

**AID FOR TRADE AS CONTESTED STATE
BUILDING INTERVENTION: THE CASES OF
LAOS AND VIETNAM**

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Abstract

The thesis analyses the provision of “Aid for Trade” as a specific form of state building intervention (SBI) in Laos and Vietnam, two countries that have received trade-related assistance as part of their global economic integration. The thesis uncovers how global economic and institutional reform agendas related to trade integration are accepted or contested within both states, as part of a highly political process characterised by strategic agency and structural selectivities of various actors involved. The thesis employs a theoretical framework to help analyse how global trade governance programmes intervene within targeted states, and how local socio-political contestation shapes the outcomes of such programmes. Drawing on Marxist state theory, SBIs are understood as contested processes which open up strategic opportunities for social forces to shape the transformation process and thereby to stabilise or challenge existing power relations. Special attention is directed towards the state as an arena of conflict in order to understand the specific forms and varying results that these interventions take. This framework allows us to grasp how dominant social forces within the Laotian and Vietnamese forms of state are able to modify or circumvent external reform imperatives, resulting in highly selective changes in trade governance, which often departs from the intention of “Aid for Trade” project managers. The thesis thereby changes conventional technocratic assumptions that believe that aid interventions are a matter of best practice and contributes to a growing research agenda which analyses development interventions within the wider political economy of the targeted state.

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Chapter 1: Introduction: Aid for Trade as a state building intervention

This thesis seeks to explain how Aid for Trade (AfT), a particular form of development assistance targeting trade and trade governance capacity, plays out on the ground in recipient states. AfT is claimed at different times to serve different interrelated goals, such as to assist developing countries in shouldering adjustment costs, adapting to the demands of trade agreements or building trade capacity (and as a consequence also serving the purpose of poverty alleviation) (Holden 2014:90). As a result, the scope of interventions is often broad, and skewed towards one or another of these goals.

Over the past ten years, the nexus between aid and trade has been increasingly reinforced. Although the terminology of “Aid for Trade” refers in a narrow sense to a specific initiative launched during the Doha Round of trade negotiations of the World Trade Organization (WTO) in 2005, the idea of combining aid and trade-led growth policies is as old as development assistance itself (Preeg 1993; Razzaque and te Velde 2013:4–5). In light of the stalled Doha Round of trade talks, the idea of ensuring continued integration of developing countries into the global economy has, however, regained momentum and found its specific expression in the AfT initiative (Melchior 2007:4). Therefore, AfT can be regarded as a major mechanism used to facilitate the economic integration of emerging and developing countries through the use of already existing aid channels which have been firmly established as means to influence and shape the development agenda of developing countries in the Global South. The opening up of new frontier markets as a central component of economic integration of developing countries is thus advanced through AfT. AfT as a specific form of state building intervention (SBI) aims at transforming the state by setting up the institutions deemed necessary to installing a neoliberal economic order. There is no doubt that the major multilateral donors, think tanks and government bodies will continue to promote the AfT Initiative. The reason is that AfT is not merely another initiative but in fact forms part of a wider global governance agenda that aims to integrate developing countries through neoliberal restructuring into the global economy.

Theoretically and empirically, there exists no common ground on whether AfT has lived up to the task for which it was developed. It might seem an obvious task to understand and evaluate what AfT is actually doing on the ground. However, while the majority of academic AfT literature is occupied with the evaluation of AfT by assessing its impact on trade flows using econometric analyses, a minority of scholars disagrees not only with the methods used for evaluating AfT interventions but adopt an overall more critical approach towards its theoretical assumptions and the AfT interventions as a whole. In this regard, the present research project also moves away from the analytical focus on capacity building and propositions of how to better design and implement development programmes. Instead of being concerned with questions such as how interveners can increase the capacity of state institutions to implement a set of predetermined rules, the motivation of this research is to shed light on the actual process and outcome of state building interventions in the area of trade governance.

Although the assumption that aid programmes are transmitted in a linear way is not even undisputed within those development organisations that design these interventions, the pressing question then is not only why these interventions tend to prove difficult to implement, and why implementation has rarely achieved the expected outcomes, but what actual outcomes can be observed. Beyond the important discussions of the efficiency and impact of AfT on a meta-level, this thesis turns the attention towards the ways in which various projects unfold in the recipient country. It seeks therefore to explain the distinct trajectories of interventions as they unfold in reality, not as measured against a set of pre-determined indicators. I seek to explain how AfT works (or does not work) by conceptualising it as a contested state building project. I investigate how trade related technical assistance, as an expression of the phenomenon of state building intervention, constitutes an example of a contested state transformation process through attempts to create new modes of trade governance. The aim is to advance current understandings of how these global economic and institutional reform agendas are accepted or contested within aid-receiving states and how the state and social relations of power, but also the intervention regime itself, change as a result of these interventions.

From this I derive at these distinct research questions:

- How do AfT interventions play out on the ground when taking into account strategic selectivity and various interests of social forces?
- What are the strategic interests of social forces regarding the changes induced by the intervention?
- What strategies do they employ and how are these countered by interveners?
- How can adoption, modification or circumvention as possible outcomes of interventions be explained?

I argue that dominant social forces within developing states relate strategically to external assistance and reform pressures. In other words, instead of complying with reform promoted through Aid for Trade (AfT) interventions and implementing them as foreseen in official documents, dominant social forces may try to adapt, modify or circumvent reform pressures in order to strengthen or challenge existing power relations. The struggle over power within these processes of state transformation will be analysed in reference to the wider social context, as well as the agency and strategic choices of social forces within the trade governance intervention (Jessop 2008:6). In this regard, Bob Jessop's (2008) strategic-relational approach is of particular importance in analysing the relation between structural constraints, i.e. integration into the global economy, and agency, i.e. the strategic opportunities of social forces in shaping this process. Focussing on how structure and agency shape the process of economic integration of targeted states allows for an analysis of state transformation processes in the Global South not as deviating from the Western model but based on dynamics that are intrinsic to local forms of societal organisation. The process of internalisation of external reform requirements is a contested process that allows social forces within AfT-receiving states to renegotiate the terms of integration into the global economy. As a result, the state and political rule are transformed, yet not necessarily in the ways intended by official aid programmes. In developing a framework for analysing aid for

trade as a form of state building intervention, the thesis provides an original analysis of how different internal and external social forces and their interests attempt to rebuild the targeted states, which strategies they apply and in which ways these struggles effectively change the state and the distribution of power.

Assisting developing countries to join the global trade regime has become an integral part of the development agenda of international organisations and development agencies. By adapting the already existing development architecture in line with global regulations and requirements stipulated through dominant development organisations and trade agreements, aid increasingly serves the purpose of facilitating trade integration. The AfT initiative attempts to rebuild state institutions in line with the regulatory requirements for accession to global and regional trade agreements. As the latest Association of Southeast Asian Nations (ASEAN) members to join the WTO, Laos and Vietnam's global trade integration has created pressure for them to effectively adapt to international rules on trade and investment. This trade integration is orchestrated through the use of already existing aid channels and international donor organisations have been at the forefront in facilitating the economic integration by restructuring regulations and institutions within the Laotian and Vietnamese states. By looking at these trade facilitation programmes it becomes evident that the global economic integration of developing countries has been accompanied by a growing nexus between trade governance and development assistance to support economic reform demands.

In line with the assumptions of the Post-Washington Consensus, AfT programmes target the state in order to install within it the institutional set-up deemed appropriate and necessary to advance trade integration. The state is targeted because of its apparent capacity to steer and assure the implementation of trade adjustment programmes and its potential regulatory governance capacity supportive of global trade integration. In the thinking of the international donors, however, this capacity is absent at the time of the intervention due to either the capture of the state by illiberal forces, corruption or patronage. In this regard, the intervention becomes necessary to re-establish the capacity of the state to act not in some groups' interests, but in line with international trade

agreements, which are claimed to contribute to overall economic development and growth, as well as poverty reduction.

Lacking in both donor discourse and existing studies of AfT is any acknowledgement of the state building project and with this any examination of the underlying conceptualizations of the state underpinning AfT projects. What the state actually constitutes and represents, how it is understood and conceptualized, however, directly relates to the capacity or incapacity attributed to the state in supporting the economic development. Even if the underlying conceptualisation of the state is not spelled out, economic development and state building interventions of various kinds have a certain vision of the desired end state.

In line with authors such Jessop (2008) and Hameiri (2010), I argue that the state transformation processes are much more complex than sequenced intervention policy cycles might lead one to assume. In fact, what the interventions pursue is the retreat of the state “in some areas of intervention and re-design its institutional forms and functions in order to intervene more effectively in other areas” (Jessop 2013:17). The restructuring of the state thus forms a central component of global economic governance, with AfT being part of the wider transformation of statehood resulting from processes of economic transnationalisation. By countering the tendency to omit questions regarding social relations of power into which AfT intervenes, and which are an inevitable part of everyday political reality, this thesis presents an analysis of social and political conflicts about the distributional impact of AfT which will allow for an enriched understanding of actual processes and unintended (additional) outcomes of trade governance interventions.

The second chapter reviews the existing academic AfT literature. This narrow subfield is heavily dominated by economists, which is reflected in the amount of econometric studies produced to analyse the relation between AfT and trade flows. Fewer contributions critically engage with AfT as a development intervention. The chapter then turns the attention towards literature in the field

of development studies and state transformation literature whose combined insights will serve to theoretically position the thesis.

The third chapter presents the theoretical framework for analysing AfT as a contested SBI. The chapter starts with a discussion of the changing ideas of the role of the state for economic development. This serves to uncover the political dimension and nature of SBIs aiming to transform the state according to a certain idea of it. The chapter then discusses contributions from Marxist state theory and state transformation analysis, as well as insights from critical political economy, to distil the guiding assumptions and conceptualizations for analysing AfT as a SBI. The chapter also presents a typology to analyse different strategic and structuring moments that shape the outcome of the intervention. Finally, the methodology is discussed.

The fourth and sixth chapters share a similar purpose. They respectively discuss the political economy of Laos and Vietnam in order to understand the social relations of power into which AfT intervenes. While the political economy turn in development policy circles has increasingly shifted attention towards social relations of power, they are often treated less as real intervening variables and more as “add-on” analyses to enhance the understanding of staff in the field (Hudson and Marquette 2015:68). The purpose of these chapters, however, is to describe the contested terrain of social power relations that shape AfT SBIs. This provides the necessary background for understanding how specific AfT interventions play out on the ground in these two countries.

The fifth and seventh chapters analyse concrete cases of AfT interventions. As determined by the analytical framework, in a first step, the project’s purpose and set-up is presented. This is followed by a discussion of the stakeholders and their rationale and interests in with regard to a trade governance structure. Then the contestation, both direct and covert, and its impact on the intervention outcome, is discussed.

The thesis concludes with a discussion of how this alternative analytical framework contributed to understanding AfT interventions beyond the usual focus on measurable project indicators.

Instead, it argued that a real interest in understanding how interventions unfold on the ground requires an analysis of contestation and acknowledging unintended outcomes.

Chapter 2: Situating analyses of AfT within development studies and emerging fields of enquiry

In order to position and relate the thesis to past and current research on development interventions in general and trade related assistance in particular, this chapter discusses two main strands of research.

The first part of the chapter addresses the main content and direction of the AfT literature in order to distance itself from its focus on questions of efficiency, impact and policy design. This literature exhibits shortcomings that prevent it from understanding what AfT actually does on the ground beyond the measurement of quantifiable and pre-determined indicators.

The second body of literature discussed below in the second part departs both conceptually and in its analytical focus from of the narrow AfT literature. The condensation of the various insights will lay the ground for the theoretical positioning and framework of this thesis. This body of literature discusses various contributions aiming to explain the actual outcomes of policy and development interventions. Although not subsumed under a single specific discipline, the contributions share a common theme and important insights for situating the thesis: the focus on contestation surrounding development interventions. Instead of assessing development interventions according to pre-determined goals, these analyses open up the space for understanding the contestation surrounding interventions aiming at transforming states.

2.1 AfT literature

2.1.1 Introduction to AfT

AfT is a particular form of trade-related assistance under the AfT Initiative and aims at assisting developing countries to shoulder adjustment costs, adopt regulations as part of trade agreements, and counter various supply-side and trade-related infrastructure obstacles that prevent developing countries reaping the gains of increased trade integration. The AfT initiative was launched in 2005

at the WTO Ministerial meeting in Hong Kong. While being presented as a remedy to the obstacles faced by developing countries in fully taking advantage of the global trading system, the initiative has to be understood in light of years of unresolved negotiations around the Doha Development Agenda (Stiglitz and Charlton 2013:359). AfT was presented as a sign of goodwill to assist developing countries in light of criticism of the asymmetric nature of the global trading system that prevented developing countries from grasping trade opportunities. Other accounts, such as those of the World Bank (WB) Group, stressed the regulatory deficiencies in developing countries, which were argued to have greater impact than trade barriers such as import tariffs in developed countries, and therefore would benefit more from effective assistance than from prospective reduction of tariffs foreseen in the Doha Round (Hoekman and Nicita 2010:68). Moreover, if developing countries were to join trade agreements, adjustment costs posited an inevitable reality. International organisations and donor countries doubted that these countries could effectively address their deficiencies alone, and AfT was a means to not only offer support for adjustment costs, but also to rectify weak local governance.

Global governance institutions, such as the WB and the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), or the WTO, have long been in the front line with regard to supporting the creation of “good governance” in developing countries. Trade integration strategies are designed and put into effect “through programs of policy analysis, technical assistance and capacity building” (WB 2013) and thereby attempt to create better trade governance capacity. These neoliberal economic reforms were coupled with a strong focus on the rebuilding the state through institutional reform measures (OECD and WTO 2013:92–93). AfT can be understood as the complementary means through which global trade integration and the rebuilding of local trade governance ought to proceed. Importantly, it was also designed to accommodate a shift of forum away from the stalled Doha Round of trade talks, to increased focus on bilateral free trade negotiations. AfT thus was created to ensure the continued integration of developing countries into the global economy (Melchior 2007:4). This is how AfT became the first attempt to streamline trade-related assistance into an overarching global

development initiative. While trade assistance had always been a central component of development assistance, it had hitherto lacked a unified approach (Razzaque and te Velde 2013:2). Interestingly, despite the initial promises of industrial countries to dedicate new funds to this intervention, most AfT funds constituted a simple relabelling of funds that already had been dedicated to trade-related assistance measures (Razzaque and te Velde 2013:2).

Another important driver of the AfT initiative was increased public scrutiny and criticism of development assistance in general. The ineffectiveness of aid had attracted much attention and pressure for better justification for using considerable amounts of public money was rising. The OECD Development Assistance Committee's (DAC) response was to ensure "effective aid delivery" (OECD 2003). At the Second High Level Forum on Aid Effectiveness in 2005, the same year that the AfT initiative was launched, the Paris Declaration was endorsed. This Declaration established guidelines for how more effective aid should be achieved and particularly focused on the monitoring and reporting of results (OECD 2005). As a consequence, monitoring exercises became a central concern for donors in proving the value-added of development assistance. The 2006 OECD report "Aid for Trade: Making it Effective" specified this approach for trade assistance, stressing country ownership and alignment of trade and development strategies (Hynes and Holden 2016:596). While not solely applicable to AfT interventions, the donor concern to make intervention outputs measurable often led to the quantification of project outputs, which in turn prevented more in-depth consideration of what happened on the ground beyond measurable outputs, against predetermined project goals. In this regard, the analysis of concrete AfT cases seems to be mainly left to the donor field staff in charge of AfT implementation, usually as part of monitoring and evaluation exercises. The publication best known to bring together these results is the Aid for Trade Global Review series, a biennial joint publication by the OECD and the WTO.

2.1.2 Key themes in AfT literature

The next subsection discusses the two interrelated bodies of literature dealing with AfT. The first subsection discusses the focus of publications produced by international organisations, which

strongly dominate the AfT debate. The second subsection addresses the dominant academic discussion surrounding AfT efficacy.

2.1.2.1 Policy debates on AfT

Rather unsurprisingly, the numerous publications of multilateral and bilateral organisations discussing issues of AfT focus either on questions of efficiency and impact (as measured in terms of higher levels of trade) or on justifying the increased commitment to and funding of trade capacity building programmes (Hallaert 2012:4). The policy discourse surrounding AfT and the related academic literature focussing on grasping the particular relationship between aid and trade is strongly dominated by neoliberal institutionalists, such as Bernard Hoekman, Anne O. Krueger or Sam Laird, who shaped the debate to a major extent in their double role as academics and senior civil servants in international organisations. These trade economists elaborated arguments to combine development and trade-related assistance. As a result, the majority of literature on AfT displays assumptions very much in line with assumptions typically attributed to the neoliberal institutionalist school.

A directional paper was published by Hoekman (2002), one of the central architects of the AfT initiative. In light of the stalled Doha Round, he enquired about a post-Doha Round and argued that “aid for trade” should be addressed outside of the WTO (ibid.: 31). The paper was very influential in reinforcing the nexus between aid and trade by advocating for multilateral cooperation to happen outside of the WTO:

Although market access and pro-development WTO rules are important from a development perspective, the primary determinant of a country's economic performance is its own policy. A liberal trade policy - one that implies relatively low and uniform effective protection and no quantitative restrictions, complemented by institutions to facilitate trade and attain social objectives - is a necessary condition for success in harnessing trade for development. Designing and sustaining supporting policies and institutions are not trivial tasks. Actions by development institutions and industrialized countries to assist developing countries augment their trade capacity and improve their investment climate is critical in strengthening the global trade architecture (Hoekman 2002:36).

In this vein, Susan Prowse made the case for “an issue-based approach to support developing country participation and implementation of WTO agreements” (Prowse 2002:1236). Such an approach would embrace country specificities and would aim at assisting the recipient country, alongside development experts, to identify concrete implementation measures and sequencing of reforms. International organisations would be called upon to assess the validity of the proposed measures for intervention, leading to what Prowse identifies as a convergence on “internationally agreed minimum norms at different speeds, through a process of surveillance and appropriate assistance from multilateral and bilateral donors” (ibid.: 1247). Despite sketching out an approach to assist developing countries in implementing trade agreements, Prowse did not offer more concrete suggestions concerning design and operationalisation of such interventions.

A Overseas Development Institute (ODI) working paper by Prowse and Higgins discusses how AfT could work to ensure inclusive growth and poverty reduction (2010). While they admit that there is no consensus on the causal relationship between trade, economic growth and poverty reduction, they hold to the assumption that trade positively affects the welfare of households (ibid.: vii). Policy recommendations are given based on the assumption that AfT can counter adverse impacts of trade reform, such as adjustment costs. While political economy factors are acknowledged, they believe that the right policies can tackle the distributive and redistributive consequences of trade integration and that recipient government would recognize and act towards these costs and inequalities (ibid.: 8).

2.1.2.2 Academic debates on AfT

Similarly to the focus of policy documents on AfT, the academic literature has evolved around questions concerning the various forms and mechanisms of assistance to developing countries in implementing multilateral trade agreements and coping with its adjustment costs (Hallaert 2012:2). Often, this literature is driven by a quest for policy solutions, i.e. how to best design trade facilitation policies (Hallaert 2012:7; Laird 2007; Razzaque and te Velde 2013). A considerable number of academic authors in this subfield held dual positions as development

practitioners or within public or private research bodies. In turn, this has reinforced the already strong preoccupation with assessing the impact of AfT and how to design better policies for intervention. The academic literature thus mirrors the concerns of the global development community, foremost those of the OECD countries, with most written output focussing on assessing the impact of AfT on trade flows. The overarching focus on trade performance, problems of evaluation and impact of AfT in terms of contribution to trade or growth (Hallaert 2012:12, 15) is approached through econometric or quantitative analysis (Cali and te Velde 2011; Helble, Mann, and Wilson 2012; Naito 2016; Vijil and Wagner 2012). Importantly, within this literature there is no real consensus on whether AfT actually works in facilitating trade and development. The following discussion addresses contributions arguing that AfT has positive impact on export growth and global trade, those that find mixed results, and those that see no impact on actual trade flows.

One of the studies that suggests a positive effect compares measures aimed at reducing trade costs with the predicted trade impacts of a successful Doha Round (Hoekman and Nicita 2010). Hoekman and Nicita show that a small reduction in trade costs would generate more beneficial trade impacts than the Doha Round could hope to achieve (*ibid.*: 76-77). Therefore, they argue that AfT can be a crucial complementary measure to assist developing countries, especially Least Developed Countries (LDCs), in reforming their trade governance system (*ibid.*: 78). Cali and te Velde (2011:733–35) also find a positive impact of certain targeted AfT interventions, such as in infrastructure or trade facilitation, which reduce the cost of trading and thereby exert a positive impact on export growth. At the same time, the authors call for further research to identify precisely which kind of infrastructure aid, for example, is most effective (*ibid.*: 23). In another study, the authors confirm their positive findings, though in a more cautious tone. They found that the AfT category of trade policy and regulatory assistance helped to reduce trading costs, but also state that: “[a]lthough the effects of AfT on exports are more ambivalent depending on the specification used, when properly specified, AfT does foster exports in productive sectors, up to a point” (2013:53).

Other studies show similar results. Helble et al. (2012) investigate the increase of exports of recipient countries based on AfT interventions received. They argue that a positive correlation exists between AfT and greater trade flows and suggest more targeted AfT interventions focussing on trade policy and regulatory reform that would translate into increased recipient country exports (Helble et al. 2012:373–74). Similarly, the quantitative investigations of Vijil and Wagner, (2012:859–61), arrive at the conclusion that AfT for infrastructure commitment seems to increase exports, comparable to a 2.71 per cent reduction in tariff and nontariff barriers. Similarly, Busse et al. (2012:155) argue that AfT targeting the regulatory quality of governments is effective in reducing export costs and thus increasing trade flows.

Hühne et al. (2014) ask the question of who benefits from AfT and conduct one of the few quantitative analyses which takes into account trade flows from donor countries to recipient countries and vice versa. Their results indicate that AfT increased exports both ways, from recipient to donor, and from donor to recipient (ibid.: 1282). Their study thereby aims to counter the claim that AfT is mainly in the interest and benefit of donor countries. A similar finding is reported by Pettersson and Johansson (2013:880, 886), although they cannot establish the underlying causality for this.

The underlying assumption of such studies is that AfT is a desirable intervention because it seems to increase trade flows. In addition, these analyses fuel the AfT initiative's quest for legitimacy. The building of capacity is acknowledged to be of great importance for developing countries to reap the benefits of enhanced trade integration.

However, other studies present a more ambiguous picture. Brazy's (2013:947) analysis, for example, suggests that there exists "considerable variation in the export effects of AfT". His statistical investigation reveals that certain programmes seem to have no impact at all on the exports of the recipient country, while other programmes show positive correlations. He ascribes this to various approaches to programme design and implementation used by different donors, reflecting the different capacities of donors, resulting in heterogeneous outcomes (ibid.: 948). At

the same time, he acknowledges that not all AfT activities had the concrete aim of increasing trade exports, but might rather refer to it as a meta goal, especially on a project level, therefore not directly lending themselves to assessment via measurement of export increases (ibid.: 972). This is of particular relevance, as the intervention logic of donor organisations often assumes that projects can be designed and implemented in a straightforward manner in order to reach a certain goal, such as, for example, an increase in exports.

Other studies arrive at more negative results regarding the impact of AfT on trade flows. Cadot et al. (2014) present a selective survey of the latest studies focussing on the impact of aid impact on trade, as well as the evaluation of AfT. The authors arrive at the conclusion that there are only “few convincing results that aid matters for trade” (ibid.: 516) and, for AfT to work, it would need complementary reforms to generate the positive increases in trade volume that donors seek. Cadot et al. (ibid.:527) also found that studies using econometric analysis have difficulties prescribing “robust policy conclusions” because they fail to account for confounding influences. These influences, for example decreases in certain exports due to recessions in certain importing countries, skew the analytical power of these econometric models. Other intervening variables that are often omitted, something that only a few studies acknowledge (for example, Busse et al. 2012; Langan and Scott 2013), is that LDCs do not receive the main share of AfT funds. Instead, emerging economies seem to receive the majority. Whether changes in trade flows are then attributable to AfT, or to other factors, such as increased foreign direct investment in export industries, is difficult to disentangle. The overall economic growth processes in lower middle income countries such as Vietnam could serve as the missing explanatory variable which might better account for the increase in exports than AfT.

Hynes and Holden present a timely discussion of the achievements and limits of AfT (2016). Despite acknowledging certain shortcomings, they defend the initiative and believe that AfT has been somewhat unfairly assessed, as it was expected to do more than it ever set out to: “[...] the fact that the initiative is based more on informal norm promotion than legal commitments may be at the heart of many people’s dissatisfaction with the AfT regime” (ibid.: 594). They claim that

the principal objective of the AfT initiative was merely about mobilising resources, which they claim has been achieved (ibid.: 605). They concede, however, that the question remains as to whether such flows were actually additional (ibid.: 605).¹

Hynes and Holden also address other criticisms that were voiced vis-à-vis the AfT initiative, such as imprecise methods and variety of methodology for monitoring and evaluation, which made assessments and comparison difficult. In their view, the OECD-led Global Reviews of AfT case studies, which generated vast submissions of AfT cases, and were meant to address what was working and what was not, were important in promoting “change by providing an environment for dialogue, knowledge-sharing, exchange of good practice and information” (Hynes and Holden 2016:600, 604, 613). In light of the absence of critical voices and most cases neglecting to report what did not work, Hallaert (2012:11), however, critically depicted the case study submissions as part of the Global AfT Review process merely as a “beauty contest”.

Hallaert (ibid.) provides an in-depth assessment of various constraints impacting on the AfT initiative. A major criticism refers to the weak monitoring system, which he considers heavily biased because self-assessment and self-reporting by donors incentivises presenting positive results (ibid.: 11). In addition, he argues that the broad scope of the initiative will likely not provide export growth and help developing countries to diversify their trade (ibid.: 18). Hallaert proposes a reform of AfT and argues that what is most needed is a streamlining of the initiative, a refocus on selective trade interventions and the setting up of an independent evaluation body (ibid.: 19).

¹ While Hynes and Holden might have arrived at their claim that the mobilising of funds was successful because of a vertical mobilisation, i.e. a shifting of funds formerly dedicated more loosely to economic development with trade as a sub-category towards the category of AfT, other scholars have been decisively more critical of the idea of a real horizontal increase in funding (Hallaert 2013; Stiglitz and Charlton 2013). Hallaert (2013:665) exemplifies this with the example of a large urban infrastructure project in Istanbul that made Turkey the third largest AfT recipient in 2008. As all infrastructure projects, except water, are considered AfT, this leads to perceived increases of aid to middle-income countries, as reporting categories are far too broad and unprecise (ibid.). This then skews the actual funding of AfT.

All these contributions point towards problems in assessing and understanding the AfT initiative on many levels. What AfT is actually about remains unaddressed despite the quest for improved monitoring and evaluation. The narrow preoccupation of this literature with improving AfT by making the initiative more efficient, contributing more funding, or improving project design and evaluation, prevents an understanding of concrete implementation and outcomes on the ground and fails to address weak project results not only as a problem of monitoring and evaluation, but in its political dimensions.

2.1.3 Political economy dimension within AfT literature

Contrary to the AfT literature's dominant focus on investigating the impact of AfT based on econometric modelling, a few other studies dive into other relevant aspects of AfT and, importantly, address the political economy dimension, or what some refer to as the obstacles relating to the "political cost" of AfT implementation (Duval 2006:23).

One of the few qualitative studies was done by Yann Duval (*ibid.*), who conducted expert interviews in order to explore potential implementation costs of trade facilitation measures. The main cost in the experts' view was less associated with the measures itself, but political costs (*ibid.*: 23). They regarded it as critical to adapt procedures in light of resistance from agencies and stakeholders (*ibid.*).

One of the few studies explicitly addressing political economy constraints in the implementation of AfT was published by Basnett and Engel (2013). The authors argue that "many AfT interventions are failing to deliver desired outcomes and impacts" and identify a range of "collective action problems" that inhibit better implementation of AfT (*ibid.*:130). Various coordination problems are discussed, such as donor-recipient coordination, interdonor coordination or interministerial coordination (*ibid.*: 137). Their analysis thus offers an important departure in analysing AfT impact and outcomes not only on the macro, but also on the project

level. Despite acknowledging the difficulty of creating indicators, the authors remain in a narrow framework of analysis, as they are mainly preoccupied with understanding “whether projects are achieving their stated goals (through a simple evaluation) and what kind of outcomes would have been achieved in the absence of interventions (through a more sophisticated impact evaluation)” (ibid.: 140). What happens beyond measurable indicators, or instead of the goals AfT sets out to achieve, remains unaddressed here.

Similarly, a theoretical paper by Hoekstra and Koopman (2012) explicitly refers to the impact of political-economy factors to the success of AfT in recipient countries. Their policy-oriented analysis acknowledges competing interests and potential losers from AfT measures or trade reform in general. They even state that it is quite paradoxical, in light of vested interests within governments to expect them to lead and implement trade reforms (Hoekstra and Koopmann 2012:341). Nevertheless, while these vested interests are acknowledged, they regard the government as somehow being able to detach itself from such interests and regard this as a precondition for successful AfT interventions (ibid.: 342).

Despite their limited number, these analyses addressed the political dimension behind AfT interventions. At the same time, however, political economy factors are treated as simply another obstacle or weakness which interventions could potentially address. The next section will problematise the underlying assumptions that lead to such assumptions.

2.1.4 Blind spots of mainstream AfT analyses

This section problematises some underlying assumptions found in the dominant, policy oriented and econometric investigations of AfT. Inherent to these studies is a technocratic approach to development and AfT, which is coupled with ignorance of the social dynamics within which interventions take place and that shape actual outcomes, stemming from their fixation on correlational analysis.

As we have seen, the majority of scholarly work on AfT asks how to improve institutional effectiveness and capacity and thereby fails to address the fact that international actors in the field of trade governance, like the European Union (EU), the United States and the WB, are enmeshed in the contested politics of economic governance. Most scholarly analyses aim to assess and measure AfT with the implicit aim of arriving at a best practice model or at least a set of policy recommendations and are fuelled by the idea that the appropriate institutional set-up will allow AfT to become more effective.

What remains unaddressed is whether governance interventions like AfT can indeed reconfigure the state by design, meaning rebuilding not only its institutions but also changing the way in which decisions are made and power is redistributed. The implicit and actually rather simplistic assumption is that having the “right” set of trade-supporting institutions would automatically lead to desired development outcomes. In this regard, the policies advocated by multilateral organizations promote a technocratic and top-down approaches to development.

The justification for targeting the state and building its institutional capacity is based on the assumption that “these countries lack basic infrastructure, skilled human resources and managerial capacity; these shortfalls keep them from responding to trading opportunities” (Razzaque and te Velde 2013:1). However, while “capacities” deemed vital by donors may be absent in many countries, this does not denote any general lack of capacity and resources within the state. Instead, capacity and resources can be present, but serve other ends.

Socio-economic complexities and social relations of power within recipient states are only acknowledged in rare instances in the AfT literature, and most of the time without reflecting on what this means for implementation and outcomes. Especially problematic here is that policy is to a large extent detached from questions of politics, i.e. political power, different interests, and conflict. Instead, it appears that the main purpose of these publications is to create an ideological base for interventions in the realm of trade integration. In cases where authors of the mainstream AfT literature identify politics as a relevant factor, the political economy of developing countries

is immediately subordinated to the question of how the efficient and effective implementation AfT could be improved (for example, Basnett and Engel 2013; Hoekman, Mattoo, and Sapir 2007; Nielson 2006:323). The possibility of social conflict and contestation in light of diverging interests is missing from this literature.

Furthermore, academics as well as policy makers tend to analyse AfT interventions in terms of how far outcomes achieve a pre-determined donor agenda. This overlooks the possibility that target states may adapt and subvert interventions, i.e. that local politics may skew outcomes. Because this is ignored, the problem of outcomes diverging from donor interventions is wrongly ascribed to technical factors like poor coordination or lack of resources, rather than more fundamental issues of interests and power. The restructuring of the state as part of the global trade integration is not simply a technical exercise. What is missing therefore, is an analysis of how the targeted states are transformed, in whose interest, how the reconstruction might be resisted and how political rule changes along the way.

Explanations for failure also tend to be sought at the micro project level rather than the programme level in order not to undermine the overall credibility of the AfT agenda (Hoekman and Wilson 2011:292). The strong ideological contributions in favour of neoliberal economic restructuring become especially clear here: it is easier to blame recipient countries' micro-level issues, such as corruption, bureaucratic incapacity, patronage or project failure instead of endangering the whole agenda of neoliberal economic integration. Questions relating to the impact of trade integration on political rule or in whose interest global economic governance operates, are virtually absent from this literature. In this regard, the agency of local actors is often either overlooked (Brazys 2013) or moralised and only selectively referred to, especially in order to apportion blame for development obstacles or implementation failures.

There also exists a strong conceptual assumption that the state is a unitary actor fully in control of its territory, and a neutral playing field which can simply be redesigned according to international best-practice. Equally problematic, developing countries tend to be subsumed under

an all-encompassing category based on their status as recipients, despite all their complexities and different social relations (Baccini and Urpelainen 2012; Razzaque and te Velde 2013).

Moreover, the literature shares a normative preference and acceptance of the project of building a global trade governance architecture and enhancing the trade integration of developing countries. In this respect, Langan and Scott criticise the moralised discourse surrounding AfT. They argue that the EU, as one of the leading donors, is applying a moralised approach to present market-opening, with all its negative impacts for marginalised and poor groups within society, as “pro-poor” (2013:16). The authors deconstruct the normative discourse and the actual material outcomes for developing countries receiving AfT and thereby voice an important criticism towards the AfT agenda for its failure to address structural inequalities (ibid.).

The normative acceptance of the global trade governance architecture and the need for trade intervention, paired with a lack of understanding of conflict and contestation as an undeniable part of political processes, lead to descriptive and mechanistic analyses of AfT interventions. Politics is preferred to be left out of the equation because it is seen as a root cause of the failure of developing countries to achieve economic growth. This aversion towards politics is a clear continuity of the pessimistic and apolitical notions of politics to be found in the good governance agenda that emerged within the Bretton Woods’ institutions in the early 1990s (Kiely 1998:75).

The critique voiced here with regard to AfT analyses is in many ways a reflection of larger contested issues within the field of development studies. A major debate in development circles centres around the question of whether aid in general is effective in reaching its stated goals and how or if it could be reformed to achieve such goals. Engel (2014) refers to this as the “great aid debate”, naming academics such as Easterly and Moyo as the most prominent opponents of aid delivered through international organisations, and Sachs, Riddell and Collier as those acknowledging problems but advocating reform, not rejection (ibid: 1377; 1381). This apparent disagreement between aid opponents and advocates is, however, not solely about the effectiveness of aid interventions, but, as Lancaster rightly points out, in fact about the fundamental

disagreement about the role of the state in the economy (Lancaster 2009:800). Lancaster characterises the aid advocates as “resource fundamentalists” as they regard the state and aid funding delivered through the state as crucial for development, while the “market fundamentalists”, the aid opponents, are suspicious of the state and afraid of its capacity to distort the free functioning of the market (ibid.).

The sceptics who are most prominently represented by Easterly (2006b) and Moyo (2009), for example, argue that the aid system and development interventions have not been able to install functioning markets, and in fact, private actors are much more likely to achieve this. Both refer to various aid failures to demonstrate problems, such as corruption and rent-seeking, as proof of the weakness of state-led development. While their sceptical stance towards state-led development is understandable from the failures they have observed, they fall for the opposite extreme which maintains that private actors are better suited to pursue market-led development. This extreme position wrongly presents private actors as unrelated to market and development distorting influences and obscures the complex relation between state and society.

On the other end of the spectrum, best represented by authors such as Sachs (2005), Collier (2002) and also Riddell (2007), are those that acknowledge the shortcomings of aid interventions, while at the same time maintaining that the reasons for these shortcomings can be addressed through reform measures focussing on better monitoring and reporting procedures. These advocates represent the Post-Washington Consensus camp of aid reformers as they believe that appropriate technical design measures can prevent “politics” from interfering with the aid intervention. However, politics cannot be done away with, and development interventions often do not achieve their stated goals exactly because of this. Lancaster rightly asserts that many analyses remain stuck in a dichotomy between seeing the state as the source of evil or good, and in turn their argumentation is normatively charged to prove their point.

In order to address these criticisms, I will now turn a particular strand of literature that can guide us towards a more effective analysis of AFT.

2.2 Policy interventions, the “political turn” and unintended outcomes

The second strand of literature that is of relevance comprises studies in the field of economic reform, policy interventions and development studies which focus on the outcome of interventions beyond the assessment of predetermined indicators. The common theme uniting these different fields of enquiry is a focus on the gap between plan and implementation, the “unintended consequences” of aid and policy, although not all contributions equally embrace political-economy factors alongside contestation as central explanatory variables for understanding the reality of development interventions. A selective analysis of some of the most relevant contributions to this vast literature is undertaken below.

Painter’s analysis of donor-inspired neoliberal economic reforms in Vietnam sheds light on how reform plays out on the ground by discussing how the Vietnamese state modified World Bank interventions to consolidate power relations while allowing to accommodate emerging state-business alliances. Importantly, he argues that

the selection and adoption of particular neo-liberal reforms in the face of external pressures must be understood as a domestic political process in which the state seeks to shore up its authority while accommodating emerging state-business alliances; and that these propositions are no better illustrated than by the strategic approach adopted by the Vietnamese party-state centre to overseas development aid which seeks to encourage economic reform (2005:263).

Painter takes an “inside-out” perspective, “which stresses the potential significance of active choices made by state actors, the varying effects of globalisation on different interest groups and the variety of domestic and non-domestic pressures that bear on state policy decisions” (ibid.: 265). His analysis pays particular attention to the way in which reform pressures are appropriated and transformed to support “alternative outcomes” (ibid.). In his view, contestation does not simply arise from disagreement with formal changes to “abstract sets of market rules”, but because economic reform touches upon concrete opportunities for control over wealth and power (ibid.: 266). With the example of the Comprehensive Poverty Reduction and Growth Strategy, he shows how its form and content was predetermined by the World Bank, but the reforms envisaged

in the strategy gave room for the Vietnamese state to adapt and control how they were implemented. Bottom-up strengthening of grassroots democracy, for example, was conducted through local District and Commune People's Committees and local mass organisations, such as the Women's Union, thereby strengthening the hegemony of the Vietnamese Communist Party (ibid. 277). The potential for reforms to threaten social relations of power was never allowed to materialise; instead, a domestic political process shaped the outcome of the reform measures (ibid.: 263).

Another analysis uncovering the modification and adaptation to aid interventions is an ethnographic study by O'Reilly of non-governmental organisations (NGOs) in Northern Rajasthan. She argued that a poverty reduction project complemented the "competitive and co-operative socio-economic relations already operating on the ground" (2010:181). She arrives at the conclusion that neoliberal development interventions strengthened patron-client relationships and that the NGO in charge of the project itself adapted to the local social relations of power by promoting contradictory patronage networks which selectively adapted and adopted some neoliberal empowerment ideals (ibid.: 195). Furthermore, the NGO, instead of supporting increased local autonomy and the rolling back of the state, reinforced the role of the state in continuing provisions (ibid.: 182): iv

Instead of the state withdrawing and turning the provision of development services and welfare over to NGOs (a form of privatization), the state continued to offer support to the poor (a move against neoliberal empowerment ideals), but does so through NGOs that use their position to establish patron-client relationships (ibid.: 195-6).

Carothers and de Gramont (2011) also present a compelling case for attending to the political dimension of aid interventions. Their insights are accurate and of great relevance to rethink the purpose and implementation of aid. They argue that development interventions, especially to build "good governance", all share the assumption that technical assistance, through capacity-building and institutional reform, would lead to improved governance (ibid.: 5). The failure of programmes to induce reforms led researchers and policy makers to seek solutions to this problem.

The researchers and policy makers arrived at the conclusion that “underlying political conditions and structures” impacted on the interventions and that

[c]ivil services in many developing countries, for example, are not dysfunctional primarily because they lack understanding about how to run an efficient bureaucracy. Rather, their governance shortcomings often directly serve the interests of power holder. The lack of meritocracy allows leader to reward political followers and cement their bases of support. [...] Inefficient and opaque policy processes provide opportunities to insert special favours for powerful interests (ibid.: 5-6).

The “political turn” in development circles, inter alia prominently represented by DFID’s “drivers of change” approach, acknowledged such political realities (Warrener 2004). However, the acknowledgement of the political turn also contradicted its own insights, as it was maintained that with the right kind of local leadership, so-called “champions” of reform (Datta and Pham 2013:57), successful interventions could be facilitated. In such a view, leadership remains something that can detach itself from social relations of power, exposing again a rather a-political understanding of political processes.

Carothers and de Gramont, however, remain cautious as how to affect social relations of power on the ground. They argue that “[p]olitical analyses of the constraints on governance reform often point to a simple but damning central conclusion: “Power holders directly benefit from existing governance deficiencies, and various structural factors constrain opportunities for far-reaching reform” (ibid.: 7). At the same time, the policy recommendations given by the authors are two steps ahead of where AfT interventions currently stand, as the operationalisation and implementation of AfT still falls short in many ways not only not acknowledging but also not acting upon the broader “political turn” in donor policy circles (ibid.: 7). Owing to the nature of the policy paper, propositions of ways forward are made. Nevertheless, the authors acknowledge that “[f]ully operationalizing these insights and overcoming the uncertainties will be hard” (2011:2).

An analysis that holds insights of great importance is that of public administration reform (PAR) in Vietnam by Gainsborough et al. (2009). The authors investigate the failure of these reforms to

bring about the changes it envisaged, leading them to argue that “corruption and many of the associated problems of weak public administration are systemic in nature” (2009:23). They argue that “one can talk about implementation as much as one likes but redoubling efforts to strengthen implementation will not change anything as long as the logic governing the system remains unchanged” (ibid.). PAR measures seem ineffective in light of underlying incentive structures, for example when “new offices spring up no sooner than old ones are closed down”, and therefore cannot fulfil what they set out to do (ibid.: 24). Despite providing a range of policy recommendations, the authors also caution that reforms will encounter “deep-rooted problems”, including resistance from particular interests who would stand to lose out (ibid.: 28). The distributive impact of interventions thus leads to clashes with dominant interests. This deserves a more in depth-investigation if one is to understand AfT on the ground.

In a similar vein, Soukamneuth (2006) critically addresses the decentralisation agenda in Laos, as advanced by the United Nations Development Programme (UNDP) and the Swedish International Development Agency (SIDA) funded Governance and Public Administration Reform (GPAR) programme in Laos. In his view, this intervention was a misplaced incentive which mainly served a depoliticised PAR agenda of donors (ibid.: 76). As democracy was not a viable option for donors to promote in Laos, they resorted to a proxy agenda advocating the devolution of power (ibid.). UNDP and SIDA assumed that increased local accountability would ensure the attainment of broader development goals (ibid.). Instead, in a state already characterised by decentralisation, “[t]heir programs, specifically those inspired by the idea of “decentralization,” [sic] in many instances provide a cloak for increasing central state control” (ibid.: 77). The author criticises the denial of politics and the social context within which government restructuring takes place:

Project documents reflect a fundamental misreading, if not willful neglect, of political realities and current inter-governmental relations. The country’s historically weak center and de facto devolution suggest that a development agenda of decentralization makes little sense. In promoting such an agenda, donors fail to consider local norms, values, and circumstances which inform the transition to market capitalism (Soukamneuth 2006:133).

