic" goods that Thai companies are forbidden to trade with Laos, friendship markets sprang up to facilitate cross-border trade, and Thai businessmen took advantage of new, relaxed regulations on foreign investment and joint ventures to invest in textiles (to get around U.S. quotas on Thai products), construction (the new Vientiane market, housing, hotels), transport (finance for import of vehicles), agriculture (a rubber plantation), and tourism. In 1988 Laos was expected to import well above the 1987 figure of \$33 million worth of Thai goods,

7. Marcel Barang, personal communication.

while exporting produce and electricity to the value of around \$30 million.⁸

China, the U.S., and Japan

The LPDR also sought friendly relations with China and the West. A long, warmly-worded telegram welcomed China's national day, and the expected exchange of ambassadors took place. Improved relations were directly linked by Lao spokesmen to improved security as China terminated support for Lao insurgents.⁹ Most Vietnamese troops have been quietly withdrawn from northern Laos, and a significant increase in the volume of cross-border barter trade has already been reported with China's Yunnan province.¹⁰ Economic relations are unlikely to progress much beyond this level in the foreseeable future, however, even given a resumption of limited Chinese aid.

Relations with the United States did not register dramatic improvement, but Vientiane was sending all the right signals. Three areas of concern affect Lao-U.S. relations—American MIAs (servicemen still listed as missing-in-action during the Vietnam war), drug trafficking, and political prisoners. All were addressed to some extent in 1988. In February, remains of a number of American servicemen were handed over to the U.S. embassy, and in May a joint U.S.-Lao military team excavated the crash site of a reconnaissance aircraft in southern Laos, and another excavation was announced for December. In return, the U.S. has “acknowledged the legitimate humanitarian problems of Laos,” and agreed to respond “within the limits of its capabilities.”¹¹ No immediate resumption of other than U.S. emergency aid is foreseen, however. Another American concern that surfaced in 1988 was the production of opium and heroin in Laos. From around 50 tons of raw opium in the early 1980s, production has reportedly increased at least fourfold. A U.S. State Department report released in May implicated Laos in the illegal narcotics network, a charge the Lao government angrily rejected. Despite denials, however, direct proof of a Lao connection in international heroin trafficking came in August with the trial, conviction, and sentencing/expulsion of 50 persons (22 Thai of Chinese extraction, 13 Burmese, one Chinese national, and 14 Lao) accused of running an illegal heroin factory in Oudomxay province in northern Laos.

8. Calculated on the basis of Thai figures, the *Bangkok Post*, June 22, 1988, and the confidential World Bank Report on Laos, 1988.

9. *The Nation* (Bangkok), May 25, 1988.

10. Marcel Barang, personal communication, quoting sources in Vientiane.

11. Murray Hiebert, “Winning Friends,” *Far Eastern Economic Review* (FEER), December 31, 1987.

A massive 242.5 kgms. of heroin and 344 kgms. of raw opium were reportedly seized, and Lao authorities hailed the trial as vindicating their rejection of American charges. As for political prisoners, of more than 10,000 originally held, only an estimated 400 remain in Houaphan province, with some 2,000 still in the south working on state farms and construction sites.¹² All northern detainees were due to be freed by the end of 1988. Termination of "political re-education" was part of the government's effort to attract expatriates to return to Laos, either bringing much needed expertise or with capital to invest. Remittances from Lao living abroad to family members in Laos presently amount to as much as \$5 million annually.

There is little in Laos of interest to major U.S. companies, but the LPDR is making every effort to attract a diversity of investment in order to reduce reliance upon Thailand. Encouragement is being given to Australian, Swedish, French, and Japanese investment. Australia and Sweden continued their well-established aid programs, but important new initiatives occurred in relations with France and Japan. In December 1987 France's deputy foreign minister paid the first official visit to Laos by a government minister since 1975. A second delegation from the French Foreign Ministry arrived in June to clear the way for a resumption of French aid, and a French conglomerate concluded agreements for investment in joint ventures in trade, industry, and tourism. In March Lao Foreign Minister Phoune Sipaseuth paid his first official visit to Japan since the founding of the LPDR. Phoune obtained pledges of Japanese aid amounting to \$3 million for construction of a river port for Vientiane with another \$3.2 million toward agricultural projects. Repayment of a previous loan of almost \$3 million was waived. Phoune was told that the level of Japanese aid would be further increased once a settlement was reached in Kampuchea, and a Japanese parliamentary delegation which visited Laos in June indicated that Japanese aid would be doubled over the next five years from the present \$7.2 million (900 million yen).

