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LANDLOCKED TO LANDLINKED: THE CASE OF ECONOMIC LIBERALISATION AND INTEGRATION OF LAOS

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Abstract

The once landlocked position of Laos has developed into a strategic edge that it can leverage on for economic and social development, as it is situated right at the crossroads of the north–south and east–west economic corridors of the Greater Mekong Subregion (GMS). Due to global geopolitical developments, Laos began integration with the region and the world to support economic development through market reforms and economic liberalisation since the mid-1980s. The flagship GMS programme under the aegis of the Asian Development Bank is enhancing physical connectivity to accelerate economic integration and facilitate cross-border movement of people, goods and capital with a view to improving the competitiveness of the region. However, Laos remains under a one-party regime, and one of the poorest countries in Asia-Pacific, with its share of structural problems, poverty, subsistence agriculture, and increased dependence on external funding. Based on its unique factors, the degree to which the transitional economy has translated into political, social and economic upgrading is highly distinct in socialist Laos. This case study highlighted some of the socio-economic implications of liberalisation and integration and found that trade liberalisation has varied and unpredictable consequences to institutional structures, socio-economic changes, and overall development pattern in Laos.

Keywords: integration, economic liberalisation, transitional economy, development, Laos

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1. INTRODUCTION

Landlocked nation in the centre of the Southeast Asian peninsula, Lao People's Democratic Republic (Lao PDR or Laos) is bordered by Cambodia to the south, China to the north, Myanmar to the northwest, Thailand to the west and Vietnam to the east. These neighbours have had, to varying degrees, influences on Lao historical, cultural, political and economic development. Laos is fascinating, as a study subject, because

> 'Lao PDR is the least developed of the GMS countries. It is landlocked, sparsely populated, and has a mountainous terrain. It has a very narrow resource base that limits its capacity to diversify production and exports. Institutions remain weak, and human resources are underdeveloped. The pace of economic reform has been slow, so its transition to a full-fledged market economy remains a long-term challenge. The country is keen to promote economic connectivity with its GMS neighbours to explore development opportunities' (ADB 2004: 18)

Laos is a small country still in the midst of transition brought about by global and regional forces and processes. As the fall of the Soviet Union marked the defeat of global communism, Laos together with other socialist countries underwent economic restructuring to adjust to the geopolitical realities of both Southeast Asia and the world. While major Central and Eastern European countries successfully integrated in the global economy in relatively shorter time through the European Union (EU), Laos together with the other countries in the Greater Mekong Sub-region (GMS) or Indochina have experienced marked difficulties especially that democratisation has not swept the Southeast Asian region. However, Laos has progressively implemented economic restructuring particularly trade liberalisation initiated by the New Economic Mechanism (NEM). While Vietnam is now on its way to becoming a tiger economy through its *doi moi* policy, Laos has not progressed much and remained with problems of infrastructure building, aid dependency, and corruption hindering overall social development.

The research argues that there are varied sets of social and economic consequences that have been brought by trade liberalisation – the major component of economic restructuring in Laos. Although there are myriad ways to open in the global economy, it looks at free trade agreements as the primary engine of market openness wherein the Lao government has acceded to regional and global trade agreements. In Asia, it has signed the ASEAN Free Trade Area (AFTA), which is the region-wide mechanism to create a common market and production base in Asia Pacific, particularly in the move towards freer movement of capital, investments, skilled labour, and services (AEC Blueprint 2007). At the global level, Laos expressed interest to accede to the WTO rules and was granted Observer status in February 1998 and is projected to open its economy for further liberalisation of trade and services as the legal bindings will give traders and investors increased confidence in the Lao reform programme,. However, the effects of these liberalisation schemes need to be assessed taking into account the socio-political and historical context of the country.

1.1 Purpose of Study and Research Question

The main purpose of this research is to have a greater understanding of the different facets that affect the socio-economic development of a transition economy such as Laos following increased openness to the outside world. Famous writers on Laos as Grant Evans, Martin Stuart-Fox, Jonathan Rigg, among others have written extensively on the historical, political, social and cultural changes while multilateral agencies as the Asian Development Bank, the World Bank, etc have focused on the developmental aspect of the least developed and only landlocked country in Southeast Asia. Both camps have had considerable field experience to make their arguments in their papers and reports. However, what needs to be done is a synthesis of political and economic approaches to the study of social development in Laos.