Soukamneuth's contribution is particularly relevant to this thesis. It represents both an important analysis of how depoliticised interventions are not able to reconfigure local politics, as well as "a microcosm of the development industry in Laos" (ibid.: 119).

Another contribution addressing the contestation surrounding development interventions, is a study by Erbeznik (2011). The author presents a pessimistic view on the impact of foreign aid on establishing rule of law in aid-recipient countries. In her article, she refers to development literature which shares her view that foreign aid provides perverse incentives for governments and political elites (ibid.: 847). The technocratic assumption underpinning most aid interventions is that building the right institutions would automatically reform underlying governance processes (ibid.: 878). Instead, these interventions clash with local incentive structures, such as the resistance of those that would lose current benefits if they embraced reform (ibid.: 880-81). In this light, the author argues that foreign aid has negative unintended consequences on the will to reform, because it perpetuates already existing negative incentive structures of government and political elites, for example, by providing additional resources for patronage (ibid.: 882; 886). The author's contribution is relevant to the argument advanced in this thesis that AFT intervenes into social relations of power and that this can lead to inadvertent outcomes of such interventions.

How interventions play out on the ground is a theme further developed by Hameiri, Hughes and Scarpello in their volume *International Intervention and Local Politics: Fragmented States and the Politics of Scale* (2017). They "advance an alternative framework better able to theorise and conceptualise the important relationship between international interventions and local politics, and hence to explain diverse intervention outcomes" (ibid.: 3). An important intervention in to the mainstream literature's assumptions regarding state capacity is made by the authors who argue that

development trajectories do not reflect the dysfunctionality of local institutions in delivering the public good, but the historically specific outcomes of struggles over power and resources in those societies. These are shaped by the political economy context, including transnational processes, such as colonialism or capitalist relations of exchange, in which these societies have been embedded for

generations, as well as the political strategies of dominant and dominated groups (ibid.: 52).

One empirical case shows, for example, how the political elite of the Solomon Islands has been able to continue the centralisation of resources in the capital and redistribute them to provincial supporters as a result of specific historical circumstances going back to the post-independence period which necessitated the redistribution of rents to ensure the country's administrative unity. Donor interventions aiming at challenging such processes through PAR, such as enhanced control of public expenditure, have been strategically circumvented, thereby demonstrating the differential capacities of actors in light of the re-distributional threats stemming from development interventions (ibid.: 72-73).

A study which was directional for this thesis, is Hameiri's 2010 book *Regulating Statehood*. The author demonstrates how many characteristics of contemporary interventions are not well understood and offers a theoretical and empirical investigation into how these interventions play out on the ground. One of his empirical cases investigates how the Cambodian government strategically related to and manipulated development interventions in order to consolidate social relations of power that were as such not promoted or desired by donors (ibid.: 195). Although the development interventions posed new challenges to Cambodia's elite, Hameiri points out that the regime was able to consolidate its power by reframing its interests within dominant donor discourse and redefining development processes as technical matters (ibid.: 195-96, 201). The Cambodian government centralised the coordination of donor programmes which allowed it to exercise greater control over the inclusion of other domestic actors, while also adapting donor speech and concepts of incapacity to blame implementation difficulties on weak donor coordination (ibid.: 201, 204). This unintended outcome of state building intervention is an example of the capacity of social forces to strategically alter development interventions and use them to their own benefit, diverting outcomes from those originally intended by donors.

Contrary to normatively charged and apolitical analysis of aid advocates and opponents, as previously discussed, the contributions discussed in this section specifically address the struggle

over aid interventions and how this shaped the trajectory of development projects. The projects discussed all intervened into local social relations of power by attempting to build or reform specific processes or institutions. But instead on analysing the intervention with the purpose of presenting a favourable outcome or arguing for reform technicalities, as is the case for example with Sachs or Collier, the purpose of the analyses presented in this section is to better understand the reconfiguration of the state as part of aid interventions, such as AfT, and the resulting contestation, a more in-depth engagement with the role of the state in economic development, and the nature of the state, is warranted.

2.3 Conclusion

In line with more critical accounts on the purpose and reality of implementation of aid and state building interventions, this chapter situated the thesis alongside those works that made the case for a more politically focused analysis of aid intervention. Bringing politics back in and moving beyond functionalist and positivist analysis of trade-related technical assistance is a first step towards developing a critique of accounts of global governance and state building interventions that lack explanatory power to address politics and social relations of power. The vast literature on AfT clearly intends to shape the trade governance agenda and thereby contributes to a strengthening of technocratic and top-down approaches to development. At the same time, other strands of literature dealing with state transformation and investigating development policies are much better prepared to analyse what actually happens on the ground and to explain variegated outcomes which transform the state and political power in recipient countries. In the next chapter, I will proceed to discuss this alternative literature and present a framework for an analysis of the politics of state building interventions exploiting these insights.

The main concern of my research project is to overcome the apolitical focus found in current literature on AfT which focusses on questions of increased efficiency and impact, by unmasking the contested political project of which AfT is part. The building of state institutions entails assumptions about the role of the state which are not neutral, but favour certain notions of the

state over others. Mainstream approaches tend to omit this very aspect with their functionalist and positivist analyses of state building interventions. Instead of explaining politics and changes in social relation of power, the current analysis of AfT remains highly descriptive, and therefore obscures an understanding of AfT on the ground. The next chapter aims to advance current conceptualisations of these global economic and institutional reform agendas and uncover important strategical dimension of social forces in accepting or contesting AfT intervention and how this affects the state and social relations of power.

Chapter 3: An analytical framework for analysing AfT as a SBI

This chapter presents a framework for the analysis of AfT as a contested SBI. In a first step, the changing role of the state under the dominant paradigm of neoliberal development is discussed. In a next step, AfT will be represented as an example of the state building efforts of the latest phase of post-Washington consensus-style development interventions with its increased means of working “*on, through and around* the state” (Carroll 2012:384). The chapter then develops a framework to analyse the political and economic structures and dynamics that shape the process and outcomes of AfT interventions. The transformation of the targeted state’s trade and economic policy making capacities, through institutional and procedural changes, is at the core of AfT interventions. This is why it is appropriate to theorise AfT projects as SBIs. These types of intervention directly affect social power relations because of the changes they seek to bring about in the way that power is organised and institutionalised and resources distributed. This in turn leads dominant social forces to engage with such interventions in order to counter their impact, modify their outcome, or adopt favourable measures in their interest. The outcomes of AfT projects are therefore theorised as the result of this contestation and struggle.

Economic development always foresaw a particular role for the state in bringing about this transformation. The first part of the chapter historicises the role of the state under the neoliberal economic development paradigm. This discussion will allow us to understand AfT as the latest expression of this ongoing process of state restructuring. The next section then explains the measures through which AfT interventions aim at reconfiguring the state in order to deepen market relations. This is followed by the theorisation of AfT as a particular form of current SBIs. Strategic capacity of social forces, structural pressures and contestation are central concepts that will be addressed in the discussion of critical state theorists and historical materialists, which serves as a base to understand SBIs. The analytical framework and a typology that guide the

research process will then be presented. The last two sections address methodological steps and research procedures.

3.1 The emergence of economic state building under the paradigm of neoliberal development

The economist Anne O. Krueger, one of the most influential advocates of free trade liberalization, once stated in a lecture to the American Economic Association that “it is very difficult to disentangle views of the proper role for trade policy in development from views about the appropriate role for the state” (1997:1). This statement by Krueger demonstrated the essential link between development policies and their operationalisation which rests on the transformation and building of the state to suit specific policy goals.

The next sections aim to historicise the roles of the state in development thinking in order to carve out the specific form of statehood that development interventions aim to install within targeted states. This discussion will serve to present AfT as a contemporary instance of these attempts to rebuild the state to serve a particular vision of global trade integration. I will discuss the transformation of the state and its role in the economy under the changing fashions of the neoliberal development paradigm. The section will demonstrate that both the “rolling-back” neoliberalism of the Washington Consensus, as well as the “rolling-out” neoliberalism of the Post-Washington Consensus, entailed concrete ideas of what role the state should play in the economy and how to rebuild the state to support the market building agenda. State building is thus a central component of current neoliberal development interventions.

3.1.1 State building under “roll back” neoliberalism

Times of crisis can lead to an overthrow of orthodox thinking and a paradigm shift leading to the acceptance of new ideas and the reconfiguration of institutions to reflect such ideas. For development policy, the debt crisis of the early 1980s was such a redefining moment, giving rise

to neoliberal development policy with the powerful Bretton Woods Institutions as its foremost advocates. In the decades prior to this, the dominant development paradigm in the Global South could be subsumed under the Import Substituting Industrialisation (ISI) strategy. This development strategy was advocated by the Latin American Structuralist School, with Raúl Prebisch, director of the United Nations Economic Commission for Latin America, as one of its most prominent proponents. Prebisch argued that the specialization of developing countries in commodities was unfavourable and would only result in deteriorating terms of trade which in turn would not allow them to effectively catch up with the industrialised countries (Ocampo and Parra 2003:8–9). Therefore, the dependency on foreign export markets and imports had to be replaced by domestic industrialisation. By focusing on the strategy of import substituting industrialisation, developing countries would no longer be operating in an unfavourable economic system which locked them in their peripheral position, but instead could foster domestic industries and compete with developed countries.

One of the main premises, which eventually was heavily attacked and reversed under neoliberal development policy, was the role that the state should play to facilitate ISI. The nation state is depicted as an intervening agent in securing economic development and the top-down reorganization of the national economy (Saad-Filho 2006:132). The structuralists foresaw an interventionist role for the state that actively promoted ISI through targeted policy interventions. The state as a key player is perceived here as a rational actor pursuing economic policies in the national interest. Domestically, the strong state would devise plans for economic policy and targeted industrial support and intervene to overcome market failures, while internationally it would represent and defend the national interest against transnational corporations and the dominant industrial countries (Ocampo and Ros 2011:6–7). In line with List's infant industry argument, protectionist policies were advocated as necessary regulatory measures to protect emerging domestic industries from the external economic pressures stemming from more mature economies (Saad-Filho 2006:134–36).

The 1980s debt crisis sealed the demise of the ISI strategy and empowered the International Financial Institutions (IFIs) and creditors who demanded countries that had sought loans with the IMF to structurally adjust their economies (Rodrik 1994:79). The neo-classically trained economists of the IMF and WB argued that intensive state involvement in development policy had distorted the price mechanism, causing the misallocation of productive resources and therefore low growth rates and negative incentives for entrepreneurs (Kay 1993:695). In addition, the inward-oriented development strategy had led to a scarcity of foreign exchange, while at the same time, the lax oversight over public sector borrowing gave rise to an overaccumulation of public foreign liabilities (Fanelli, Frenkel, and Rozenwurcel 1992:84). The role of the state as both investor and an economic agent managing public enterprises and protectionist market regulations was thus regarded as one of the main sources of economic failure (ibid.: 83). Price controls, import barriers, discriminatory credit allocation, limits on the dismissal of employees, restrictions on inflows of foreign investment and outflow of profit remittance, control of capital movements and control over the establishment of firms in certain sectors were regarded as anti-competitive, restricting and preventing private economic agents from competing with the state on equal terms and therefore had to be abandoned (ibid.: 83).

Neoclassical theory, upon which the Washington Consensus was based, was highly suspicious of state intervention and often straightforwardly dismissed it as inefficient and prone to corrupt rent-seeking behaviour. Influential reports came to the conclusion that the lack of rule of law, extensive patronage networks and inefficient state institutions were the root cause of developing countries' economic backwardness and poverty (WB 1991:130–31). These corrupted and inefficient states were in no way regarded as the beholder of economic development. Therefore, the proposition that the state had to be reduced to minimum activity, in order to do away with undesired interference into the market, regained momentum.

The dominant view of the state's role in development was therefore completely overhauled. From being viewed as the beholder of best economic policy, it was now viewed as the source of the development problems in developing countries (Kay 1993:695)). Therefore, the role of the state

had to be redefined. This reconfiguration, enforced through structural adjustment programmes (SAPs), entailed the down-sizing of the government and its services, a reduction in government expenditure, the privatisation of state-owned enterprises, the abolition of subsidies and protectionism, the liberalisation of markets and a move towards export-oriented free trade (Kay 1993:693). Williamson famously dubbed these adjustment policies as the “Washington consensus”, referring to the Washington based IMF and the WB Group (1990).

The question of development is in many ways intrinsically linked to the IFIs. As creditors, the IFIs were put into the position of shaping development policies in a way that no other international institutions were. They were at the forefront of the ideological fight over development policy and the role of the state. The policy package of the Washington consensus, including its state building component, was put into practice through the structural adjustment programmes of the IFIs, which consisted of the two main stages of “stabilisation” and “adjustment” (Leftwich 1993:607). Stabilisation usually took place under the auspices of the IMF and meant devaluation, cuts in public expenditure and a stable currency exchange rate (ibid.). The WB in turn was responsible to assist the debtor country with various adjustment measures. This meant that besides the specific policy package of the Washington consensus, the state was expected to limit its involvement in economic policy and instead focus on providing physical and social infrastructure (ibid.: 608).

Such a *laissez-faire* state was regarded as necessary in order to prevent political influences from impacting on the beneficial functioning of the market, which would then generate industrial development, growth and jobs (Clarke 2005:50). The idea that states in developing countries should be downsized is especially striking in light of the fact that the development programmes designed under the Bretton Woods institutions *de facto* increased the overall importance of the state by reinforcing its regulatory role. In practice, neoliberalism was always less about reducing state intervention *per se* than about discouraging particular forms of intervention, while strengthening others – e.g. reducing welfare provisions but extending pro-market regulatory capacities (Johnston 2005:136). In addition, the implementation of these programmes actually required enhanced state capacity to ensure that the reforms could be applied in the face of possible

resistance and to prevent potential social unrest as a result of these reforms (Kay 1993:693). To be more precise, the state's active role in economic development was curtailed, while its capacity to steer economic reform according to the propositions of its creditors, the IFIs, was reinforced.

Thus, the first generation of structural adjustment sought to transform the state and its governance, by curtailing its influence over industrial policy, while enhancing its capacity to enforce certain policy measures without prior democratic deliberation. The reconfiguration of the state thus already involved the dismantling of certain institutions, and the rebuilding of new institutions and processes to serve the new economic thinking.

This process of establishing a "new mode of governance, or a form of political rule" (Hameiri 2010:3–4) is a clear example of SBIs, which can be defined as a "broad range of programs and projects designed to build or strengthen the capacity of institutions, organisations and agencies" (ibid.: 2). The particular type of state capacity envisaged by neoliberal proponents is:

the capacity of the institutions of the state to provide the conditions for market-led development to occur. Aside from technical capacity and suitable infrastructure this also necessarily involves insulating markets from the supposedly damaging effects of distributional coalitions, rent-seekers and other vested interests that can potentially distort markets (ibid.: 15).

The measures of structural adjustment would lead to deep redistributive changes and thus created opposition from those social forces that would potentially lose out. The groups that were most likely to be adversely affected were bureaucrats, public sector employees, party officials, farmers and manufacturers, trade unions and those depending on the welfare state (Leftwich 1993:607). While the WB framed its assistance in terms of technocratic expertise, it was actually a highly political undertaking. Structural adjustment was presented as an economic intervention based on the interpretation of neoclassical economic principles that did not interfere with politics. These terms were laid out in the Political Prohibition Clauses of the World Bank. The clauses state that the Bank should refrain from interfering in the political issues of the aid recipient countries and provide only economic assistance. However, the separation of political and economic interference in this case is highly problematic as it rests on the assumption that the

political and economic spheres are strictly delineated and that therefore economic interference can occur without affecting the political sphere. Changes in economic policy are always political, because “no significant change occurs in society without destabilising some status quo, without decoupling some coalition and building another, without challenging some interest and promoting other” (Leftwich 1993:607). In essence, SAPs can be understood as SBIs because they:

attempt to reconfigure the social and political relationships that shape the exercise of state power and the institutions through which these power relationships are organised. Since such interventions attempt to transform the state in ways that support the extension of liberal markets and ‘good governance’ public policy, this often constitutes a direct challenge to established interests, potentially leading to the emergence of new conflicts, interests and coalitions within the state (Hameiri 2010:37).

The enforcement of the Washington Consensus in the Global South was met with harsh criticism from a wide range of actors. The anti-globalisation movement, made up of a broad coalition of activists from industrialised countries, trade unions, farmers and indigenous groups from developing countries, found common ground in reclaiming social justice (Waterman 2004). When the structural adjustment programmes eventually failed to create economic growth and development, supplementary policies were at first added. This can be interpreted as a reaction to the specific criticism that had been raised (Stiglitz 2008:49). For example, when Mexico entered into a financial crisis, despite its compliance with IMF strictures, which ensured fiscal order and low inflation, the lack of domestic savings was blamed. When East Asian countries came into crisis, despite above average saving rates, they were in turn blamed for their lack of transparency (ibid.).

During this time, the policy prescriptions of the Washington Consensus were increasingly questioned and it became more difficult for IFIs to deliver convincing explanations and therefore give credible advice to developing countries. Having been discredited, the Washington Consensus was seemingly abandoned, only to re-emerge later in the revised form of the so-called Post-Washington Consensus. In this regard, the neoliberal interpretation of the “East Asian miracle”

played a crucial part in the rediscovery of the state by the IFIs, leading to important adaptations in the conceptualization of the role of the state.

A variety of scholars and policy makers have analysed the so-called East Asian miracle, the years of unprecedented economic development that occurred in Japan, Malaysia, Singapore, South Korea, Taiwan, and Thailand, to understand how these late industrializing states were able to foster high rates of economic growth. The active role of the state pursued in East Asia differed sharply from the recommendations of the IFIs. Contrary to the rather flawed interpretation of the East Asian development experience within the ideological realms of the Washington Consensus, which interpreted successful state interventions as irrelevant because they conformed with “the market” (Kiely 1998:72), liberal institutionalists perceived a strong developmental state and its interplay with the market as being a necessary part of any capitalist system. Scholars such as Alice Amsden (1994), Jomo Kwame Sundaram (2003) and Ha-Joon Chang (2006) brought forward analyses which stressed the central role of an active developmental state. Out of a criticism of the neoliberal interpretation of the role of the East Asian miracle, they argued that state intervention played a central role in the process of development. State elites were regarded as central actors in pursuing state-led development policies (Fine 2006:112) such as the granting of subsidies to core industries and protecting them from foreign competition. In a similar vein, Chang (2003) argues that the market cannot exist without an institutional setting to regulate it. The elitist state operates in a top-down manner and is shielded from societal conflicts and political considerations (ibid.: 54-55). To create such a state involved separating it from society in order to allow it to operate without interference from social forces and their particular interests. The state thus becomes a neutral entity which can be filled with purpose and policy content by competent bureaucrats who are freed from societal struggles or engage in them only as a means to foster the developmental project.

The IFIs appropriated these interpretations of the East Asian developmental state and adapted them to their vision of the appropriate role of the state in economic development. This is when a complementary idea promoted by New Institutional Economics (NIE) gained ground.

Practitioners were increasingly convinced that structural adjustment policies could only work if they were complemented by solid institutions and regarded it as necessary to expand the initial Washington consensus with more institutionally targeted reforms (Rodrik 2006:978). Where they had previously promoted a minimalist state, they now addressed more openly the particular purpose and form of the state. The state's envisaged purpose was to support the regulation of the economy, in line with the revised recommendations of the Post-Washington Consensus which positively reaffirmed the need to create the market-friendly regulatory capacity of the state (Kiely 1998:67).

3.1.2 State building under the Post-Washington Consensus

In an era when economic theory was dominated by neoclassical theory, the contributions of NIE to the field of economics lay in advancing the understanding of the role of institutions in economic policy making. The role of institutions for economic development had been downplayed and neglected in neoclassical theory, and only with the apparent shortcomings of practically applied neoliberal development policies under the Washington Consensus, did NIE become more influential from the 1990s onwards. In the following decade economists such as the Nobel prize laureate Douglass North and former World Bank chief economist Joseph Stiglitz, who besides their academic positions were also strongly involved in advising governments and holding public office, brought the question of the role of institutions to the forefront in public policy circles (Portes 2006:234). NIE thereby contributed to the reinvention of the dominant neoclassical paradigm by filling the blind spot concerning the role of institutions that had been downplayed or taken for granted (Nabli and Nugent 1989:1336). In an article published as early as 1989, Nabli and Nugent already projected huge potential in the applicability of NIE to the question of economic development, and argued that "it might be appropriate to define economic development as economic growth accompanied by 'efficient' institutional change" (ibid.: 1342).

In the field of development, the application of NIE became known as the Post-Washington Consensus. While "post" might indicate a discontinuation of the assumptions held under the

Washington Consensus, it actually refers to the reinvention of the Washington Consensus by reframing it with new arguments that allowed a continuation of fundamental neoclassical assumptions about the market and economic growth. This second-generation consensus promoted a less exclusive focus on economic policies, and included wider considerations of how institutions should be designed to ensure the right requirements are met for a smooth functioning of the market (Jayasuriya 2002:26). In its 1997 report, the WB focused therefore on the idea of an “efficient” state (WB 1997). Hence, the state was “rediscovered” as a regulatory force. As this regulatory capacity was regarded as dysfunctional or absent in most developing countries (Jayasuriya 2002:30), the rebuilding of the state to increase its capacity to govern now took centre stage in governance interventions. The state was to implement problem-solving strategies in accordance with best-practice models (ibid.) and neoliberal development programmes embraced the idea that state intervention is justified as long as it supported, rather than interfering with, the functioning of the market (Fine 2006:110).

As Stiglitz argued, in some ways this entailed a more fundamental change in some aspects of the Washington Consensus, such as the role of the state and institutions, while in other ways, for example concerning structural adjustment policies, already held convictions remained (Stiglitz 2008:50). Thus, the policy prescriptions under the Washington Consensus remained valid, with the major adjustment being made in terms of efforts and interventions targeting the role of the state in providing oversight for the implementation of reforms. State institutions and the underlying modus operandi now had to be reformed, as in the absence of the state’s regulatory capacity, SAPs could not prove fruitful. The state was to act as “partner, catalyst and facilitator” and expected to “get the fundamentals right” (WB 1997:1, 5).

The “fundamentals” are the neoliberal economic principles, enshrined in policy recommendations, that became protected through obtaining a quasi unchangeable, “constitutional” status. This economic constitutionalism

refers to the attempt to treat the market as a constitutional order with its own rules, procedures, and institutions operating to protect the market order from political

interference. However, these forms of economic constitutionalism demand the construction of a specific kind of state organisation and structure: *a regulatory state*, the purpose of which is to safeguard market order (Jayasuriya 2002:35).

There is thus an attempt to enshrine a normative preference for certain policies, such as trade openness and market orientation into the institutions and processes of the targeted state. Moreover, in order to advance particular economic interests, certain state institutions were strengthened and regulations in favour of dominant economic actors passed, such as tax breaks or specific subsidies. In light of intensified global economic integration, governments created favourable market regulations in order to prevent companies from moving to another jurisdiction with more favourable regulation or to attract new capital interests in the hope of spurring their local economy. Labour regulations and wages were also targeted in order to enable more flexible working arrangements. Especially for developing countries, low salary levels became a competitive “advantage”. The financial sector was one of the sectors strengthened in the course of this reconfiguration of the state, a direct reflection of the dominance of transnational capital. In the same vein, the state’s coercive and repressive capacities were strengthened.

The rebuilding of the state towards a regulatory state was then operationalised through

(a) [the] separation of policy from operation through, for example, contracting out of services; (b) [the] creation of new and autonomous regulatory institutions [...]; (c) the increasing role of the state as the regulator of regulation – that is, it attempts to regulate directly but only as far as shaping the institutional context of regulatory institutions; and (d) the shift from a discretionary to rules-based mode of governance in a range of economic and social policy areas (Jayasuriya 2005:384).

The main task of this type of state, then, was then to uphold the principles of neoliberal “good governance”. The concern with the “governance” of the borrower countries mirrors the dominant view held by donors that “successful economic development is dependent on a radical programme of political, institutional and social transformation” (Williams 2008:69). In this vein,

good governance” encompasses “an efficient public service; an independent judicial system and legal framework to enforce contracts; the accountable administration of public funds; an independent public auditor, responsible to a representative legislature; respect for the law and human rights at all levels of

government; a pluralistic institutional structure, and a free press (Leftwich 1993:610).

Weak and arbitrary state institutions were seen as an impediment to the functioning of the market economy and “rule of law” became a major buzzword (WB 1997:4). In this regard for example, USAID, as one of the biggest bilateral donors, stressed the importance of protecting property rights, because “[o]nly when the rule of law ensures property rights and low transaction costs will domestic capital be invested productively and international capital flow in” (USAID 2002, cit.in: Hout 2004:600).

Also, market promoting policies were to be protected from revisionist tendencies through lock-in mechanisms that would make any attempted reversal costly and difficult (WB 1997:6). This attempt to quarantine markets from political interference through its “constitutionalisation” is, according to Jayasuriya, an essential characteristic of the regulatory state under authoritarian liberalism (Jayasuriya 2000:322). It is thus no longer state intervention per se from which the market has to be protected, but rather political “interference”, i.e. the processes of domestic politics that could potentially challenge the policy preferences agreed upon by the donor community (ibid.: 323).

The governance capacity of certain domestic institutions and agencies that are central to the implementation of market order thereby rise to importance vis-à-vis other state institutions (Jayasuriya 2002:32). The purpose of the state is thus the protection of what is deemed to be unquestionable principles for economic development (ibid.). Jayasuriya argues that the emergence of governance programs is emblematic of the fact that aid programs no longer are designed as interventions in certain policy fields, but from the outset designed to rebuild and transform governance capacity and thereby ensure the effectiveness and implementation of the policy intervention as such (ibid.: 5). By targeting the modus operandi of the state, the state is effectively the target of development interventions purposefully disguised to mask the political nature of these undertakings.

This discussion of different conceptualizations of the state is a starting point for understanding how governance interventions, with their distinct set of “social and political relationships, institutions and ideas”, transform states from within (Hameiri 2010:39). We have shown that development paradigms and their associated governance agendas promote a certain vision of the state and its role in promoting and securing a certain “public good”. The state is targeted and transformed to serve specific political projects. The oscillation between “more” or “less” state intervention is not what really is at stake. The question is rather, how states are transformed, in whose interest, through which mechanisms, and in face of which societal struggles over power. Hence, instead of analysing the degree of state intervention, it is much more telling to analyse the specific transformations that the targeted state undergoes. In other words, how are new modes of global economic governance transforming the state in the Global South?

As we will show more fully in the next section, in line with the assumptions of the Post-Washington Consensus, AfT programmes target the state in order to install within it the appropriate and necessary institutional set-up to advance trade and thereby more fully integrate the recipient into the global trading regime. Problematic here is the underlying conceptualization of the state that informs this development intervention. The state is targeted because of its apparent capacity to steer and assure the implementation of trade adjustment programmes. In the thinking of the international donors, however, this capacity is absent at the time of the intervention due to a lack of capacity and leadership. The intervention in this regard becomes necessary to re-establish the capacity of the state to act not in some groups’ interests, but in line with international trade agreements, which are discursively framed to serve wider interests and benefit society at large by contributing to economic development and poverty reduction.

In this regard, AfT is a direct reflection of the global changes that have left their mark on the current paradigm of neoliberal development policy. Toby Carroll terms the latest phase of the expansion of market mechanisms the period of “deep marketization”, an “aggressive pro-private sector agenda that seeks to rapidly extend market exchange and social relations using means that work *on, through, and around* the state” (2012:380). He argues that this new agenda constitutes

a considerably more aggressive push for development interventions to ensure the building of efficient institutions for markets. This latest phase thereby differs from the ideas of incorporating wider parts of society as enabling agents, as it was still the case with the Post-Washington Consensus (Carroll and Jarvis 2015:296). Instead, in this current phase, private capital is of increasing centrality in shaping the neoliberal development agenda. The structural power of transnationalised private capital allow these forces to inscribe their ideas of “enabling environments” in order to overcome the “last development frontiers” into development agendas (ibid.: 282).

In the next section, I will advance the argument why AfT can be regarded as representing an intervention under a transformed Post-Washington Consensus, with its stronger focus on governance and state building to enforce market relations and free trade on a global scale.

3.2 State transformation under AfT interventions

This second section will situate AfT as the latest in a series of development interventions that focusses increasingly on the transformation of domestic governance and the state in order to provide the regulatory framework for the functioning of the free trade paradigm. The trade development regime, of which trade-related assistance forms part, consists of a double movement to re-regulate developing states and emerging economies by integrating them into global trade through both the combination of formal accession to free trade agreements, as well as the subsequent adoption of the body of laws and regulations that result from the accession. While trade agreements aim at formally establishing a “level-playing field”, it is their actual implementation that ensures compliance. It is here that AfT programmes come into play by “strengthening” local capacities to implement and enforce international trade agreements. By establishing the institutional capacity to regulate trade and enact policies deemed appropriate by current trade-development regime standards, AfT is the means through which donors aim to build a trade governance system within targeted states.

The OECD categorizes AfT according to three categories of the Creditor Reporting System (CRS), namely 1) trade policy and regulations and trade-related adjustment (table 1), 2) economic infrastructure (table 2), 3) building productive capacity (table 3) (OECD and WTO 2013:385–89). The CRS is a database offering information in order to monitor aid flows and project related spending.

The first category is “trade policy and regulations and trade-related adjustment” (OECD and WTO 2013:385). As can be seen from table 1, six different types of projects fall under this category, namely (a) trade policy and administrative management; (b) trade facilitation; (c) regional trade agreements; (d) multilateral trade negotiations; (e) trade-related adjustment and (f) trade education/training (ibid.). AfT is approached very broadly, as can be seen from the various activities that fall under each of the six categories (Nunnenkamp and Thiele 2013:82). As a result, they offer various entry and focal points for interventions. In practice, these six categories of programmatic intervention have to be dealt with cautiously, as the categorisation of projects into one of the above categories is not always straightforward.

Table 2 gives an overview of the OECD-CRS category “economic infrastructure”. Hard infrastructure projects, such as projects on communications, energy, transport and storage fall in this category, but also training and educational activities related to transport and storage (OECD and WTO 2013:385). While support for transport and storage are directly related to trade facilitation, potential support activities for communication and energy supply infrastructure are basically serving economic development in general and are less trade specific.

The third category, summarised in table 3, “productive capacity building for trade development” and refers to projects that are deemed supportive to trade development while building productive capacity. This extremely broad category includes projects such as capacity building in the banking and financial services sector; business support services, such as support to trade and business associations and chambers of commerce; advice and programming of state enterprise restructuring and de-monopolisation programmes; specific sector adjustment and managements

(tourism, agriculture, fishery and forestry); institutional capacity building for industrial policy; support to small and medium sized enterprises (SMEs). These more direct forms of support for export-oriented businesses are aimed at supporting “a new class of export-oriented businessmen” who it is believed will support trade reforms and global trade integration in their favour (Rodrik 1994:83).

As can be seen from tables 2 and 3, the WTO and OECD’s Working Group on Statistics considers all aid to productive sectors and economic infrastructure as applied under the CRS as Aft (Nunnenkamp and Thiele 2013:82–83). At the same time, aid for trade-related infrastructure is only a part of overall aid for economic infrastructure, thus caution is warranted when evaluating Aft based on CRS data (ibid.). Nunnenkamp therefore calls for additional country studies to validate findings based on CRS data (ibid.)

Table 1 (OECD 2013: 385)

Description	Clarifications/Additional notes on coverage
TRADE POLICY AND REGULATIONS AND TRADE-RELATED ADJUSTMENT	
Trade policy and administrative Management	Trade policy and planning; support to ministries and departments responsible for trade policy; trade-related legislation and regulatory reforms; policy analysis and implementation of multilateral trade agreements e.g. technical barriers to trade and sanitary and phytosanitary measures (TBT/SPS) except at regional level; mainstreaming trade in national development strategies (e.g. poverty reduction strategy papers); wholesale/retail trade; unspecified trade and trade promotion activities.
Trade facilitation	Simplification and harmonisation of international import and export procedures (customs valuation, licensing procedures, transport formalities, payments, insurance); support to customs departments; tariff reforms.
Regional trade agreements (RTAs)	Support to regional trade arrangements, including work on TBT/SPS at regional level; elaboration of rules of

	origin and introduction of special and differential treatment in RTAs.
Multilateral trade negotiations	Support developing countries' effective participation in multilateral trade negotiations, including training of negotiators, assessing impacts of negotiations; accession to the WTO and other multilateral trade-related organisations.
Trade education/training	Human resources development in trade not included under any of the above codes. Includes university programmes in trade.
Trade-related adjustment	Contributions to the government budget to assist the implementation of recipients' own trade reforms and adjustments to trade policy measures by other countries; assistance to manage shortfalls in the balance of payments due to changes in the world trading environment.

Table 2 (OECD 2013: 385f.)

Description	Clarifications/Additional notes on coverage
ECONOMIC INFRASTRUCTURE	
Transport and storage	
Trade policy and administrative Management	Transport sector policy, planning and programmes; aid to transport ministries; institution capacity building and advice; unspecified transport; activities that combine road, rail, water and/or air transport.
Road transport	Road infrastructure, road vehicles; passenger road transport, motor passenger cars.
Rail transport	Rail infrastructure, rail equipment, locomotives, other rolling stock; including light rail (tram) and underground systems.

Water transport	Harbours and docks, harbour guidance systems, ships and boats; river and other inland water transport, inland barges and vessels.
Air transport	Airports, airport guidance systems, aeroplanes, aeroplane maintenance equipment.
Storage	Whether or not related to transportation.
Education and training in transport and storage	
Communications	
Communications policy and administrative management	Communications sector policy, planning and programmes; institution capacity building and advice; including postal services development; unspecified communications activities.
Telecommunications	Telephone networks, telecommunication satellites, earth stations.
Radio/television/print media	Radio and TV links, equipment; newspapers; printing and publishing.
Information and communication technology (ICT)	Computer hardware and software; internet access; IT training. When sector cannot be specified.
Energy Generation and Supply	
Energy policy and administrative management	Energy sector policy, planning and programmes; aid to energy ministries; institution capacity building and advice; unspecified energy activities including energy conservation.
Power generation/non-renewable sources	Thermal power plants including when heat source cannot be determined; combined gas-coal power plants.

Power generation/renewable sources	Including policy, planning, development programmes, surveys and incentives.
Electrical transmission/distribution	Distribution from power source to end user; transmission lines.
Gas distribution	Delivery for use by ultimate consumer.
Oil-fired power plants	Including diesel power plants
Gas-fired power plants	
Coal-fired power plants	
Nuclear power plants	Including nuclear safety.
Hydro-electric power plants	Including power-generating river barges.
Geothermal energy	
Solar energy	Including photo-voltaic cells, solar thermal applications and solar heating.
Wind power	Wind energy for water lifting and electric power generation.

Ocean power	Including ocean thermal energy conversion, tidal and wave power.
Biomass	Densification technologies and use of biomass for direct power generation including biogas, gas obtained from sugar cane and other plant residues, anaerobic digesters.
Energy education/training	Applies to all energy sub-sectors; all levels of training.
Energy research	Including general inventories, surveys.

Table 3 (OECD 2013: 387-9)

Description	Clarifications/Additional notes on coverage
BUILDING PRODUCTIVE CAPACITY (including TRADE DEVELOPMENT)	
BANKING AND FINANCIAL SERVICES	
Financial policy and administrative management	Finance sector policy, planning and programmes; institution capacity building and advice; financial markets and systems.
Monetary institutions	Central banks.
Formal sector financial intermediaries	All formal sector financial intermediaries; credit lines; insurance, leasing, venture capital, etc. (except when focused on only one sector).
Informal/semi-formal financial intermediaries	Micro credit, savings and credit co-operatives etc.
Education/training in banking and financial services	
BUSINESS AND OTHER SERVICES	

Business support services and institutions	Support to trade and business associations, chambers of commerce; legal and regulatory reform aimed at improving business and investment climate; private sector institution capacity building and advice; trade information; public-private sector networking including trade fairs; e commerce.
Privatisation	When sector cannot be specified. Including general state enterprise restructuring or de-monopolisation programmes; planning, programming, advice.
AGRICULTURE	
Agricultural policy and administrative management	Agricultural sector policy, planning and programmes; aid to agricultural ministries; institution capacity building and advice; unspecified agriculture.
Agricultural development	Integrated projects; farm development.
Agricultural land resources	Including soil degradation control; soil improvement; drainage of water logged areas; soil desalination; agricultural land surveys; land reclamation; erosion control, desertification control.
Agricultural water resources	Irrigation, reservoirs, hydraulic structures, ground water exploitation for agricultural use.
Agricultural inputs	Supply of seeds, fertilizers, agricultural machinery/equipment.
Food crop production	Including grains (wheat, rice, barley, maize, rye, oats, millet, sorghum); horticulture; vegetables; fruit and berries; other annual and perennial crops.
Industrial crops/export crops	Including sugar; coffee, cocoa, tea; oil seeds, nuts, kernels; fibre crops; tobacco; rubber.
Livestock	Animal husbandry; animal feed aid
Agrarian reform	Including agricultural sector adjustment.

Agricultural alternative development	Projects to reduce illicit drug cultivation through other agricultural marketing and production opportunities
Agricultural extension	Non-formal training in agriculture.
Agricultural education/ training	
Agricultural research	Plant breeding, physiology, genetic resources, ecology, taxonomy, disease control, agricultural bio-technology; including livestock research (animal health, breeding and genetics, nutrition, physiology).
Agricultural services	Marketing policies and organisation; storage and transportation, creation of strategic reserves.
Plant and post-harvest protection and pest control	Including integrated plant protection, biological plant protection activities, supply and management of agrochemicals, supply of pesticides, plant protection policy and legislation.
Agricultural financial services	Financial intermediaries for the agricultural sector including credit schemes; crop insurance.
Agricultural co-operatives	Including farmers' organisations.
Livestock/ veterinary services	Animal health and management, genetic resources, feed resources.
FORESTRY	
Forestry policy and administrative management	Forestry sector policy, planning and programmes; institution capacity building and advice; forest surveys; unspecified forestry and agro-forestry activities.
Forestry development	Afforestation for industrial and rural consumption; exploitation and utilisation; erosion control, desertification control; integrated forestry projects.
Fuelwood/charcoal	Forestry development whose primary purpose is production of fuelwood and charcoal.

Forestry education/training	
Forestry research	Including artificial regeneration, genetic improvement, production methods, fertilizer, harvesting.
Forestry services	
FISHING	
Fishing policy and administrative management	Fishing sector policy, planning and programmes; institution capacity building and advice; ocean and coastal fishing; marine and freshwater fish surveys and prospecting; fishing boats/equipment; unspecified fishing activities.
Fishery development	Exploitation and utilisation of fisheries; fish stock protection; aquaculture; integrated fishery projects.
Fishery education/training	
Fishery research	Pilot fish culture; marine/freshwater biological research.
Fishery services	Fishing harbours; fish markets; fishery transport and cold storage.
INDUSTRY	
Industrial policy and administrative management	Industrial sector policy, planning and programmes; institution capacity building and advice; unspecified industrial activities; manufacturing of goods not specified below.
Industrial development	
Small and medium-sized enterprises (SME) development	Direct support to the development of small and medium-sized enterprises in the industrial sector, including accounting, auditing and advisory services.
Cottage industries and handicraft	
Agro-industries	Staple food processing, dairy products, slaughter houses and equipment, meat and fish processing and preserving,

	oils/fats, sugar refineries, beverages/tobacco, animal feeds production.
Forest industries	Wood production, pulp/paper production.
Textiles, leather and substitutes	Including knitting factories.
Chemicals	Industrial and non-industrial production facilities; includes pesticides production.
Fertilizer plants	
Cement/lime/plaster	
Energy manufacturing	Including gas liquefaction; petroleum refineries.
Pharmaceutical production	Medical equipment/supplies; drugs, medicines, vaccines; hygienic products.
Basic metal industries	Iron and steel, structural metal production.
Non-ferrous metal industries	
Engineering	Manufacturing of electrical and non-electrical machinery, engines/turbines.
Transport equipment industry	Shipbuilding, fishing boats building; railroad equipment; motor vehicles and motor passenger cars; aircraft; navigation/guidance systems.
Technological research and development	Including industrial standards; quality management; metrology; testing; accreditation; certification.
MINERAL RESOURCES AND MINING	
Mineral/mining policy and administrative management	Mineral and mining sector policy, planning and programmes; mining legislation, mining cadastre, mineral resources inventory, information systems, institution capacity building and advice; unspecified mineral resources exploitation.

Mineral prospection and exploration	Geology, geophysics, geochemistry; excluding hydrogeology and environmental geology, mineral extraction and processing, infrastructure, technology, economics, safety and environment management.
Coal	Including lignite and peat.
Oil and gas	Petroleum, natural gas, condensates, liquefied petroleum gas, liquefied natural gas; including drilling and production.
Ferrous metals	Iron and ferro-alloy metals.
Nonferrous metals	Aluminium, copper, lead, nickel, tin, zinc.
Precious metals/ materials	Gold, silver, platinum, diamonds, gemstones.
Industrial minerals	Baryte, limestone, feldspar, kaolin, sand, gypsym, gravel, ornamental stones.
Fertilizer minerals	Phosphates, potash.
Offshore minerals	Polymetallic nodules, phosphorites, marine placer deposits.
TOURISM	
Tourism policy and administrative management	

These different categories of AfT project embrace both the core of Post-Washington Consensus interventions, namely the reworking of trade governance, as well as those features of development aid serving the deepening of market relations, by incorporating projects that support the business community and private sector productive capacity. This reworking of the state and its governance, but also social relations and alliances by virtue of altering the rules of the game, are highly intrusive and political because of the redistributive consequences. As Rodrik argues, the “central political difficulty in undertaking trade reform is the exceedingly high ratio of redistribution to

aggregate gain that trade reform typically generates. The political cost-benefit ratio of trade reform [...] is very high. This is the source of the contentiousness of trade policy in normal times” (Rodrik 1994:64). Put differently, contention will arise as certain social forces will inevitably resist trade reform, because of the distributional consequences for them. By targeting for example certain sectors, trade reform can alter established arrangements that benefit certain actors. The interventions might strengthen those social forces in control of that specific sector and help them to generate more revenue which they in turn can employ for other political and economic goals, such as strategies of co-optation. Thus, possible changes in the governance of economic activity can translate into transforming the alliances between dominant groups, the political and economic strategies, and in effect the state as an institutional and political ensemble. As powerful societal groups with potentially diverging interests aim to influence the redistributive consequences of global trade integration and its outcome in their favour, they potentially unite or divide over a certain agenda.