Relations with the Socialist Bloc

Despite the new Lao openness to the West, relations with Vietnam continued to be close and friendly. Cooperation, both bilateral with Vietnam and trilateral among the three countries of Indochina, continued in everything from "political work" in the armed forces to economic planning and foreign policy, and on every level from twinned provinces and municipalities to national governments and ruling parties. But the oppressively close

12. Marcel Barang, personal communication.

Lao-Vietnamese relationship which characterized the 1975–1985 period seems to have eased. Kaysone now sees himself as the senior surviving leader from the “thirty year revolutionary struggle,” and the Lao are much less willing to accept Vietnamese advice given Vietnam’s own political and economic problems. Certain other developments in 1988 suggest a loosening of Lao-Vietnamese ties. Actual troop withdrawals have not been publicized as in Kampuchea, but it is believed that at least half the estimated 40,000 to 50,000 Vietnamese troops have left. On the economic front, some barter agreements with Vietnam have apparently not been renewed as provinces prefer to trade more profitably with Thailand. A third straw in the wind is Lao readiness to fall into line with the Soviet Union when differences exist between Moscow and Hanoi. A good example of this was Lao endorsement of the Soviet contention that since the Afghan and Kampuchean problems share certain similarities, similar solutions may be possible—a position Vietnam vehemently rejects.¹³ Despite this, however, Laos closely coordinated its approach to the Kampuchean problem with both Hanoi and Phnom Penh.

Lao relations with the USSR continued to be warm despite Soviet criticism of waste and inefficiency in the use of Soviet aid, which is about half the total foreign aid received by the LPDR. Kaysone paid a “working visit” to the USSR in September, where he met with Mikhail Gorbachev and gained the Soviet leader’s endorsement for both the LPDR’s economic reforms and its overtures to the West. Kaysone, for his part, pledged to increase economic cooperation with the USSR to reduce the massive trade imbalance.

Political Developments

Apart from the continuing debate over implementation of the New Economic Mechanism, the major political development in Laos in 1988 was the holding of the first elections since the regime came to power in 1975. Elections were scheduled on three levels—the first in June for local councils, the second and third for provincial assemblies and for the Supreme People’s Assembly (SPA) before the end of the year. Elections for the 79-member SPA will replace the National Congress of People’s Representatives which has continued to sit, in the absence of any constitution, since being nominated in November 1975. The first order of business of an elected SPA is likely to be ratification of the new constitution that repre-

13. FBIS, *DR/EA*, April 26, 1988; Nayan Chanda, “A Troubled Friendship,” *FEER*, June 2, 1988.

sentatives of the Drafting Committee have been discussing with Soviet experts.¹⁴

In the first round, almost 1.8 million voters cast their ballots for a total of 4,462 candidates running for 2,410 seats in 910 local councils. In at least 360 seats, single candidates were elected unopposed. According to the Electoral Law, all candidates had to be "faithful to the country and socialism" and be "proposed" by the local branch of the Lao Front for National Construction.¹⁵ Only the Front was permitted to canvass votes for particular candidates, "with harmonious coordination from the party and state organizations . . . and national defense and public security maintenance committees" (Article 4). By contrast, Article 8 states that "no person or group of peoples is allowed to campaign in favour of any candidate . . . [since] such a campaign can result in disturbances, thus violating the election regulations." "Democracy" in Laos remains sharply circumscribed.

A major reshuffle of government ministries occurred without public announcement in 1988. Among other changes, a new State Committee for Economic Planning and Finance was formed, combining the former State Planning Committee and the Ministry of Finance. Chairman of the powerful new committee is Politburo member Sali Vongkahmsao, with Kham-sai Souphanouvong, son of the ailing LPDR president, as first deputy chairman. The foreign component of economic development strategy has been made the responsibility of a new State Committee for Foreign Economic Relations and Trade under Phao Bounnaphon as chairman. Phao was formerly Minister of Transport, Communications and Posts, where he has been replaced by Oudom Khatthigna, another up-and-coming political figure in Laos.¹⁶ These changes in government structure and personnel should be seen as additional confirmation that Laos is determined to press ahead with its new development strategy. How effective it proves to be and how relations with neighboring states, particularly Vietnam, are affected remains to be seen.

14. *Indochina Chronology*, 7:1 (January–March, 1988), p. 13.

15. FBIS, *DR/EA*, April 28, 1988.

16. EIU Laos, no. 3 (1988), p. 18.