Whilst there is no consensus on the impact of economic liberalisation to social processes in developing countries, there is literature looking at the positive impact of trade on transition economies through *strategic integration* (selective integration in the regional or global economy through selective market opening) (Parikh 2007; Parikh and Shibata 2004). In this regard, the key question underlying the scope of this research is: *what are the socio-economic implications of economic liberalisation and integration in a transitional economy as Laos?* Whilst this is a broad question, there is very limited knowledge and research interest on Laos as it is a poor, isolated and socialist country, which only opened its doors to the world after the end of the Cold War. The dominant neoliberal ideology that emphasises on the unrestricted cross-border flow of goods, capital and people has given rise to several ramifications that are specific to Laos due to its unique characteristics. For instance, Laos was a French colony in which the independence struggle in the 1960s-1970s became a proxy war of superpowers - "to the colonial French, a resource-rich annex to Vietnam and a "back door" into China; and to the Siamese, the lost territories east of the Mekong" (Jerndal and Rigg

1999: 36). Its bureaucratic structures taken from the French administrative system is under a one-party authoritarian state with considerable emphasis still rooted in the maintenance of power. It has also undertaken a gradual move towards economic liberalisation given the increasing pressure to integrate into the world economy. Being one of the poorest countries in Southeast Asia and also one of the remaining communist regimes in the world, it faces regional and international pressures in various fronts such as economic, political or humanitarian. The paper therefore investigates the adjustment process and effects of trade liberalisation and economic integration at the international levels in Laos.

1.2 Methodology and Research Design

One of the several ways of conducting social science research is the case study method that includes surveys, experiments, archival data analysis, histories, etc such that to illustrate the general and specific effects of trade liberalisation and economic integration in an economy undergoing rapid structural changes, this paper uses a *case study research design* looking at Laos as a case of a developing society in Southeast Asia adjusting to the pressures of economic integration and liberalisation. This design is apt as it provides a 'real life' context to the process of social change brought about by global and regional processes over which the researcher has little or no control (Yin 2003). In a closed socialist society where trade is limited and government has control over production processes, a transition to a capitalist economic system may have various and unpredictable consequences. Laos' experience of continued poverty and inequality deserves closer attention. As per Yin (2003), the strength of a case study is its ability to deal with a full variety of evidence – documents, artefacts, etc. Hence, a detailed case study on Laos' experience of trade liberalisation is worth pursuing.

According to Kvale (1996), qualitative and quantitative methods are tools whose utility depends on their power to bear upon the research questions asked. This paper takes a qualitative approach in analysing the current data available. Since fieldwork was not possible to conduct due to financial and time constraints, the research relied on the scarce literature on Laos, accessible through the Lund University system. These include scholarly work, organisational reports and assessments, and professional communication with experts on Laos. In this secondary analysis method, selection of material remains the most important factor. The major donor agencies producing reports and evaluations on the progress of Laos include the Swedish International Development Agency (Sida), the Asian Development Bank (ADB), the World Bank, and the EU. Academic literature on Laos is however not extensive as this tiny country has not attracted much scholarly attention. The data used in this paper are limited to those from the ADB and World Bank but even these numbers are to be handled with caution due to the availability and reliability issues of the information involved since these latter organisations obtain some of Laos' national statistics from the Laos National Statistical Office. Unfortunately, the Statistics office was remarked that "statistics between the different government departments are often contradictory and no one is sure how accurate they are. The system is not integrated and the government offices in Vientiane rely more on guesswork than real data" (Pholsena and Banomyong 2006: 74). The statistics presented in this study are to merely give an indication as the focus is more on the socio-economic implications of a qualitative nature.

1.3 Scope and Limitations

With much interest and enthusiasm for discovery of the interesting facets about Laos, the biggest problem is to make a focused and systematic research on political economy. Unlike other Southeast Asian countries where substantial research from the Western world exists, Laos has generated very little interest even among French scholars. As such, it is better if the research looks at the broader effects on the economy and the society from an *economic* integration and liberalisation perspective. Whilst I tried to use the most updated material and statistics, these were oftentimes not consistent since the organisations used a multitude of measurement mechanisms and presented their findings differently. So, trying to synchronise the information into concrete and easy to understand format was a challenge. Further, my theoretical and empirical understanding of the whole picture is bounded by my business-oriented background and work experience in Southeast Asia in the education field.