Therefore, it is crucial to understand how different groups aim to build alliances, co-opt or coerce other forces in order to strengthen their hold on power and resources. AfT may be welcomed within the targeted state by certain societal groups who see the intervention as a means to advance their specific agendas, or it might be simultaneously resisted for its potential to undermine them, for example. When AfT supports an infrastructure project for renewable energy, it might evoke resistance from the non-renewable energy sector who fear losing their market share due to the increased material capacities for their competitors that would result from the intervention. Diverging interests of dominant social forces could evoke contestation surrounding these interventions, because “by attempting to produce environments conducive to the effective functioning of liberal markets [...] SBIs often generate tensions that [...] potentially undermine the implementation of governance reforms” (Hameiri 2010:63).

3.3 Theorising AfT as a contemporary SBI

This section addresses the theorisation of AfT as the latest expression in a series of development intervention aiming to reconfigure the state - its social relations of power, its institutions and the ideas about its role in economic development.

For this purpose, I theorise AfT as a contested SBI and draw on the work of Hameiri (2010) who maintains that SBI are rarely playing out as intended, because they do not intervene into neutral political spaces, but fields of struggle. The targeted state is characterised by distinct social relations of power and reform processes that challenge these are likely to encounter strategic reactions from dominant social forces.

The various aid interventions surveyed, including AfT projects are best understood, I argue, as SBIs. Following Hameiri, I define SBIs as externally driven processes of state transformation which not only aim at changing the institutional composition of the state, but also to

fundamentally alter[ing] the political and social relations that underpin state power, the ways in which state power is exercised, the institutions through which it is organised, and the interests it serves. [...] These interventions constitute political regimes - sets of social and political relationships, institutions and ideas – that affect the ways in which political power is produced and reproduced within intervened states, though not necessarily in the way intended by interveners (Hameiri 2010:11; 39).

As state power is being reconstituted through the attempted creation of new institutional and governance arrangements, social forces will strategically relate to these SBI in order to resist or secure their interests through them.

SBIs can be broken down to three major interrelated transformations relating to the 1) location, 2) purpose and 3) actors exercising state power (Hameiri 2010:79). The following subsections address each of these processes in detail.

3.3.1 AfT and the transformation of the location of state power

Hameiri argues that SBIs constitute “new ways of managing conflict, within transnationalised spaces of governance inside the state, which relocate important decision-making processes outside the formal government apparatus” (Hameiri 2010:104). The transnationalisation of certain state agencies and the creation of transnational institutions which become part of the internal governance structure of the targeted state are a main feature of the rebuilding of the state (ibid.: 96).

What is accomplished through the transnationalisation of formerly national forums of decision making, previously under control of democratically elected institutions, is an increased insulation of key state agencies from political deliberation and contestation. The transnationalisation attempts to place these state agencies under international regulations and procedures and gives technocratic rule precedence over democratic decision-making processes. Global trade integration through the accession to trade agreements entails exactly such a transformation of the location of state power. Additionally, in the case of Laos and Vietnam, the transnationalisation of certain state agencies in non-democratic states complements the already existing feature of institutions removed from public scrutiny. One of the results in the case of authoritarian states is the relocation of power from a secretive patronage system to transnational spaces which, in many instances, display a similarly high degree of secrecy. Most importantly, these newly created governance spaces are equally freed from channels for popular contestation, thereby reformatting the authoritarian and hierarchical nature of the state, not changing this feature as such. This up-scaling, in addition to the strategic selectivities already inscribed into domestic political institutions, is a further impediment for marginalised social forces to counter or reshape these transformative processes. In these apolitical spaces of trade governance, democratic deliberation and contestation has been systematically erased. When policy suggestions are made by marginalised social forces, with alternative suggestions that tend to deviate from normative assumptions about how trade governance is supposed to work, they are systematically placed under a taboo. What is more at stake here is social forces within the state, or parts of it, struggling over continued access and

influence in transnationalised governance spaces. Dominant social forces have preferential and facilitated access to transnationalised governance spaces, making the interest of those politically and economically dominant social forces most likely to be inscribed into global governance arrangements.

AfT constitutes an additional attempt to shift policy making into transnationalised spaces of trade governance. A vast array of development agencies and international organisations are present within the state apparatus, such as in the form of seconded advisors located within certain ministries or state agencies. A transnational trade-development regime constituting of a broad global alliance and ideological nexus of states and development organisations aim to rebuild or establish trade governance structures in targeted states. IFIs, such as the ADB and the WB, alongside UN bodies such as the United Nations Industrial Development Organization (UNIDO) and the United Nations Development Programme (UNDP) and various bilateral agencies form part of this multiscalar regime.

3.3.2 AfT and the transformation of the purpose of state power

AfT interventions envision rebuilding the state as the regulator of market relations and free-trade as the desired path towards economic development, taking primacy over any other possible development concern in society. This normative-ideological shift (Hameiri 2010:79) has transformed the state into a guardian of outward-oriented economic development whose role is to sustain the opening up of markets for global free trade without which development seemingly cannot be attained. However, the legitimacy and political stability that is achieved by defining development in terms of economic growth depends on the social forces that benefit from this. There are certain economic sectors that will feel greater competitive pressure, while at the same time adjustment costs might limit gains. Outward-oriented economic development might turn out not to favour all economic actors alike and therefore might not be in the equal interest of all social forces. If structural selectivities are not already preventing the equal participation of all

social forces, contestation from those social forces who will be disadvantaged by such regulations and policies can be expected.

In the case of state-capitalist states, certain sectors and state-owned enterprises, for example, previously enjoyed state-supported preferential status, allowing them to access credits at favourable rates or protecting them from competition through trade barriers. Enhanced trade integration, with the accession to global or regional trade agreements, often involves dismantling such benefits in favour of free market principles. Instead, now, economic support had to be given equally, although the actual operationalisation led again to the de facto preferential treatment of certain economic actors. The establishment of special economic zones, for example, where certain economic sectors would enjoy preferential taxation and better infrastructure, often benefitted large technological companies, usually transnationally operating, in contrast to local industries which would require a different industrial policy approach.

3.3.3 AfT and the transformation of actors exercising state power

Another main characteristic of the transformative nature of SBIs are the new forms of political rule related to the increased presence of transnationalised actors in AfT governance arrangements where experts and technocrats reign that are not politically accountable and shielded away from channels of political contestation by design. Particular functions which were formerly dealt with from within the bureaucracy, for example, are now being outsourced to development consultancies based on calculations of efficiency. The implementation of development projects has shifted away from government into the hands of private actors, while the government itself becomes more concerned with providing ideological direction, so-called “meta-governance” (ibid.: 214). In line with transnationalised policy spaces, the actors within these spaces are often transnationalised, being formally employed by donor organisation or national agencies, but elevated into technocratic spaces of policy-making. These state-based experts seem to represent the beholders of quasi-scientifically proven best policy choices, masking an underlying normative preference for a certain political order. What is problematic about “power being placed in the

hand of experts who are not politically accountable” (ibid.: 210), is that the loyalty of those experts and private actors run too often in the direction of those on whom they financially depend, i.e. the donor agencies or affiliations with powerful forces within the administration.

The above three transformations discussed how AFT is part of a “new mode[s] of transnational regulatory governance concerned with both the regulation of particular states and statehood in general” (ibid.: 208). These transformations however are far from being uncontested. In the following, I will turn to discuss how each transformation plays out in case of AFT.

3.4 Actors and their interest in trade reform

The identification of potential lines of conflict and contestation is an important part in understanding particular outcomes of AFT SBIs. Certain social forces will be more likely to embrace or resist certain reform measures, depending on whether they lose out or benefit from changing procedural and institutional configurations. The following section traces the parameters which are decisive for determining proponents and opponents of trade integration and their likeliness to support regulatory change, but also to understand potential contestation arising from divergent interests.

In order to identify the likelihood that major social groups will support or resist AFT, the following figure identifies the perspective of the “winners” and “losers” from enhanced trade integration and reform. As others, who attempted similar differentiations to identify key actors, have expressed elsewhere (Beresford 2008:238), such large generalisations are not meant to give a final representation of reality on the ground. Instead it serves to underline various overlapping or contradicting interests within society. What has to be maintained, is that not all actors, and especially powerful corporate actors, necessarily fully embrace or reject trade liberalisation across the board but instead seek to see their particular interest represented. Global trade integration is thus unlikely to receive support from any particular social group in its entirety, but instead a very complex array of particularistic interests will relate to it.

Figure 1 Supply-Chain/ End-Market parameters

		Domestic sourcing			
		Contra trade integration	Pro trade integration		
Domestic end market					International end market
		Pro trade integration	Pro trade integration		
		International sourcing			

Figure 1 shows those dimensions relevant to understand how cross-border trading impacts on the positioning of economic agents for or against trade integration. Companies that source domestically and for the domestic market are most likely to reject trade integration, because they do not engage in trade activities, but will potentially face increased foreign competition over the same market. Companies that target the local market, but source internationally and thus engage in trading activities, are likely to favour trade integration, at least with respect to their imports. Enhanced trade integration, however, can increase competition which these companies might not always be prepared to challenge. International and transnationally operating businesses will also tend to welcome trade integration, as it allows them to both transnationalise sourcing and production and access new markets. Companies that trade with goods, such as natural resources obtained in the local market for export, are likely to favour trade integration insofar as it facilitates export activities. However, any regulatory changes that could induce more favourable terms for foreign competition, due to a loss of protectionist measures, will likely cause resistance.

Figure 2 Economic actors' free trade vs. protectionist interests

		Status-quo preserving			
		Domestic economic actors against trade integration as they lose economic status due to loss of protection and increased competition	Transnational economic actors might benefit from deals specifically targeted at them and will refuse to revoke them		
Domestic				Transnationally	
economic actors				operating	
		Domestic actors in favour of trade integration as they expect to participate more equally in economy	In favour of trade integration		
		Advocating level-playing field			
				economic actors	

Figure 2 shows other decisive dimensions that determine opposition or support to trade integration. Transnationally operating businesses will favour trade integration, as it both opens up new target markets and facilitates supply-chain processes. Established domestic actors, such as SMEs, that do not enjoy special subsidies or other forms of state support, might support trade integration, as they welcome the abolition of usually undeserved competitive advantage of better connected players. At the same time, this outcome is unlikely to apply to a wide range of domestic economic actors as they might not be able to compete with foreign firms entering the market.

Dominant industrial players such as large-scale conglomerates or SOEs will usually fear losing their undisputed market status and increased competition due to new regulation and abolishment of old favourable regulations. Taken together, both figures display the factors relevant for

understanding the tension in domestic economic actors positioning when it comes to facilitating cross-border trading, while also having to take into account the increased competition.

Other social forces will take different positions depending on the way particular changes impact on their power and influence. Certain high-level officials, for example, might see their position and influence increased through newly created functions and increased resources at their display, and might welcome reform measures. The central government could also selectively favour certain measures that increase its hold over the local state. At the same time, ministries, officials and state bodies that see their position decrease will likely resist. Civil servants might belong to the group most likely to resist trade integration if reform measures undermine career prospects, worsen job insecurity, and involve a loss of benefits. The labour force can also be expected to take a rather negative stance. Although foreign companies might consider increasing labour intensive operations, this usually does not coincide with decent pay or increased labour standards, but often the pressure to produce even more price efficiently.

Different interests can clash or align with regard to reforms induced via SBIs and lead to contestation over state restructuring. Questions of power might not be unacknowledged by the actors involved, but the SBIs are ignoring an inherent determinant of social organisation, which is struggle over power and over the organization of society according to particular interests. Even donors' increased focus on the political economy of targeted states does not fundamentally alter their underlying conviction that a certain state can and should be achieved through technocratic and managerial rule inscribed into new governance structures inculcated by donor intervention (Hutchison et al. 2014:19). As political processes are regarded as a threat to the free and fair functioning of the market and therefore normatively undesirable, the donor agencies hold on to their instrumental, top-down approach to development "which tends to pay little attention to political struggles and power relations and defines governance in predominantly apolitical terms" (Hutchison et al. 2014:55). Social relations are treated as an external variable, which cannot be done away with, but which development agencies are not equipped to address either. Ferguson aptly states that "the irony is that as long as development practice is seen as an expert activity, not

an act of politics, the development ‘industry’ will continue to operate as the ‘anti-politics machine’ that it has always been” (1990, cit. in: Hutchison et al. 2014:56).

SBIs advance particular interests over others and therefore evoke strategic reactions of dominant forces benefitting from or opposing changes induced by the intervention.

The following section presents a framework that conceptualises how social forces strategically relate to AfT projects in order to advance an understanding of how AfT unfolds in targeted states.

3.5 Conceptualising the state and the Strategic Relational Approach

The notions of statehood that development interventions operate with are based on a particular understanding of the state, which theoretically deviates from the conceptualization embraced in this study. As discussed above, the “rediscovery” of the importance of institutions and the state for economic development, led development interventions to increasingly focus on rebuilding the state in line with the requirements for an efficient market. This includes a specific, albeit often implicit, understanding of the state, not just regarding its “function”, but also its form and relation to economic development.

NIE perceives the state as an actor, acting in the interest of society at large in pursuing economic development as a common good, and exhibits a normative preference for a state that enables a free market. The idea of the state is that it performs a certain function, that of regulating market activity, from which it derives its legitimacy (Hilgers 2012:81). This functionalist understanding of the state is translated into development interventions, such as AfT, with the aim of creating a regulatory state through the building of institutional capacity. It is this functionalist, ahistorical and asocial understanding of the state and its functional units that leads to an economic reductionism of the state, with its purpose being to solely create conditions conducive to economic development and global trade. Chang criticises this one-dimensional causality, found in actually-existing development interventions, that assume that economic development simply follows from the right institutional set-up and leaves important determinants such as social forces and their

particular interests unaddressed (Chang 2011:477) The IFIs and development organisations believe nevertheless that such a state can be designed and the state being remodelled as if it was an empty shell (Hutchison et al. 2014:13).

In order to understand and explain state building interventions, it is necessary to move away from normative understandings of the state and its role in economic development. This section presents a theoretical framework that provides the necessary analytical categories to explain how state building interventions play out.

3.5.1 State theory

This section presents the analytical categories and theoretical assumptions that will guide the analysis of AfT as a SBI. Contrary to structural-functionalist assumptions that SBIs can achieve the goal of creating a market and a trade-friendly governance structure in a conflict-free process, social conflict and structural pressures are central parameters of analysis. The perspective is advanced that donor projects intervene into ongoing struggles over the trajectory and form of social, political and economic order (Hutchison et al. 2014:79). This theorization draws on the work of Shahar Hameiri (2010) on SBIs and Bob Jessop's interpretation of Gramsci's theory as read through Nicos Poulantzas (2008, 2016). In a first step, the basic assumptions of this historical materialist state theory will be discussed. Then, I discuss why the strategic relational approach will allow for an understanding of contested state transformations which addresses blind spots of other approaches. In the last step, I describe in detail the concrete methodological steps for analysis.

Contrary to the ideas held by donors about the state and the possibility of rebuilding the state, Jones argues that the historical sociology of the state has shown that "specific institutional forms are not the result of rational design, but the outcome of various compromises struck among social forces" (2010:1). The form that the state takes is thus less determined by successfully designed and implemented SBIs, but by "the conflict over power and resources among different classes,

ethnic and religious groups and other forces” (ibid.). SBIs thus have to be related to the political economy of the targeted state and the underlying conflicts between different social actors if we are interested in understanding their actual outcomes beyond predetermined donor goals (ibid.).

Jones’s statement stems from a Gramscian understanding of the state, as developed by Nicos Poulantzas and Bob Jessop. In this regard, Poulantzas advanced a radically different conceptualisation of the state. In contrast to liberal or Weberian state theory, which depict states as either reflecting a general will or as actors in their own right, this strand of Marxist thought sees state institutions as the expression of social conflict. Poulantzas was also discontented with other Marxist conceptualizations of the state as an instrument of the bourgeoisie which had to be turned into an instrument of the proletariat in order to establish social equality. He disagreed with the idea that the whole state could be manipulated or captured by a particular group. Instead, he argued that the state is “the point of crystallization of a power relation” (ibid.:83, my translation). With this conceptualization, Poulantzas uncovered how the struggle over power between conflicting classes was inscribed into the state and gave it its distinct form and function (ibid.: 73). The state was to be understood as a terrain of struggle mirroring the conflict between social classes, but also ethnic, religious and state-based groups. Thus, the state could not be a neutral actor above society, but had to be understood as a “condensation” of the conflict between different social forces and their respective interests and strategies. This means that political institutions and policy choices are shaped by social conflict. The main lines of conflict evolve over power and control over resources between the different societal forces who strive to improve their standing or defend it against any form of reallocation which undermines their relative power. This conflict is conditioned by the material and social resources that the different classes command over and use politically.

The structural power of capital makes any intervention aimed at changing the regulatory framework a politically sensitive issue which will be heavily contested by the dominant forces who tend to be economically most powerful. By virtue of the constant threat to shift production locations and lay off workers, and in the increasing absence of organised labour (whose

dismantling was itself a political strategy), the control of wages and the labour market, capitalists can, for example, use their structural power to lobby for a preferable tax regime, the protection of domestic industries by the state and a favourable regulatory environment (flexible labour contract schemes, access to cheap energy and infrastructure needs, etc.) (Gill and Law 1989:479). “The conditions of existence of economic development” thus lie at the core of the conflict between social forces. Class power is characterised by the different positions that the different classes hold in the overall social division of labour (Jessop 2008:121).

The analytical strength of using a social conflict approach lies in its capacity to explain how social forces alter the state based on their fundamental struggle over power and resources. Because the state is not a tool, it cannot simply be “taken over” by a certain coalition or dominant group and “filled” with new strategies, as AfT interveners seem to imagine. Instead, social relations have to be reworked, either through methods of coalition building, co-optation, sometimes mixed with coercion, and in the worst case, through constant physical threat. Social conflict is thus the decisive determinant which cannot be done away with. This also holds true in the case of states classified as authoritarian, such as Laos and Vietnam. The single parties in both countries incorporate or are made up of other social forces, such as the military, the bureaucracy and the business sector, with potentially diverging interests that have to be accommodated as well. The difference to Western states is then not the apparent absence of conflict, but the form this conflict takes, in these cases often intra-factional conflict within incumbent regimes, rather than open clashes between opposing classes, or democratic contestation.

Bob Jessop further develops the explanatory capacity of Poulantzas’ ideas. The state is understood and analysed as a field of struggle and mirrors past and present struggles over power which take place in society and gives the state its specific, temporary form and structural features (2008:36–37). The analytical strength here lies in the ability to conceptualize how social forces aim to alter the state, to reshape it in order to pursue their interests, while facing the state’s strategic selectivity. Poulantzas first used the term “structural selectivity”, by which he referred to the structural constraints inscribed within the state towards certain policy options or laws and regulations.

Jessop then advanced this notion with the term “strategic selectivity”, by which he referred to the structural constraints posed upon actors to pursue their strategies within the structural constraints of the state (2008:36). The state is thus not an equal level playing field. Instead, the outcomes of past struggles are inscribed into the state by virtue of laws and institutions that guide the decision-making process (ibid.: 34). And these laws and regulations in turn are understood as the outcome of past struggles between social forces seeking to regulate a particular issue in their interest. Thus, instead of reducing the state to a set of laws and institutions set in stone, the power dimension of statehood is uncovered. The state is seen as a reflection of past and present social relations of power, which are to be understood as a “institutionally and discursively mediated condensation (a reflection and refraction) of a changing balance of forces” (Jessop 2016:10). Moreover, the state is all at once “the site, the generator, and the product of strategies” (Jessop 2008:35).

In the case of AfT interventions, the above discussion plays out as follows. AfT attempts to build the capacity of the state to govern and regulate global trade integration in line with international trade agreements. AfT programmes and projects target a specific state, and thereby become part of its particular field of struggle, in which dominant forces constantly aim to maintain their power and resources and inscribe their strategies into the state. AfT interventions have the potential to alter the underlying rules of the game, i.e. the laws and regulations guiding economic activity, which at one point have been established by dominant forces. The “contingent” agreements between key social forces are potentially threatened or opened up to renegotiation. Social forces will react differently to the intervention, based on their interests, agendas and material capacities, and the strategic selectivities of the state. Depending on what the specific intervention target is, an intervention might well complement certain social groups’ political and economic strategies and therefore garner their support. Others, who stand to lose, may resist.

As AfT is trying to rebuild the regulatory capacities of the state in the trade sector, it targets access to material resources and capital as a key resource. Borrowing from Jessop, AfT projects pursue a certain strategy to “influence the forms, purposes, and content of polity, politics and policy”, just as other forces’ strategies do (Jessop 2016:71). AfT interventions and mechanisms may, for

example aim at changing policies and policy-making processes, which in turn creates resistance from those groups not favoured or even threatened by these changes. The promotion of pro-trade policies and the opening up of certain sectors might, for example, be resisted by domestically-oriented capitalist forces that would encounter fiercer competition upon granting the same rules to foreign players. In order to comply with global trade agreements, a certain sector might formally be opened up to competition but threatened business interests might seek to have the sector regulated in a way as to effectively result in discrimination against foreign competition by enforcing additional regulations, such as particular Sanitary and Phytosanitary Measures or standardization requirements for example. AfT projects also target the institutional structure by shifting where and how decisions are made concerning trade policies, for example by setting up new state agencies. This can often evoke competition between different state bodies as it interferes with long established modes of decision making, which are not necessarily strictly formalised.

Hameiri therefore stresses that “it is important to identify what conflicts are generated, exacerbated or marginalised” as the intervention regime, i.e. the trade-development regime, clashes with other regimes within the targeted state (2010:40).

3.5.2 Applying the SRA to analysing political action in light of structural constraints

In this section, I present the SRA as an analytical approach that enables the investigation of a given social phenomenon by paying attention to structural constraints that shape the course of political action. More specifically, the SRA allows us to find answers to the questions of how and to what extent does the state structure power relations and privilege specific interests. What does this mean for AfT as a programme aiming to rework state structures, while being itself conditioned by structural and strategic selectivities, as well as the wider social relations of power? The SRA is of particular importance in analysing the dynamic relation between structural constraints and pressures, in this case the integration into the global trade regime, and agency, i.e. the strategic opportunities of social forces in shaping this process.

Political action is structurally constrained by social relations of power and the domestic field of struggle, as well as global economic and geopolitical dynamics (Jones 2015:45). Political action thus takes place under structural constraints, which, as mentioned in the previous section, are not neutral, but favour certain actors and strategies over others. At the same time, the actors can strategically exploit structural pressures and thereby alter the structure in their favour (Hay 2002:128). In the case of AfT, this means that the actions of social forces trying to resist the form that global trade integration takes are shaped by the way the governance intervention is designed, the policy goals it aims to accomplish and those policy options it aims to restrict, as well the actors that are deemed to be “stakeholders” in this process and who might experience preferential access or involvement. This structural bias is captured in the concept of the strategic selectivity of the state, its institutions and laws, which result in different constraints or opportunities for different actors (Jessop 2016:55). In other words, political action, the strategic response to different projects targeting the state, such as AfT, are conditioned by strategic selectivity, which can manifest itself as a “conjunctural opportunity” or a “structural constraint” (Jessop 2008:42). Depending on the strategies employed by social actors, the alliances that they build, and thus via what Jessop terms the “structurally oriented strategic calculation” of social forces, the momentary constraint or opportunity can reverse and is thus not set in stone (ibid.: 42, 46).

Different interest groups pursue their own interests and political strategies in light of different capacities and the strategic selectivities that they encounter. Furthermore, they may clash with each other over the direction and outcome of particular AfT interventions, yet, in other instances, might unite over others. AfT interventions create the contested spaces within which this struggle takes place by virtue of their programmatic focus and their policy prescriptions, as they are directly linked to specific ideas and interests. At the same time, prevailing power relations and state forms at the time of the intervention display their own structural selectivities and affect how the intervention unfolds.

Because AfT touches on fundamental distributional issues, the implementation of projects may encounter widespread contestation. However, dominant forces - particularly key state-based groups - may also be able to structurally limit the degree and nature of contestation at the outset.

This particular form of strategic selectivity arises from the donors' need for government buy-in. Targeted governments retain the responsibility of steering the intervention and of ensuring that the governance reform is truly adopted by the state. In this regard, SBIs do not seek to supplant sovereign states, but instead aim at transforming local governance in particular ways through the internalisation of SBIs by local dominant forces. The “ownership” of the intervention agenda not only serves to ensure donors that progress takes place but is central to the idea of how the reconfigured state should be governed. At the same time, the political elite is granted with considerable influence over which projects to deploy and in what form.

Before a project is approved, for example, the limits within which projects have to operate are already decided: What a project is about, who will be assisted to do what, and who will not. Contentious issues can thus be eliminated at the very beginning. Projects that would cause too much potential interference with the social order may be prevented from ever materialising or are dealt with in such a way as to eradicate contentiousness at this stage, making implementation run more smoothly.

This effectively means that the government heavily controls who the donors get to interact with and which policy domains projects can address or who can be a beneficiary. A major problem is that projects therefore could drift into the areas of least concern or regarded as not sensitive. For example, it has become very popular to set up websites to disseminate information that the donors believe the general population does not have access to and which is seen to inhibit economic efficiency. For example, the Directorate General for Trade of the EU stated that:

asymmetries apply to access to information about market access opportunities. Large companies may be able to afford legal and economic advice on regulatory requirements but this is more difficult for SMEs. FTAs [free trade agreements] can help, for example, by setting up government websites that act as a one-stop shop for all information on relevant product requirements (EC 2015:16).

This leads to an abundance of websites which are set up without any real impact because the underlying structures and processes determining politico-economic outcomes are left untouched. A domestic SME will not be able to export more easily simply because there is a website telling it how to do so if, for example, it lacks the credit to scale its production up to international standards. This is just one example of where development capacity is built without leaving a real impact.

3.5.3 Typology of strategic action

By attempting to rewrite the strategic selectivity of the state, AfT affects the ever contingent alliance of forces underpinning that state. The analysis of particular political strategies towards AfT with the SRA sheds light on possible moments of resistance, circumvention, or adaptation of particular interventions. Resistance to transformative processes that have the ability to shake up strong political alliances, distributions of power and resources and associated and modes of governance can take different forms. What follows is a typology of possible reactions of social forces in light of development interventions, adapted from Schippers (2011) and Hameiri et al. (2017).

3.5.3.1 Imposition

It is possible to imagine some form of external “imposition” which means that despite a lack of substantial agreement, local social forces are in such a weak bargaining position as to have no choice but accept the external conditions demanded by AfT donors. Such a case could result from a weak internal position where the dominant classes are in such a desperate situation as to depend on foreign support and therefore readily accept any “conditionality criteria”. However, because the state’s formal sovereignty is left intact, the actual acceptance and crucially implementation of the SBI requires the consent of recipient governments who act as “gate keepers” and primary contact point and on whose cooperation development actors depend, which in turn increases their

bargaining power. Hence, although the programme may initially be accepted without quarrel, circumvention or adaptation could nonetheless occur during the implementation phase.

3.5.3.2 Full support

The formal acceptance of treaties, conventions or declarations combined with the substantial agreement over content results in what I term “full support”. This means that the implementation of development agreements is pursued in the most committed way because there is also substantial agreement between donors and the recipient government since the project serves the interests of all actors involved. Such a scenario is theoretically possible, yet unlikely because it assumes implicitly that there is a common good or desirable goal which all social forces can identify with and benefit from in an equal manner. This is unlikely, especially in the case of trade integration opening up previously protected or heavily subsidised sectors, for example. These sectors will lose economic policies that were to their advantage, in addition to facing more competition. This dimension of internalization is generally presented and advocated by the donor community under the banner of “ownership” and “partnership”, which tends to obscure how aid interventions are created and implemented.

3.5.3.3 Adaptation

Contrary to the general tendency to depict dependent states as victims of external pressure, social forces within recipient states can be in a relatively strong position to adapt development programmes to serve their own interests. This might be related to certain social forces’ ability, based on their socio-economic positionality and their access to political elites, to build coalitions able to pursue implementation in an autonomous way, thereby allowing for adaptation or it could invite informal processes of which development agents might be unaware and excluded from. This is of special relevance in reconceptualising the relation between internal and external actors. This strategic dimension shows that aid interventions are not an unmediated top-down process. As a result, “external” interests become less harmful to powerful social forces and they can

support aspects of the intervention that support their respective interests, while not addressing those components that would run against their interests. This also encompasses the structural circumscribing of “unwanted” choices and trajectories, meaning the rejection of projects or the undermining of them at a very early stage. The interaction is characterised by diverging interests and cooperation emerges rather out of necessity than out of respect for a mutual partnership. Contrary to official statements, which depict development strategies as some mutual agreement between different development partners, the frictions between external and internal interests lead to a reworking of the intervention.

It is also possible that the interaction between various antagonistic foreign donors may enlarge the room for manoeuvre of the dominant classes, as long as the external actors do not ally. Antagonistic external interests exist, i.e. “alternatives”, could be played off against each other. Donor competition is such a scenario, as with the rise of China as an important major donor (see Woods 2008). Such a strategic option is conditioned by the opportunity to strategically circumvent external interests.

3.5.3.4 Non-compliance

However, it is also possible that, despite the formal acceptance between the parties involved, some kind of rejection in the form of non-implementation or non-compliance can be observed. A reason for this is the lack of substantial agreement over the outline of development plans and also because it may be easy to receive benefits without having to commit seriously to goals, as those responsible for accepting and managing AfT might not be those whose cooperation is required to implement it. Gainsborough observes such a situation in the case of Vietnam by stating that "there is usually more room for manoeuvre than the official position suggests, as rules, even in international trade, are open to interpretation, and non-compliance in respect of international agreements does not always result in sanctions" (Gainsborough 2010:153).

The formal acceptance of external requirements inscribed in specific project designs is linked to benefits and may be regarded as necessary by the dominant social forces in order to pursue their own interests or to receive material/financial gain or political support for their own political and economic projects. This means that although there is lack of substantial agreement, the local elite nonetheless formally accepts development programmes or projects. However, when the subsequent adaptation of external requirements is not feasible it is likely that various social forces will try to evade compliance requirements.

3.5.3.5 Securing compliance

An attempt by recipient elites to evade the implementation of certain reforms may prompt donors to change their strategies to seek stronger compliance. An action to circumvent could expect to receive a counteraction aiming to rectify any implementation gone in an unwanted direction. However, as project activities are often singled out activities, which rarely receive real-time follow-up, it is likely that adaptation and circumvention are only detected at a later point, when it becomes very difficult to turn the course of the intervention around.

It becomes clear from this typology that, contrary to the framing of AfT as support measures which are either “owned” or requested by the targeted states, the “mutual agreements” over the actual impact that such interventions have may often be fraught with disagreement and contestation in various forms. This is because not all outcomes will prove equally beneficial to all actors. In that sense, AfT itself is a condensation of dominant interests surrounding the trade-development regime and thereby favours certain interests over others. Strategic constraints might result from the clash between different interests relating to the concrete intervention in the field of trade-related assistance, but also from the clash of interests that exist between other political spaces. The internalisation of AfT projects is linked to strategic consideration by the part of social forces present on the terrain of the state with definite options to choose from. This also means that “agents can face conflicts of interests such that a given situation, action, or event undermines at least some conditions of existence in at least some respects at the same time as it advances these

and/ or other preconditions in other respects” (Jessop 2008:30). Thus, certain actors can face a strategic dilemma, which might never fully resolve in their favour, but then opt to pursue the strategy that “hurts” their interest least and/or seek to build an alliance through material concessions and/ or changing the discursive field in their favour.

3.5.4 Strategic moments of condensation of struggle

The strategic typology discussed above comes into play during different moments of interaction which define the course of an intervention within a given strategically selective institutional context. Two distinct moments can structurally confine and strategically alter the course of AfT interventions.

3.5.4.1 Negotiation of intervention

Like all SBIs, the implementation of AfT intervention requires the consent and cooperation of recipient governments (Hameiri et al. 2017:45). Governments hold a key role in securing the dominant interests that they represent and will act according to these interests. During the negotiation phase, the parties involved agree on the broad fields of intervention of AfT activities. The more the interests of intervening and local forces with access to these negotiations diverge, the less substance a project may have, possibly restricting and dissecting an initially ambitious agenda into irrelevant and harmless interventions.

If an intervention discourse announces fundamental transformations, but approved day-to-day project activity is small-scale, possibly in sectors of overall low national priority, it can be inferred that powerful interests diverted the donor agenda at the earliest moment in the project cycle, during the negotiation phase. This diversion could manifest itself in the form of low-impact interventions, such as publications or websites, or otherwise projects that operate detached from actual processes behind a “firewall”, insulated from meaningful governance processes.

Any outright rejection of a certain intervention will most likely occur in this phase, when the actual modalities through which aid will be delivered are still secondary to the specific fields of intervention, which might be straightforwardly “off limits” for the interveners, such as sectors regarded as being of special strategic importance. Jessop terms this moment the “‘structural’ moment”, because it comprises policy choices and institutional settings in a given context that cannot be altered (Jessop 2008:42).

3.5.4.2 Implementation of intervention

During the implementation phase, what has been agreed on as a result of the first “moment”, which now exerts a strategic selectivity towards certain policy options and actors, can be subject to a different set of dynamics because of the likely inclusion of a much wider number of social forces. Social forces that might have been excluded from the first moment due to the limited access to the state’s decision-making centres and negotiations with donors, might now come into play. These forces could be critical to the successful implementation of projects. Strategies to undermine or support the intervention or aspects of it will be more prominent in the actual implementation phase and thereby impact on the interventions overall course, possibly leading to incomplete, contradictory and unintended outcomes. This second phase is determined by what Jessop calls a “‘conjunctural’ moment”, allowing forces to possibly re-appropriate and challenge the project (Jessop 2008:42).

3.6 Method of analysis

In this final section, I discuss the methodological approach for the analysis of AfT as a contested SBI. Instead of assessing AfT according to some predefined and politically desired outcomes, this thesis seeks to understand what actually happens or does not happen on the ground because of the way AfT is designed, the structural selectivities involved, and actors’ strategies towards the SBI.

As Jones (Jones 2015:44) argues, what has to be explained is how external intervention transforms statehood by influencing the socio-political conflicts in the targeted states by virtue of its potential to alter access to resources; to channel interests through access to centres of power and how it can align or clash with interests or equip certain forces with resources while depriving others, forcing new strategic considerations upon social forces and coalitions. In order to understand how AfT works on the ground, it is necessary to identify the social forces that are involved, affected and targeted by the projects and to uncover how they aim to strengthen or rework the strategic selectivity of the state. By analysing their positionality and strategic interests within a given political economy context, more general lines of conflict can be identified which in turn might shape AfT interventions.

3.6.1 Methodological steps of analysis

The method of analysis for the empirical cases proceeds as follows. Firstly, an analysis of concrete trade facilitation and capacity building projects will be undertaken by identifying the project rationale, i.e. what donors seek to achieve and why. Secondly, we identify dominant social forces and their interests/ political projects, and how these are potentially affected by the AfT intervention. Thirdly, the structural and strategic moments of struggle will be analysed, which allow us to trace outcomes from contestation.

3.6.1.1 Project rationale

By analysing the concrete means by which donors seek to transform the targeted state, knowledge of the structural pressures exerted on targeted sectors can be identified and later related to the interests of the dominant forces. This step identifies through analysis of donor project documents, how concrete interventions aim at changing regulations and procedures and therefore allows us to subsequently understand who would benefit or lose out from it.

3.6.1.2 Identification of dominant social forces

In order to understand why a certain AfT intervention might find support or be undermined, it is necessary to investigate social power relations in a specific socio-economic context, because herein lies the key to understanding the full potential of social forces and coalitions thereof to pursue certain strategies to protect their interests. Thus, a political economy analysis will be employed.

A political economy analysis is especially fruitful in order to understand the field of struggle into which AfT interventions intervene, as economic sectors and actors are directly affected by such interventions (cf. Jones 2015:47–48). While certain forces might benefit from the changes induced by the intervention, others forces, especially labour, agricultural producers or small nationally oriented businesses, might unevenly shoulder the costs.

To assist in the identification of key forces and their inter-relations, a general political economy analysis of each target is undertaken in the chapters preceding the analysis of specific AfT interventions (chapters 4 and 6). These identify the economic actors and sectors in both the Vietnamese and Laotian economy which are most likely to benefit from global trade integration and are therefore likely to embrace new regulations and procedures in line with international trade agreements, and vice-versa.

These chapters are guided by the following questions:

- What are the dominant industrial sectors? What is the ownership structure, state vs. private, transnational vs. local? Who provides most jobs?
- Are they export-oriented or nationally- oriented?
- Are they import-dependent?
- Are transnational players trying to enter the market? Which sectors?
- Which role does the state play in the economy?
- What are particular interests of the dominant economic players?

A political economy analysis works dialectically by allowing for the identification of the dominant social forces as well as for an interpretation of the findings (ibid.). It thereby produces no quantifiable, positivist research outcome, but a causal explanation of social processes. What the analysis is concerned with is not to measure pre-determined achievement of project targets and milestones, but the struggles over power that determine in whose interests the trade governance operates.

A second political economy analysis in relation to particular projects is presented as part of the case studies discussed in detail in chapters 5 and 7. The forces and coalitions directly and indirectly affected by AfT programmes, as well as the regulators of the trade-development regime are identified. This entails analysing their social and economic power. Various actors and alliances have particular interests in shaping trade governance, such as international and transnationally operating forces (IFIs, such as WB, ADB; multilateral donors, such as UNDP, UNIDO; bilateral donors, such as the Australian Agency for International Development (AUSAID), the United States Agency for International Development (USAID), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the European Commission (EC)/ Directorate-General for International cooperation and Development (DG DEVCO), consultancies and their experts), which can also comprise state personnel, a neo-entrepreneurial comprador class (Carroll and Jarvis 2015:285), state capitalists and other transnationally oriented capitalist factions. Other key actors are party elites, the military, SMEs and labour forces. Furthermore, actors that might not traditionally count as “domestic” actors also form part of the struggle to inscribe their particular interest in the state, such as, foreign capitalists.

3.6.1.3 Analysis of contestation between different social forces

Based on the typology developed above, and on the two defining moments during the 1) negotiation of the intervention project and then 2) during the implementation, I will analyse how certain social forces try to reject or adapt particular projects and how they clash over the

transformative processes of SBI. This step is about identifying how social forces react strategically to trade-related restructuring processes.

With the help of grey literature, such as project documents and internal reports, and semi-structured interviews with experts from state agencies, international organisations and business, I aim to understand how actors with diverging interests oppose or align with the SBI. I expect the interviews to reveal the strategic and contested dimensions of these transformative processes, as a way to complement documentary analysis, which often remains vague on points of contestation.

As state transformation is about the redistribution of power and access to formal and informal decision-making centres and resources, the struggle over the direction of the interventions is fundamental to the dominant social forces and they will aim to shape its trajectory to ensure the most preferable outcome for themselves or their allies. This means that the analysis has to be sharpened with regard to the strategic options that are available to certain actors and structural constraints which bind or facilitate certain strategic moves.

3.7 Research procedures and ethics

3.7.1 Anonymity, confidentiality and harm

I ensured that the research project would under no circumstances cause any harm or liability to the participants or myself. This involved devising appropriate procedures for data collection to ensure the informed consent, safety and confidentiality of all participants involved.

Part of the data collection involved semi-structured interviews with local and international civil servants involved in trade-related technical assistance. By interviewing these actors, I aimed to uncover how external interests are accepted or countered by social forces within the Laotian and Vietnamese state. It was of highest importance to assure potential interviewees that, if requested, the content of their interview would not be related to their name and/or position. All interviewees asked to remain anonymous. They are therefore referred to only in very broad terms. Out of 25

interviewees, 7 can be classified as management-level, senior representatives of donor organisations, 5 were mid-level national government officials within relevant agencies, while the remainder were local (8 interviewees) and foreign (5 interviewees) mid-level technical staff.

As a PhD researcher trying to access data through them, the interviewees were in a favourable position and fully in control of which information to share with me or not. I was never in any position to pressure them for any information, at all times, the interviewees kept full control over which information to disclose and which to retain. My interviewees were public officials who were fully aware of the environment in which they are working and therefore fully able to adequately assess potential risks. I was in no position to pressure, coerce or influence them in any way. Their voluntary participation therefore implied informed consent.

Due to local cultural norms, I did not ask any interviewee to sign any consent form. Instead, I relied on an oral explanation of the purpose of interviews and verbal consent from interviewees. The signing of a consent form was problematic for several reasons. The act of signing a form to build trust actually displays a lack of trust, because only the lack of trust and confidence in a verbal agreement would make one pursue such a procedure. It thus raises suspicion as to the purpose of the document, if after verbally agreeing to treat their personal information confidentially, an interviewee is asked to sign a document with their name. It would undermine the value of my spoken word, which is not an ideal starting point for an interviewee to open up. Therefore, the signing of consent forms could hamper my research by making interviewees suspicious of my reasons for requesting written consent and display a disregard of cultural convention, especially in the context of authoritarian states. The social forces in both countries interact in a very uncertain environment, where informal rules are more important than formal rules and where the danger of “overstepping what is often an imaginary line” can have very negative consequences (Datta and Pham 2013). Therefore, direct and public statements that could potentially be used against someone in the future, are generally avoided.

3.7.2 Double role as researcher and international bureaucrat

In order to gain access to relevant actors and build the necessary trust to conduct empirical research, two long-term placements within international organisations or development agencies involved in trade-related technical assistance in Laos and Vietnam were envisaged.

After consulting several senior academics with strong records in doing field research in Laos and Vietnam (Dr Martin Gainsborough, Dr Keith Barney, Dr Sarinda Singh) I came to the decision of combining a placement in an international organisation with my field stay. This might raise ethical concern over my double role as researcher and perceived foreign agent. However, conducting research independently was unfeasible according to the senior academics. They strongly advised me to apply for a placement as this is a common approach used by researchers in Laos or Vietnam, where the official research permit application process is known to be a tiresome, bureaucratic process with the potential to jeopardise independent research. Accessing relevant domestic or international state agents as a researcher is potentially facilitated through a placement at an international organisation. I successfully applied to the EU delegation in Vietnam and was accepted as an intern to the Trade Section. At the same time, I was not considered an employee of the EU delegation and as stated in the internship agreement, I was not allowed to “hold myself out to others as an agent or employee of the Delegation at any time during the course of my internship with the Delegation” (EU Delegation undated). Thus, I always presented myself as a PhD researcher from Queen Mary University of London and followed the procedures described above.

Furthermore, I was not placed in the section which directly dealt with AfT and development assistance in general, but in the Trade Section of the Delegation, responsible for trade advocacy and facilitating the free trade negotiations during that time. I had a chance to take part in the negotiations, which enabled me to grasp a good understanding of the underlying struggle associated with Vietnam’s trade integration and how this related to AfT. More importantly, the placement allowed me to encounter critical interviewees, whom I would otherwise not have been

able to track down. I realised that I initially too strongly focussed on senior staff, holding leading positions within certain departments, usually detectable through online research or analysis of documents. Those agents were often much more guarded, clearly remaining in their position as representatives of certain organisations and missions which made interviews less fruitful. The middle layer, however, the technical staff, was often much more willing to discuss their experiences and share their views on actual processes from a more personal perspective. I believe that personal frustrations in certain cases also made them open up more as they rarely have the opportunity to discuss certain issues as their day-to-day work leaves little room for more in-depth engagement with their critical views.

The plan to pursue a placement in Laos did not work out as planned. A contact had been established and I was presented with the prospect of a placement which eventually did not materialise due to problems with the starting date of the project. I was not able to find a substitute placement. The fieldwork in Laos differed starkly from the experience in Vietnam. Relevant actors were much more difficult to access. This seemed related in part to the overload of requests for a comparatively small administration. I heard several times that people were too busy, and two other researchers present during the same period experienced similar difficulties in accessing interviewees. Another reason might have been the increased alertness of donor staff after the recent expulsion of Anne-Sophie Gindroz. In her position as head of the Swiss development agency, Helvetias, Gindroz was very outspoken about land grabs in Laos. None of the donor agents I have talked to in Laos has shown sympathy for her struggle alongside the rural population, but instead the tenor was that she should have known better, given the environment in which she operated, and that it was even irresponsible of her to endanger her country's mission. Thus, most donors understand very well the limits imposed recipient states - even apparently "weak" ones like Laos - and accept the need to operate within set boundaries, which in turn has not only implications for the form aid interventions take, but also for the prospects to find interview partners.

3.7.3 Case selection

Southeast Asian developing countries have eagerly embraced the strategy of integration into the global economy. Seven out of ten ASEAN member states had signed the General Agreement on Tariffs and Trade (GATT) and eventually became members of the WTO upon its creation in 1995. Vietnam (since 2007) and Laos (in February 2013) are the last ASEAN member states to join the WTO.

In addition to this common ground, both Vietnam and Laos are pursuing a transition to market economies without shifting away from authoritarian one-party rule. As recent members of the WTO, both countries have faced pressure for accelerated capitalist restructuring of their economies and for governance reform. Therefore, both cases offer excellent examples to investigate the impact of external pressure on state transformation, societal power relations and political rule.

At the same time, Laos is depicted as a small, economically weak state. Laos was heavily aid dependent over the course of the last 60 years. The aid dependence seems now to have been replaced by a FDI dependence. Nevertheless, Laos is a major recipient of AfT amongst LDCs (MPI 2014).

Vietnam on the other hand, is advancing towards middle income country status and is undergoing an impressive economic transformation. While several long-time donors, such as Sweden, have phased out their programs, Vietnam is nevertheless regarded as “an ideal ‘laboratory’ for the aid-for-trade agenda” (Delpeuch et al. 2011:35).

The aim of the thesis is to present how AfT plays out on the ground, in light of structural political economy constraints and conjunctural opportunities for strategic action. These are the parameters that shape any intervention. In this regard, the cases shed the light onto moments where contestation happens and strategic action is possible, or when structural pressures are limiting options.

The following empirical chapters are organized as follows. The first chapter presents a discussion of the general political economy of Laos in order to understand the broader social relations of power. This will be followed by a second chapter presenting case studies of concrete AfT SBI projects. The chapters on Vietnam follow the same organisational logic.

Chapter 4: Structural Dimension of the Laotian State

4.1 Introduction

This chapter discusses the structures in Laos that shape development aid in general and trade-related assistance in particular, which will guide the subsequent analysis of actual AfT intervention in the following chapter. In order to understand how trade-related assistance affects social relations of power and vice versa it is important to understand who might be threatened by reforms in the administration/ state sector/ trade sector and thus how they might resist or re-shape reform agendas. Other questions that will be addressed are: To whom would power shift as a result of trade interventions and away from whom? How far can these interventions achieve their goals before clashing with the fundamental logics of power operating within the Laotian state?

In the first section, I look at the economic and social changes that have led to the consolidation of the Lao People's Revolutionary Party (LPRP) as the sole organized political force dominating the state and society in Laos. The second section looks at the key economic sectors and the ownership structure within these sectors in order to identify powerful social forces. This will later on inform our understanding as to why certain forces might oppose moves towards a "level playing field" resulting from trade integration or why certain fields of intervention are "off-limits". The next section discusses the relations that Laos has with its economically strong neighbours, Vietnam, China and Thailand. All of them have strong interests in Laos as an investment and trade destination and for the exploitation of Laos' natural resources. The competitive nature of these interests gives considerable room for manoeuvre to the Laotian officials vis-à-vis the Western donors. The last section looks at how development aid in general is structured, who the main donors are and how the cooperation is organised. This will establish the structural constraints within which donors operate and guide the case study in the next chapter.

4.2 Setting the stage: social and economic relations in Laos

4.2.1 Political system and politics

Laos is an authoritarian, single-party state, governed by the LPRP which has monopolized all political power since 1975 (Stuart-Fox 2005:11). The LPRP is structured similarly to many other communist parties. The highest body is the Political Bureau, currently comprising eleven members (Sayalath and Creak 2017). The members are elected by the Central Committee of the Party. The latest Central Committee was elected by the 10th Party Congress in January 2016 and comprises 69 members (ibid.). The Party has duplicated the state structure and the highest positions in the Party are mirrored by respective positions in the government: “Despite external assistance to rationalize the bureaucracy, the politburo continues to bypass the formal structure of the public administration in approving all choices for non-elected senior and decision-making positions” (Soukamneuth 2006:59). Furthermore, appointments to ministerial posts are decided by the Party and “rubber stamped” by the National Assembly and policy priorities are decided by the Politburo (Stuart-Fox 2005:12). Stuart-Fox tellingly describes the government as the “executive arm of the Party”, while the bureaucracy represents the “administrative arm of the Party” (ibid.)

Additionally, the Party controls not only the government and the bureaucracy, but also the military and the four mass organisations of the country, namely the Lao Women’s Union (LWU), the Lao Front for National Construction (LFNC), the Federation of Lao Trade Unions (FLTU) and the Revolutionary Youth Union (RYU). All these mass organizations are tightly controlled by the Party and used to regulate parts of society officially outside of the Party, and thus serve as instruments of co-optation.

Laos has a four-level administrative system. There are 18 provinces, sub-divided into 141 districts and municipalities, and 11,293 villages (Gómez-Reino, Martínez-Vázquez, and Sepúlveda 2011:192). Governors rule over provinces and cities, while mayors govern districts and

municipalities, and villages are overseen by chiefs (ibid.). Governors in Laos hold considerable power vis-à-vis the central government over their provinces. Despite the principle of dual accountability of local divisions of line Ministries to both the provincial government and the national-level Ministry, the governor exercises considerable power (Gómez-Reino et al. 2011:193).

In order to secure its dominant internal position, the LPRP depends on clientelist practices as means of co-opting strategic parts of society, such as the bureaucracy or army, whereas the general population is only of marginal significance for the realisation of party interests (ibid.). This therefore also meant that the rural majority was confined to its agricultural role, while only a politically connected minority was able to engage in free economic activity. Accordingly, members of the LPRP and its mass organisations, civil servants, and the military became the dominant political and economic actors and increasingly preyed upon the society they once had promised to lead towards socialism. The LPRP established a system of at times predatory forms of patronage, where people are either integrated into the patronage networks of powerful party members that grant favours and protection, extending not only to family members but also close friends and business partners, or they were potentially exposed to coercive mechanisms (Stuart-Fox 2007:162). The party regulated economic activity and wrote the rules, not necessarily the official ones, within which the business sector operates and any important and successful businesses depend on firm relations with the LPRP (Stuart-Fox 2005:12). Party members amount to approximately 1 per cent of the total population (Soukamneuth 2006:56), while the top circle is dominated by powerful families. Soukamneuth refers to Laos as a clan patronage system (ibid.: 63-64). Six out of a list with the twelve wealthiest families under the Royal Lao government, still belong to the wealthiest families today (ibid.). In a similar vein, Sayalath and Creak offer a recent more in depth analysis of the interrelatedness of the Laotian political elite (Sayalath and Creak 2017).

These political and economic elite uses patronage to protect their existing business interests, secure new contracts, or enjoy favourable processing of bureaucratic procedures, while in turn,

the rule of the party remains unchallenged by these dominant actors. Because of the patronage networks that often centre around an important party member, the LPRP became the major point of reference for anyone interested in doing business in Laos (Stuart-Fox 2002:268).

While economically, the LPRP showed ideological flexibility, politically, various forms of coercion made it clear that the Party was working towards cementing its hold on power without accepting opposition in any way. The military herein played a special role by representing the coercive arm of the Party. The strong interlinkage between LPRP and the military is also mirrored in the overlapping structure between party, army and state as the control over defence is de facto not exercised by the government, but by the Military Committee of the Party (Stuart-Fox 2005:15).

However, while the LPRP has clearly set up a far reaching multi-level system of power, this, does not imply that there are no internal struggles. The centre-province relation deserves special attention here. The economic reforms of the mid-1980s, the New Economic Mechanism (NEM), enhanced the power of the provinces by enhancing devolution processes which were de facto already in place (Soukamneuth 2006:80). This resulted in provincial governments attaining increased control over provincial revenues and budgets (Stuart-Fox 2005:19). Provincial governors acted and continue to act with considerable autonomy, leading to the neglect or reinterpretation of laws, misreporting to the central government, especially with regard to revenue and trade statistics, and other forms of corrupt practices (ibid.: 18-19).

4.2.2 Attempts towards building a centrally planned economy

While the revolution in Laos took place under the socialist label, the economic and political transformation of then largely agricultural Laos took a distinct path. When the LPRP took power, and turned Laos into a one-party authoritarian state, the economy was put under the control of the state. During that time, the Laotian economy was largely based on subsistence agriculture. As no real industry existed, state enterprises in that period mainly encompassed agricultural farms and forestry enterprises. The state determined prices and trade among provinces was restricted (cf.

Otani et al. 1996:1). However, the young regime's policies did not generate the expected results. Collectivisation measures did not produce the output goals as the farmers resisted forced collectivisation measures and, in addition, devastating droughts in the late 1970s severely threatened the legitimacy of the new regime.

As a remedy, shadow markets and small scale economic activity were allowed as early as 1979, with a private market in goods emerging alongside state cooperatives. Agricultural collectivization was thus accompanied by the revival of private trade (Thayer 1984). It is remarkable that from the moment the LPRP took power and initiated the implementation of collectivisation measures, to "temporarily" allowing private economic activity to re-emerge, only three years had passed. The fast changes in economic choices led Thayer to state that

Laos was and remains overwhelmingly a subsistence economy and never carried out a full blown socialist transformation of its agriculture. There was no real industry to nationalize. If "traditional communism refers to the economy, then the answer is it is dead in Vietnam and was stillborn in Laos (Thayer 2014).

Thus, even before the official launch of more market based economic principles with the adoption of the NEM in 1986, a large state sector existed side by side a non-state sector which encompassed co-operatives as well as private farms and enterprises (Bourdet 2000:88). The state dominated both the state and non-state sector due to its control over access to natural resources, as well as through its exclusive command over foreign trade and the banking sectors (ibid.).

The light reform steps taken during the first half of the 1980s, however, did not resolve the underlying mismanagement of the economy which continued to generate distressing budget deficits (Rosser 2006:31). By 1985 the Laotian Government decided to fully embrace a more market oriented economic policy.

4.2.3 Towards a socialist market economy

During first phase of the NEM, from 1986 to 1989, measures to liberalise prices and trade were introduced and SOEs given the autonomy to operate more like commercial enterprises (ibid.). In

addition, the role of private enterprise in the economy was promoted. Furthermore, the tax collection system was reformed and foreign investment welcomed (ibid.). The second phase, between 1990 and 1991, the regime introduced monetary and fiscal reforms and restrictions on government and SOEs borrowing in attempts to curb government spending (ibid.). With the third phase of the NEM reforms, from 1991 onwards, the focus shifted towards structural economic reforms (ibid.). This resulted in the privatisation of SOEs, with the exception of strategically important ones (ibid.). Furthermore, a two-tier banking system with functional separation between the central bank and the commercial banks was introduced, along with a recapitalisation of the banks (ibid.). Also, a new foreign investment law was passed that allowed for 100 per cent foreign ownership of business ventures (ibid.)

The embracing of liberal economics facilitated by the very first elite of the LPRP has to date set the path for consolidating the unchallenged political supremacy of the LPRP while allowing for private domestic and foreign economic activity. The double strategy of allowing small scale economic activity, while establishing the necessary structures for ensuring that the control of any large-scale economic activity remained in the hands of the Party's elite, determined the future trajectory of Laos. For the ruling elite, the pragmatic embrace of liberal economic activity seemed to never really be at odds with the Party's aim of building a socialist society. The Party was able to secure its political hold and its economic share of any truly profitable future industrial activity, while aiming to resolve societal contradictions by embracing a market-oriented economy. At the moment of privatisation, those in the immediate network of the government or military benefitted from preferential access to material resources of production (Stuart-Fox 2002:254–56). While the first wave of privatisation granted greater autonomy to the management of SOEs, the full privatisation allowed civil servants working for SOEs or party functionaries charged with the oversight of SOEs to appropriate them under favourable conditions. They either retreated from their posts or facilitated the transfer of those enterprises to those within their patronage networks. From this emerged a state-dependent bourgeoisie.

One consequence of the structural adjustment programme in the early 1990s was the forced reduction of civil servants (Soukamneuth 2006:80). While some switched to the emerging private sector, either as white-collar workers or by establishing small businesses themselves, others were transferred to the provincial level, ironically to carry out decentralisation efforts. The personal consequences of this structural adjustment programs on the life of these civil servants created resentment towards economic reform and aid programs. The low salaries of the civil service forced them and their families to look for secondary sources of income, often confined to exploiting their state affiliation (ibid.: 98). This is not an isolated phenomenon and can also be detected at other levels of the state. Despite new legislation being passed, laws and regulations are often ignored by the powerful and well-connected who aim at preventing the redistribution of gains from resource extraction, financial regulation and revenue collection (ibid.: 2).

4.3 Economic structure and ownership

The next section examines the ownership structure within Laos in order to pin down dominant economic players and their interests with regard to enhances trade integration.

4.3.1 State ownership

The economic transition towards a more market-based economy brought with it a privatisation of SOEs. Through closures, leases, mergers and sell-offs, the number of SOEs has been reduced from 640 in 1989 to 130 fully state-owned enterprises in 2015 (OECD 2017:138). Out of these, 55 operate at the central level, with the majority of 42 enterprises under the direct oversight of the Ministry of Finance (MoF) (ibid.).

SOEs play a significant role in the economy, especially in core sectors such as finance, telecommunications, energy, and mining (ibid.: 138). This state-mediated economy enabled well-connected companies, which either operate under government patronage or are partly government owned, to crowd out competition (ibid.). Various companies which are not officially classified as

SOEs, but closely related to the government, are favoured in public procurement (ibid.). This results in unfair competition and undermines the emergence of competitive private companies.

The Lao state maintains a central role in the economy with a dominant presence in both productive and service industries, especially when it comes to the local market (Gómez-Reino et al. 2011:195). Provincial governments, for example, play a leading role in the provision of government services (ibid.: 196). They are assigned with delivering key public services such as education, health services, agriculture and infrastructure works (ibid.).

The Laotian government expressed its commitment to continue its privatisation efforts by reducing the number of SOEs from 130 to approximately 30, however, formal steps to follow up with this have yet to be made (OECD 2017:139)). It aims to accomplish this by attracting foreign ownership (ibid.). The Laotian government is very open to establishing strategic partnerships with foreign firms, which can take different forms, such as joint ventures or through strategic shareholding, or consortia, such as in the hydropower sector (ibid.).² This demonstrates the central role of foreign capital in the development strategy of the Laotian elite. While it could be assumed that this makes them particularly submissive to the interests of foreign capital, the fact that the interests of international and transnational capital do not necessarily overlap, opens up a particular space for manoeuvring which dominant social forces can potentially strategically exploit.

4.3.2 Domestic private sector

Most SMEs in Laos are oriented towards the domestic markets, with little foreign ownership (GIZ 2014:20). Approximately 90 per cent of SMEs are controlled by domestic owners, often with little physical and financial assets (ibid.). More than two-thirds of SMEs are characterised by individual

² The most prominent example is probably the Danish Carlsberg group holding a 50 per cent stake in Lao Brewery (OECD 2017: 139).

proprietorship, followed by sole limited and limited enterprises and a very small number of state-owned SMEs (Vixathep 2014:11).

Foreign SME ownership is more common in larger, usually profitable, enterprises in the service or manufacturing industry (GIZ 2014:20). Only a small number of enterprises focuses on direct export activities, although their inputs are usually imported (ibid.). Indirect export activity, in the form of subcontracting, for example, is usually only done by a small amount of larger companies. The crowding out of local private enterprises due to the competition from SOEs or state-affiliated companies is one reason the low export activities. Other related reasons are low productivity, often a direct expression of lack of capital and access to financing, and low-quality standards (ibid.)

SMEs in cottage industries are small family business, sometimes regrouped into small village units, who produce and sell their products to retail shops or middlemen. These traders then resell the products, sometimes in an upgraded version, for consumption in the domestic and, in few instances, for the foreign markets (Vixathep 2014:6–7)

Enhanced trade integration is unlikely to benefit SMEs which barely engage in export activities due to low-quality products and are oriented towards the domestic market (GIZ 2014:29). At the same time, there are no effective channels for these economic actors to voice or even influence favourable industrial policy, let alone matters of trade integration. Various structural constraints which are not addressed by the Laotian government, such as difficulty in accessing capital for modernisation, renders SMEs uncompetitive (Kyophilavong 2008:201).

4.3.3 Foreign-invested sector

Many of the foreign owned SMEs were subject to favourable capital conditions and often able to grow compared to locally owned enterprises (Vixathep 2014:6). Many SMEs in supporting industries and export-oriented industries developed because of their inclusion in transnational production networks or via influx of FDI, such as in the case of garment companies (ibid.).

According to statistics from the Ministry of Planning and Investment (MPI), the main sources of FDI are China, Vietnam, Thailand and Korea (MPI n.d.).

Large industrial enterprises, especially in agro-industry, mining and hydropower, are often under mixed foreign and local shareholdership, as stated above. State ownership is a common feature in these corporate structures. The specific characteristics of these sectors will be discussed in the next section on key economic sector.

4.3.4 Labour force and farmers

The issuing of large-scale economic land concessions to foreign investors in agri-business ventures, mining and hydropower plantations or for special economic zones (see Walsh 2015), all led to displacement and marginalisation of subsistence dependent households. Baird referred to this process as a “proletarianization process” in which land is turned into capital, and people into labour (2011:12,17). In the Lao uplands, vast amount of land has already been converted to rubber plantations, and this trend is expected to continue in the years to come (Rigg 2016:180). The urban work force is employed in industries and the service sector, often as low-skilled labour, mirrored by low salaries. Laos’ competitive advantage is based on low labour costs, in other words the exploitation of low skilled labour.

Farmers in Laos who are dispossessed either become unemployed or become engaged in agricultural labour, although remuneration is often too low and causes considerable hardship for seasonal labour who have to bridge long months without salary (ibid.). Around 80 per cent of the population depend on agriculture for employment, and as there are neither diversified employment opportunities, nor enough jobs created in the mining, hydropower, or agri-business sector, this shift in usage rights for land holdings has a disastrous impact on the livelihood of the rural population (Reeves 2015:180).

A result of large-scale economic projects and FDI from the neighbouring countries is the influx of a foreign labour force. This has caused considerable resentment in the local population (Baird

2011:19). Official numbers amount to approximately 20000 workers in 2014 who were predominantly employees in the industrial and service sector (Lao Bureau of Statistics 2014, cit. in: EU 2016:56), although unregistered workers might actually increase this number manifold as Lao authorities are either unwilling or unable to address the issue of illegal labour migration (Baird 2011:21). The majority of foreign labour forces originate from China, Vietnam and Thailand (ibid.).

Enhanced economic integration did not improve the material conditions for the local labour force, with only those taking a more favourable stance towards low-paid wage labour, that have no other choice, such as marginalised groups that used to have little or no land (Baird 2011:19). Yet, decent work is rarely on offer on the Laotian labour market:

Many indigenous peoples would probably be willing to accept the loss of at least some of their land if they were provided with opportunities for good and stable employment, but once they realize that the land they have given up is not bringing them the secure and well-paid employment which has frequently been vaguely promised to them, their tendency is frequently to feel cheated (Baird 2011:22).

4.4 Key economic sectors of Laos

This section identifies the dominant economic sectors in Laos and the respective ownership structures in order to locate distinct interests and how these might position themselves towards changes resulting from the implementation of international trade obligations.

The exploitation of natural resources takes centre stage in Laos's development strategy. Foreign investment in this sector is encouraged through a range of favourable policies, such as tax exemptions or reductions. It is mainly foreign companies that benefit from these policies, while overall, the economy remains mainly agrarian.

Around 70 per cent of the workforce works in agriculture, which is characterised by low productivity, with most output being regarded as below export standards (WB 2014:20). In stark contrast, the natural resources sector only employs around 22,000 people but produced 18 per cent of Lao's GDP in 2013 (ibid.: 17).

4.4.1 Agriculture

The Laotian economy is mainly an agricultural economy, with rice being grown in 72 per cent of the total cultivated area (MOIC 2012:187). Agricultural production is characterised by traditional methods applied by small farms in the form of subsistence farming and small scale commercial farming. Tobacco and coffee are other important cash crops besides rice (ibid.). Increasingly, fertile land is being given via land concessions to foreign companies that produce cash crops for export to Thailand (ibid.: 190). Cross-border contract farming, whereby Thai agribusiness provide the raw material for production to local farmers is also increasing (ibid.).

The foreign involvement in this sector, producing for export, will naturally support favourable trading terms. The small-scale producers, with little financial capital, will however have difficulties to reap the benefits of global trade integration, as their products often do not meet international standards and therefore have little export potential.

4.4.2 Natural Resources Sector

4.4.2.1 Hydropower

Hydropower accounts for the lion's share in Laos' export earnings (Lord 2011:5). According to the Ministry of Energy and Mines, Laos committed to provide 7,000MW of energy after 2015 to Thailand, and 3,000MW of electricity from 2015- 2020 to Vietnam (Ministry of Energy and Mines and Department of Energy Business 2015). The common ownership arrangements are public-private arrangements, usually comprising the state-owned Électricité du Laos (EdL) or build-own-operate-transfer (BOOT) mechanism (ADB 2010:3,5). The BOOT mechanism allows foreign investors to secure repayment of project debt before transferring ownership fully into the hands of the Laotian state. The hydropower sector attracts much foreign developers and investors (ibid.:4).

4.4.2.2 *Mining*

The mining sector increasingly contributes to Laos' export earnings, making up 41 per cent of total exports in 2014 (Reeves 2015:170). The development of the mining sector, however, has only enriched a very small elite circle and fuelled corruption within the state (*ibid.*). The sector is *de facto* in the hands of Chinese public and private companies, either through direct ownership and management or, as in the case of the largest mining sites, through joint ventures or majority shareholdership. The Phu Kham Copper Gold Operation and the Ban Houayxai Gold-Silver Operation, for example, are 90 per cent owned by Phu Bia Mining Ltd., a subsidiary of PanAust, an Australian company that, through a complex structure is owned by Guangdong Rising Assets Management Co. Ltd (GRAM), a Chinese SOE (PanAust n.d.). The remaining 10 per cent is owned by the Laotian government.

4.4.2.3 *Rubber*

Chinese and Vietnamese SOEs dominate the rubber sector. Chinese companies either directly invest in rubber farms due to favourable investment policies such as tax breaks and land concessions or set up purchase agreements with local producers (Hicks et al. 2009:47–48). Another increasingly popular mechanism is contract farming agreements (*ibid.*). The sector seems to be dominated by private Chinese companies, although systematic data is unavailable (*ibid.*: 49). In addition to private actors, the Yunnan State Farm plants rubber in Northern Laos under a contract farming and profit sharing agreement with local farmers (*ibid.*: 48). The Chinese state is also facilitating the presence of Chinese investors in Laos through the provision of subsidies and loans (*ibid.*: 56). The same holds true for Vietnamese state-owned rubber companies, who operate farms in the Southern provinces, often with the help of a Vietnamese workforce.

4.4.2.4 *Forestry*

Timber harvesting is based on annual logging quotas determined by individual provinces based on instruction from the central government (Tong 2009:8). Forests in Laos are owned by the state and mostly managed by the Department of Forestry under the Ministry of Agriculture and Forestry (Castrén 2000:6). Despite legislation to prevent illegal logging, the practice of timber smuggling seems to proceed unabated, often under the protection of the military or the provincial governments (Saunders 2014:6). The provincial authorities, for example, enjoy the authority to issue additional logging permission with the aim of contributing to provincial revenue (Sayakoummane and Manivong 2007:3). Investigations by the NGO Environmental Investigation Agency brought to light that one of the biggest logging companies in Laos is owned by the Vietnamese military, which seems to be heavily involved in illegal timber smuggling (Environmental Investigation Agency 2011:1).

Primary commodity trade is a central cornerstone of the Laotian development strategy based on the exploitation of natural resources. Export activities require favourable trade regimes and enhanced trade integration in general terms is supported by the economic players in this sector. However, China promotes trade with Laos without attempting to reconfigure the state. Compared to AfT which acts as a complementary intervention aiming to secure the application of international trade agreements, enhanced trade integration with China bears no such politically contentious reform requirements.

The forestry sector seems to operate according to secretive and opaque arrangements, any potential intervention aiming to create more transparent rules and working towards their enforcement, might thus encounter resistance.

4.4.3 Manufacturing Sector

4.4.3.1 Garment Industry

The garment industry is the largest employer in manufacturing (MOIC 2012:235). Almost all companies produce for export, with various forms of ownership, such as foreign-owned or locally-owned or less commonly joint ventures. The majority of factories operate as cutting, making and trimming (CMT) producers, meaning that they execute orders by regional agents for a bigger company that outsourced the production (ibid: 235). Most exports are destined for the EU, with key buyers being, for example, H&M, Next or Carrefour. Based on this particular integration of the Laotian garment sector into global value chains, it is very likely that the dominant players in this sector have a favourable position towards enhanced trade integration which would facilitate exports.

Foreign owned companies provide most jobs in the industry. The “comparative advantage” of low wages that pulls those companies to Laos means that they count on making profits based on the low salary levels. In addition, low labour protection standards are common for this, and all industry in Laos, with long working hours and overall working conditions not compatible with ILO health and safety standards (Robertson 2007).

4.4.4 Service Sector

4.4.4.1 Tourism

Along with the sectors above, tourism is one of the key sectors for Laos and is, next to mining, the greatest source of foreign exchange earnings (MOIC 2012:211). The sector consists of mainly of micro, small and medium enterprises that operate within five subsectors (transport; accommodation; restaurant and retail; sports and entertainment; and financial services and tour operations) (ibid: 215). While international hotel groups and joint ventures are more present in

the tourist hot spots of Vientiane and Luang Prabang, the sector is mainly locally dominated, although no clear data exists as to the exact ownership structure.

More trade openness, potentially through international trade agreements with trade in services provisions, could induce foreign competition in this sector and squeeze out domestic SMEs. A negative positioning of such players is therefore likely.

4.5 Special relation to Vietnam and China and Thailand

It is necessary to understand the economic relationship that Laos maintains with its three powerful neighbours as Laos gains considerable leverage out of being courted by a variety of external actors.

The history of modern Laos is intrinsically linked to that of Vietnam. During the war years, the relationship between the two communist movements was one of a special “military alliance” (Thayer 1983:86) and Vietnam’s communist party provided extensive training and guidance to its Laotian counterpart. Even after the inception of the Laos, large numbers of Vietnamese military and advisors remained in the country (Bedlington 1981:105), at times being equal to the size of the Laotian army (Joiner 1987:112). Vietnam supported Laos under the Agreement on Economic, Scientific and Technical Cooperation (Thayer 1983:91) and coordination was extended to cover economic and political as well as party-to-party affairs (Thayer 1984:57). In this regard, the Communist Party of Vietnam (CPV) even established a Central Office for Laotian Affairs, and ensured close cooperation by placing advisors within the Laotian government and military (Joiner 1988:102).

The two countries’ strong relationship decisively shaped the economic trajectory of Laos in the early years and influenced Laos’ adoption of the NEM, as Vietnam also reconsidered its economic policies during the mid- 1980s (Rosser 2006:32).

Today, Vietnam is investing in Laotian hydropower, timber, rubber, other natural resources and agriculture, as well as garment and light manufacturing (Stuart-Fox 2009:150). Vietnamese

investment is mainly present in the provinces bordering Vietnam, to where a considerable number of Vietnamese have migrated, some dating back already several generations.

The signing of a new bilateral trade pact and border trade agreement between Laos and Vietnam in 2015 was aimed at facilitating trade between the two countries and mirrors Vietnam's strategic interest in the Laotian market. According to Radio Free Asia, the secretariat of the CPV wrote a letter to its Laotian counterpart reaffirming the goal of being Laos' top investor. This in turn was reinterpreted as an increased concern over fading influence vis-à-vis China and Thailand (Radio Free Asia 2013). In a rare moment of honesty prior to the Vietnam-Laos Intergovernmental Committee meeting in 2015, the two countries admitted that they "needed to reinforce political relations [...] in order to address problems arising during the implementation of co-operation agreements" (Viet Nam News 2015). Due to the secretive nature of the relations between Laos and Vietnam however, it remains difficult to assess what exactly these difficulties are.

While over the years the special relationship with Vietnam has remained intensive, in recent years China has entered the picture. Laos' allegiance to Vietnam soured its relations with China during the early years of the regime due to the conflict between China and Vietnam over Cambodia. However, with the resolution of the conflict, the late 1980s saw improved relations. Growing ties eventually culminated in the establishment of a joint Laotian-Chinese Commission on Economic, Trade and Technical Cooperation in 1997 (Lintner 2008:177). In light of the Asian financial crisis, especially when main investors such as Thailand were severely affected, China stepped in as an important source of finance and thereby laid the path for the ever-closer ties between the two countries (Stuart-Fox 2009:146). Since then, China has become Laos' major trade partner, being the second most important import source (after Thailand) with crucial imports of cheap consumer goods and material for construction and production, such as textiles and processed steel. China is also Laos' biggest export market and largest source of foreign investment (Ministry of Commerce/China 2015).

While the import of Chinese commodities is said to undermine the emergence of local production, at the same time it allows for poor households in Laos to satisfy their consumption needs and the government can continue to push wages down and thereby attract foreign investment based on the competitive “advantage” of very low salary levels without the danger of widespread social unrest (Reeves 2015:177).

As a major investor, Chinese projects focus on big infrastructure projects, such as hydropower, roads or even a railway (Laos has no railway), as well as natural resource exploitation, notably timber, but also gold, copper, bauxite and other minerals (Lintner 2008:177). Critical voices, however, including some within the state, are concerned that this will leave Laos highly indebted (Radio Free Asia 2016). The collateral for those big investment loans are usually natural resources, such as potash mines (*ibid.*).

China’s interest in Laos is based on its resource wealth and as a market to where it can divert its surplus in cheap commodities, as well as labour. The export of Chinese labour forces under the form of “complete projects” deserves special attention in the case of Laos. Complete projects are infrastructure projects that are fully executed by Chinese labour forces and are another major form of China’s economic cooperation projects aiming at improving trade infrastructure in general. In this regard, the Laotian government has repeatedly given special permission (based on Laos’ lack of skilled labour) to Chinese projects to employ Chinese labour for these projects. At the same time, thousands of young Laotian people cannot find work and migrate mainly to Thailand where they usually find low paid jobs in the service industry.

The increased presence of Chinese investors has created a veritable “Sinophobia” in Laos. The benefits of China’s economic presence are not equally shared and the costs unevenly taken on by the general population as opposed to the senior LPRP cadres who mostly reap the benefits. Interestingly, while China is mainly blamed for the disastrous impacts on local livelihoods as a consequence of their substantial infrastructure projects in Laos, large hydropower projects by Western donors have equally caused the loss of livelihoods for local populations. But while the

Laotian state resolves the problem through coercive means for their Chinese investors, Western donors, like the WB, which are subject to greater public scrutiny, have to resort to expensive remedial measures (cf. Porter and Shivakumar 2011). This is mainly a preventive measure to keep critical international NGOs from blaming them for the disruptive effects of these infrastructure projects.

China is also an important donor to the Laotian Government. Yet, this tremendous influence is not accurately reflected in the Laotian Government's Foreign Aid Implementation Reports, as China's "aid" in the form of grants and loans does not follow the definition of aid as established by the OECD's Development Aid Committee. According to this definition, official development assistance (1) has the objective of promoting "economic development and welfare of developing countries" and (2) "is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)" (OECD n.d.). China's assistance is made up of grants, interest-free loans, and special loans (Lintner 2008:177) and also encompasses forms of foreign investment and even trade deals. The boundaries between aid, investment and trade remain thus unclear (OECD 2012b:11). It therefore can be said that China's aid represents a mix of different forms of official finance (Brautigam 2011:756). Certain Chinese financial flows to developing countries could possibly be characterised along the lines of the definition for official development assistance (ODA), but the total amount is believed to be small compared to the lion's share being disbursed in the form of export credits, non-concessional state loans or aid aiming at increasing Chinese investment abroad (ibid.: 753).

It is of special interest for this study that "a significant proportion of Chinese aid activities can be categorized as building, directly or indirectly, recipient countries' trade capacity" (OECD 2012b:4). However, China has not systematically published concrete data on its aid, such as volume of aid per recipient country and the sectors targeted and it therefore remains very difficult to assess the actual nature of this cooperation (ibid: 8), with reports not publicly distributed.

What is remarkable is that China explicitly refers to the AfT initiative in its latest white paper on foreign aid, calling its trade assistance “an active response to the WTO’s AfT initiative” (Office of the State Council of the People’s Republic of China 2014:10). As member of the WTO, China’s AfT activities become more tangible within this forum. In 2011, China set up a special fund within the WTO to support LDCs’ more effective participation in the WTO and to support LDCs in the stages of negotiating membership (WTO [World Trade Organization] 2011). China also contributed funding to the Greater Mekong Subregion programme with the North-South corridor linking China and Thailand through Laos being of major strategic interest for China to increase its access to Thailand.

China’s and Vietnam’s economic rise has several implications for the future development trajectory of Laos, and Southeast Asia in general. Both countries’ engagement comes with a less distinct ideological dimension compared to Western aid in that the encouragement of democratisation or any progressive change of societal relations is clearly not part of any aid package. Instead, the model of economic development supported is “unambiguously authoritarian and non-democratic” (Beeson 2010:279). Authoritarian recipient states, such as Laos, thus encounter a viable alternative to the transformative pressures encountered in Western donor programmes. Instead, China for example stresses in its latest white paper on foreign aid that, “[w]hen providing foreign assistance, China adheres to the principles of not imposing any political conditions, not interfering in the internal affairs of the recipient countries and fully respecting their right to independently choosing their own paths and models of development (Office of the State Council of the People’s Republic of China 2014:1). China heavily interferes into domestic politics, despite acting under the “guise of China’s policy of non-interference” (Stuart-Fox 2009:147). Nevertheless, the material capacities seem much more attractive to the Laotian elite, increasingly directing attention and resources away from interaction with the traditional Western donors.

Alongside China and Vietnam, Thailand is one of the major investment sources and trade partners of Laos. Since Laos opened up to foreign investment in 1986, Thai business people have been at

the forefront in setting up businesses in the country, notably in banking, tourism, the garment sector and hydropower (Phraxayavong 2009:199). Thai banks have dominated the banking and financial sector for over two decades (Bourdet 1997:74) and the Thai baht is an important trading currency. Most export of hydropower at the moment is destined for Thailand, although Vietnam and China are increasingly invested in the sector, too.

While the Asian Financial Crises forced many Thai business people to withdraw from Laos, within less than a decade, Thai investors were back where they were before the crisis. In the field of development assistance, Thailand provides assistance to Laos mainly in the fields of agriculture, education and public health (Phraxayavong 2009:199).

China and Thailand are Laos' main export destinations, with officially 32 per cent going to China and 25 per cent going to Thailand, followed by Vietnam (OECD and WTO 2013). In reality, unofficial trade flows of natural resources to these three neighbouring countries might change the actual share of each country as export destination, but not Laos' overall dependence on these few export markets.

4.6 Development aid structure

In the early years of the communist regime, the biggest share of aid was contributed by the Soviet Union and Vietnam (Phraxayavong 2009:145). Other contributions came from the Soviet brother states of East Germany, Bulgaria, Hungary, Cuba, Czechoslovakia, Mongolia and Poland (ibid.: 151-152). In 1986 Soviet aid made up 64 per cent of total assistance, with the UN agencies and the ADB providing around 18 per cent of the aid budget (Worner 1989:182). As a result of the decreasing amounts of aid from the Soviet Union and Vietnam in light of their domestic changes during the 1980s, the Laotian state had to turn towards the "Western Bloc" states for financial assistance (ibid.: 164). The WB and the ADB stepped in to fill the growing gap caused by the progressively diminishing aid flows which had made up a considerable amount of the Laotian budget and left them in dire need of replacement.

These agencies sought to use their growing leverage to pressure the Laotian government to embrace market-based economic principles (Rosser 2006:34). The IMF and the WB are believed to have exerted a high degree of influence with regard to pushing the Laotian government to embrace the NEM (Stewart-Fox 1986: 100, cit. in: Rosser 2006:32).

The objective of the NEM was to develop an integrated market economy and open the country to international trade (Bourdet 1996:89). It also aimed at decentralising economic decision making, giving more autonomy to public enterprises, fiscal and financial reforms, deregulation of prices, strengthening of property rights and the liberalisation of the exchange rate regime (Bourdet 1996:89; Gunn 1991:87). The Laotian Government's strategy was to attract foreign investors and along with trade integration this became the cornerstones of the new development strategy (Worner 1989:197). The IMF and the WB designed a SAP for Laos in 1989 and over the first half of the 1990s credit was delivered under this scheme (Ivarsson et al. 1995:31). While the macroeconomic indicators confirmed the success of the reform process, for the majority of the population in the rural areas not much changed (Bourdet 1996:90, 94). They continued to live on subsistence agriculture, with little access to health care and education, while the elite of the LPRP privatised economic assets into their own hands (Phraxayavong 2009:173). Some government officials also tried to influence the allocation of loans (ibid.). Interestingly, many Western donors already expressed back then their dissatisfaction about the Laotian government taking "many crucial decisions in forums to which the [foreign] advisors have no access" (ibid.).

The five-yearly "National Socio-Economic Development Plan" (NSEDP) is the guiding policy document specifying the strategies and policies to advance the global economic integration of Laos. Although produced by the government, it aims at satisfying donors' policy expectations in order to secure future financial flows (cf. Fraser 2005). The NSEDP thus has to be understood in the tradition of the Poverty Reduction Strategy Paper (PRSP) process, which in turn goes back to the SAPs of the IFIs.

The 8th NSEDP covers the years 2016-2020. The Laotian Government therein expresses its goal to build within the next decade a diversified domestic production base and add value to goods prior to them being exported, as the economic reality today presents a huge trade deficit of \$3.1 billion and huge dependence on the exploitation of natural resources (MPI 2016:120). Whether the political will exists to reverse this dependence is questionable.

Development assistance in Laos is coordinated by the MPI, the Ministry of Foreign Affairs (MoFA) and the MoF, who take decisions collectively (PMO 2009). These three ministries take the lead in governing ODA, alongside the particular sectoral ministry responsible for a given program (*ibid.*). ODA programs or projects are proposed to the MPI, which in turn decides unanimously with the MoFA and the MoF before approval is sought from the Prime Minister's Office (PMO).

The MPI is one of the most powerful ministries in Laos. The Investment Promotion Department is also located within this powerful ministry, thus the two major channels of foreign financial flows, ODA and foreign investment, are supervised by this ministry. Control over the overall aid structure lays firmly in the hands of the Laotian state. Donors seeking to implement projects in Laos will inevitably be forced to foster a relationship of equals with the Laotian government, which acts as a gatekeeper and prevents donors from interacting with any social force without their consent. The fact that the state is the unquestioned development partner for the donor community reinforces the dominant internal position of the ruling elite. Any aid project has to be approved by the government and they leverage this by resisting unwanted interventions or reshaping them to a certain degree. This can again happen at the level of project design when donors interact with the respective lead ministry. Western donors make themselves accomplices in legitimising and securing the strong internal position of the LPRP through their close collaboration.

The dominant social forces are resourceful in dealing with the various challenges in light of aid interventions aiming to restructure state institutions and processes. Dominant social forces

operating within the state have proven their considerable capacity, despite being mocked by donors as ineffective and in need of higher skills, by blocking off domestic or foreign interests which did not match their own. There is no organized local opposition, while foreign actors tend to accept the LPRP as the dominant social force. Thus, despite Laos's aid dependence, over the decades of external assistance its leaders have learnt how to navigate through the complex system of aid and secure their interests.

Despite this considerable room for manoeuvre, international trade integration imposes constraints of its own in the form of new legislation and regulations that might interfere with political decisions made in favour of the dominant social forces and the resistance or acceptance of the new provisions therefore depends on how they benefit those in power. This might be a reason why certain reforms proceed more smoothly, as they well match the agenda of the LPRP or are regarded as a minor necessary evil to consolidate its power.

4.7 Aid for Trade structure in Laos

Two major milestones in the global economic integration of Laos were reached with its accession to the ASEAN in 1997, and the WTO in 2013. Massive amounts of aid were poured into Laos during the negotiation periods to prepare the country for WTO accession and membership of the ASEAN Free Trade Agreement (AFTA), and this continues today. As of today, Laos is signatory to eight additional trade agreements, most of it by virtue of it being an ASEAN member state: the ASEAN Trade in Goods Agreement, the ASEAN-Australia and New Zealand Free Trade Agreement; the ASEAN-China Free Trade Agreement, the ASEAN-KOREA Free Trade Agreement, the ASEAN-India Free Trade Agreement, the Laos-Vietnam Trade Agreement; the Asia Pacific Trade Agreement and ASEAN Economic Community.

Trade-related assistance aims at increasing Laos' international trade by setting up the technical and operational prerequisites necessary to facilitate trade. The aim is to build the soft and hard trade capacity that donors deem necessary to implement international trade agreements.

Laos is the recipient of one of the largest AfT programs of any LDCs (MPI 2014). Recent stand out projects include the \$13.5 million ADB project to SPS capacity (2012-2017) as part of its effort for Improved SPS Handling in the Greater Mekong Subregion; the \$15 million ADB SME Development Program, supporting enterprise registration and favourable private sector policy; the WB's \$6 million Custom and Trade Facilitation Project (2008-2013), which financed the automation of Customs through ASYCUDA (Automated System for Customs Data) and regulatory reforms resulting from the automation; and USAID's technical assistance project from 2009-2013 called "Laos-US International and ASEAN integration" (LUNA), which aimed to support the implementation of the Laotian-US bilateral trade agreement, WTO accession and ASEAN commitments.