1.4 Structure of the thesis

The paper is divided as follows. In chapter one, I have already described the background information on Laos and the key question to answer as well as its methodological aspects. In chapter two, "Theoretical background and Explanatory framework", I present the theories that deal with integration and liberalisation in an attempt to understand the socio-economic phenomenon of such a reform strategy that many economies have adopted with varying degrees of success. The third chapter presents the "Empirical Findings and Analysis" in which I discuss the various socio-economic implications of socialist Laos opening up and joining regional and international markets, and chapter 4 concludes the study, with suggestion for future research.

2. THEORETICAL BACKGROUND AND EXPLANATORY FRAMEWORK

What are the impacts of economic globalisation particularly its trade liberalisation component to a small country like Laos? The framework of analysis developed in this section is divided into three conceptual tools: the *nature of globalisation and liberalisation of trade*, *the process of regional and international economic integration*, and *link between liberalisation and human development.*

2.1 Nature of Globalisation and Liberalisation of Trade

The extension of trade, investment and capital across national borders is termed internationalisation while globalisation, "defined as the process through which goods and services, capital, people, information and ideas flow across borders and lead to greater integration of economies and societies" (Agenor 2004: 22), encompasses the functional integration of internationally dispersed activities. The world economy is becoming more and more global and the drivers of globalisation, in the form of declining trade barriers and advances in technologies such as communication, information and transportation, are driving nation-states towards a more tightly integrated economy. The discussion on effects of liberalisation can be divided into two separate themes. The first theme looks at the effect of trade reforms with respect to structural changes in the economy. The second theme looks at the overall implications of globalisation to the role of the state in development.

Pro-globalisation arguments are in favour of an increase in multinational trade, production, investment, and a consequent loosening of the state's role and control in economic spheres. Trade reforms increasing the outward-orientation/openness of trade regimes yield in structural changes that reallocate resources in line with comparative advantage leading to export–led growth (Samuel 2007). Countries with open trade policies benefit from efficiency gains, technology spillovers and other positive externalities in addition to the positive correlation between liberalisation and growth, openness and investment rates within countries (Samuel 2007; Bhagwati 2004; Wacziarg and Welch 2003). With regard to nation states, it has "become an unnatural, even dysfunctional, unit for organising human activity and managing economic endeavour in a borderless world. It represents no genuine, shared community of economic interest. It defines no meaningful flows of economic activity" (Ohmae 1994: 24).

The global economic restructuring is best captured by the process of market integration wherein production today is more globalised with national markets merging into one big marketplace, and where the production activities are being shifted to the most optimal location around the world, a case in example being China and India. The greater move towards liberalisation of the economy, free market and free flow of goods, services and capital, away from the communist regimes has thus created long run business opportunities for increased trade and investment. Transiting economies of China and Vietnam have for instance been experiencing significant growth since economic liberalisation (ADB 2007). As the proponents of globalisation would argue, small states like Laos which is not able to insert itself in the global marketplace will lose in the competition and need to implement neoliberal reforms to adjust to the market. On the other hand, sceptics refer to this as *race to the bottom* wherein developing countries, particularly those socialist states still supporting massive industries, are forced to radically alter the economic organisation of production. Rodriguez and Rodrik (1999) argue that there is weak correlation between trade liberalisation and openness since countries accelerated their liberalisation only in the face of intense pressures from World Bank and IMF through the structural adjustment programmes (SAPs) in the 1980s. With weak institutional capacity and state reforms simultaneously being implemented, the consequence of massive and simultaneous restructuring is increased poverty and inequality (Stiglitz 2002). There is likewise a caution given, in which trade liberalisation will boost economic growth only if greater openness is accompanied by reduction in corruption and improved macroeconomic policymaking (Winters 2004). To this extent, the argument for globalisation has met reservations both in the economics and social sciences disciplines.