A flagship project initiative for LDCs is the Enhanced Integrated Framework programme (EIF) which is funded by six major multilateral organisations, namely the WTO, the IMF, the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD), the UNDP, the WB. Their stated goal is to help LDCs "mainstream trade into national development strategies; set up structures to coordinate the delivery of trade-related assistance; and build capacity to trade" (EIF Secretariat n.d.:5). The Diagnostic Trade Integration Study (DTIS) is prepared under this programme with extensive input from international consultants and became a central policy document feeding into Laos's NSEDP, as well as overall Laotian trade policy. According to the DTIS, there are three priority areas for trade assistance. The first pillar aims to create a competitive trade and investment environment through trade integration and facilitation, as well as support for an "business-enabling environment" (MOIC 2012:24). Assistance to prepare Laos for the AEC or the implementation of WTO requirements fall under this focal area. The second pillar focuses on improving competitiveness for the non-resource sector, namely agribusiness, manufacturing and services, in the form of firm or sector level support and public-private dialogue (ibid.: 30). The third pillar aims to create a supportive governance framework for trade assistance by building capacity and mainstreaming trade and private sector development (ibid.: 33). Other policy documents, such as the National Export

Strategy and the Trade Facilitation Action Plan, were also outputs of this programme (ibid.: 86), as was a trade portal, which provides information on import and export regulations (ibid.: 128).

Aid from Western bilateral and multilateral donors is negotiated and coordinated through the Round Table Process (RTP). Donors and Government coordinate their activities in sectoral working groups under the RTP which serves as a meta structure to shape the direction of development assistance in Laos. It is a platform where the Government and donors discuss how to improve the development situation in Laos without including the much-quoted subject of their efforts, the “people of Laos”. Hence, participation in development governance is restricted to donor-donor and donor-government interaction. In recent years, this the governance mechanism has increasingly put emphasis on making donor coordination more effective.

The RTP is divided into working groups according to sectoral activity. Aid projects in the sector of trade, for example, fall under the Trade and Private Sector Working Group. Regular meetings aim at promoting dialogue between donors and informing each other of ongoing projects. In light of diverse donor agendas and internal working guidelines and goals, the RTP serves largely as an information hub. The RTP is strongly dominated by Western bilateral and multilateral donors, which is highly problematic as important donors such as Thailand, Vietnam and China are not represented. While the importance of China and Vietnam are not mirrored in local Western dominated donor structures, their importance is reflected in other state agencies. For example, two exclusive divisions, the so-called Laos-China Cooperation Commission Bureau, and the Laos-Vietnam Cooperation Commission Bureau, exist at the Ministry of Planning and Investment, which are exclusively dedicated to Vietnamese and Chinese assistance to Laos (MPI n.d.). Such special departments exist for no other country. This institutional setting mirrors the special relationship that both countries foster with Laos and signifies their preferential access to Laotian decision-making centres.

One of the main Aft coordination structures in Laos under the RTP is the Trade and Private Sector Working Group (TPSWG). The TPSWG is a forum created within the RTP with the

intention of bringing together the Government and its implementing agencies with the donors and the Lao National Chamber of Commerce and Industry (LNCCI) to discuss overall policy direction, while the programme executive committee meetings deal with the everyday business of project implementation. The TPSWG is intended to integrate strategic discussion and consultation on trade and private sector policy and NSEDP implementation within the working group mechanism. However, it also links up with other stakeholder groupings, such as the Macroeconomic Sector Working Group, the Trade for Development (T4D) Secretariat, and Public-Private Dialogues (Lao Business Forum, Provincial Public Private Dialogues). The TPSWG is chaired by the Ministry of Industry and Commerce and co-chaired by donor representatives, and also includes representatives of donor agencies, Ministry of Planning and Investment, Ministry of Finance, Ministry of Foreign Affairs, other representatives of all concerned Government line ministries and agencies, representatives of LNCCI and other Business Member Organizations and representatives of mass organizations and civil society (the Lao Women Union, Lao Youth Union and Trade Federation), as well as interested development partners and international NGOs (TPSWG n.d.).

4.8 Conclusion

This chapter discussed the structural forces within which AfT takes place in Laos. It discussed a political economy context which is strongly shaped by the exploitation of natural resources by a small, but powerful local elite, and foreign capital interests. Local capacity is present in the state but used to serve the interests of the dominant party class. At the heart of the complex adaptation of aid projects targeting the state is the redistribution of power and access to resources to satisfy the clientelistic network of the LPRP. The social contract of the LPRP amounts to allowing its patronage networks to provide and thereby maintain influence. The wooing of Laos by its neighbouring states adds another layer of complexity by making calls of Western donors for transparency and rule of law more likely to be ignored. AfT projects are presented as technical interventions to build capacity, while the underlying social relations and the potential for conflict

seem to be ignored by both project design and meta-level discourse on AfT. However, development assistance in general and AfT in particular remain fields of struggle, which will be discussed at greater length in the next chapter.

Chapter 5: Laos Case Study: Discussing an example of the enclave strategy

The following case discusses the Trade Development Facility's (TDF) project of establishing a National Integrated Framework Governance System (NIFGS) as an example of the creation of an institutional "enclave" in Laos which donors believed would enable the efficient implementation of trade reforms once the necessary administrative and financial capacities were built. The intervention thus operated as a first step in building the institutional set-up to ensure trade governance reform. The initial phase of the intervention was heavily focused on creating better management capacities for dealing with AfT funds. Once this system was in place, donors expected that substantive trade reform could proceed in earnest without risk arising from the misappropriation of funds. In practice, however, this state capacity has been built in total isolation from meaningful governance processes and cannot, therefore, enact true reform. Such institutional enclaves have to be understood as part of the creation of transnationalised institutions governed through donor advice and financial input, and isolated from clientelistic local political interference that donors deem detrimental to achieving fundamental trade governance reform. The TDF implementation thus took place in a donor bubble, largely eschewing actual trade capacity building and instead focussing on narrow capacity building for the National Implementation Unit concerned with management and disbursement of funds and the reporting in line with donor regulations. Accordingly, AfT in this case achieved little to no substantive change in trade governance outcomes.

In a first step, the project purpose and set-up is presented. This is followed by a discussion of the stakeholders and their rationale and interests in with regard to a trade governance structure. Then, the contestation surrounding donor-funded insulated state agencies and its impact on the creation of actual trade governance capacity is analysed, and outcomes traced from this.

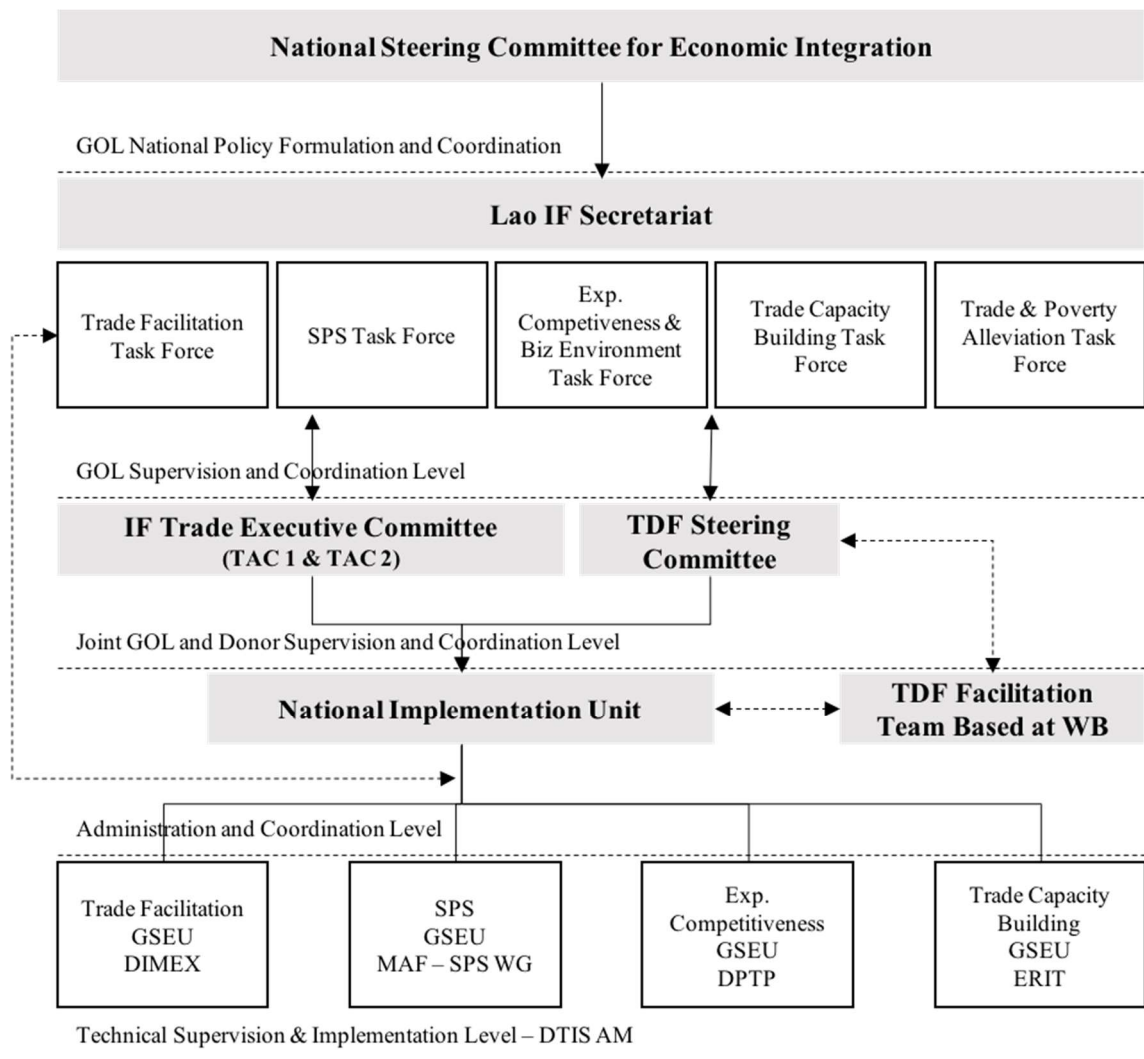
5.1 Building enclave agencies

5.1.1 TDF project rationale and set-up

The TDF is a trust fund under which Laos received trade-related technical assistance. The fund was financed by the EU, the AUSAID, the GIZ, and the WB (WB 2008:2). The TDF ran from 2008-2013 and was initially allocated with \$ 6.8 million, which was eventually increased to \$ 7.6 million. The project was executed under the Foreign Trade Policy Department of the Ministry of Industry and Commerce (MOIC) and was administered by the WB (ibid.). The TDF's stated aim was to strengthen the "trade-related delivery mechanism", a trade governance structure named the NIFGS and to then implement activities through this AfT governance structure. The TDF had three development objectives, namely the 1) strengthening of the NIFGS; 2) the implementation of activities facilitating trade and cross border movement of goods through the NIFGS; 3) and the development of the trade governance capacity of the Laotian Government (WB 2008:2). The first two objectives directly relate to the creation and operationalisation of a trade governance structure, while the development of trade governance capacity refers to capacity building activities, such as technical trainings or policy analyses aimed at improving understanding of the challenges and opportunities of enhanced global integration.

The NIFGS had been created as part of another global development initiative called the EIF which, as noted in the preceding chapter, specifically addresses the constraints LDCs face in participating in world trade. A special "needs assessment" to identify the trade constraints and remedies, the DTIS, was also undertaken as part of the EIF initiative. The DTIS's main findings had been prioritised in a so-called "action matrix" (MPI 2012:21). The DTIS recommendations heavily circumscribed the recipient government's policy choices to those deemed appropriate by the donors to reform trade governance in Laos. The TDF's eventual purpose, then, was to use the governance structure of the NIFGS and implement activities in those areas identified in the action matrix, such as trade facilitation and improvement of the overall trade governance structure and processes of the Government of Laos.

Figure 3 NIFGS structure (WB 2008:5)



As can be seen from Figure 3 above, the NIFGS is a complex structure comprising myriad implementing agencies, units and committees for donors to reiterate and reinforce commitment on different levels. The following description will serve to disentangle the complex NIFGS structure. Central to project implementation is the National Implementation Unit (NIU), to which the WB delegated implementing tasks, such as follow-up on progress, reporting and accounting responsibilities, through a Grant Agreement signed with the Laotian government (EC 2012b:10).

The NIU was assigned with project management tasks, such as the financial and procurement management of project funds and administrative tasks (ibid.). In this regard, it also coordinated the Integrated Framework (IF) Task forces and the Government Sub Executing Units (GSEUs),

whose purpose will be explained further below, in the implementation of activities. The NIU was also assigned the task of managing finances and assisting the GSEUs with financial management and procurement support. The NIU reports to the WB and the Project Steering Committee (PSC). The PSC is co-chaired by the Vice-Minister of the MOIC and a Donor Representative and also contains government representatives from the MOIC and other line ministries and other donor personnel (WB 2008:6). Decisions are made by consensus; however, the WB holds a special “no objection before implementation” right, which it exercises according to its fiduciary responsibilities (ibid.). Therefore, it holds the final authority over the approval of projects. The day-to-day management of the TDF and analytical and advisory services to the NIU are provided by the TDF Facilitation Team, which is accountable to the WB.

Besides the NIU, other agencies that were created to put the intervention into practice are the GSEUs and the IF task forces. The GSEUs are separate implementing units formally located within the ministries under whose oversight a certain intervention takes place. However, they also report to the NIU on financial and administrative issues, and to the IF task force on technical matters. Four units were responsible for the actual project implementation and delivery of project outputs in their respective sub-fields: 1) GSEU for trade facilitation under the Ministry of Industry and Trade’s (MoIT) Department of Import and Export (DIMEX); 2) GSEU for SPS under the Ministry of Agriculture and Forestry’s SPS Working Group; 3) export competitiveness and business environment under the MOIC’s Department of Trade Promotion; and 4) trade capacity building under the Economic Research Institute for Trade (ERIT) (WB 2008:7).

The five IF task forces form together the Laotian IF Secretariat and are responsible for providing guidance to the NIU and GSEUs on technical matters and policy direction (ibid.). The five task forces cover the respective intervention focuses and each refers to a respective GSEU, with the exception of the task force on trade and poverty alleviation. The task forces are held accountable for outcomes being reached. The idea behind this convoluted arrangement is to create high-level committees which can be held accountable and where commitment and implementation issues can be reinforced. In fact, the task forces serve the purpose to streamline donor and recipient

views, especially to reach common ground necessary for projects to materialise or resolve problems. Through the task forces, a broad based “buy in” of all key ministries in the implementation process of the DTIS action matrix was envisaged.

Both the TDF Facilitation Team and the NIU are part and parcel of the same instance of transnationalisation, through which a reworking of the trade governance within the Laotian state is attempted. The TDF Facilitation Team is the “coordinating mechanism” (cf. Hameiri 2009:178) through which the transnational project is transposed into concrete action on a day-to-day basis and the unit responsible for ensuring the application of the political choices circumscribed in the DTIS. The NIU in turn is the transnationalised state agency in the making, responsive to the TDF donors despite being formally located within the Lao state. As Hameiri observed, such interventions do not dismantle the formal-legal sovereignty of the intervened states, but they seek to shift policymaking into transnationally regulated spaces into the hands of experts that lack domestic democratic accountability (2009:209–10).

5.1.2 Donors’ motivation and strategy

In the view of the donors, the establishment of the NIFGS would facilitate future aid disbursements directed at trade-related state building, in other words, “to build the capacity of the responsible government Ministry to manage aid-for-trade resources effectively and efficiently as part of broader efforts towards a program based approach in trade” (IEG 2014:2). While trade capacity building was the ultimate goal, in practice, donors had to approach the building of capacity in a more sequenced way, as they deemed the basic project management capacities of the Laotian state insufficient at the outset.

The efficient management of AfT funds was thus regarded as the basis that would eventually allow for the implementation of substantive trade reforms. The creation of a NIU was therefore at the core of the intervention, with the aim of building a governance structure and state agencies capable of overseeing and executing AfT projects. The NIFGS serves as a meta-structure, by

devising strategies and action plans, regulatory gap assessments and roadmaps, while the NIU serves as the meta-governance institution (Hameiri 2010:93–94) which governs more concrete trade capacity building efforts, such as the establishment of an inter-agency SPS Risk Evaluation Group and the designing of a technical trade policy and competitiveness curriculum for civil servants. But in order to fully live up to its implementation oversight responsibilities, an important part of the TDF was targeted at the NIU to first undergo capacity building itself. A major reason cited by donors for directing resources towards the NIU were the potential project risks resulting from the “weak financial control environment” which were specifically acknowledged in the 2008 project appraisal document of the WB, in which the fiduciary risk for the project was rated as high (WB 2008:16).

A concrete example of the attempt to insulate the NIFGS from the perceived operational threats stemming from misallocation of funds and corrupt practices to which donor projects are exposed is the establishment of separate financial management procedures within the NIU. The aim was to shield the NIU from clientelist demands that dominant forces within the state raised towards project funds and which were supposedly difficult to control in light of the absence of detailed financial management procedures that were shielded from ex-post adjustments. Furthermore, risks stemming from the use of cash for project payments and weak auditing and financial monitoring capacity were identified (ibid.: 17). It was evident from past aid projects in Laos that the use of cash payments, coupled with poor record keeping opened up the way for transactions that were difficult to verify as to the actual good or service obtained, because invoices were usually not sufficiently detailed or were open to manipulation (ibid.:20). Moreover, the project appraisal document stated that: “[o]wing to low salary level within Public service, fuel, training and workshop allowances are a means of livelihood and are likely subject to abuse” [sic] (ibid.). Also, there was no system by which the Laotian beneficiaries used to keep records of project assets. After a certain amount of time, as was true then and seems to hold true today, an interviewee claimed that laptops, motorbikes and even cars purchased from project funds and for project purposes tend to disappear (Interviewee 7 2015). Local donor staff is well aware of the

allure of project assets and are playing along in this regard by strategically exploiting project purchases to buy goodwill from decision makers (ibid.). At the same time, they are heavily biased in this, as public and headquarters demand proper use of project funds.

As the financial management for externally-funded projects was found to be weak, the installation of a parallel system of financial management within the NIU was perceived as a “mitigating measure” to shield the project from the patronage system within the Laotian state (WB 2008:15,17). For this reason, specific project-level financial management arrangements were created, such as separate planning, budgeting and reporting on financial performance and the training of separate staff dedicated solely to financial project management. Additionally, reviews, audits and supervisions of the financial management and accounting was to be conducted on a regular basis to detect irregularities and incentivise correct disbursement (ibid.). The isolation of the NIU was meant to shield them from clientelist practices within the Laotian state and unwanted political interference, while at the same time enabling them to impose discipline on other parts of the state. However, this proved to be paradoxical. Donors believed that the NIU could be isolated from unwanted interference until the agency reached operational autonomy and increased capacity at which point it would be unleashed on the broader governance system to effect meaningful economic reform. However, what remained unresolved is what happens once these institutions reach the point of “maturity”, which donors usually define by the increased capacity to govern. The moment the agency would actually attempt to rework political processes and institutions, it would find itself again enmeshed in the field of struggle that pervades any state.

5.1.3 An unintended conjunctural compromise between donor and recipient interests

While deep trade reforms have strong distributional implications, the initial project activities which the TDF foresaw were much less threatening to dominant interest groups within the Laotian state. The insulation of the NIU led to the emergence of a structure running parallel to actual state processes. The preoccupation of donors with accounting and procurement standards within a

narrow project required less commitment to substantive reform and even freed up government resources. Government capacity could then be redirected to an agenda which was deemed much more beneficial to the current dominant political class: reaping the benefits of Laos's resource boom, or alternatively "resource curse", a term preferred by donors. Indeed, the resource boom – occasioned by demand from China - severely diminished the bargaining leverage and pressure of donors, as the alternative financial resources stemming from the exploitation of natural resources allowed the dominant elites to circumvent donor demands without repercussions for the state budget and funding of patronage networks (Kahler 2008:18; Reeves 2015:170).³ Moreover, low government priority can be also assumed from the fact that the project start was delayed by almost a year after signing the appraisal document. The recruitment of fiduciary staff was quoted as one of the reasons for the delay, from which it can be inferred that common ground had to be found as how to operationalise the "isolation" of the NIU.

Other project activities of the TDF were not threatening to the social relations of power either. Project activities comprised different written outputs, in the form of strategic action plans, needs assessments, legal expertise or similar analyses, with the aim of influencing policy making or implementing them at some future point. Moreover, project components such as trainings, study tours, and workshops tend to be viewed as low-impact activities, while the actual application of course contents in the day-to-day work of government officials and civil servants does not lend itself to being assessed. In this form, TDF was not a threat to distributive patterns within the Laotian state or economy, as its output did not evoke any real implementation commitments. While these analyses were undertaken with the idea of guiding future implementation and trade reform, what is most likely is that these desk studies will be heavily adapted in the course of any eventual implementation, such as a second TDF project. Once interventions aim to directly regulate politico-economic processes and thereby interfere into distributive patterns, i.e. when

³ Primary goods from mining, for example, account for 41 per cent of Laos' total exports and provide the majority of government spending (Reeves 2016: 170).

actual reforms could threaten existing power relations, the resistance to such interventions is likely to increase. Due to the form that the intervention took, reform-adverse political forces were not pressured to accept deep transformations in the trade governance system. The insulation of the NIFGS from wider state processes was therefore a strategy that allowed for the temporary peaceful coexistence between distinct interests, i.e. a conjunctural compromise between social forces, within the Government and the donors.

5.1.4 The creation of islands of efficiency

The donor anticipation of structural constraints that would very likely negatively impact on the implementation of the project if left unaddressed, such as the widespread mismanagement of aid funds and the fiduciary risks resulting from this, led to the intervention focussing on building capacity within an isolated state structure. Donors were primarily preoccupied with creating a structure that would address their main concern regarding AfT disbursement, which was that of fiduciary risk. They were less concerned with building the trade capacity of the Laotian state per se. Kahler (2008:14) refers to such an approach as the establishment of “islands of donor-financed expertise”. Under such an approach, project Implementation Units, such as the NIU, are transformed into isolated agencies that, due to the resources invested under donor supervision, attain a certain degree of efficiency and “best practice”. At the same time, the over-arching deficiencies donors came to tackle, such as lack of trade-related capacity, are only subsequently pursued. The main assumption of this type of intervention is that a focus on creating well-functioning project implementation agencies will strengthen operational procedures, allowing for more in-depth interventions to operate efficiently in the future. As a result, during the phase of building such enclave institutions, SBIs tend to be much less conflict ridden, because the interventions are mainly inward-looking and occupied with building the capacity of institutions for AfT implementation. The interventions therefore barely touch upon the deeper processes that would be necessary to have an impact on the social relations of power in a given context.

The extensive focus on setting up a governance structure and institution capable of steering AfT and complying with the financial standards of donor projects have to be understood in light of the problematic earlier experience donors had with regard to the mismanagement of project funding and the reputational risks stemming from this for WB and other donor projects. Donors have failed to tackle fraudulent practices not only within the state, but also within the accessible realm of their projects. Instead, despite strict donor guidelines, formal investigations still have to be launched to assess possible misconduct of civil servants working in donor projects (WB 2016). In a recent case, a government employee was involved in awarding a contract to an organisation whose director was the spouse of that government employee. While the investigation found that “the applicable procurement rules” did not require the disclosure of a spousal relationship and therefore no sanctions would be enforced (ibid.), the incident is one of those rarely made public cases of widespread patronage and corrupt practices which donors have not been able to solve in their favour.

Fiduciary risk management and capacity building within the NIU therefore became a central concern and received careful attention. The project’s focus can thus be understood both as a strategic response by donors to problems of corruption and mismanagement of project resources encountered in past development projects, and as an opportunity for the Laotian Government to demonstrate its willingness to pursue trade reform measures through AfT without yet having to proceed with in-depth reform.

Capacity building efforts focussed on the NIU, as it was an insulated agency which operated without major interference from the clientelist system within the Laotian state, which would otherwise aim at appropriating material benefits and redistributing them. In this regard, the project appraisal document already stated that there was a high fiduciary risk for the project in Laos (WB 2008:15). Concerning the overall fiscal environment, the document states that:

there is weak control environment with serious weaknesses in National Treasury operations, especially in cash management, inadequacies in PFM [project financial management] accounting

system, and weak internal and external auditing capacity. Owing to low salary level within Public service, fuel, training and workshop allowances are a means of livelihood and are likely subject of abuse [sic] (ibid.: 17).

Similarly, the “[i]nability to use funds efficiently and economically for purposes intended”, and the “[p]otential corruption arising from procurement” were regarded as substantial risks to the project (ibid.). Despite assessing the overall fiduciary risk as high, the WB maintained that, through proper project design and mitigation measures, this substantial risk could be reduced to a manageable moderate risk (ibid.).

There are, however, several problematic aspects of such a rationale and approach. Firstly, while the creation of a transnationalised institution whose capacity to manage project funds in a transparent way is of obvious relevance in a corruption- prone environment, it deflects attention from the issues of substance for the AfT agenda of building trade capacity. Moreover, the capacity of the NIU not only to oversee financial matters, but also to steer overall implementation and trade-related reform, will not be put to the test as long as it is allowed to operate within a safe bubble. The moment the NIU had to actively implement meaningful projects, especially those with distributional consequences, it became enmeshed in conflicts over the course and outcome of such interventions. This can be seen from the following instances of contestation, when implementation extended beyond a focus merely on the capacity of the NIU or on the set-up of the NIFGS.

The isolation of the NIGFS governance structure within the state can be exemplified by how project activities involving the GSEUs unfolded. The GSEUs were formally located within functional departments but were in practice operationally isolated due to their transnationalised status. The NIU formally oversaw the GSEUs despite them being located within other ministerial departments. On the one hand, this reduced clashes because the departments were not involved in the day-to-day operational activities of the GSEUs, but at the same time, the intended impact on wider departmental processes arising from the GSEUs could not materialise either. In this regard,

a document from the European Commission in preparation of the follow-up TDF 2 project stated that the spill-over effects within departments had not materialised from the first TDF GSEUs and therefore future implementation had to consider department-wide mandates (EC 2012b:3).

While the TDF was preoccupied with setting up the institutional governance structure and building institutional capacity, the follow-up project, TDF-2, was more focussed on implementing concrete AfT activities. However, the moment the parallel NIFGS structure aimed at influencing procedures and decision-making processes, its disconnect with the Laotian state became obvious. Its insulation meant that it did not help to create better inter-agency coordination and collaboration, despite the formal engagement of state actors within it. Instead, it revealed the flawed assumptions behind the intervention.

In a recently publicly-disclosed aide memoire from TDF-2, clashing interpretations regarding implementation modalities of an electronic system for the submission of certificates of origin were revealed (Hoppe 2017:18). A certificate of origin is a document attesting that the goods to be imported come from a certain place, which enables the goods to be treated according to the provisions of particular trade treaties. The electronic submission of this certificate was promoted to modernise overall documentation processes for import procedures and make them more efficient. The actual implementation of the project, however, contradicted these aims, as the Department of Import and Export (DIMEX) of the MOIC still maintained that the trader had to collect a form from DIMEX, sign it and return it in person at their premises, pay a certain fee and wait for the form to be returned (*ibid.*). This effectively degraded the system for the electronic processing of certificates of origin to a parallel process without direct benefit to the trader. What it did however, was to maintain person-to-person interaction, effectively maintaining the scope for corrupt practices to take place. The DIMEX and the TDF donors strongly disagreed as to which interpretation of the underlying law was correct. In the view of the donors, it is only the director of DIMEX who has to sign the document in person; the trader's signature could be submitted electronically, so that the trader was only required to collect and pay for the signed certificate in person (*ibid.*). The issue has not been resolved, with the donors pressing to engage

a lawyer to carry out a legal review (*ibid.*). Such clashes over the interpretation of a law can be understood as the tip of the iceberg, in a reform process, in which the influence of departments and ministries over processes is intended to be curtailed by transnational regulation.

While the intention of donors was to create a transnationalised institution capable of disciplining the wider state and society, the approach used by the donors was, however, not able to achieve the result they hoped for. The insulation of the NIU did not create any capacity to interfere and discipline, and reform altering established processes, and power relations remained a politically charged undertaking.

Another example of a strategic response to evade donor oversight and scrutiny was the recategorization of certain implementation activities to operationalise the WTO Trade Facilitation Agreement. The Laotian Customs Department recategorized certain measures from Category C, which required external technical assistance support, to Category B, which did not require such external technical assistance (Hoppe 2017:16). This can be clearly interpreted as an attempt to keep donors at arm's length.

The insulated NIU thus was never able to build the capacity to pressure other state agencies to transform their trade governance. It remains questionable whether such an agency could ever be created, as their very creation is clearly based on the misguided assumption that best policies do exist, they can be implemented if the right institutions are in place, and that contestation over political outcomes do not exist nor interfere with implementation. What donors thus underestimate is the impact of existing structural constraints upon the insulated agency, once it is opened up again to wider processes within the target state. The temporary bypassing of inefficient and corruption-prone bureaucracies rarely produces more efficient or capable administration in the long-run. As López-Clares remarks:

There is a notion that donor agencies can “ringfence” projects in highly corrupt countries and sectors, and, by such insulation or inoculation against corruption, somehow guarantee that it is efficiently implemented, and that the development objectives are attained, even where other projects fail. This is unrealistic. [...] the

notion that the aid community can fully insulate projects from a country's overall corrupt environment is not borne out by evidence (2010:179).

It is a widespread misconception on the behalf of donors that technical capacity building can serve as a means to eventually correct inefficient bureaucracies, especially if inefficiency does not arise due to lack of capacity but is a symptom of clientelist practices within the state. The temporary insulation might make sense from the viewpoint of donors, who either apply apolitical analysis of the political dynamics within which development projects operate or believe that good governance interventions can rectify inefficiency, mismanagement and corruption. However, the moment the enclave agencies are opened up again, they will be inevitably confronted with the unchanged reality of power relations within the recipient state.

While the donors seem to be satisfied in having created a governance structure which enforced formal interaction with the recipient, this has not necessarily translated into better governance or implementation of projects or increased donor control over what is actually happening on the ground. The trade governance architecture in Laos seems to be increasingly overloaded by additional divisions and layers which lead to the often-quoted coordination problems between ministries and departments refusing to give away their influence. Unclear mandates and responsibilities also serve a purpose, however, as Martin Gainsborough (2010) has demonstrated in the case of Vietnam. This applies no less to the case of Laos. "Uncertainty" as a modus operandi opens up room for manoeuvre for the Party, as decisions have to be moved up the hierarchy into inaccessible spaces of decision making. This ignorance towards politics within the Lao state are essentially manifested "in many development projects which set up parallel structures of authority that attempt to by-pass the government altogether" (Soukamneuth 2006:120). Competition between line ministries cannot be resolved by setting up fora to facilitate dialogue, because the particular frictions between different economic agents which they represent cannot simply be resolved through dialogue. In this regard, similar concerns have been voiced in a project appraisal document by the International Development Association, stating that:

Coordination in the trade sector has historically been poor with fragmented projects and significant overlaps and gaps. This has improved as capacity within MoIC (through the NIU) has improved and a number of donors have elected to pool resources into a common fund, but inevitably not all stakeholders have the same level of interest in a harmonized approach (WB 2012b:58).

In a similar vein, the TPSWG annual status report 2014-15 stated that a key challenge remained to ensure the

effectiveness and efficiency of newly restructured trade policy coordination structure under NSCEI, including adoption of operational procedures, defining priorities of annual work program, setting agenda for semi-annual meetings, keeping tracks of work and assessing progress of decisions initiatives undertaken by the authorities and ensure effective coordination across ministries and public entities and other [sic] (MOIC 2015:16).

5.1.5 Conclusion

The result of the implementation of a strategy of insulating institutions led to a temporary fragile agreement, which gave both donors and state actors ample room to evade conflict. While donors believe that the insulation of young institutions would be beneficial as to install a financial management system without interference from patronage demands, dominant domestic forces regarded the form of the intervention as much less threatening to their interests. As a result of the limits that were set already in the beginning of the intervention, the state building intervention was mainly preoccupied with building the institutions and governance structure deemed necessary by donors to manage AFT, instead of building the capacity within existing state institutions to manage trade integration. When the follow-up project attempted to intervene into political processes within the state, the contention over reform content and direction became more evident.

Chapter 6: Structural dimension of the Vietnamese state

6.1 Introduction

This chapter serves the same purpose as chapter 4 did for Laos. It will analyse the underlying political and economic structures that shape the process and outcome of development interventions such as AfT projects. It investigates the field of struggle of the Vietnamese state, especially with regard to the social forces that benefit or lose out from trade integration. I will look at Vietnam's current economic situation and the distribution of power in order to identify which social forces would potentially resist trade integration or support it and why. This will allow us to identify a set of interests antagonistic to trade-related assistance emerging from different social forces' positioning, as the efforts of creating a level-playing field for domestic and foreign economic actors might work against long hold privileges, such as in the case of the state-owned sector.

In the first section, I look at how Vietnam abandoned the Soviet-style economic management and transformed its political and economic institutions to embrace the "socialist-market" economy. The second section looks at key economic sectors and the organization of ownership in order to identify the dominant social forces within the Vietnamese state. As with Laos previously, this will inform our understanding of how social forces strategically position themselves vis-à-vis trade interventions. The next section looks how development aid in general is structured. Vietnam is known to be adept at keeping donors at bay and the development aid system reflects this. The last section then discusses how trade-related assistance is provided, and how, in line with the structural constraints of the overall aid architecture, the Vietnamese government has internalized and adapted the governance structure of AfT.

6.2 Setting the stage: social and economic relations in Vietnam

6.2.1 Political system and politics

Vietnam is an authoritarian one-party state under the CPV. An important feature of the Vietnamese state is that all state agencies are penetrated by the Party apparatus (London 2014:7). The state apparatus is vertically organised across four separate levels of authority, which are: the central government level, provincial level, district and wards level, and communes level (ibid.: 6). Ministries, departments and state agencies are also organized horizontally and governed vertically, which renders them double accountable at the local level to local executive bodies, as well as higher level functional agencies (ibid.).

As a consequence, power is organised “into a number of parallel but intertwined hierarchies, each with extensive vertical networks that extend down to the village level” (Datta and Pham 2013:5). The different levels interact through annual meetings, such as between provincial chairs and the prime minister, for example (ibid.). In addition to individuals simultaneously occupying positions in different hierarchies, for example as provincial people’s committee chair and member of the National Assembly (NA), there exists also substantial rotation of individuals between senior-level positions in central ministries and at provincial level (ibid.).

The political leadership is divided into a troika consisting of the general secretary of the CPV, the prime minister and the president. While each of them operates under a clearly defined jurisdiction, there is no clear hierarchy in rank (Datta and Pham 2013:8). With the growing importance of the NA in recent years, the chairmanship of the NA became a key political office and joined the “troika” (ibid.).

The Congress is the Party’s highest body and comprises more than 1000 delegates who are elected at the provincial level and occupy positions in central Party institutions, the military, provincial governments and state-owned enterprises (SOEs) (ibid.). The Congress elects the Central Committee, comprising around 180 members and 20 alternate members since the most recent

election in January 2016. The Central Committee is a strategically crucial space within the party, and could be depicted as the ‘winning coalition’ (ibid.: 11). The Central Committee is a particular condensation of the dominant groups within the party and their variety of different interests, with members coming from the central and provincial Party institutions, the military, SOEs, media and mass organisations like the Fatherland Front. Provincial leaders make up the largest bloc in the Central Committee of the Party, giving them particular leverage in interpreting or ignoring central policies, while compliance has to be secured with incentives, such as subsidies (Vu 2014:32).

The Central Committee elects the Politburo, which had 19 members as of January 2016, and the General Secretary of the Party. Out of the 19 members of the Politburo, seven were already members during the previous legislative term.

Amongst those that had to leave office were the former Prime Minister Nguyen Tan Dung, lauded by pro-market advocates as a progressive force within the Party, who is believed to have clashed with more conservative forces regarding the restructuring of the Vietnamese economy. While political infighting is regarded as one explanation for the particular fall from grace of the former Prime Minister, this was exacerbated by cases of mismanagement and corruption under his rule, such as the case of Vinashin (Thanh Nien News 2010). Such instances point to the fact that the party-state is not a monolithic bloc, but that various competing interests exist within it, usually culminating in “patronage rivalries” (Datta and Pham 2013:7; Vu 2014:32).

These competing interests are usually organised in loose political groupings or patronage networks linked to certain personalities (Gainsborough 2010:7):

In Vietnam, holding public office gives you access to patronage, which can range from access to the state budget and the ability to make decisions about how to spend public money, to the authority to issue licences or other forms of permission, to carry out inspections, or to levy fines. The result is that people come to you hoping for services or favours or generally to try to influence you. [...] Against this backdrop, it is no wonder that public office in Vietnam comes with a price tag, since it is well understood that buying a seat is an investment that can be recouped (ibid.: 147).

In Gainsborough's view, this means that considerations regarding patronage networks take primacy over actual policy content and direction to a degree that "who you are aligned with comes first; policy comes second" (ibid.: 146).

Patronage relations are characterised by a hierarchical dimension. People in more senior positions grant protection to others at lower ranks. At the same time, this comes with obligations and responsibilities in the form of demonstrating loyalty and giving gifts.⁴ The underlying motivation of such demonstration of gratitude are the fear of marginalisation and its repercussions:

To be marginalised in important networks or to have your political umbrella dismantled can lead to downfall, which can have dire consequences for your job, your family, your livelihood and your standing within the system, which makes you vulnerable to a loss of opportunities or further misfortune (Datta and Pham 2013:6–7)

While there is usually a certain temporal stability to the composition of patronage networks, these can reshuffle as a result of strategic consideration made by proponents seeking new alliances when in need of support and protection (ibid.).

These strategic considerations can be explained as a result of the "uncertain environment" within which they operate (ibid.). In a system where formal rules are as important as informal rules, which are usually not clearly spelled out, uncertainty allows those in power to discipline those that might overstep the arbitrary line (Gainsborough 2010:181).

6.2.2 Post-war centrally planned economy

Before the reunification of North and South Vietnam in 1975, a Soviet-style economy had already been installed in the North for almost 20 years. The economy of South Vietnam was diversified, and strongly controlled by a Chinese minority (Brolen, Wilska, and von Bonsdorff 2007:65).

⁴ This has taken especially outrageous forms during the Vietnamese New Year celebrations and led the to a nationwide ban on luxury gift-giving (Vietnam Express 2017)

According to estimates, ethnic Chinese controlled 80 per cent of the food, textile, chemical, engineering and electrical industries, 100 per cent of wholesale trade, 50 per cent of retail trade and 90 per cent of foreign trade in the South, with all key sectors, such as banking, trade, transport and industry under their control (ibid.). When the Communist Party took power, one of its first acts was to expel this powerful business community from Vietnam and to appropriate their enterprises (ibid.). Half of the Chinese left Vietnam, but those that stayed eventually proved important in turning the South and Ho Chi Minh City, formerly Saigon, into the thriving economic hub that it is today.

The market economy of the South was replaced with Soviet-style economic policies and plans for heavy industrialization (ibid.). This had tremendous consequences as the emphasis on the creation of heavy industry came at the expense of agriculture (ibid.: 66). Agricultural production was collectivized in the South, as it had been in the North. The system caused widespread frustration as farmers had no control over their actual output, which had to be transferred to production brigades (ibid.). The farmers in the Mekong Delta, the “rice basket of Vietnam”, revolted against the cooperativisation measures (Le 2012:155). What followed was an overall decline in agricultural production, with Vietnam being unable to meet its own demand.

Economic stagnation and flawed economic policies led to severely declining living standards in Vietnam and forced the leaders to reconsider their economic policies (ibid.: 146). Wages of workers and state employees declined massively and food shortages led to widespread hunger (ibid.: 154). The CPV failed to improve living standards, which in turn threatened to undermine its legitimacy and led to criticism even from within the Party (ibid.). After, 1978, Vietnam’s occupation of Cambodia and the resultant economic and political isolation from Western states, China and ASEAN member states, along with the slow demise of the Soviet Union and Eastern Europe, exacerbated the socio-economic crisis, and eventually pushed the CPV to adopt a new set of economic policies. Slow reform steps began in the early 1980s, when it became clear “that a rigid implementation of the command economy was not a viable solution” for Vietnam, as the decades of war had not facilitated the emergence of a strong industrial sector (Masina 2012:192).

Moreover, economic activities outside the centrally planned economy, so-called “fence-breaking”, were pursued and initiated the official reform process (Fforde and de Vylder 1996).

6.2.3 Towards a socialist market economy

The full adoption of the Đổi Mới economic policy in 1986 heralded a reform era during which the leaders of the Communist Party openly advocated a “socialist market economy”. The CPV's legitimacy increasingly depended on a "social contract" whereby citizens accept CPV rule in exchange for social welfare, employment and improved living standards (Le 2012:157). Major policy changes included the abandoning of a central planning, the opening up to Foreign Direct Investment (FDI) and the lowering of trade barriers to increase global economic integration. The equitization of SOEs, meaning their partial privatisation, in 1992 was regarded as another sign of gradual transformation.

After impressive years of growth from 1991 onwards, the leaders of the CPV were faced with a decline in FDI and the GDP growth rate, as well as fiscal and balance of payments deficits due to the economic slow-down caused by the 1997-98 Asian Financial Crisis. This led to their decision to request IMF assistance, which in turn propelled Vietnam to an even greater degree towards global economic integration. The structural changes that followed, as requested by the major donor institutions, were targeted towards tackling debt and hyperinflation through price liberalization and macroeconomic stabilization efforts, as well as fiscal and corporate reforms. Furthermore, the opening up of the economy was pursued through accession to various trade agreements, for example with the AFTA (1995), a bilateral trade agreement with the US in 2001, the accession to the WTO in 2007, and the launch of the AEC in 2015. In light of this, Vietnam received trade-related technical assistance from its various trade partners, such as the USAID's trade-related assistance project “Support for Trade Acceleration” (STAR) that was initiated after the bilateral US-Vietnam trade agreement.

Another result of the economic reforms was the decentralization of economic policy making. This was well received by the provincial governments, which were faced with declining levels of centrally provided funds, and they soon began to attract FDI on their own. Malesky refers to this as a new type of fence-breaking (Malesky 2007:12). Provinces chose “an alternative short-cut”, offering tax and land incentives beyond those permitted under central law (Burke and Nguyen 2005, Vu Long 2005, cit. in: Malesky 2007:13). Provincial governments and the local elite thus have a considerable interest in attracting FDI, with some authors arguing that it gives them considerable leverage to challenge the central government and pursue local autonomous economic reform experiments (Malesky 2008). While certain tax incentives were not in accordance with the law and declared invalid (Malesky 2007:13), the 2005 Investment Law gave provinces a greater degree of autonomy and allowed local governments to directly grant tax reduction schemes to attract foreign investment. This further increased competition among provinces in the hope of establishing manufacturing hubs that would attract further foreign investment. The provinces surrounding Hanoi and Ho Chi Minh City have been particularly successful in attracting foreign enterprises (VIETRADE 2015). The competitive element is in fact so strong, that neighbouring provinces are refraining from cooperating together as regional clusters, instead opting to compete against each other for FDI (Vu-Thanh 2015:27).

What had begun even prior to the officially announced economic reforms was continued on a larger scale: political “insiders” of the CPV and close allies within their patronage networks seized the moment and began to accumulate capital through new business opportunities (Gainsborough 2010:16). Their political connections allowed for a considerable degree of protection and favourable access to land, capital, contracts and permits (ibid.). Moreover, in order to navigate the “‘jungle’ of often contradictory administrative procedures and regulations”, companies sought this protection, which in turn opened up the room for rent-seeking opportunities (Datta and Pham 2013:41). The reforms thus gave rise to private businesses characterized by strong relations, in person or through direct family connections, to the CPV and state officials. This interweaving of

state-business interests developed into a powerful social coalition whereby the nature of the private sector is largely conditioned by its emergence from within the state (Painter 2005:268).

The economic structure has massively changed during the past two decades when Vietnam was considered one of the poorest countries in the world in the 1990s to being classified as a lower middle-income country in 2013. While economic growth in Vietnam has considerably slowed in comparison to the boom years from 1991 to 1997, the GDP growth rate is now 5-6 per cent per year. Approximately 43 per cent is generated by the private domestic sector, while SOEs and foreign invested enterprises are generating close to 29 per cent and 19 per cent, respectively. (GSO 2016). Despite proof in numbers, regarding the fact that a considerable number of SOE subsidiaries are run by the state, the actual contribution of the state sector might even exceed 30 per cent.

The private sector developed in the 1990s in light of a number of reforms in support of private sector development and new legislation mirrored a new approach towards private economic activity. A Company and Private Enterprise Law was passed in 1990, and complemented by the Domestic Investment Promotion Law in 1992. Yet, the actual development of a domestic private sector was initially slow. Only the introduction of the Enterprise Law in 2001, which simplified the procedures for the creation of domestic private firms, finally gave rise to significant numbers of new private firms (Kokko and Thang 2014:55).

6.3 Economic structure and ownership

This section discusses the ownership structure of the Vietnamese economy in order to assess the composition of social forces and how they in turn might relate to enhanced trade integration. Certain social forces might be more likely, based on their positioning within the economy, to push for, align with, or reject the adoption of new regulations and procedures as part of trade-related assistance.

If trade integration is about the creation of a level playing field and opening up of the local economy to foreign competition, then those economic actors not able to compete without privileged regulation, subsidies or other preferential treatment, will take a negative stand towards it. In the view of Beresford, “[t]he principal beneficiaries of the dynamic changes taking place in Vietnam over the last two decades are those who are included in the networks that, as they originated from the old system, have been best able to adapt to the emerging market economy” (2008:238).

Enhanced global economic integration brought about profound changes for the domestic economic structure. Different types of ownership for enterprises have been specified in the Enterprise Law, namely sole proprietorship, partnership, limited liability company, shareholder company and corporate group (Dao et al. 2013:18). These enterprises, in turn, can be either state-owned (more than 50 per cent capital), private owned (local or foreign capital) or joint ventures (between foreign and local investors) (ibid.).

6.3.1 State ownership

Vietnam approached the IFI promoted idea of “privatisation”, from a very different angle in that it gave away ownership shares in SOEs, but often remained controlling majority. There was effectively no retreat of the state, and “equitization” entailed that “the state normally retains a large stake in most of the equitized SOEs, and only a limited amount of their shares are sold to private investors” (Le 2017:2). 4,484 SOEs were equitized between 1992 and 2015, which brought the number down to 652 SOEs in 2015 (ibid.: 3).

Instead, smaller state enterprises which were connected to departments of line ministries or people’s committees were released in order to reduce the impact on the state budget of loss-making enterprises (Datta and Pham 2013:6). On the other hand, large SOEs remain an important source of revenue for certain social forces within the state and have been regrouped into general corporations to remove control of SOEs from line ministries.

What can be said is, that the Vietnamese state embarked on a very specific path to marketization which actually allowed to advance its activities in certain areas (Gainsborough 2010). Gainsborough refers to official data from the Vietnamese Government regarding the new ownership structure of former state enterprises that had undergone equitization by 2000 (2010:84). The data suggest diverse ownership with insiders holding on average 59 per cent, the state 18 per cent and outsiders 23 per cent of equity (ibid.). He cautions, however, that this differentiation does not reveal who actually owns these shares, as “it is conceivable that they are all effectively the same people, with the state share held by the former controlling institution, insider shares by managers appointed by the controlling institution, and so-called outsider shares by business associates core relatives” (Gainsborough 2010:83–85). Moreover, in a majority of equitized state companies, “certainly in the largest and most important – the state maintained a substantial control (up to 50 per cent of registered capital)” (Masina 2012:195). At the same time, Le maintains that we are witnessing a new wave of equitization characterised by effective divestment to private investors which is largely owed to the structural pressures of Vietnam’s high levels of budget deficit and public debt (Le 2017:4–5).

In certain sectors, SOEs, enjoying privileged treatment, might fare better than their private competitors. However, the ownership model as such does not indicate who is behind a domestic private company. If the ultimate owner is the close relative of a high-ranking party member or civil servant such a strategic connection to cadres within the CPV might be exploited to help their business. These processes are dynamic and vary from case to case. New forms of ownership have made it more difficult to distinguish and pin down social forces due to cross ownership and dual positionality. The Party can be present within private companies through holdings and funds that are not easy to directly link back. At the same time, party cadres can be economic agents through their family members or, since recent reforms, even in their own name. In addition, individuals may hold positions in different hierarchies, such as holding a provincial people’s committee chair and being member of the National Assembly (Datta and Pham 2013:5). Furthermore, provincial leaders represent the biggest bloc in the Central Committee of the Party and are likely to have

centripetal interests (ibid.). As Datta and Pham state: “It is subsequently difficult to tell apart the political elite, the ‘non-political’ bureaucracy, economic actors and intermediaries, as they are often driven by similar incentives and are, on occasion, one and the same” (ibid.).

Sectors where the government retains ownership include power and electricity, agriculture, banking and finance, and airports. They claim that these sectors are of strategic importance to secure the country's stability. However, this decision can also be understood as a reflection of resistance towards loss of control and rents from various interest groups, such as line ministries and people's committees or SOE managers. They resist the process of equitization because this would imply the loss of benefits associated to operating SOEs (Datta and Pham 2013:44). According to rumours, some SOE managers falsely report loss making in order to make their SOE less attractive to outside investors (Interviewee 1 2015). Other SOEs, however, have actively sought foreign investors in order to receive necessary credit while allowing them to remain majority, i.e. controlling, shareholders and resist full privatization (Masina 2012:202).

SOEs and state economic groups (SEGs) in Vietnam are characterised by strong political connections and protectionist arrangements. The biggest economic conglomerates are grouped together as SEGs. They are still largely oriented toward import substitution (Vu-Thanh 2015:3) and are regarded as the Government's “macroeconomic tools” (Nguyen 2016). Their dominating position in certain economic sectors crowds out competition, although the general justification for their dominance is that private activity would be unlikely due to the limited scale or capability of private economic actors (ibid.). Governmental agencies are directly involved in the management and the supervision of SEGs. The Prime Minister, the Ministry of Finance, the Ministry of Planning and Investment, the Ministry of Home Affairs, and the Line Ministries have roles comparable to shareholders and board of directors in private firms (Kim, Nam, and Cuong 2010:10). This equips them with a wide influence over corporate charters, ownership structure, appointment and dismissal of directors, dividend policies, and directors' remuneration, but also long-term corporate strategy, nomination of director candidates, and investments in subsidiaries (ibid.). Furthermore, bureaucrats sometimes even directly participate in the management of SEGs.

However, divisive lines run right through the state, impacting on SOE/ SEG governance, as can be seen from the conflict of Viettel vs. Samsung. Viettel, a military operated telecommunication provider, demanded an import duty exemption for components and devices for handsets from the MoF, similar to the one that had been granted to Samsung (Nguyen 2013). The MoF responded that Samsung was recognised as a “high-tech export processing enterprise” by the Government and therefore could enjoy targeted incentives (ibid.). The request was, however, rejected and led to commentators pointing out that domestic businesses were put at a disadvantage compared to foreign businesses. Such claims, of course, obscure the stark differences that exist between domestic businesses, with SOEs operating in a very different environment compared to domestic SMEs.

Coming back to divisive lines within the state, Viettel is the only SEG not supervised by the PMO, but managed under the Ministry of Defence. As part of the SOE reform, the Government tried to push the Vietnam People’s Army (VPA) to cede ownership over their commercial entities, which the VPA successfully resisted (Thayer 2011:77). The refusal to grant Viettel the same exception as Samsung, therefore, has to be understood in light of the disagreement over the extent of equitization and loss of control over profitable companies. As the example illustrates, foreign enterprises, especially from a certain size and investment amount onwards, are increasingly able to negotiate similar favourable policies and exemptions as are granted to SOEs.

Foreign and local businesses have different relations with the state and their demand for a level playing field can be difficult to reconcile with the interests of dominant economic actors, such as SOEs, which in the past had been structurally favoured by Vietnam’s trade governance. The emergence of economic actors that benefit less from previous arrangements induced clashes between different social forces and brings to light the structural antagonisms of Vietnam’s economic and trade policy regime. These new economic actors potentially support reforms that establish a level-playing field. However, the opposite is also possible, meaning that they might seek to access influential patronage networks.

The antagonisms within the Vietnamese state are a result of past power constellations that enforced a protectionist regime in favour of a business class that emerged from within the state and is favoured by the structural selectivity of the state:

State companies, equitized state companies that retain links to the state, and quasi-private companies—in the sense that they are owned and managed by people with close connections to the state—capitalize on their easy access to credit, land, licenses and government contracts to dominate domestic markets (Pincus 2015:12).

While these state-related economic actors themselves compete over resources and do not form a united front, what they have in common is a material interest in preventing the emergence of a private independent commercial class that could undermine them (ibid.). Several interest groups are strongly defending the privileges they have with regard to the existence of SOEs. Line ministries and people's committees benefit from controlling and operating SOEs, as do managers and workers (Wiemann et al. 2006:24). The conservative faction within the CPV is believed to support these anti-reformist groups (ibid.). Moreover, some state corporations even expanded their business activities into areas such as banking, the stock exchange, insurance and real estate. Although definite numbers are lacking, it can be assumed that the state involvement in the economy is still of considerable importance and plays a central role with regard to the outcome of economic reform processes.

In light of increased competition stemming from free trade agreements for Vietnamese companies, non-competitive SOEs, as well as well-connected conglomerates, have a particular interest in maintaining a range of options to protect themselves from external and internal competition. Specific interest groups use their high-level connections with sectoral ministries managing, in order to influence policies and guidelines for implementation of the laws which are issued by those ministries. Discrimination against competitors via administrative procedures can be seen as one means of addressing competition costs caused by a more open market and free trade, without the need for pursuing real adjustments.

Moreover, granting foreign economic actors the same privileges as domestic private companies also means that the Party would fail to deliver on its implicit promise to provide for its members, or those they control to a certain degree, through granting them preferential treatment. If this option falls away, the legitimacy and allure of being a party member or otherwise co-opted would diminish massively.

What can be said is that the CPV is a dominant economic actor within the key sectors, and the most successful private companies are in close proximity to strong patronage networks. This also increases clashes and frictions as the result of competing interests of groups or individuals within the Party. As Gainsborough cautions, there might be some overlap with the capital-owning or political class (Gainsborough 2010:17). Further economic liberalisation endangers formerly more exclusive opportunity structures. Party members operating private businesses within the same sector as a dominant SOE can welcome regulatory changes that in turn might be resisted by those Party members working for such SOEs. Frictions thus run right through the party-state and will evoke contestations and various strategic responses.

6.3.2 Domestic private sector

Recently, large, family-managed business conglomerates, increasingly referred to as Vietnamese “chaebol”, have emerged in Vietnam, owing their success to close links with powerful party members (VietNamNet Bridge 2015c, 2015d, 2015e). The most prominent are the families behind the Nam A Bank, Vin Group and Sun Group, big conglomerates that initially were active in the real estate sector. Vin Group, for example, built luxury shopping malls, offices and apartment blocks. From there, it ventured into retail, e-commerce, logistics, and transport. The Sun Group also started as a real-estate developer and is now diversifying its portfolio with the development of airports in Vietnam. The success of such conglomerates, can however, be short lived, as can be seen with the demise of the Ocean Group. The owner of the Ocean Group and director of its Ocean Bank, and one of the richest men of Vietnam, was charged with fraudulent practices. After his arrest in 2014, Ocean Bank was taken back under the control of the State Bank of Vietnam.

Besides banking, the Ocean Group was active in real estate, banking, securities, retail, media and hotels. The main assets are now being sold to major competitors, such as the Vin Group. Such cases exemplify that economic actors and their competitors act through the CPV. Party factions and the economic actors which form part of it, retain crucial powers to interfere with economic reform, to the extent that competitors can be undermined and charged for criminal offences which are usually regarded as part of the game.

With the highest output generated in local commerce and retail, transportation and construction, the domestic private sector is heavily focused on the non-tradable sector. This sectoral focus of domestic private companies could make them less likely to take a positive stance vis-à-vis enhanced trade integration, as foreign competition might increase with trade in services and could be regarded as a major threat to domestic companies. It is however important to note that there is also a prevalence of subcontracting arrangements with SOEs or private exporters in which domestic firms might sell goods to domestically based exporters and therefore maintain an interest in export growth (Beresford 2008:234). Beresford argues in this regard, that, “the dividing line between public and private sectors is blurred” and that “[t]he two sectors may not be in a relation of rivalry but in a relation of mutual dependence” (ibid.: 35). At the same time, the material capacities of SOEs and foreign-invested companies are often so strong, that they crowd out competition from smaller private companies and dominated certain sectors almost exclusively (Malesky 2012: 197.198). The selective inclusion of private companies as subcontractors made those highly dependent on favourable relations with those conglomerated dominating specific sectors.

While a domestic independent commercial class is emerging, local SMEs, compared to local corporations, have not yet the means at their disposal to influence changes in economic and trade governance to the degree as foreign businesses aiming at entering and/ or competing in the Vietnamese market. The argument of creating a level playing field for all economic actors is mainly advanced by foreign companies which are exposed to discrimination in other markets. One of the ways to rectify this apparent inequality in trading freely and equally is attempted

through regulatory changes, often packaged in FTAs and addressed through AfT interventions. The main proponents of trade liberalisation are thus foreign companies, while domestic firms are generally opposed to trade liberalisation favour it only selectively insofar as it benefits them.

6.3.3 Foreign-invested sector

Attracting FDI became a key strategy in Vietnam's economic reform. As a result, the early reform years saw an influx of foreign capital and the subsequent creation of joint ventures with SOEs as the entry mode. This has significantly changed due to the new FDI policy in 2000 which allowed full foreign ownership in export-oriented firms. The 2005 Investment Law specified the terms under which foreign investment could operate in Vietnam, such as the five forms of investment, namely, 1) 100 per cent foreign-owned, 2) joint ventures, 3) business contracts such as business cooperation contracts, 4) capital contributions, and 5) mergers and acquisition (Global Investment Center 2016:59).

The foreign-invested sector accounts for the lion's share of exports. A very labour-intensive manufacturing sector found a suitable location for its production in Vietnam's low-wage market which was able to attract foreign companies, such as Nike, Adidas and Puma, which now produce footwear and textiles in Vietnam for the international market. Similarly, transnational corporations such as Samsung, Microsoft and LG now produce electronical parts, telephones and computers for export without much local input, except favourable tax breaks and low labour costs.

The export-oriented private and foreign-invested sectors are characterized by high labour-intensity and a focus on low technology manufacturing (Masina 2012:205). Their industrial strategy depends on enhanced trade integration and favourable trade-related regulations, as well as the exploitation of low labour costs.

6.3.4 Labour forces

The low-skilled labour force in the urban areas is increasingly integrated in the labour-intensive sectors, like manufacturing, construction and services, while others may operate as merchants of small businesses. Their interests are not well represented by any association or state institution and, indeed, while shouldering the burden of Vietnam's "key advantage" of low salaries, they remain politically and socially marginalized, with the exception of few labour strikes that draw attention to their case. What is remarkable for an authoritarian state like Vietnam is that strikes are not only increasingly left to run their course, but even reported in major newspapers, with a constructive reaction from the government (Nam 2015; Tuoi Tre News 2015). This global "race to the bottom" approach inflicts considerable harm on industrial labour, with working conditions below international standards, which often gives rise to strikes, organised without trade union support and formally illegalised (Masina 2012:205).

Another important social class is the salaried middle class, which consists of highly-skilled professionals, highly educated civil servants or managers, and technical staff who are not Party members. They might have no specific loyalty, maybe even switching from the public to the private sector in the quest for social status and wealth. A particular group that deserves closer attention are the civil servants within the state apparatus. They are not necessarily members of the CPV, but they are well aware that their career prospects could be seriously impeded if they were to get in between factional clashes. Ambitious civil servants buy their way into a patronage network in order to advance further through holding public office. Hence, taking such an underlying motivation into account, there is not much room for the idea of civil servants applying a neutral, technocratic approach to solving problems or even the Weberian idea of civil servants serving the wider public. In a patronage state, bureaucratic capacity does not necessarily not exist, but it is structurally discouraged. Politics determines real implementation of policies, and not international "best practice".

6.4 Key economic sectors of Vietnam

What follows is a non-exhaustive review of the most important economic sectors in order to elaborate how particular reconfigurations in the trade governance system could impact on domestic and foreign economic actors and to understand potential cleavages emerging from competitive or common interests.

6.4.1 Energy Sector

The energy sector is dominated by three SOEs, which are: Vietnam Electricity (EVN), the Vietnam Oil and Gas Group (PetroVietnam) and the Vietnam National Coal and Mineral Industries Group (VINACOMIN) (ADB 2015:2–3). EVN and its joint-stock companies own 61 per cent of the installed power generation capacity, with the rest being owned by domestic independent producers as well as foreign investors in BOOT arrangements (ibid: 7).

Vietnam has massive oil reserves, the second largest in East Asia after China (ibid.: 12). Crude oil used to be one of Vietnam's key export items, as Vietnam lacked refineries to produce petroleum, with most exports going to Japan, the Republic of Korea and Singapore. Since 2009 Vietnam operates the Dung Quất refinery, the first refinery in Vietnam (ibid.).

The Government aims at securing the provision of energy for the domestic consumption and industry at low tariffs and as a prerequisite need to maintain control in these sectors, declaring them strategic and tightly controlling and steering foreign investment in it. Furthermore, both the oil and the coal subsector however are operated under low tariffs, which makes them dependent on state regulation (ibid.). The state-induced low tariff level, in combination with the state-monopoly on power distribution, has so far limited the involvement in international investors, as they do not see a high return on investment from the artificially low-price levels. Chinese investors, however, seem to be increasingly involved in the coal sector, with Vinacomin announcing that two Chinese companies plan to build a 1,200-megawatt coal-fired power plant at the price of \$1.75 billion, making it the largest Chinese investment in Vietnam (Ives 2015).

Foreign investment will increasingly be welcomed in order to finance expensive and necessary investment in the energy sector. Yet, provisions that aim at ensuring equal treatment between domestic SOEs and foreign companies, will not be accepted by those social forces dominating the local energy market.

6.4.2 Manufacturing Sector

6.4.2.1 Electronics

Manufacturing is one of the most important export sectors, with electronics being at the forefront (VIETRADE 2015). Electronics have been Vietnam's strongest export item since 2013, it contributed 23.4 per cent to the GDP in 2014, a massive increase from just 5.2 per cent in 2010 (ibid.). Global electronics corporations are increasingly present, such as Samsung, LG and Microsoft, which has spurred the creation of processing and manufacturing clusters for mobile phones, printers, computers and their parts (ibid.). On the other hand, Vietnamese electronics companies only have a small market share with low added value (ibid.).

However, despite the high export rate, the electronics industry experienced only low added value because materials for production have to be imported (ibid.). While export turnover for the sector in 2014 hit US\$32 billion, material imports reached US\$ 28 billion (ibid.). In addition, component suppliers are mainly FDI companies. Samsung, for example, reported that out of their 90 component suppliers in Vietnam, only 10 per cent are Vietnamese firms, which mainly provided low added value services like packing (ibid.). Foreign-invested companies accounted for the main share of total electronic export turnover (around 90 per cent) and holds 80 per cent of local market share (ibid.). At the same time, provinces seem to be intensively competing for large-scale FDI. According to a report by the Foreign Investment Agency from 2014, the northern province of Thai Nguyen, where Samsung is setting up major factories, was considered the most attractive destination by foreign investors, followed by Ho Chi Minh City and the neighbouring province of Dong Nai (VietNamNet Bridge 2015b). Corporate giants like Samsung or LG face basically

no domestic competition as Vietnam's tech sector is still severely underdeveloped. On the other hand, they provide employment in provinces where it might otherwise be difficult to integrate the young labour force.

The domination of transnationally operating corporations makes this sector especially "pro-trade", while small local SMEs will take a negative stance, as they are simply pushed out the market.

6.4.2.2 Garment Sector

Garments are one of Vietnam's top export products, accounting for around 10 per cent of GDP (Bui 2014:11). Textile and apparel enterprises employ 2.5 million workers, which translated to 25 per cent of labour in the industrial sector (ibid. 12). Since 2007, the export of apparels by foreign-invested companies has exceeded that of domestic enterprises (ibid.: 13-14). The US, the EU, Japan and South Korea are the main export destinations, with 48 per cent going to the US market (ibid.: 15). However, Vietnam is again highly dependent on material imports with 70 per cent of materials being imported (Vietnam Investment Review 2016). Cotton is mainly being imported from the US, followed by India and Australia, as well as Brazil and Pakistan (Bui 2014:16). Fabric and yarn is mainly imported from Taiwan and China, as well as Thailand and South Korea (ibid.: 17). These transnationally operating companies highly welcome the removal of any trade barriers which they hope to see accomplished through trade agreements and their implementation.

6.4.3 Agricultural sector

Despite undergoing rapid changes in the economic structure, almost 70 per cent of the Vietnamese population still live in rural areas and are occupied in the agricultural sector. Agricultural exports have increased continuously. Vietnam is now one of top world exporters of rice, rubber, coffee, pepper, cashew nuts and fisheries (VIETRADE 2014).

The powerful Vietnam Food Association (Vietfood) under the Ministry of Agriculture and Rural Development is an umbrella organisation of enterprises active in producing, processing and trading agricultural products and food items (OECD 2015:155–56). There are around 200 exporters registered with Vietfood and membership is apparently not easily granted (ibid.), meaning that trading and exporting remains concentrated in the hands of a few. Vinafood I and II are the two biggest SOEs and account around half the value of Vietnam's rice trade (ibid.). Overall, SOEs account for the majority of the traded value, followed by the private sector and companies where the state is minority shareholder (ibid.)

Vietfood oversees the export of rice, and other agricultural products, by its members. While its member organisations buy the rice from farmers in order to trade it, Vietfood is directly responsible for managing government-to-government rice export schemes, such as the one with Japan (ADB 2012:11). The agricultural output in Vietnam is thus mainly produced by farmers on a small-scale base, while trading activities are in the hands of SOEs and affiliated companies.

The farmers are dependent on middle-men and processors, to whom most of the profit goes, as they are in possession of the storage facilities, technical know-how, and especially capital, which allows them scale up their businesses (ibid.). As a result of the low profit, farmers are increasingly abandoning their land as the revenue gained from farming is an increasingly insufficient source of income (Thanh Nien News 2013).

Export oriented agri-business, has a strong interest in a favourable international trade regime, while at the same time, regulatory changes that might threaten the dominant position of SOEs in this sector, are likely to encounter contestation.

There exists also a strong domestic demand for agricultural products. Certain businesses in the sector are open to foreign investment in order to finance market expansion. Recently, for example, 80 per cent of the KIDO Corporation, which produces popular confectionary in Vietnam, was bought by the Mondelez Group, with the former majority shareholder now venturing into other subsectors (VietNamNet Bridge 2015a). Other companies, such as Vinamilk, might also seek to

divest shares in order to attract needed capital for foreign expansion. At the same time, they are actively pursuing a protectionist policy, as can be seen from Vinamilk recently lobbying the government to set up high import tariffs on foreign dairy products (Interviewee 5 2015). Even if such tariffs cannot be kept up forever, Vinamilk is safeguarding important market shares in the meantime.

Certain domestically oriented SOEs might welcome increased FDI to expand their business processes, while at the same time, others will resist giving up long held protectionist privileges.

6.4.4 Telecommunications

The largest mobile phone operator, Viettel, is operated by the military under the Ministry of Defence. The military had a long-standing tradition of involvement in commercial activities in diverse sectors, but a decree issued in 2008 by the Prime Minister led to divestment (Thayer 2011). However, the military was allowed to continue to operate Viettel, and to benefit from the commercialisation of future military technology innovations. Viettel is a central source of income for the military and one of the eighth largest economic groups and is also active in the telecommunication market of Laos, Cambodia and Myanmar. The military is a powerful and diversified economic actor, also owning the sixth largest commercial bank and various other businesses, such as hotels and in retail. The ownership might, however, not always be directly visible as the military continues to operate various other commercial businesses. While, domestically, the military certainly belongs to the bloc more cautious towards fully opening up the domestic economy for fear of increased competition in profitable sectors, it also embraces policies that are supportive of its expansion abroad. The military, one of the strongest forces within the Party, will thus exert considerable influence in ensuring its agenda will not be hindered by unfavourable regulation. Any reform measures impacting on the economic power of the military would have to be treated in a highly sensitive manner, as the local relations of power could be massively impacted by a powerful player.

6.5 Development aid structure

In the 1980s, due to the breakdown of the Soviet Union, and to a lesser degree the withdrawal of Chinese aid due to the conflict over Cambodia, Vietnam lost considerable amounts of foreign aid. This void was subsequently filled with increased levels of Western development assistance. By 1995, besides long standing donor support from Sweden and the UN, other development partners, such as Japan, Germany, Denmark, Australia, the World Bank and the ADB had resumed aid programs in Vietnam (Ohno 2004:2). Vietnam participated as the first pilot country in the World Bank “comprehensive framework” (ibid.). Within this framework, countries have to formulate PRSPs in order to be able to receive development assistance. Although the 2002 Vietnamese version of the Poverty Reduction Strategy Paper, named the “Comprehensive Poverty Reduction and Growth Strategy” (CPRGS) was heralded as the result of the government’s own priorities in aid allocation and sectoral priorities, this “action plan for the aid sector” remained rather unknown within the state apparatus (ibid.: 7). While the PRSP process was intended to build leverage and control for the IFIs, it was internally stonewalled. The policy document and the conditionality that went along with it did not lead to the intended results. Vietnam did not adhere to the official WB guidelines for producing the PRSP and soon completely abandoned the process by “incorporating” the CPRGS into its national Socio-Economic Development Plan (SEDP), without even being “punished” for this by losing funding under the PRGS scheme. Instead, the CPV maintains firm control over the country’s development agenda (Datta and Pham 2013).

Moreover, the participatory element stressed in PRSP was heavily flawed. Those in the position to lobby and comment on draft versions of the document were well-resourced international NGOs who came to represent “civil society participation” in Vietnam (Malaluan and Guttal 2002:5–6). While “participation” from civil society was encouraged, it manifested itself only as an aberration. Instead of involving “local populations in devising strategies for nationally meaningful development plans”, local communities and people were merely allowed to speak up, although even this was heavily controlled through the presence of high-ranking state official during

grassroots participatory meetings (ibid.). The CPV thus maintained a tight grip over aid and development planning.

While in the 1980s, Vietnam was an aid dependent country, its economic success has changed this status (ibid.: 3). Having achieved middle-income country status, starting from 2017 onwards, Vietnam will no longer receive preferential ODA loans (Viet Nam News 2016). In this regard, donors, such as the UK, Sweden or Denmark, have ended or are about to phase out their programs. ODA's contribution to the government budget will decrease in importance over the years to come; until then it will be part of a mix of foreign financial flows. Other official flows in the form of less-concessional loans and the issuance of sovereign bonds are already gaining importance vis-à-vis ODA (Prizzon and Schmaljohann 2016:11).

Vietnam's overall strategic direction and economic development plan is captured within the 10-yearly Socio-Economic Development Strategies (SEDS), currently running from 2011-2020 (OECD [Organisation for Economic Co-operation and Development] 2012a). These SEDS are then broken down in five-yearly national SEDPs, the SEDP 2016-2020 being the latest, which specify the institutional and financial arrangements. Implementation is then specified through annual SEDPs (ibid.). The SEDP is written by the Central Institute for Economic Development (CIEM), an economic think tank and research institute of the located within the MPI. Donors, such as the WB, have often expressed their concern about the absence of concrete goals within the SEDP and the lack of plans to operationalise broad economic and developmental goals (ibid.).

The SEDP gives direction to the five-yearly strategic frameworks for ODA Mobilisation and Utilisation which guide Vietnam's ODA management and are issued by the Prime Minister. This document specifies that the MPI acts as a focal point, alongside powerful central agencies such as the Ministry of Finance and the Ministry of Justice, in setting cooperation priorities with donors, as well as overseeing aid disbursement and reporting processes (Painter 2005:275). The procedures are undergoing regular changes with the only three-year old decree No.38/2013/ND-CP on ODA management just recently being superseded by the new decree No. 16/2016/ND-CP.

Practically, this means that the decisions and circulars that guide actual implementation have to be revised again, leading to perpetual changes that allow the Government to effectively retain control as, in the case of uncertainty, they have the final say (cf. Gainsborough 2010). Besides aid coordination, the powerful MPI oversees also overall development planning and foreign investment promotion. Within the MPI, the Foreign Economic Relations Department coordinates aid with donors and line ministries, agencies and provincial governments and is the focal point for high-level donor coordination and forums, such as the Consultative Group Meeting (OECD [Organisation for Economic Co-operation and Development] 2012a; Ohno 2004).

In light of the high relevance of economic development for development aid, certain ministries, such as the MPI, the MoF, the MoIT or the Ministry of Agriculture and Rural Development (MARD), receive larger shares of budget and donor support in form of project financing or scholarships (Datta and Pham 2013:19). As a consequence, they are regarded as more prestigious and are known for their strong administrative capacity (ibid.).

The Vietnamese government has grouped the donor agencies into four different donor groups: (1) the Development Banks (the WB, ADB, the Japan Bank for International Cooperation, the Kreditanstalt für Wiederaufbau (KfW), and the Agence Française de Développement (AFD)); (2) the Like-minded Donor Group (LMDG, comprising Australia, Belgium, Canada, Denmark, Finland, Germany, Ireland, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland and UK); (3) the UN organisations (UNDP, the United Nations Children's Fund (UNICEF), and United Nations Population Fund (UNFPA)); and (4) the EU. Ohno (2004:13) argues that this institutional differentialisation of donors has allowed the government to undermine donor pressure by, for example, preventing increased harmonization of ODA procedures.

The Consultative Group Meeting for Vietnam and the Aid Effectiveness Forum are institutionalised fora for dialogue initiated by donors to increase their leverage vis-à-vis the Government. The Aid Effectiveness Forum plays a major role for donors within the global aid architecture, as a localised expression of the Paris Declaration on Aid Effectiveness. The

Government in turn participates, but dialogue results are rarely addressed in a committed way or translated into concrete action (Graves 2009). The Government's ODA procedures are notoriously fluid and disharmonized, with distinct procedures for project preparation and implementation that are not aligned with donor procedures (ADB 2016). With regard to the Consultative Group Meeting, the government however turned the whole idea in its favour by actively appropriating the dialogue in order to ensure its preferred sectors for ODA support were known to the donors (Painter 2005:275). In this regard, it displayed a high degree of "ownership", to the surprise of donors who embraced the idea of ownership more in combination with the concepts of leadership and partnership alongside donors, and less in its potential for disagreement. Ownership has risen to become a central discursive concern for donors, and the CPV has appropriated the idea and exploited the discourse to exert in turn strong control over donor engagement.

Several factors have contributed to Vietnam's extraordinarily strong bargaining power vis-à-vis donors, such as their economic success, which massively increased their independence from donor finances (Ohno 2004:5). ODA accounts for approximately 17 per cent of the state investment budget (MPI, 2013, cit. in: Prizzon and Schmaljohann 2016:9), while FDI and remittances together account for twice as much (ibid.). Historically, the struggle over national sovereignty also strongly shaped the ideas the Vietnamese hold about external influence (ibid.) Above all, however, the CPV selectively and strategically refers to and implements aid programs in ways that allow it to maintain its domestic domination (Painter 2005:263). Donor programmes pushing for economic reform can be viewed as a threat by certain interests by virtue of the potential impact on the "opportunities for acquiring power and wealth" (ibid.: 266). Others might see certain interventions as an opportunity to regain control or reinforce their standing. Painter argues that the party-state centre used donor project control requirements to enhance its control over provincial governments to address fragmentation (ibid.: 276). As a result, ODA programmes and projects are appropriated and transformed and depending on the domestic struggles within which they operate, thus leading to unexpected outcomes (ibid.)

6.6 The Aid for Trade structure

The OECD estimates that 52 per cent of total ODA to Vietnam can be classified as AfT, reflecting the broadness of the concept (OECD [Organisation for Economic Co-operation and Development] 2012a). However, neither the Vietnamese Government, nor the majority of donors, have systematically broken down their ODA flow in to explicit AfT categories (ibid.: 20). This means that certain policy support and capacity building efforts are subsumed under other ODA programme categories, but can be categorized as trade-related assistance efforts (ibid.).

The Vietnamese Government regards large-scale economic infrastructure as a key priority within AfT. Accordingly, the majority of AfT flows go into “hardware” infrastructure support and is mainly provided by the Development Banks Group (ibid.: 19). Other major aid allocations go to the building of productive capacity in the agricultural, financial and industrial sectors. The most important donors here are the WB, France, Switzerland, Germany and Japan (ibid.). The improvement of trade policy and regulations, the so-called “software assistance”, received only minor amounts compared to the other two sectors. Overall, AfT to improve trade policy and regulation increased from \$3.31 million in 2001 to \$18.12 million in 2010, with the focus being on WTO accession and adaptation, FTAs and trade-related legislation, trade promotion and defence, competition policy, SPS measures and TBT, private sector development, and customs (ibid.: 20). The main donors are Australia, Canada, Denmark, the EU, Finland, Germany, Japan, Switzerland and the US (ibid.).

One reason for the smaller allocation of funding to trade policy activities is that these are simply less capital intensive compared to the building of infrastructure or industrial capacity. However, regarding the dominance of state-related economic factions, the strong aid allocations to infrastructure and productive capacity for specific sectors could also be interpreted as the harnessing of aid to serve the state-led and state-sector dominated development agenda in Vietnam.

Vietnam has also received prominent trade-related assistance programmes in relation to trade agreements under negotiation, such as the EU Multilateral Trade Programme (MUTRAP) (Vietnam-EU FTA), the USAID STAR programme (bilateral trade agreement and recently, the Trans-Pacific Partnership (TPP) trade agreement), and the Beyond-WTO programme. Other programmes focussed on trade integration within ASEAN, such as the Trade Capacity Building project by Norway or the Regional Co-operation Project on Risk Management for Customs by JICA (ibid.:22). Australia supported Vietnam through several trade-related assistance projects within its sectoral focus on economic integration, and the ADB has supported several projects to improve trade facilitation and infrastructure as part of the Greater Mekong Sub-Region Programme (ibid.).

While there exists no explicit AfT strategy in the form of a single guiding document, trade integration and promotion feature in several important policy documents. The Government Action Plan (GAP) describes the benefits and challenges resulting from WTO accession (ibid.: 28). Another important policy document is, for example, the “Goods Import and Export Strategy for the 2011-2010 Period” (The Prime Minister 2011). While these documents indicate that trade integration is a key priority for the Government, donor staff argue that the goals in these policy documents remain too broad for actual implementation and that the donors find it difficult to align projects to them (OECD 2012a:29). Instead, donors conduct their own “needs assessment” in close interaction with initiatives like the Vietnam Business Forum, which brings together donors, the Government, and local and foreign businesses (ibid.). However, this consultation can often elicit protectionist responses. For example, the Vietnam Automobile Manufacturers' Association (VAMA) notoriously positioned itself against opening up the sector to foreign competition in the form of imported cars. These critical voices were not well received by certain donors who preferred to sell the story of an overall beneficial impact on local industry through trade liberalisation (Interviewee 3 2015).

As a result of the absence of a national strategy for trade-related assistance, there exists no dedicated organizational structure for this in Vietnam. In general, the MoIT is the lead ministry.

However, concrete projects can also be under the guidance of other agencies or ministries, such as in the case of USAID's STAR programme which was under the responsibility of the Office of the Government as lead agency, and eventually as the focus switched to the legal implementation of trade agreements, under the Ministry of Justice. Similarly, industrial strategy, FDI and ODA, and trade negotiation fall, for example, under the responsibility of the MoIT, while tariff structure and customs lies within the responsibility of the MoF, and technical standards in turn with the Ministry of Science and Technology. Thus, all these trade related issues are dealt with by different ministries with little inter-ministerial coordination (Ohno 2004:12).

In order to increase their leverage, donors providing trade-related assistance have set up a working group to improve coordination. Another working group was set up in turn by the Vietnamese line ministries, the MPI, the MoIT, the MOFA and NCIEC in response to the OECD-WTO AFT initiative. The interaction between both working groups within a wider forum has not materialised at this point, meaning that the coordination is effectively only taking place either between line ministries or between donors. The lack of coordination is deliberate, as the CPV maintains control over the process by dictating the terms and keeping donor involvement minimal.

6.7 Conclusion

This chapter aimed at identifying the structural constraints and the social forces and coalitions within the Vietnamese state and their particular interest in order to delineate the field of struggle. The underlying socio-economic dynamics and the resulting contradictions powerfully shape the Vietnamese state and the space within which trade-related interventions occur. The internal contradictions resulting from political economy factors can help to explain the uneven trajectory of trade interventions as those represent a direct attempt to reconfigure the redistributive mechanism and the spaces within the state that have been carved out to pursue dominant forces' particular interests.

While those components of AfT aiming at building infrastructure or productive capacity of certain sectors seem to be welcomed, presumably because the resources attached to this would directly support state-dominated sectors, those activities of AfT that would alter economic decision-making processes, will encounter strategic contestation. Trade integration is selectively pursued and adapted to suit the interests of dominant forces. Thus, economic actors might be in favour of certain regulations at certain points in time when being applied in their favour, while at other times they might reject other regulations being detrimental to them. The above discussion also aimed to identify the structural limitations that have been erected within the Vietnamese state to curb donor influence and maintain control over actual development trajectories.

Chapter 7: Vietnam Case Studies: the adaptation of aid interventions

In the end, implementation of trade reform is a testing ground that reveals the extent of Vietnam's commitment to a market economy. Vietnam is faced with competing pressures. On one side, proponents of the status-quo resist the implementation of trade reform because of its implications on other segments of the economy including SOEs and SOCBs [state-owned commercial banks]. On the other side, proponents of a market economy encourage expedited implementation of trade reform including accession to WTO (Auffret 2003:12).

While donors again and again stress the benefits of trade reform for Vietnam, the Vietnamese state does not simply follow through with reforms as recommended by donors. Projects are adapted, delayed or supported based on wider socio-economic and political parameters outside of the indicators used by missions to report back to their headquarters. A project's success is usually presented through the achievement of targets and milestones, broken down into indicators to monitor the progress. The problem with indicators is that they are either biased, to the extent that they only represent the obvious result of a certain activity, for example, that a workshop has been held, or that the causality is overstretched, such as, for example, in the case of measuring the success of a certain AfT intervention by increased trade volume (MUTRAP 2014).

In this chapter, I will advance the argument that the way in which AfT interventions unfold is conditioned by the struggle between different social forces over the distributive consequences of particular projects. Antagonistic interests, based on their structural and strategic capacities, can be weakened or strengthened by trade governance reform and therefore pursue strategies of embracing or subverting reform processes in their favour. The reform of trade regulations and (re)building of trade governance institutions might, on the one hand, endanger existing political arrangements, while, on the other hand, certain actors might want to strategically embrace reform measures, in order to strengthen their material and relational power.

This chapter discusses three case studies of trade-related assistance projects and the field of struggle within which they have taken place. Each section is divided into a discussion of the main

forces and their respective interests in light of the intervention, and how the intervention eventually played out considering the divergent interests at play.

The first case study relates to custom reform. It starts with a discussion of the social forces affected by assistance targeting customs clearance procedures and automation, which was selectively embraced by the General Department of Customs under the MoF. In light of increased pressure on the national budget, those aspects of customs reform allowing for higher revenue collection, such as increased automation, were embraced by the MoF. These measures both reduced direct interaction of traders and customs agents at the moment of initial goods clearance, thereby limiting the possibility for corrupt practices at this point. At the same time, the intervention allowed for more accurate computerised reporting of tax revenue from customs to central authorities. However, despite MoF agreement in the implementation phase, these measures encountered resistance in the implementation phase from civil servants for whom the AfT SBI represented a material threat.

The second case discusses the transmission and adaptation of the system of geographical indications (GI) using the example of the coffee sector, one of Vietnam's strongest agricultural export products. The transmission of the GI system to Vietnam has been pursued by European donors in light of their aim to grant European products GI protection under the EU-Vietnam FTA. Instead of a producer-based organisation managing collectively GI certification (as is the case in Europe), in Vietnam, state agencies have taken ownership of GIs and decides over accreditation. The state-dominated agri-business interests in Vietnam, represented through provincial people's committees and local departments of line ministries, have thereby prevented the creation of independent business associations and strengthened its oversight function.

The third case study examines how MUTRAP as an intervention became enmeshed in political and economic struggles within the Vietnamese state and was itself transformed as a result. While interventions are generally examined with regard to the impact on the targeted state, it can be seen from this case that the struggle over power also translates into a modification of the intervention

itself. Project modalities, especially those from which rents could be accrued, were targeted and adapted to suit the distributional channels of patronage networks within the state.

In line with the framework for analysis presented in the theoretical chapter, each case is presented according to the three methodological steps of analysis. In the first step, the project rationale will be presented. The second step then identifies and discusses dominant social forces touched by the intervention. The final step is an analysis of actual moments of contestation and strategic responses to the intervention.

7.1 Customs reform

Donors argue that if trade is to live up to its potential as an engine for growth, trade reform is necessary to enable domestic and foreign businesses to increase trade opportunities through building “supply-side capacity” (OECD 2012a:28). Transparent and simplified procedures are seen as a crucial prerequisite to create security for businesses. The improvement of the customs regime therefore often takes centre-stage in trade-related assistance, as more efficient and fairer processing and handling of import and export activities are linked to reduced costs to businesses incurred through delays or unfounded fees. However, the trajectory and outcome of customs reform is not a straightforward process. Resistance to or support for customs reform, and the resulting uneven outcomes regarding the application of reform measures, can be explained by the different interests and strategies of the various forces upon which customs reform impacts. This subchapter is divided into three sections according to the framework established for analysing SBIs on the ground.

7.1.1 Overview of AfT interventions in this area

One central concern for companies operating in Vietnam is how to import material components for production or goods into the country while avoiding burdensome administrative procedures that could delay the clearance of the shipment and cause financial burdens. In a similar vein,

exporting businesses have a strong interest in swift export procedures. In this regard, trade-related assistance tackles customs governance as an important pillar in facilitating the movement of goods and material. In the act of physical movement of goods, traders encounter various barriers and are keen on seeing them removed in order to facilitate their trade operations. In Vietnam, foreign players have voiced their concerns regarding customs procedures through their representative bodies, such as chambers of commerce or business forums, such as the VBF (VBF 2014, 2015).

Customs reform is a crucial part of trade related assistance that Vietnam receives in the context of its global economic integration. Vietnam's ratification of bi- and multilateral trade agreements and its accession to the WTO have not readily translated into the application of agreed regulations and procedures (Painter 2005). Trade facilitation measures are employed as a remedy to tackle the implementation gap which, according to official accounts, stems from a lack of experience in the bureaucracy, a lack of financing and the increasingly quoted "lack of political will" (Interviewee 4 2015).

Vietnam currently receives support for customs modernization as part of the WTO's Trade Facilitation Agreement (TFA) and ASEAN Economic Community commitments. In anticipation of the Trans-Pacific Partnership Agreement (which, with the announced withdrawal by President Trump, will likely take a different shape), Vietnam received trade facilitation assistance covering customs reform under USAID's STAR project. USAID projects encompass technical assistance on legislation and regulations and workshops on technical matters. Other important projects are implemented by JICA through targeted e-customs reform and the establishment of an automated customs clearance system, the Vietnam Automated Cargo and Port Consolidated System (VNACCS). The donor's chief domestic "partner" is the General Department of Vietnam Customs (GDC) which operates under the jurisdiction of the MoF. The GDC is a nodal point in the modernization of customs and coordinates trade facilitation activities in this area.

As part of trade related assistance, the rationale behind Customs reform is that importers and exporters are strongly affected by the costs occurred due inefficient procedures of customs

agencies and subsequent slow release of goods (WTO 2015:110). “Unnecessary border formalities and documentation requirements and opaque administrative fees and charges” are regarded as barriers to trade that need to be tackled to increase trade volumes (ibid.). Customs reform tends to focus on making procedures more transparent and efficient in order to allow for predictability, which is believed to increase the willingness of companies to engage in cross-border trading as risks, such as delays in clearance or shipment, are reduced and cost calculations made possible. While these considerations seem straightforward, the technical nature of such interventions masks the underlying conflict over distributional consequences resulting from the intervention, which in turn shapes the outcome of these SBIs. Furthermore, the reform of customs also touches on a range of other crucial issues such as taxation, industry protection and industrial development policies, which are fields of struggle in their own right and subject to conflicts between different actors and interests.

Trade facilitation reform that improves border management procedures has become an important development issue, as shown by the increased levels of investment in trade facilitation reform by governments and the development community (McLinden 2012:1). Automation is a central idea of customs modernisation. The main idea is that the automation and standardisation of customs procedures will reduce burdensome procedures, thereby making trade more efficient and less costly. Another aspect is the reduction of “human interference”, referring to the discretionary space which allows for corrupt practices. The automation of custom clearance procedures is also expected to reduce such “discretionary space” which allows for renegotiating of the official taxes and fees through bribing of officials. Automation is also presented as a means to prevent revenue leakage. Through automation and use of information technology, payments will be registered and dealt with electronically, which is believed to leave no gap in the reporting of the value of fees collected. Automation has been seen by the MoF as a way to finally extend control over actual revenues generated by local customs agencies through the use of electronic payments. Overall, the increase of certainty concerning trade costs would then translate into domestic and foreign

businesses being more willing to expand trade operations, which would fuel international trade integration.

7.1.2 Analysis of main social forces affected and their responses

Foreign companies can be found at the forefront in advocating for measures that would ensure more transparent application of regulations, as this would allow them to participate in the economy on more equal terms. Vast amounts of regulations, which often are formulated vaguely, overlap, or even contradict each other, make it difficult for foreign players to properly calculate economic costs. Also, gaining access to the protection of patronage networks is less straightforward and presumably more difficult to navigate. Nevertheless, special favours for major foreign players, such as Samsung, are not unheard of (Mai 2014). While secret deals can be temporarily attractive, they come with risks and potentially costs that big corporations would usually not need to accept. If a transparent level-playing field was created, they would, by virtue of their capital power, crowd out any competitor.

Vietnam's global trade integration is strongly influenced by the interest of foreign capital and business. The biggest winners of clearly defined and applied customs regulation and procedures are foreign invested enterprises (FIE), especially large-scale businesses which employ a large number of workers and invest a significant amount of capital in their local facilities. According to a senior customs expert, 70 per cent of exports stem from FIEs. Out of the remaining 30 per cent, 97 per cent of exports stem from SMEs (Interviewee 5 2015). FIEs thus have a strong interest in customs reform and overall improvement of the trading environment, as this would directly benefit their commercial operations in Vietnam. Moreover, larger companies have access to resources to cope with regulatory changes in ways that local SMEs, due to restricted financial and human capacity, do not have. Foreign businesses are increasingly present in the country and actively aim to influence trade policy changes and the application of regulations according to their interests. They are organised in business associations and forums, such as the Vietnam Business Forum (VBF) and its working groups, the European Chamber of Commerce (Eurocham) or the

American Chamber of Commerce (AmCham). Donors clearly align their interests with these new emerging actors, private domestic and foreign business, seeing in them “drivers of change” and multipliers (Warrener 2004). This can be seen, for example, through cooperation in surveying the business community’s perceptions regarding various reform components in different reports, such as the annually published VBF report or Eurocham’s Whitebook (Eurocham 2016; VBF 2014, VBF 2015). These reports and the annual presentation of new editions brings together the business community and relevant state agencies and is a way to voice concern and pressure authorities into action by confronting them with the concerns of the business community. The bigger a company, the more likely that it directly interacts with the national or local government. To give an example, out of the approximately 50,000 import-export companies, only the 24 biggest companies are included in a special customs priority programme (DPI/ Bac Giang Province 2014), indicating their ability to circumvent general regulations and negotiate preferential treatment such as import duty exemption and fast-track import procedures.

The overall impact of increased competition is likely to play out negatively for the majority of domestic Vietnamese SMEs. The creation of a level playing field would induce greater competition for domestic-oriented sectors from more mature or financially strong foreign businesses. According to Schumpeterian economic theory, a possible positive outcome of increased competition could be some kind of “creative destruction” as local businesses are forced to restructure and innovate to keep up against their foreign competitors (Schumpeter 1943). However, innovation is very capital intensive and access to credit still represents a major obstacle for non-SOEs, making such a scenario rather unlikely.

A new class of private sector entrepreneurs have emerged in Vietnam, but the businesses that were created are overwhelmingly micro and small enterprises (Pincus 2015:18). The economic transformations in Vietnam fuelled the emergence of domestic private economic actors, but as emerging economic actors, they often lack the personal, network and material resources to lobby for their interests and needs. However, it is domestic SMEs that stand to lose the most from the continuation of past trade arrangements and are likely to benefit most from the facilitation of trade

procedures (Hellqvist 2003:27), assuming they can adapt to the procedural changes, which are expected to be more complex. Martin Painter argued that private entrepreneurs hold ambiguous views about economic reform, and might, on the one hand, complain about corruption, while, on the other, depend at the same time upon informal connections with state actors for resources (Painter 2005:269).

The outcome of a certain intervention, in this case customs reform, could allow some private businesses to detach themselves from dependency on informal connections. The ability to calculate potential costs of cross-border trade allows for a more accurate assessment of actual trading opportunities. However, new procedural requirements could also lead to new burdens, such as more precise and transparent bookkeeping and correct invoicing, and thus would render business operations costlier. As a result, ambiguous views are held about customs reforms as more transparent administration could turn out to be more disadvantageous than current arrangements (ibid.). SMEs in Vietnam tend to be heavily import dependent, such as garment companies producing for export (Tran 2012:8), as well as consumer goods retailers whose goods are usually imported plentifully and cheaply from China and to a lesser degree Thailand (Interviewee 5 2015).

Furthermore, overall standards for compliance with custom regulations will rise with the trade agreements underway, particularly in such areas as the Harmonised System for the classification of goods, customs valuation, certification of origin processes under “Rules of Origin”, alongside record-keeping and other requirements. It will likely be more burdensome for SMEs to adjust to new customs and trade compliance standards. New regulations will demand proper application, which is not necessarily more straightforward, thus requiring the help of customs brokers to handle the procedure.

In addition to the different interests in the corporate sector, certain state-based interests with a stake in customs governance will resist interventions. The GDC has vested interests in maintaining a high degree of autonomy in clearing goods in order to serve various patronage networks or extract bribes from trading firms. This works by suggesting “facilitating payments”

to speed up administrative processes, taking both active and passive forms, demanding additional documents or turning a blind eye to incomplete or even false declarations (Interviewee 5 2015). AfT interventions aiming at transforming processes whose manipulation can generate benefits and can be traded against favours interfere with both systemic and more personal forms of corrupt practices.

A group which would be particularly affected from the increased use of information communication technology to handle customs procedures are customs officials. While more and more cases of abuse and convictions of single officials have been discussed publicly and presented as individual misconduct, the underlying problem is clearly structural. The salary for public servants is notoriously low, almost making them dependent on bribes. Forms of petty corruption top up the meagre salaries and prevent unrest in the public service to a degree that Tran Xuan Cau, professor at the National Economic University, publicly stated “that there’s something very wrong with Vietnam’s current wage policy” (Tuoi Tre News 2016). He further argued that the fact that public servants seem not to be concerned by or show signs of discontent with regard to their low wage levels can only indicate that other arrangements exist to make such a deficit sustainable. Current salary levels for public servants seem to only meet around 50-60 per cent of their actual living costs, thus making them rely on additional sources of income (ibid.). The salaries of public servants have not kept up with rising costs of living, which means that public officials must rely on additional informal sources of income. A 2012 study conducted by the Government Inspectorate found that up to almost 80 per cent of public servants rely on non-salary income (ibid.). Additional sources come from legally regulated forms, such as bonuses or allowances, and informal means, such as facilitation payments requested to prevent punitive administrative “delay” (Nam 2015). Reform efforts to strengthen the remuneration and incentives system are stalling. The base salary, which is used to calculate the salary of public servants, was adjusted by merely 7.3 per cent (Nhi 2016). This is the lowest annual increase since 1997 and seems to aim at curbing the pressures on the state budget (ibid.). However, according to a National Assembly delegate, this modest increase burdens the state budget with an additional VND 6.6

trillion (\$295.5 million) (ibid.). Such issues seriously impede on the process and outcome of any intervention in the field of customs.

Moreover, border management agencies other than customs, including health, agriculture, quarantine, police, immigration, standards, and a range of other organizations also play important roles in regulating trade flows, including general import and export procedures (McLinden 2012:2). However, most trade facilitation projects focus on customs as the main actor and state agency to be reformed and less on border management as a whole, which encompasses many more agencies and line ministries and a range of actors with diverging interests at stake.

The automation and simplification of documentation requirements as part of customs reform would have serious repercussions for these ministries' ability to manipulate administrative procedures in favour of the dominant Party factions and interest groups operating from within them. Central ministries are a focal point when it comes to representing the interests of the respective industries in their portfolio. As the automation of procedures entails the simplification of administrative processes, the ministries' discretionary space concerning interpretation and enforcement of regulations would undergo scrutiny and lead to profound changes, with real distributional consequences, for which not all stakeholders might be ready. Ministries hold considerable power when it comes to the interpretation of laws, as circulars guiding the application of laws, for example, are issued by respective ministries. This is of strategic interest to social forces seeking to transcribe their particular interests within circulars or the direct application of regulations. The same goes for specific preferential treatments enacted through ministries, which businesses either enjoy as part of strategies to protect certain domestic industries or by virtue of being part of a certain patronage network. Rendering procedures more transparent and simplified, as in the case of automation of customs procedures, therefore leads to a loss of control over both discriminative action against, for example, foreign companies, as well as beneficial administrative actions for those social forces that were able to inscribe their interest into ministerial action.

7.1.3 How struggles shaped the final outcome

This section addresses how social forces strategically related to the intervention in three strategic instances. The first section discusses how the pressure for customs reform was adapted by the MoF's GDC out of structural pressures regarding the national budget. The intervention, however, targeted also other line ministries. The second section addresses this resistance towards the centralisation of authority in the GDC as part of customs reform, as the ministries feared the loss of discretionary powers. The last section turns towards the interest of the civil servants working in the local sub-departments dealing directly with customs procedures and how the reforms threaten to undermine central sources of their "additional" income.

7.1.3.1 Overlap between intervention agenda and dominant local forces

Although reducing barriers to trade is meant to expand economic growth, the reduction of tariff and non-tariff barriers presents, at the very least, a short-run fiscal challenge for governments relying on trade taxes. In Vietnam's case, this is exacerbated by declining revenues from crude oil exports since 2015. The MoF's General Department of Taxation has thus supported AfT targeting customs reform as a means of enhancing state revenue, rather than supporting trade per se. They were particularly attracted by automation as a means of tightening control over customs officials and preventing revenue leakage. This interest enabled a tactical alliance between MoF, the FIEs and donors to accept AfT SBIs targeting the GDC.

However, this tactical alliance is clearly insufficient to promote substantive compliance with donor goals. The MoF's primary interest in revenue protection and enhancement means that it simultaneously supported intensified post-clearance inspections - along with other measures like the collection of outstanding duties (KPMG 2015). This strengthens GDC officials' capacity to shift their illicit income-generating activities from the initial clearance phase into the post-clearance phase. While such measures contribute to state finances, it also enables the continuation of the GDC's extractive capacities by shifting the discretionary space to post-clearance procedures.

The net result is little or no improvement in the efficiency of customs procedures and therefore scant facilitation of trade. This strategic adaptation and circumvention of customs reform measures is owed to the need to find a solution for both structural pressures and various interests present in the state.

7.1.3.2 Resistance against transfer of power

The automation and streamlining of procedures as part of the implementation of the National Single Window (NSW), which in turn is a prerequisite for the ASEAN Single Window and a pre-condition for joining the AEC, lays bare an intra-state apparatus struggle over regulatory competencies. A Single Window is a system that allows businesses to submit applications for import, export or transit of goods through one online platform. The application is then forwarded to the relevant agencies and returned upon processing to the NSW portal, where businesses can access it. The main benefit is ostensibly shorter processing times: physical submissions of applications become obsolete as requests can be bundled and submitted in advance of the actual clearance. Imported goods often require some other registration beside the Customs importing procedures, which actually makes up fewer than 6 of the 21 days required for clearance (Interviewee 4 2015).

According to a senior trade expert, customs only accounts for 28 per cent of import delays, while 72 per cent are caused by other agencies involved in border management (Interviewee 4 2015). Customs reform thus also hinges on the internal conflict between different agencies within the Vietnamese state. As the adoption of trade facilitation measures involved the upheaval of procedures and institutions, a range of ministries and government agencies involved in the wider import and export operations have made clear, through slow implementation and streamlining of procedures, that they would not easily give up their long-held authority over certain measures.

A range of specific registration permits, certificates or licences have to be obtained or processed through other ministries and agencies that still use time consuming, one-by-one administrative

procedures to issue documents. According to the latest figures, 11 out of 14 ministries were using the electronic procedure through the NSW, namely, the Ministries of Industry and Trade, Science and Technology, Transport, Agriculture and Rural Development, Finance, Natural Resources and Environment, Information and Telecommunication, Culture, Sports and Tourism, Health, and National Defence. This does not imply, however, that these ministries have fully switched to the NSW, as double submission is still common practice, meaning that the launch of the online portal has not yet made the physical submission redundant (GDC 2017). Furthermore, only 37 out of 280 customs procedures are currently covered by the NSW (ibid.). The lack of cooperation resulted in the failure to meet national targets with regard to the NSW (ibid.). This has caused the MoF, the coordinating ministry, to ask the PMO to pressure the other line ministries to fully connect to the NSW. In a recent article published by the official customs newsletter, Vietnamese Customs publicly bashed the ministries already connected to the NSW for what they termed “lack of coordination”, a euphemism for their refusal to digitalise and simplify procedures (GDC 2016). In order to avoid more direct confrontation, excuses such as technical incompatibility are commonly made up by those ministries that are already linked with the NSW, but resist the handing over of administrative procedures (Interviewee 4 2015).

Sectoral ministerial examinations in the customs clearance process, for example, also allows for continued influence from higher up the chain, for example to relieve strategic importers from payments of fines in case they were found guilty of inaccurate reporting. It is possible, for example, that an administrative infringement is detected at the point of clearance, which would then evoke further inspection. However, depending on the connectedness of certain businesses, this might result in the decision not to proceed with further examination and relieve the company from administrative actions (Interviewee 6 2015). An interviewee indicated, without specifying the exact process, that auditing or enforcement mechanisms can be reworked. While formal procedures might be launched to investigate irregularities or infringements, the agency responsible for actually investigating the infringement might turn a blind eye and relieve the company from charges (ibid.). Additionally, although changing regulations are publicly

accessible, their interpretation is not always clear, thus making it difficult for SMEs to actually identify cases of unfair treatment (Interviewee 4 2015).

As a result of this resistance and the partial implementation flowing therefrom, the 2015 Survey of Business Satisfaction with the Customs Administrative Procedures, which received 3,123 responses from import-export companies, showed that businesses remained dissatisfied with the number of documents issued by different ministries and agencies with regard to the specialized management of exports and imports (VBF 2015). Those businesses found that insecurity reigned with regard to sudden changes in amendments, supplements and even replacements of circulars, making it difficult for businesses to adapt, let alone fully understand, due to vague formulations (VBF 2015:2). In the same vein, the complaints of the VBF Custom Group reflect the concerns of most private businesses with regard to the customs authorities: “uncoordinated import and export licensing, registration and other administrative requirements of various ministries and agencies” (VBF 2014:220).

The issue at stake here is that despite interventions into certain aspects of custom processes, others are left out. Powerful interests work to ensure that the intervention does not touch on key issues, or if it does, has no means of enforcing cooperation. However, limits to the overall effectiveness are already set right from the outset by narrowing down the specific areas of intervention. This scenario corresponds with the first structuring moment identified in the theoretical framework.

Despite various trade reform measures, non-tariff barriers (NTBs) remain, for example, a valid option to continue to structurally favour certain domestic sectors by burdening foreign competitors with additional certification requests. To illustrate this point, in the case of NTBs, various agencies operating under line ministries administer specific standards, from labelling requirements to licenses for setting up certain types of businesses. The Vietnamese Ministry of Science and Technology, for example, is in charge of maintaining a list of imports and exports for which they require additional quality control measures when passing through customs. The trading companies must be able to produce permits from the responsible agencies. The

Vietnamese technical standards system is, however, purposefully kept in a complicated state and lacks transparency, which makes it difficult for exporters to gain access to the relevant information and enforce their rights, thereby posing a barrier to export to Vietnam (Interviewee 1 2015). These sectoral ministries cautiously defend their responsibility for handling issues under their sectoral competence, such as classifying products when granting export licenses or market authorisation in the sectors under their oversight. This “uncertainty” then causes inconsistent interpretations across different custom units, making it difficult at times for businesses to comply and receive permits and licences.

Another example of how sectoral ministries guard their influence is the non-harmonized process of clearing goods under their oversight. While clearance time is often said to have decreased, specialised inspection time, which is done by inspection teams from particular sectoral ministries, is still very lengthy (VBF 2015:5). Furthermore, it has been reported that some agencies might accept certain test results, while others reject the same results. Guarding the power that sectoral ministries hold to specify the rules under which economic agents operate, but also to rewrite them for the most dominant forces, is a central currency for interest groups. They therefore resist changes and instead aim to maintain an administrative bulwark against trade governance-induced regulatory changes.

7.1.3.3 Evading consequences: the shifting of discretionary spaces

An unintended consequence of interventions promoting the automation of customs clearance procedures is the shift of the discretionary space from pre-clearance to post-clearance. The GDC publicly announced increased post-clearance inspections (Interviewee 4 2015), which take the form of in-depth audits of the importing/ exporting company. As customs officials are, for example, not required to accept the prices declared upon invoices as appropriate value, they can launch an inspection that can retrospectively challenge the amount of tax paid (ibid.). The inspected company would be required to provide vast and detailed amounts of documentation, such as proof of origin, purchase orders, reviews of contracts and accounting records, in addition

to arbitrary demands to submit only original documents (ibid.). This necessitates not only a rigorous record keeping by companies, a requirement which many SMEs seem not to fulfil, but also increases final clearance times and thus costs. Post-clearance audits thus open up the possibility of either the audited business offering a payment to bypass the audit or the auditing agency to soliciting bribes to end the audit. The reform of customs to process the clearance of goods more efficiently thus opens up a new discretionary space, which was thought to be eliminated through the automation of clearance procedures. Whether this remains solely an issue of the transition period, as a senior expert suggested (Interviewee 4 2015), remains to be seen. It is possible that this practice will spark protests from business and pressure for more reform, but at best this will only initiate a fresh round of conflict. For example, AmCham Vietnam penned a letter to the GDC to ask for the postponement of post-clearance inspections and a grace period before proceeding with such a strict inspection regime (AmCham 2014). However, so far, the response has been minimal.

The training of customs officers in applying Harmonized Commodity Description and Coding System (HS) codes is another intervention activity aiming at rendering customs procedures more efficient, which would translate into increased trade as traders can be confident that their goods will arrive on time without delay and additional costs due to disputed coding and tariff application. The problem with such an assessment is that it presents a biased view of actual trading practices and one-sidedly points the finger at customs agents as being technically incompetent. The issue at stake is more complex. HS code disputes can arise because one side deliberately applies a wrong code to reduce payments, or extract higher payments. The overall rationale of such trainings is thus misguided, as it does not acknowledge the actual struggle for resources that animate existing customs practices.

While the blame is often on civil servants accused of taking bribes, this practice of paying fees is complex and can be initiated from both sides. Civil servants of Customs departments can be approached by companies that seek individual preferential treatment or can themselves make it clear to traders that their clearance would proceed faster or without delay in case of payment of

unofficial fees. A survey conducted by the World Bank found that in more than 70 per cent of the cases investigated, the unofficial payments were initiated by enterprises (WB 2012a:45). The targeting of isolated issues is caused by the form of interventions, which usually proceed in piecemeal fashion. This also means that the room for manoeuvre for circumvention remains high, as many related processes remain untouched.

7.1.4 Conclusion

This case discussed how automation and enhanced central oversight imperilled civil servants' ability to extract discretionary payments from traders to expedite clearance. Accordingly, they have resisted meaningful implementation, and corrupt practices have only been displaced into the field of post-clearance audits. Moreover, while customs as an agency was at the centre of trade reform efforts, a wide range of other state agencies operating under line ministries were also resisting reform measures by not following through with streamlining and harmonization measures. As condensations of particular interests of social factions also shape the role of state agencies, these cautiously guard their respective areas of command in order to retain influence over particular processes which could impact on the faction they represent.

7.2 The case of expanding the EU's Geographical Indications system to Vietnam

Another case which is instructive in illustrating how AFT is intervening into and shaped by local struggles is the EU's attempt to introduce Geographical Indications (GIs). In this intervention, institutions were appropriated by local forces in order to reflect present social relations of power. To illustrate the specific conflicts surrounding GI certification, the following case will provide examples from Vietnam's most prominent GI, Buon Ma Thuot Coffee. In a first step, the rationale for this type of intervention is discussed. This will allow for a better understanding of the particular interests connected this intervention, which will be discussed in the second step. The

last step will explain how this AfT SBI was adapted by local social forces and reinforced already existing social relations of power.

7.2.1 Exporting of legal protection: the rationale for the promotion of GIs

GIs are a particular form of intellectual property right that is granted upon passing a certification procedure (Viju, Yeung, and Kerr 2012:4). According to usage in Europe, GIs denote a combination of geographical origin and traditional practices which are specific to the locality and which supposedly give the protected product its distinct character. Products granted GI certification are allowed to brand their products accordingly. Those products that do not comply, are not allowed to use the GI. Sparkling wine which is not produced in the Champagne region of France, for example, may not be marketed and sold as “champagne” in the EU.

As part of its FTA with Vietnam, the EU has sought to extend the GI system to Vietnam. This is primarily to secure protection for European firms, but EU donors have also argued that adopting the GI system has potential benefits for Vietnamese industry, such as the improvement of their competitiveness abroad by seeing their GIs protected in the EU (Cáceres n.d.). Currently, Vietnamese agricultural products are often traded internationally as low-quality products, as the Vietnamese production methods focus more on quantity and lack the technical sophistication for producing higher valued goods (Interviewee 2 2015).

To transpose its GI system to Vietnam, the EU has provided trade-related assistance under the EU's MUTRAP, alongside a project by the AFD. The development partners agreed that the issue in Vietnam was to build institutions that could manage and enforce GIs (AFD n.d.; MUTRAP 2014). The SBI thus aimed at building state management capacities to enforce GI protection in Vietnam, not only in order to protect Vietnamese GIs, but also to establish the legal base in order to ensure GI protection for EU goods.

Under MUTRAP, the National Office of Intellectual Property of Vietnam (NOIP) was supported to build its capacity to facilitate the registration of Vietnamese GIs in the EU. The activities

included workshops to inform state agencies about the registration process in the EU and a booklet detailing the process in Vietnamese, as well as support to the Provincial Department of Science and Technology (DoST) and People's Committee of Phu Quoc to enact regulations for GI protection (MUTRAP 2014:62). From 2016-18, AFD also funded a project to improve the institutional framework for GI recognition. This project targets the NOIP and also aims at facilitating the GI registration process. Also, activities to support local producers were conducted, focussing on quality assurance, organisation of producer associations and product marketing (AFD n.d.).

7.2.2 Actors and interests in the transposition of a GI system to Vietnam

7.2.2.1 EU interest

The European Union is the major actor promoting the expansion of the GI system globally and views GIs as a central mechanism to ensure the global competitiveness of EU products (Viju et al. 2012:6). The EU is pursuing the protection of its GIs through FTAs in other jurisdictions (ibid: 2), such as the Korean FTA, the EU-Canada Comprehensive Economic and Trade Agreement and the FTA with Vietnam. While marketing the GI system as a competitive differentiator that would allow Vietnamese GIs to better compete globally, the transmission of the GI system as such mainly serves to create a system of mutual protection of European GIs in Vietnam's jurisdiction.

GIs can be understood as “a type of collective monopoly right” from which the EU producers, and especially countries with a strong agricultural sector such as France, will reap the most benefit (Rangnekar 2004:8). The GI system effectively restricts competition from those that are not part of the system. They enable discrimination against producers elsewhere, that might use similar production techniques, possibly creating similar products, but that are not part of a certain locally rooted producers' group. The businesses most likely to benefit from this deal with speciality food and beverage items, but as part of a global brand. The wine and spirits sector is a telling example. Cognac and Scotch Whiskey, for example, evoke craftsmanship from a certain region, while the

competitive differentiation on the market is eventually made by trademark branding, eventually mostly contributing to increased sales of spirit companies such as Pernod Ricard and Diageo.

During the FTA negotiations with Vietnam, a major EU interest was the prevention of competition from “free-riders” that might make use of a certain product’s reputation without maintaining the same standards (EC 2012a). The GI lobby, mainly represented by the strong agricultural states, France, Italy and Spain, as well as industry lobby groups and big corporations, are wary of other producers “unrightfully” appropriating a rent which stems from using a GI. Accordingly, both parties submitted a list of GIs to be respected and protected by the other. Under the EU-Vietnam FTA, 169 European GIs will be protected in contrast to 39 Vietnamese GIs. Upon a closer look at the GIs that Vietnam protected, the majority are primary agricultural goods, such as varieties of exotic fruit (EU-Vietnam FTA 2016:15–26). Some of the few processed agricultural GIs listed by Vietnam are fish sauce from Phu Quoc or coffee from Buon Ma Thuot. In contrast, most EU GIs listed in the agreements are considered luxury goods in Vietnam, such as wine from famous French and Spanish regions, speciality cheese and olive oil. The interests of the European regional producers overlap with the powerful European wine and spirits industry which holds well known luxury trademarks and whose interests are defended by the EU abroad (Interviewee 5 2015). The growth of Vietnam’s middle class is forecasted to bring with it an increased taste for luxury goods (King 2008). This holds especially true for wine and spirits, which are already in high demand.

A consequence of granting protection of another party’s GI is the enforcement of measures to counter the misuse of protected product names in one’s territory. Article 6.8 of the FTA states in this regard that

each Party shall provide for enforcement by appropriate administrative action, to the extent provided for by its domestic law, to prohibit a person from manufacturing, preparing, packaging, labelling, selling or importing or advertising a food commodity in a manner that is false, misleading or deceptive or is likely to create an erroneous impression regarding its origin (EU-Vietnam FTA 2016:12).

This means that the adoption of the EU's GI system as part of a trade agreement could effectively lead to market access restriction for third parties, if the labelling of a certain product violates the rights of the GI holder. The protection of the GI would have to be enforced against the third party (ibid: 8). The transmission of the GI regime to Vietnam is thus also an expression of trade competition between global economic actors. A third party strongly opposing the concept of GI is the USA. Many EU GIs are simply regarded as generic food names in the US market and are not protected. The TPP and the EU-Vietnam FTA were negotiated during the same time frame and the issue of GI protection was heavily contested. In light of the TPP negotiations, the EU aimed at regulating the Vietnamese market in its favour against products stemming from the US. The EU uses the GI system, while the US uses a trademark legislation (Viju et al. 2012:7). Both systems are protecting producers from other parties acquiring the reputational rent of a certain product, yet both systems clash as the trademark system encompasses products which the EU believes to infringe upon their protected GIs, such as parmesan, champagne or feta, which the US system considers only as generic terms. The case of champagne is surely one of the most contentious, with spirits being one of EU's major GI exports, and champagne ranking on top of it. Despite pressuring Vietnam for GI protection for champagne, the EU had to accept that the GI protection for would only enter into force after a ten-year phasing out period, during which sparkling wine from regions other than Champagne can still be labelled as champagne (EU-Vietnam FTA 2016:11).

7.2.2.2 Local forces' interests in GIs: example of the coffee sector

The promotion of GIs overlapped with the struggle over control over various agricultural sectors in Vietnam, which were increasingly targeted by foreign companies. The coffee trading sector offers a good example to draw out the impact of this on this Aft SBI. The agricultural sector is strongly dominated by SOEs who engage in trading activities and the transmission of GIs allowed them to reap the benefits from demanding higher prices for certified GI coffee on the international market. Local farmers or small-scale companies, on the other hand, do not directly benefit from

the transmission of a GI system, as the surplus generated by certification is not translated into higher payments for unprocessed coffee beans. Instead, the issue of power and control over resources that prevail in the transmission of the GI system to Vietnam can be illustrated with the case of the coffee sector and Buon Ma Thuot Coffee, which was recognised as a GI in the EU-Vietnam FTA.

While the proportion of enterprises with foreign investors or owners specialising in coffee exports is relatively small compared to the hundreds of local industry players, the market share of foreign entities surged in the early part of this decade (Tam 2013:6). Key players are large multinational coffee businesses that are directly represented in Vietnam through direct investments or joint venture companies (*ibid.*), such as multinational Nestlé or Kraft Foods. Enterprises with some level of foreign investment now account for 60-65 per cent of the total coffee exported each year (*ibid.*). All of the biggest coffee traders in the world are operating in Vietnam and operate with local enterprises (COSA 2013:8). This influx of foreign companies into the coffee sector has triggered a defensive response from the state-linked conglomerates that previously dominated this sector, and their primary governmental patron, the MoIT.

The historic dominance of these firms - as well as the ease with which foreign conglomerates have challenged them - rests on the separation between the production and marketing of Vietnamese coffee. The majority of the total area of 500,000 ha under coffee production in Vietnam is managed by small-scale producers, operating with different forms of land tenure and utilization rights (Solidaridad 2011:2). The scale of production is mostly very small, with 85 per cent working on farm land less than 2 ha (*ibid.*). According to estimates, this amounts to more than 450,000 small farming families being involved in coffee production in Vietnam (Marsh 2007). Most farmers sell their coffee to small-scale collectors, who aggregate volumes and deliver to a small number of large-scale processors and exporters, which are thereby able to dominate the industry by setting prices.

These actors are well organised by the Vietnam Coffee and Cocoa Association (VICOFA), an umbrella organisation under the MARD, manages 59 SOEs that oversee 40 state farms (Marsh 2007). VICOFA has over 100 members consisting of firms producing, processing, purchasing and exporting coffee and cocoa, and research centres (VICOFA n.d.). Farmers are not represented in the powerful VICOFA. Instead, SOEs dominate. They play a considerable role in controlling large areas of prime land that are leased to farmers who pay a so-called sharecropping quota of their production (COSA 2013:8). SOEs also dominate in the processing and commercialisation of coffee. Export activities are presently handled by coffee companies that have processing facilities. Small-scale farmers do not have any role in exporting.

Another key player in the industry is the Buon Ma Thuot Coffee Association. Buon Ma Thuot is the central coffee producing region of Vietnam. The Buon Ma Thuot Coffee Association was created in 2010 by the local DoST under the Ministry of Science and Technology to manage GIs and other standards (Marie-Vivien 2016:25). While it is presented as an independent business association, the government affiliation remains strong. The Association is financed through its members and the government, and defends the sector's interests, such as, for example, when it successfully challenged a Chinese trademark registration for Buon Ma Thuot coffee.

Farmers are thus at the lowest point in the production chain, with SOEs, joint-stock companies and private companies playing a central role as producers, processors, traders and exporters. Vietnam's coffee sector consists of about 16 corporations and more than 10,000 smallholdings, which are made up of joint-stock and private companies (Roldán-Pérez et al. 2012:34). They occupy leading industry roles as service providers, such as credit institutions, seedling and fertilizer distribution, as well as in processing and trading. The rapid influx of foreign firms into the sector challenged this cosy arrangement, resulting in industry pressure on MoIT to act. In 2012, MoIT banned foreign firms from sourcing coffee directly from farmers, forcing it to deal with local middlemen, thereby protecting their profits. However, a growing range of private businesses is entering the market and competes with SOEs in local coffee trading, fertilizer importation, resale and general farm supplies.

7.2.3 State appropriation of future price premiums

I will now turn to a discussion of how the Vietnamese authorities have appropriated the GI system to maintain and reconstitute the dominant position of SOEs and established market players in light of the rising competition from new private actors and foreign companies. State-business interests, by virtue of the state's structural selectivity which gives them better access central state agencies responsible for trade-related projects, were structurally better positioned to design and steer the implementation and governance arrangements of GIs in favour of top-down organisation. The preoccupation with establishing a legal system of GI recognition is mirrored in the focus of donors in building a strong national agency defending Intellectual Property Rights (IPR), namely the NOIP. The actual impact of GIs on broad-based socio-economic development remained more a discursive concern and limited in effect (Pick, Marie-Vivien, and Bui 2017:320). Instead, dominant players have secured their particular interests with regard to potential economic benefits stemming from GI certification.

The transmission of the GI system to Vietnam did not lead to a copy-and-paste situation in which the Vietnamese state imitated the GI governance system of the EU. Instead of a producer-driven system, a state-controlled GI system emerged. In Europe, producer organisations collectively manage GIs, whereas in Vietnam, the state is the rightful owner of GIs (ibid.). Because the central state institutions are the primary points of contact and access in the process of programme negotiation phase and central in coordinating the subsequent implementation, the establishment of the GI system in Vietnam was highly susceptible to considerations of dominant forces.

The governance of GIs in Vietnam is tightly controlled by state agencies in a top-down registration and management process (Pick et al. 2017:316). As the sole rightful owner of the GI, the state can delegate the management of the GI to administrative authorities (ibid.). Considerable power was hence secured by state agencies in controlling the GI administration. In practice, the provincial DoST or the people's committee of the province, district or city file the application with the NOIP (ibid.). The right of usage is then transferred to producer organisations or remains

in the hands of the authorities. In Vietnam, farmer and producer organisations are state-controlled, meaning that the organisation advances not the needs of the majority of the members, but those best connected politically. This contradicts a major argument of the European GI scheme that the GI system strengthens rural producers and helps them to gain a stronger position in the production chain due to the setting up of a collective organisation under the GI system and fairer distribution of rents related to the expected rise in value from GI protection (Reviron and Chappuis 2011:45).

In order to register a product as a GI, the producer usually has to submit an application to the DoST or to the people's committee of the province, depending on who manages a specific GI, explaining why their product should receive GI certification based on demonstrating both "human and natural factors" (Pick et al. 2017:312).

In practice, this has led to only a few selected companies being granted GI protection – typically those benefitting from the strategic selectivity of state apparatuses that systematically favour state-linked companies. Currently 36 enterprises, 34 farmer groups, and 13 members from local authorities are members of the Buon Ma Thuot coffee association. However, to date only 10 enterprises have received the right to use the GI (ibid.). Powerful sectoral interests have thereby appropriated the GI system as a resource for its patronage network, granting it selectively to well-connected firms, such as Daklak September 2nd Import-Export Company Limited (Simexco Daklak), a state-owned company, or Intimex Joint Stock Company, an equitized former SOE. What can be inferred from the selectivity of admission is that close relations with state authorities are central to receiving GI recognition. The GI management by local state agencies, which are closely related to state and state-business interests in the specific sectors, thus selectively advantages certain producers.

While the GI system is often promoted by donors as a means to support local production and small-scale producers, this did so far not materialise in Vietnam and seems unlikely to ever do so. The rent accrued to higher prices from GI recognition would thus not translate to higher income and poverty reduction for farmers, as the process of trading, processing and exporting is in the

hands of more powerful economic actors. Looking, for example, at the case of UTZ certification, a certification for sustainable farming, an evaluation came to the conclusion that Vietnamese farmers participating in the certification scheme did not earn more than those who did not participate (COSA 2013:18). An explanation for this was given with regard to the role of those firms that control the coffee market, often former or current SOEs that hold the certification in lieu of the farmers. Instead of transferring additional profit obtained through selling agricultural products with the certificate to farmers, they retain most profits made and justify this with the service delivered to farmers (ibid.: 20f). A certain profit of the production of the farmers are retained for services delivered by the coffee processing company, such as technical support, fees for land use, input costs, support in access to credit and social support, such as medical care (ibid.:20f.). While this practice was framed as a membership fee to provide for goods and services, in reality, the claimed provisions of goods and services were not a membership right which could be enforced by farmers. The problematic aspect of these non-voluntary contributions is that they are neither specified nor quantified (ibid.: 18). Dominant players control the UTZ certification, which, due to such practices of sharecropping deductions, does not translate in material benefit for the farmers. It can thus be inferred, that the GI registration could lead to a similar situation where the already dominant position of SOEs or state agencies is reinforced. Farmers are prevented from engaging in the upscaling of coffee production by virtue of the dominance of state-related enterprises, as well as big private corporations, in the processing of coffee.

Centralised producers and bigger holdings in the coffee sector, and any other agricultural sector, can more easily adapt to demands of GI registration, which often require modernisation and thus investment, such as labelling, processing or storing requirements. However, small scale producers are very reluctant to bear the costs of joining a system which is overseen by the state and the most powerful agri-businesses. The cost-benefit calculation seems not to convince them, given the additional expenses required for standardisation. The big coffee companies are aware of such problems. Trung Nguyen Coffee Company, for example, created a credit scheme in cooperation with the local state. In this credit scheme, the state, the company and the individual farming

household contribute in a 50-40-10 scheme to the upgrading of production methods with the aim of raising production output. While the output increases with such advanced technical production methods, it also forces farmers to sell exclusively to a single processor/trader as part of the investment agreement. This meant that farmers had to sell their current and future output at an agreed rate. In light of the continued depreciation of Robusta bean prices, for which Vietnam is the world's second biggest producer, the margins are very tight (Marsh 2007). Furthermore, in times of high global coffee prices, farmers cannot decide to whom to sell their crops at the best market price offered. Holding a GI certificate in such a system only allows the dominant businesses to reap any additional rents accrued from the certification.

In addition to being presented as a means to promote the local economy, GI registration is also often promoted by donors as a means to market a product by referring to its specific origin and unique quality. Thus, competitive advantages stemming from GI recognition are presented as a means that could strengthen local development and small-scale producers. Unfortunately, there is not sufficient empirical proof to confirm such assumptions (Pick et al. 2017:308). It might show an effect if combined with strong market position, financial means, and reputable trademarks. In other words, the legal GI protection is not effective without material resources (ibid.: 309). To date, even in the EU, it is mainly big corporations which in addition to differentiating themselves through reputable and known trademarks and other capital-intensive marketing means, can reap any benefits that could be related to the additional GI certification. The main benefit comes from selling coffee abroad, an activity where well-established international players reap huge benefits.

7.2.4 Conclusion

The adoption of the GI system demonstrates how an intervention has been adapted to local social relations of power and led to upholding already established patterns of control and ownership in the coffee sector by both state authorities and dominant players. The adoption of the GI system fits into the strategic consideration to strengthen oversight and control function of state agencies in favour of defending the local market share in light of competition induced by global trade

integration. While the EU is trying to export a GI system, which was arguably established in the interest of producers in Europe, the underlying idea was transformed. The management does not rest in the hand of a producer association, but remains in the hand of a state agency and affiliated dominant domestic businesses in that sector, thereby reinforcing already existing patterns of power and control over a certain sector.

7.3 AfT enmeshed in a patronage system and political infighting

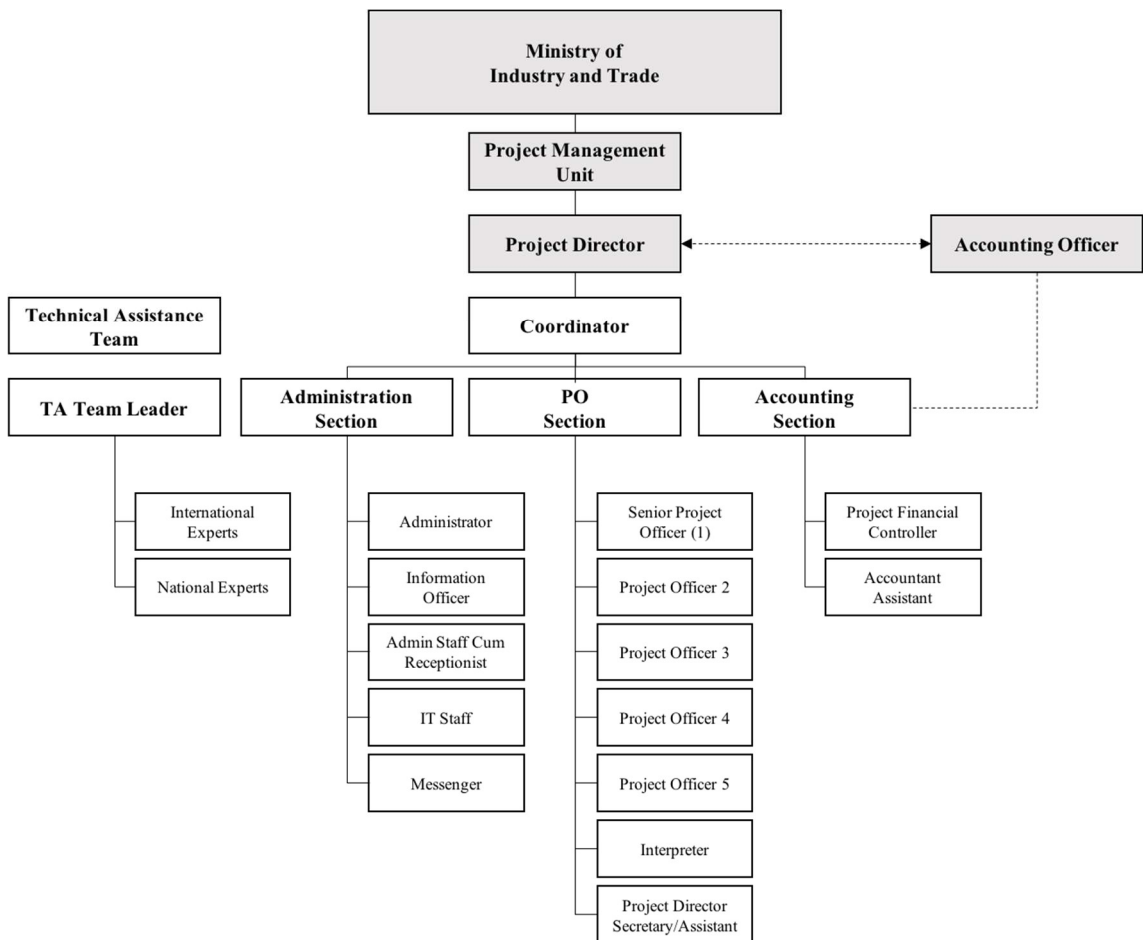
The following case discusses the fourth and most recent cycle of the EU's flagship trade assistance project to Vietnam, EU-MUTRAP or MUTRAP IV, as an example of how AfT aims to rework the local target state but instead becomes enmeshed in power struggles which ultimately contradict and undermine the programme's official rationale of building trade governance capacity. Over the course of four programme cycles, it seems as if MUTRAP itself has been transformed into a concrete opportunity for ministers to distribute funds to clients within the state. It is thus not only the wider implications of trade reform that encounter potential resistance, but already on a programme-level, substantial procedural changes are heavily resisted as the programme has been co-opted to serve as a means to establish influence and distribute resources within the MoIT, which is the main project counterpart and beneficiary.

In a first step, as indicated in the analytical framework, project design, objectives and management modalities of the intervention are discussed. In a next step, the EU's motivations and expectations for funding are presented. This is followed by a discussion of how the project related to the interests of the social forces within the MoIT. This final step then analyses several instances of contestation arising from this particular intervention and how these shaped the outcome of this AfT SBI.

7.3.1 MUTRAP project objective and set-up

MUTRAP is a long-standing trade-related technical assistance programme between the EU and Vietnam which started in 2001 and is currently in its fourth programme cycle, starting with MUTRAP I (2001-2004), MUTRAP II (2005-2008), MUTRAP III (2008-2012) and now MUTRAP IV (2012-2018) (MUTRAP 2014:16). MUTRAP prides itself on constantly adapting to the demands of Vietnam's global trade integration. Over the course of four programme cycles, the focus has shifted from building negotiation skills for civil servants to prepare for Vietnam's WTO accession negotiations and undertake analyses of the impact of WTO regulations on the Vietnamese economy, to providing support for the implementation of WTO commitments. In light of Vietnam's negotiation of several trade agreements (TPP, EU-Vietnam FTA, Russia Customs Union, Korea and European Free Trade Association FTA (EFTA)) and the establishment of the AEC in 2015, MUTRAP's focus shifted to providing assistance that would promote Vietnam's deeper integration. Under the current programme, the EU funds capacity building within departments and agencies of the MoIT, which is the main project beneficiary. The current programme budget is EUR 16.5 million, out of which the EU contributed EUR 15 million.

Figure 4 Organizational chart (MUTRAP 2012)



As can be seen from Figure 4, the organization of MUTRAP is fairly streamlined and straightforward. Day-to-day project management activities are implemented through a Project Management Unit (PMU) formally located within the MoIT.

A Project Director from the MoIT manages the project under the supervision of a Project Steering Committee (PSC). The PSC is chaired by a vice-Minister within the MoIT in addition to other departmental representatives and other line ministries. Other members are high level staff from within the MoIT, as well as other relevant ministries. The PSC is tasked with the overall strategic guidance and decision on major issues, as well as supporting the interaction with other state agencies. It also acts as a forum and the annual meetings serve to discuss milestones and the overall direction of the project (MUTRAP 2013:198).

Below the PSC sits the Project Management Unit (PMU), which is tasked with the management of the concrete implementation. The PMU is led by a project director from within the MoIT who oversees the project output and coordinates directly with the donors and the lead ministry. The PMU approves implementation plans and staff appointments (ibid.).

However, all PMU staff, except for the Project Director, who is also Head of MoIT's Trade Promotion Agency, are physically located in the same office as the European Team Leader (TL). The PMU can be understood as a transnationalised agency, purposefully kept at arm's length from the internal workings of the MoIT. The TL is contracted through DMI Associates, a European aid consultancy, which also serves as the provider of expertise for short-term project experts (MUTRAP 2013). The accounting officer can directly report to the project director, but, similar to project officers and the administrative staff, the whole PMU reporting structure is anyway tightly controlled by the Project director (Interviewee 6 2015).

The provision of expertise and consultancy services is not only provided by a European, but also a Vietnam based aid consultancy service provider, respectively overseen by the EU and the MoIT through a management modality called "partially decentralised management". The MoIT recruits the national expertise through the Asian Development Management Institute (AMDI). Thus, while international experts are approved by both the EU and the PMU, the employment of local experts is tightly overseen by the PMU without much input from the EU (ibid.). Future project activities are negotiated between the PMU and the EU and embodied in so-called Programme Estimates on an ongoing basis.

7.3.2 Expectations and strategy of donors and within target state

Over the course of its global trade integration, Vietnam has received assistance to improve its trade governance from a variety of international donors, with the most known projects being USAID's STAR and DFID/AUSAID's Beyond WTO-Project. In this sense, MUTRAP was seen, as with the other interventions, as part of the trade integration process. With the inception of FTA

negotiations between Vietnam and the EU, the programme was redesigned as a tool to promote deeper trade integration on a global and regional level. The EU-Vietnam FTA belongs to a new generation of EU bilateral agreements, which not only cover trade, but also require deep regulatory transformations, such as the dismantling of non-tariff barriers to trade through the gradual harmonization of domestic regulations (MUTRAP 2014:12). The EU-Vietnam FTA contained chapters demanding regulatory convergence in areas of technical regulations and standards, SPS rules, domestic regulations in service sectors, competition rules and environmental and social protection (ibid.). MUTRAP's stated goal was to support the building of this regulatory capacity, by training civil servants and providing expertise that would, in the interest of the EU, translate to policy application and ensure the implementation of FTA commitments. Thus, project activities were designed to build capacity for policy making, the negotiation of FTAs and eventually the building of capacity to implement future FTA commitments, particularly those agreed in the EU-Vietnam FTA (MUTRAP 2014:8). At the same time, MUTRAP was in many ways perceived by the EU to serve as a parallel track measure that could facilitate the FTA negotiation process through enhanced dialogue and co-operation, and above all more informal access to stakeholders (Interviewee 5 2015). The EU's obvious interest in securing a more favourable working relationship was discursively often presented as an overall inclusive interest in the establishment of a fair level-playing field for all stakeholders (ibid.).

In concrete terms, MUTRAP's efforts were directed at building the capacity of the MoIT through around 50 activities divided into five components:

- Component 1: Strengthening EU-Vietnam trade and investment relations through enhanced dialogue and co-operation, and the negotiation and implementation of a future EU-Vietnam FTA;
- Component 2: Strengthening the institutional capacity for the negotiation and implementation of multilateral, regional and sub-regional trade commitments

- Component 3: Improvement of investment policy frameworks, with a particular focus on the environmental and social issues in trade and investment related policies and legislation;
- Component 4: Improving of access to information, regulations and market opportunities relative to Vietnam's international trade and investment commitments for both foreign and domestic businesses; increasing stakeholder participation in the trade and investment policy development process; and enhancing capacity among SMEs to comply with European market access requirements;
- Component 5: Supporting the EU-Vietnam dialogue in economic areas of the Framework Agreement on Comprehensive Partnership and Cooperation (PCA) between the EU and Viet Nam, and provision of flexible assistance to address important urgent trade issues (MUTRAP 2014:34–37).

Behind these seemingly distinct sets of activities, a broad array of activities was implemented. Under the first component, for example, different activities encompassed an impact assessment of the EU-Vietnam FTA, training of civil servants acting as negotiators in the FTA, awareness raising measures, support to Vietnamese industry and enterprises to understand and adapt to new demands, GI registration and promotion, and study tours for Vietnamese Commercial Counsellors (MUTRAP 2014:22).

An interviewee expressed concerns about the scope of the activities, arguing that they were much too broad and lacking the substance or continuity which would be necessary to see results (Interviewee 6 2015). This apparently "irrational" outcome stemmed from the political processes that affected how MUTRAP actually proceeded. A major lament from the donor side was that the MoIT departments proposed activities in a rather uncoordinated, ad-hoc way, resulting in an incoherent approach, whereby small-scale activities were performed that created no possibility for real impact (*ibid.*). Moreover, project outputs in the form of either training, workshops or study tours, analyses and reports, as well as brochures and training material, often aimed to make the support delivered appear more tangible than they in fact were, not least to present quantifiable

deliverables for project reporting based on the demands of the OECD reporting policy for AfT (MUTRAP 2014:32). MUTRAP had far more difficulty generating fundamental change, which was both more difficult to measure and even more difficult to instil, taking into account not only flawed design but also the patronage system within the Vietnamese state.

7.3.3 The paradox of building state capacity by deflecting state capacity

Over the course of the long-standing programme, MUTRAP fell largely victim to a pattern which Martin Painter describes as the co-optation of aid to create leverage in local bureaucratic conflicts (Painter 2005:277). The following is an illustration of the often times non-transparent decisions based on patronage networks that affect not only trade-related assistance, but aid interventions in general in Vietnam, towards which donors seem more helpless than one might assume when looking at official accounts. Political infighting caught MUTRAP by surprise and resulted in institutional and personnel changes that the EU did not anticipate or welcome.

During the negotiation of the fourth MUTRAP programme, the EU expected the Multilateral Trade Policy Department (MTPD) to be assigned as the lead agency within the MoIT (Interviewee 6 2015). The MTPD had been the lead agency for the previous programme and was also assigned with carrying out trade negotiations for the EU-Vietnam FTA. This would have allowed the EU not only to continue its fruitful relationship with civil servants whom it perceived as competent and cooperative, but importantly, to influence the ongoing FTA negotiations positively, through well-established relationships, which could have smoothed the process and advanced EU trade interests (ibid.). Contrary to the EU's expectations, however, the MTPD was cut off from MUTRAP. While this resulted in the MTPD being insulated from targeted donor bias, as this single department would otherwise have received both assistance from the EU while at the same time negotiating an FTA with it, the ultimate reason for this institutional reshuffling of responsibility was apparently caused by political infighting. The MoIT Minister and the Vice Minister in charge of the MTPD belonged to different CPV factions and as a result of their political struggle, the Minister ordered the project to be reassigned to his allies in the Trade

Promotion Agency (ibid.). As a result of this infighting, the current project director is believed to be highly susceptible to the interests of the current MoIT Minister (ibid.). As one interviewee stated, MUTRAP and its funds are often regarded as opening up redistributive means to share benefits stemming from aid interventions, such as study tours, which often involves overseas trips (ibid.). Donor personnel are fully aware of the attractiveness and effect of this and deliberately dispensed such trips to ensure goodwill towards project activities which require a greater degree of cooperation (ibid.).

Another critical issue was actual interaction between donors and Vietnamese state agents. Despite the aforementioned structure suggesting a strong relationship between the technical assistance team and the PMU, in reality, the interaction is limited at best. The technical assistance team is not only physically not integrated within the ministry, preventing informal interaction between actors, but also kept at a distance in matters of deciding direction and content of the intervention.

The PSC meetings, for example, which took place once or twice a year, could be best characterised as a formality to endorse project reports and implementation plans (Interviewee 5 2015). Real critical discussion remained basically absent in these stakeholder committees as agendas are strictly controlled and all participants wary of making their views known, especially in light of the presence of a Vice-Minister from the MoIT (ibid.). The PSC ostensibly aimed at facilitating inter-ministerial coordination, in reality, the cooperation did not run smoothly. The CPV operates under the principle of collective leadership, which leads everyone to remain hesitant about making their standpoint too obvious as not to create potentially conflicting standpoints and imbalances which would damage a certain patronage network (Datta and Pham 2013). Institutional inertia might, to a considerable extent, result from the pressure within the CPV to present itself as a monolith, while struggles are kept out of the public realm.

Furthermore, cross-cutting sectoral issues, such as export promotion, can fall under the responsibility of several ministries. In the case of agricultural exports for example, which fall under regulations deriving from both the Ministry of Agriculture and Rural Development and the

Ministry of Industry and Trade, the lack of a clear coordination mechanism often leads to unclear responsibilities and regulations (OECD 2012a:24). This in turn is often referred to by donors as inefficiency and a matter of technical weaknesses that can be addressed through streamlining and harmonization measures. However, what actually is at stake is the inter-ministerial competition over influence and resources.

An example how MUTRAP was got caught in the dynamics of systemic clientelism which eventually prevented substantial change, is through the funding mechanism of “partially decentralised management”, whereby certain responsibilities are delegated to the counterpart, in this case the MoIT, which acts then as the contracting authority for outsourced project activities. The MoIT was expected to determine a local executing agency specialised in delivering trade-related assistance activities through a tendering process. The EU retains oversight over approving such contracts, as well as deliverables, according to a checklist (EC 2013), but the actual implementation process is in the hand of the PMU at the MoIT. If the EU finds that the procedures are not followed, it can refuse financing, although in reality this does not seem to be a straightforward process. Donor personnel suspected that the agency chosen by the PMU was not selected on a fair tendering base, but because former civil servants of ministerial rank held positions as experts in the consultancy, but this did not lead to a change of service provider (Interviewee 6 2015). Instead, the EU’s pressure for adherence to its regulations only resulted in a long standstill, a powerplay between the EU and the MoIT, which stood by its initial decision. Eventually, this caused delays in MUTRAP and soured the relationship between both parties, without leading to a resolution of the issue (ibid.).

Other project modalities also caused major frictions between donor and recipient organisation. One of the major claims of AfT interventions is that, due to the lack of capacity of public servants, capacity building has to take centre stage in project activities. A highly paradoxical approach was adopted in previous MUTRAP projects in this regard. Vietnamese civil servants were formally allowed to be hired as experts to instruct fellow Vietnamese civil servants on issues of trade governance (ibid.). The Vietnamese counterparts argued that there was no better outside expertise

available, which often was factually correct (ibid.). Thus, in addition to their meagre civil servant salary, those serving as MUTRAP experts could expect a generous remuneration which attracted a lot of interest (ibid.). However, with time, this practice encountered stronger criticism from the EU itself, as it became more difficult to justify the remuneration of civil servants for doing something the EU argued that they could not do due to a lack of capacity (ibid.). This led to a change in policy, banning local civil servants from delivering training under the current MUTRAP (ibid.). Furthermore, as local capacity was obviously present, it was expected that civil servants would deliver training as part of their job description. The measure was heavily criticised by Vietnamese counterparts, who saw themselves deprived of a remuneration they regarded as appropriate and led to a steep decrease in interest in providing such training (ibid.). Other responsibilities were quoted by Vietnamese civil servants to evade participating in MUTRAP activities. The civil servants saw unremunerated MUTRAP activities as an additional burden which would increase their workload without any positive impact (ibid.). In light of the structural necessity of seeking additional income-contributing activities, to top up their meagre salaries, it is evident, that they were could not be convinced to use their precious time for unremunerated work.

Furthermore, the awareness of civil servants that, ultimately, it is not a “best-practice” transformative activity promoted by donors that will determine changes in practices within the administration, but mainly political considerations, they often find themselves torn between two worlds. In Vietnam, each political and economic agent is aware that servicing one’s patronage network will have primacy over clear bureaucratic procedures and abstract notions of public good (Gainsborough et al. 2009:21). In contrast to donors, civil servants are very well aware of the dynamics within which aid is implemented and know that change stems less from a learning process than political calculations.

As a consequence, the project ran into difficulties finding high quality local experts, leading to an overall decline in the quality of activities delivered (Interviewee 6 2015). This detriment was in turn employed by the MoIT to underline at every available opportunity the negative consequence

of the ban on using Vietnamese civil servants. While the loss of resources from this change in regulation prevented dominant forces in the MoIT from making use of it to serve patronage networks, they soon devised ways around this by demanding that trainings and workshops be held outside of Hanoi under the pretext of ensuring equal opportunity in training for provincial departments. In reality, training events were relocated to create an opportunity for officials to receive per diems for leaving Hanoi to attend them (Interviewee 5 2015).

The resistance to and subversion of MUTRAP shows how local forces managed to adapt the implementation process, something donors did not foresee and were not able to change, as other organisational dynamics prevented them from voicing and tackling such problems. The dynamics on the ground helped donors to cover up the problematic implementation aspects. The reason why donors played along with this subversion of MUTRAP and the conversion of the AfT SBI into a patronage resource for officials are related to the strategic interests of donor staff. Senior donor staff from the EU were preoccupied with presenting their headquarters and the OECD with results according to a quantitative indicator framework. They were much less interested in pointing out the problems on the ground, nor understanding them. As a consequence, they unwillingly played along in enabling the project adaptation by forces within the MoIT.

In the course of the project, these dynamics resulted in MUTRAP being more and more preoccupied with a vast range of activities, which often seemed to be piecemeal and unrelated to each other, and had little impact on underlying processes. The so-called beneficiaries, i.e. agencies and departments within the MoIT, often submitted last-minute, random, small-scale activities which encompass analyses, which are rarely read, nor would ever have the capacity to really influence policy making; or study tours and workshops whose impact is difficult to assess and often amounts to a day spent away from work doing an isolated activity which is not disruptive of actual processes. It seems as if despite the ostensible presentation of this intervention as serving the capacity building needs of Vietnam, on the ground, there is a striking absence of adoption of such a view. Instead of receiving project requests that have substance from the state agencies and

ministries that MUTRAP is aiming to support, the EU seems to be forced in the position of having to find a stakeholder that actually wants the support it is willing to deliver.

7.3.4 Conclusion

Despite being targeted with "capacity building" interventions, the forces dominating the Vietnamese state have demonstrated tremendous capacity to rework aid delivery mechanisms in ways that not only limit overall donor influence, but also circumvent substantial change through interventions and bolster prevailing power relations. As Ohno (Ohno 2004:15) argues “[d]onors should be sensitive to the nature of Vietnam’s ownership and recognize that there are limits to the extent of donor influence [...] The government listens to donor advice, but never accepts it blindly. It picks up new ideas and selectively adopts them”. Vietnam’s decision-making takes place in a complicated web of vertical and horizontal authorities where responsibility is diffused and opaque (ibid.). Donors tend to be unaware that “there exist dual systems of accountability—one for dealing with donors, and the other for country’s internal affairs” (ibid.: 11).

What can be taken from this discussion is that far from building capacity and transforming Vietnam’s trade governance, MUTRAP is fully enmeshed in the intra-institutional power struggle within the MoIT which are part of the domestic political economy over power and control over changes in the trade governance structure (Painter 2005:263).

Chapter 8: Conclusion: Understanding how structure and agency shape the struggle over the direction of aid implementation on the ground

The aim of this thesis was to present an analysis of how contestation surrounding AfT interventions shape their process and outcome. The thesis argued that AfT was best understood as a contested SBI and, accordingly designed a framework for analysing this process. This framework was then deployed in order to explain what actually happens on the ground in the delivery of AfT projects, as opposed to what donors claim to do at the project design stage or in their final reports. The findings of the thesis echo those of other recent research which addressed the room of manoeuvre of recipient states and the contestation surrounding development interventions (Hameiri et al. 2017; Hutchison et al. 2014). The thesis thereby makes a contribution to the growing amount of research serving as a corrective to donor dominated presentation of development results. The strategic dimension of donor-recipient interaction, which allows for social forces to adapt interventions, reworking their content or direction to align with particular interests, has been increasingly addressed, alongside structural factors, for understanding the outcome of interventions.

What has to be avoided is the examination of AfT, and development interventions more broadly, according to a pre-defined set of indicators and targets, which might actually mask what happened on the ground. In this regard, the analytical framework for analysing development interventions used by donors has to be challenged and reworked. This also means accepting an inconvenient truth, that of social reality oftentimes being simply beyond the control of interveners, who might, due to their positioning, not always fully grasp the political impact of the intervention at the outset. It would mean dealing with the question of who benefits from particular interventions and also who might lose out from it. Such analyses are, however, mostly unwelcome, because they challenge the discourses of benefits accrued from interventions and undermine the moral ground upon which interventions rests. Instead, they expose power relations, and how development

interventions might skew these relations in favour of already dominant social forces at the expense of more marginalised groups.

8.1 Summarising key findings of case studies. identifying common patterns

The empirical chapters analysed different aspects of AfT state building interventions. One focus was one concrete reform undertakings, reworking or creating state institutions, such as in the case of the Vietnamese customs reform, the GI case, and the case of building of a trade governance architecture through the TDF in Laos. Another dimension of the intervention was addressed in the MUTRAP case, which reflected on how the SBI program itself was being targeted and remodelled. This is largely a reflection of the dynamics that play out on the ground, making both specific projects, but also the wider SBI of which they form part, subject to contestation and reworking. The framework of analysis was particularly useful in explaining how interventions were selectively adapted or rejected, and why certain social forces were pursuing particular strategies with regard to particular interventions.

The case of customs reform in Vietnam laid bare a shift in corrupt practices to another discretionary space as a result of the pressure for reform in one area, which then allowed for the continuation of extractive practices. The intervention thus reinforced an adaptive process, which aimed to ensure continuity in the distribution of power and resources. The main theme in this case is one of adaptation and continuation. The implementation of a NSW as a precondition for the AEC adaptability has proceeded to a certain degree, as the MoF thereby expected to increase its revenue control capacities. At the same time, the loss of personal income generating opportunities for customs officials, alongside overall lower duty rates, led to a shift from pre-clearance as an important source of state revenue and “additional” income, to an increased focus on post-clearance procedures by customs. The compliance in one area of intervention led to an adaptation by those social forces under pressures from the induced changes. In light of pressures to maintain social cohesion and for lack of other means, dominant social forces try to maintain the distributive

balance by directing the customs focus to post-clearance procedures. They thereby create a space where official and illicit payments remain important sources of remuneration for civil servants.

The case of MUTRAP demonstrated how the intervention got caught up in narrow fights and petty patronage politics, which limited any “real” intervention activity. The narrow conflict about project modalities is a defining structuring moment, as it prevents in many ways the transmission of content and activities that would genuinely transform trade governance. This contained the project in many ways and led, as discussed above, to the project directing much of its human capacity to finding solutions to disagreements between the development partners. Furthermore, the project was adapted to produce a variety of ad hoc demands which in themselves were inconsistent and characterised by low overall impact. Thus, while the intervention was taking place, the particular ways in which dominant forces within the MoIT positioned themselves towards the project rendered its impact very weak. Instead, it had to adapt in light of narrow struggles and thereby allowed for the circumvention of more in-depth reform.

The customs case and the MUTRAP case show how contestation severely impacted on project outcomes. Contrary to donors’ discursive claims about the project goals and outcomes, the intervention triggered reactions, “side-effects”, that were not intended or foreseen. The procedural changes induced triggered contestation and led in consequence to a shift from pre-clearance inspections to increased post-clearance inspections. The MUTRAP case was curtailed by the resistance from within the MoIT which did not accept changes in the modalities by which it appropriated resources. At the same time, the focus of activities was shifted to interventions that were no immediate threat, such as reports and analysis for policy formulation, that can be simply ignored by those decision makers it targets. The case of MUTRAP displayed distinct moments of stalemate between donor and recipient. The resistance to project modalities was sufficiently strong as to affect the donor’s ability to proceed with the implementation.

The intervention aiming at establishing the GI system, meanwhile, exemplifies how external governance projects and systems can be appropriated by dominant interests. The transmission of

GIs to Vietnam was largely done as part of a global strategy to protect EU goods traded internationally, resulting in apparently smooth implementation that nonetheless diverges considerably from what donors initially intended. What happened in the course of the promotion of the GI system to Vietnam, was its appropriation by incumbent elites, as a form of adaptation, to suit the interest of dominant forces. The implementation process so far has been smooth, because it is controlled by dominant actors (in this case in the agricultural sector), but also because potential rents from GIs are not of high economic relevance at the moment. The GI case entailed no outright contestation either. This has to be understood as a result of the structuring moment of the intervention. It can be argued that the interest of donors lay much more in the generation of a GI system, and less in its specific set-up. This is why the establishment of a top-down, state-controlled GI system was not problematic as such for the underlying donor rationale. The underlying impetus was the protection of EU GIs in light of the negotiation of the EU-Vietnam FTA, and securing the buy-in of the Vietnamese by offering them GI recognition in the EU in return. The appropriation of this system by dominant interests was therefore not strongly contested by donors and so implementation was smooth. The case of GIs tells a slightly different story, in which dominant forces embraced the intervention, and in light of already structurally disfavoured local farmers, appropriated the system to control potential future price premiums. The structural imbalance that already existed was thus reinforced, largely due to the fact that donors were not primarily interested in rebalancing social relations of power in favour of marginalised economic groups, but instead aimed at securing the interests of European producer groups expecting to reap benefits from GI recognition of their products in Vietnam.

The case of the TDF is an example of how the building of an enclave agency with low influence beyond its immediate reach is accepted, as it poses no immediate threat to political processes. The TDF case is actually a case of successful containment of an intervention. The structural moment defined the course of the project in limiting its actual reach. While this suits the interest of dominant forces who resist deep transformations, the peculiarity of such interventions is also largely due to donors' delusional belief that they can circumvent political resistance by

sequencing the intervention and building protected infant institutions that, once matured, can deal with the demands of trade governance as a technical matter, in isolation from wider power relations. The underlying assumptions guiding the TDF, with its narrow focus on building the capacity of certain state agencies, like the NIU and the GSEUs, were challenged once it was expected to operate as part of the state's governance ensemble. In particular, the GSEUs that sat misplaced within ministerial departments, while formally operating under the NIU, were sidelined when they attempted to intervene into domestic trade affairs. The project only proceeded smoothly insofar as the NIU remained isolated from the wider state apparatus. The interventions were inward-looking and left issues of contestation untouched, at least for the first sequence in the process of setting up a trade governance structure. The case of TDF is emblematic in demonstrating the sturdiness of local structural pressures. The TDF was initially created in order to be insulated from corrupt practices, but even during moments of slight extension to the "normal" trade governance structure within the Laotian state, its potential reach and impact was thwarted.

While contestation played a role in understanding the actual process and outcome of AFT interventions, the absence of outright contestation is an important parameter for understanding what happens on the ground, too. The absence of contestation is usually the result of the form the intervention takes, which is already determined during the first structuring moment. The result can therefore take forms of a passive acceptance of structural contradictions, which have not been resolved but simply moved to be dealt with at another level or point in time.

Bachrach and Baratz state in their directional piece on the two faces of power that: "power may be, and often is, exercised by confining the scope of decision-making to relatively 'safe' issues" (1962:948). This "limiting of decision-making to relatively non-controversial matters" (ibid.: 949) was captured by acknowledging the first structuring moment in my framework. Analogical to what Bachrach and Baratz argue, that power is not solely reflected in concrete decisions, direct conflict is not the only sign of contestation (ibid.). Instead, the diverging of attention from issues of importance, to issues of relative irrelevance for dominant forces, is a sign of contestation and the operation of power (ibid.). The prevention of "potentially dangerous issues from being raised"

is a form of power shaping how interventions play out, often before actual implementation processes start (ibid.: 952).

Contestation, whether overt or covert, defines the reality within which AfT in particular, and development interventions in general, operate. Political conflict is the determinant which cannot be done away with. It is rarely directly included in donor projects as a parameter to be reworked, due to the widespread belief that interventions can be designed and implemented without the intervening factor of contestation, but also because most donor organisations shy away from openly dealing with the political dimension of their interventions.

A major finding of this research is that contestation and the eventual reworking of interventions have to be accepted as a part of the reality of development intervention. The OECD obsession with monitoring and evaluation has, paradoxically, led to development reality being forced to fit into a tight set of quantifiable indicators and fancy terminology, which might make results more comparable, but is effectively skewing the representation of development reality and preventing assessment of what is actually being done. Results monitoring and pressure to present tangible results in line with the “aid effectiveness principle” has not enabled a more precise or in depth understanding of the outcome of interventions. This is arguably purposeful as there exists considerable doubt that the actual outcomes could really be presented as supportive of the claims made to underscore the necessity of intervention.

If there was a real interest in understanding the impact of intervention, donor staff and “independent” consultants would have to stop trying to cover up what is happening on the ground in their quest to prove their own management capacities or to secure career advancement and additional contracts. Instead the thesis attempted, in a similar vein to Hameiri et al. (2017), to explain why certain interventions proceeded smoothly, and why others did not. The uneven results, it is argued, are the outcome of structural pressures, as well as strategic capabilities and actions of social forces. This means that every intervention has to be analysed in relation to the particular

structural constraints in which it takes place, for the field of struggle it interferes into, and for the strategic responses that certain actors might give.

In all cases, Aft SBIs did not alter existing social relations of power; on the contrary, it was social relations of power that reshaped the implementation and outcome of interventions. The creation of a system of trade governance proceeded under the continued protection of interests of dominant social forces. The interventions were not able to touch upon most privileges, and in cases where they did, such as with customs, a strategic shift occurred to preserve rents.

These findings are significant for the wider “great aid debate”, discussed in chapter two. This thesis has not been directly concerned with whether aid fails or succeeds; it sought to explain why it fails or succeeds, how, and what determines the actual outcomes of aid interventions, whether intended or otherwise. This provides a more fine-grained account of development assistance than the polarised failure/ success debate. This thesis finds that aid projects “succeed” as intended if the changes sought do not challenge, or ideally are quite compatible with, powerful local interests, and vice-versa. The unintended consequences of aid interventions, leading perhaps to only partial “success” or even unwanted “failures”, can be understood as the outcome of strategic manoeuvres of social actors on the ground. Understanding aid interventions thus involves understanding the social fabric into which aid programmes intervene, and how both influence and change each other.

While this thesis advocates the necessity to analyse social relations of power and the underlying political economy of the particular intervention, it differs from the call for more political economy analysis in development circles. Unfortunately, political economy analyses as part of studies in the early project cycle are often set aside during actual project planning as their content might actually undermine the rationale of a certain intervention and therefore cannot be meaningfully acknowledged, or alternatively such analyses do not break with the technocratic idea of interventions aiming to change local relations through better analytical preparation (Hutchison et al. 2014:145f). In a similar vein, a “differential diagnosis” as proposed by Sachs (2005: 84), has severe shortcomings as it aims to understand processes from an analytical perspective which is

too strongly rooted in economic analysis and technocratic convictions. It thus lacks the analytical tools for an in-depth investigation of social power relations, alliances between social actors, their conflicts, strategies and interests and how this in turn impacts on a development intervention as a whole.

Something that the thesis has not dealt with is the particular structural pressures that induce donor staff to “play along” despite the likelihood that they have been made aware of the importance of political economy analyses, and, as my findings indicate, of the structural barriers to achieving meaningful governance reform. Similar to the pressure experienced by academics within academia to only publish positive results, donor staff, especially those envisaging a long-term career path, are under pressure to present positive management results. These factors strongly impact on a meaningful engagement with the reality of development on the ground.

Another contribution to the “great aid debate” concerns the role of the state in development. As discussed in the third chapter, the debate over aid’s efficacy is also a debate about the role appropriate for the state, with aid opponents castigating state intervention as ineffective, while proponents wish to recuperate the state’s role by promoting “good governance”. The findings of this thesis suggest correctives for both positions. On the one hand, the extent of rent-seeking and corruption found in the case studies clearly chimes with neoclassical theory’s expectations, and Easterly’s suspicion of state-led development (2006a:23;29). However, in this study, the state as such is not seen as a negative (or positive) actor, but as a field of struggle. In the case studies analysed, corruption and rent-seeking and the guarding of discretionary powers were revealed as problematic structural factors shaping AfT. However, as Gramscian state theory insists, the extent, nature and type of these problems are specific to the societies in question. They emerge from a particular historical, political economy trajectory and cannot simply be generalised to all “developmental states”. The configuration of social forces in countries like Japan, South Korea and Singapore, for example, is markedly different from that in Laos and Vietnam.

Moreover, pace Easterly, less state is not the answer. The state is an expression of social relations of power and reflects the societal struggle between competing interests, which could well be causing the state's apparent "ineffectiveness". At the same time, private actors might not be more willing to pursue development agendas that benefit society as a whole or exposes them to tougher competition, as proposed by Easterly (2006a, 2006b) or Moyo (2009). Moreover, as in the case of Laos and Vietnam, the relationship between private and public actors is not characterised by a clear delineation. The idea to focus on private actors to achieve development goals negates how they already shape the course of state-led development interventions.

The idea of better governance as a solution to development failures as proposed by development reformists is problematic, too. By intervening into targeted states to set up certain governance structures, the intervention itself becomes part of the local struggle which in turn impacts on the intended course of the intervention. As exemplified by the Laotian case, the creation of "good governance" in a step-wise fashion is not a better solution, because governance cannot meaningfully happen in a bubble. Otherwise, conflict and struggle over the organisation of the economic system and development will inevitably reshape any intervention.

Finally, the case studies analysed in this thesis also provide additional empirical insight into the reality of Post-Washington Consensus neoliberalism, elsewhere dubbed "actually existing neoliberalism" (Peck, Brenner, and Theodore 2017) or "empirical neoliberalism" (London 2018). These terms denote the divergence between neoliberal discourse and ideology, on the one hand, and its transformation and adaptation when implemented, on the other. Various socio-economic factors rework this neoliberal ideology and turn it into a relation that needs to be better understood. This thesis contributes to this wider research agenda by analysing the specific cases of Aft interventions to Laos and Vietnam.

8.2 What are the limitations of the findings?

The above findings are drawn from only a few cases, and therefore do not lend themselves to broad generalisations. What can be said, however, is that adaptation in light of contestation surrounding certain aspects of implementation activity or project modality seems to be an important reality of how interventions play out on the ground. AfT interventions were thus conditioned by contestation usually ignored by development interveners. What happens on the ground, however, cannot be understood without understanding the social relations of power and struggles in the field of trade governance. The selection of cases reflects the various scales and extremely broad area of intervention. Some activities, especially those analyses and reports aiming at influencing policy making, can be relatively easily ignored, while workshops or study tours and the content taught in trainings do not lend themselves to an assessment in terms of an actual transmission of knowledge or the interventions' impact on trade governance (cf. Delpuech et al. 2011:33). On the other hand, customs automation is an intervention which cannot easily be ignored because it directly touches upon actual procedures. By design, different intervention activities' relevance to overall trade governance reform are thus difficult to compare. Not all interventions carry equal weight, which in turn is a reflection of the structuring moment which determines what AfT interventions actually deal with, or are allowed to touch upon. Future research could aim at comparing cases on distinct criteria, for example, by only looking at a specific project type. Practical constraints of accessibility have prevented this thesis from doing so.

Despite the weak generalisability, it is noteworthy that both Laos and Vietnam seemed to display the capacity to resist and steer interventions in certain directions. Laos is generally classified as a country with low local capacity, especially in comparison with Vietnam. Nevertheless, dominant local forces seem to be able to adapt and align particular aspects of interventions in their favour. Vietnam, a country especially lauded by donors as an "ideal 'laboratory' for the aid-for-trade agenda" in light of its development successes and the high-level commitment to trade and

business development (ibid.: 35), did not display the particular governance capacity sought after by donors either. Instead, social forces in both displayed strong capacity to adapt or circumvent project implementation. This capacity rested on strategic and material capacities were structured by the political economy context, and therefore can be expected to exist within various political economy contexts. At the same time, it differs markedly from what donors define as capacity.

8.3 Who is AfT actually helping?

Hameiri et al. (2017:251) argue that, rather than evaluating SBIs against what they claim to be achieving, they should be assessed against what they actually achieve and in whose favour the outcome is. This normative approach to assessing interventions allows us to uncover in whose interest interventions are actually modified and what that means when judged against official claims of increased efficiency and capacity building for trade governance. If AfT is actually not doing what it claims to do, what is it doing instead and what consequences does this have for the claim of building trade governance and power relations more broadly? While lack of capacity is a main rationale for assistance to developing countries, the thesis found that actual capacity, spurred by interests and specific strategies, is present. It is not capacity in the technocratic sense of the word and as envisaged by donors, but a capacity to rework projects in one's favour at times and thereby entrench existing social power relations. If interventions help to spur such capacity, or at best, do not challenge it, who is actually benefitting? Dominant social forces within targeted states have proven adept in adopting, circumventing or challenging interventions (covertly or overtly) in order to align state building interventions with their particular interests. The modalities of aid disbursement and the governance system of development assistance have strongly enabled this.

In addition, micro level interests, a result of structural and systemic causes and reflective of the wider political economy of a recipient state, which generate personal strategies to maximise career prospects or one's participation in a patronage network, can have a significant impact on the outcome of an intervention, too. Donor staff might accept contestation on the ground and accept

the failing of interventions in actual terms only to secure a “positive” project outcome. The need to demonstrate efficiency on the ground by donor staff and other drivers of personal interest of donor staff that facilitates future career progression directs the attention to other political economy fields impacting on AfT. This interplay of different spheres of political economy could be further elaborated in future research.

8.4 How far are findings relevant for policy making/ designing of interventions?

This research suggests that AfT is not doing what it sets out to do, which mirrors an emerging body of literature on interventions in the Global South. The deviation from expected outcomes applies to the wider field of interventions, such as Jones (2015) demonstrated with his analysis of why sanctions produce unforeseen and unintended outcomes. In his analysis, he stresses that the struggle within the targeted state over power and control over resources are central for understanding why the impact of sanctions often diverts from their officially stated purpose (ibid.: 175-77). In light of such research findings, it can be argued that interventions are often discursively framed to do one thing, and in reality, contribute to another outcome because deep transformations which impact on social relations of power are, in reality, much more difficult to bring about. Furthermore, Jones (ibid.: 185f) argues that the lack of actual interest of policy makers in understanding the reality of sanctions reinforces this dynamic.

Instead, AfT is in many ways a demonstration of dedication and commitment of donor governments and organisations vis-à-vis powerful business interests in donor countries, a proof that trade agreements are followed up and that measures are taken place in order to ensure that greater trade integration brings down barriers to trade for those businesses. It is thus a form of demonstrating the defence of particular interests abroad as a form of legitimacy of donor governments and organisations. This is then translated into demonstrating the efficiency of the intervention, albeit not in terms that are difficult to grasp and too complex to present to lobby

groups which are only satisfied if they are signalled that successful action is taken to ensure their interest.

Policy research has come up with propositions of how to best address the waste of resources and prevent the strengthening of certain social forces in order to bring about the desired changes. The political turn guiding development policies, such as the “drivers of change” approach, advocates selected alliances with targeted social forces to advance a certain goal (Carothers and Gramont 2011). Similarly, Hutchison et al. (2014) argue for tactical alliances with elites to pursue a certain development goal. However, there remains an inherent danger in reinforcing power asymmetries or aiding in the creation of a powerful counterforce, which in the end, might act and use resources in ways not foreseen or sanctioned by donors. Policy makers often aim to box in social forces in a coherent way according to certain interests they might hold, while in reality it is often not easy to grasp and manipulate the inconsistencies and contradictions within social groups. The outcome of such strategies is thus also not fully foreseeable. Moreover, in authoritarian regimes, donors do not simply get to interact with whomever they think is best suited for them to align with. As donors first and foremost interact with the government, and then usually with departments and agencies under the oversight of line ministries, recipient governments can restrict the range of potential partners. Out of the limited range of actors they are allowed to interact with, they might find, for various reasons, partners willing to push for the same goal, but as argued above, this might not necessarily be for the same reason. Thus, there is an inherent challenge in finding a partner without ulterior motives willing to push for common goals. Moreover, the idea of finding a suitable counterpart has also problematic ethical dimensions. Donors might end up bolstering incumbent elites simply because they believe that their cause is worth choosing sides, thereby skewing local social relations of power in favour of those having access to donor resources. This then might bear consequences which potentially undermine the initial donor effort.

A reason why AfT is being pursued despite its weak impact might be related to the need of organisations like the EU or other donors to justify their existence. The “imperative to spend” alongside the pressure to prove success in light of “political and taxpayer intolerance of failure”

are strong incentives for the development community to present successful use of resources (Hudson and Marquette 2015:67). Only a very limited number of donor staff ever address actual implementation issues on the ground in the common self-assessments and evaluations of projects. The pressure to present successes must thus be immense, as otherwise there would be no reason not to deal with failure in an open manner, especially to arrive at policy “learning”, which, according to the basics of policy cycles, serves as the basis for project designs. There is thus a lot at stake for these actors and no interest in undermining one’s own position (Stiglitz and Charlton 2013:371). As various issues in the whole project cycle cannot be addressed, donors pretend that shortcomings do not exist, which in turn means that there is no reason to discontinue something that is successful. The aid industry itself has become a multi-million-dollar business with those at the forefront - donor staff, international consultants, as well as local staff and civil servants working alongside donor projects - massively benefitting from participating in interventions. As long as these dimensions remain unaddressed, they will constitute an additional political economy layer within which interventions take place.

The aim of this thesis was to shed light on the interaction of AfT interventions and local politics. The analysis was based on the assumption that interventions do not intervene into neutral, blank spaces, but into highly contested fields, where social forces struggle over power and outcome of enhanced trade integration. By aiming to rebuild local trade governance, AfT directly interfered into fields of struggle over power and control over resources. These struggles fundamentally conditioned the outcomes of AfT interventions - and will continue to do so.

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