Whilst there are critiques raised, the relevant question for many countries remains to be, not whether to liberalise trade and investment, but how to liberalise – unilaterally, regionally or multilaterally – and at what pace. How has developing and transiting Laos liberalised, through unilateral liberalisation, regional initiatives or multilateral negotiations, will be explored in the analysis section given that "much of the opening of economies to international trade and investment has been unilateral or competitive liberalisation. Yet the shift to more outward-oriented economic policies from autarchic policies raises issues about the merits of integration activities" (Eaton and Harris 1997: 203).

2.1.1 Trade Theory and Growth

To show the robust effect of comparative advantage to trading countries, the Heckscher-Ohlin theorem stipulates that two countries are able to achieve greater economic welfare when they trade with each other given two goods and two factors of production. Free trade is a positive-sum game, in that it increases world production due to productivity differences as a country specialises in producing goods it can do so most efficiently while buying those goods that other countries have a comparative advantage in. Countries will export those goods that make intensive use of locally abundant factors while importing goods that intensively use scarce factors, resulting in dynamic gains from trade. Therefore, due to differences in national factor endowments, specialisation and comparative advantage, the more different the countries, the greater the economic gain from specialisation and trade. This opening up to free trade tends to stimulate economic growth.

Whilst neoclassical economic theory believes on the market and rational expectations as a guide to economic behaviour, Keynesian economists see the value of social protection and demand-driven growth to guide economic behaviour. "Keynesian economic theory established the legitimacy of state intervention into market economies with the aim of achieving growth rates decided on the basis of social policy. Since Keynes, economists have divided into camps favouring the invisible hand of the market or the visible hand of the state planning in guiding economic growth" (Peet 1999: 39). However, Keynesian economics was severely under attack as the neoliberal revolution swept the global community. Export-led industrialisation and outward-oriented strategies seemed to be the mantra for the underdeveloped world and policies of economic reform were in the form of economic liberalisation, macroeconomic stabilisation and privatisation. "Countries applying outward-oriented development strategies had a superior performance in terms of exports, economic growth, and employment whereas countries which continued inward orientation encountered increasing economic difficulties" (Balassa 1981, cited in Peet 1999: 51).

2.3 Regional and International Economic Integration

Economic integration refers to the process through which different aspects of an economy, be it within, between or among nations, become integrated, hence the notion of domestic, regional and international integration. With greater economic integration, barriers to trade between markets diminish, with the scope for more economic activity, and development. "Regional economic integration refers to the process of reducing the economic significance of national political boundaries within a geographic area"(Eaton and Harris 1997: 200). The idea behind regional integration is to lower the transaction costs of conducting businesses through government-mediated or market-initiated economic arrangements. It varies from region to region, wherein the EU is the most advanced model of integration as a common market and increasingly a common currency is used to control exchange rates, to minimise the transfer costs, and ultimately free capital and labour to adjust costs within the geographical area. As labour and capital are freed, common standards need to be set in order to prevent neighbouring countries from undercutting prices by lower labour standards. On the other hand, Asian economic integration is currently limited to functional cooperation on tariff restructuring within the region through free trade agreements (FTAs). The major driving force of inter-state cooperation on economic liberalisation in Asia is the Association of South-East Asian Nations (ASEAN), which is at the centre of all economic agreements among major powers within and outside the region. Contrary to common belief that regionalism is a hindrance to multilateral global integration, the liberalisation logic of ASEAN tends to support the World Trade Organisation (WTO) and there is explicit commitment among ASEAN countries of their support to the multilateral trading system (AEC Blueprint 2007; Bretschger and Steger 2004: 119). Such initiatives are a step forward toward global trade liberalisation, and the merits of integration include among others, opening up of economies to regional and international trade and investment, productivity gains, internal and external economies of scale, rationalisation of human and natural resources, technological advancement and diffusion, competition and innovation, and a more efficient allocation of scarce investment capital – "there is a growing acceptance that markets are more effective than governments in allocating scarce resources" (ADB 2004: 19). Laos having clamoured for membership to different regional arrangements such as ASEAN FTA, GMS, Mekong River Commission, WTO, etc shows how important regional and world markets are in terms of outlets for exports. However, economies in a region are often at different socio-economic levels, for instance in ASEAN, there are both first world countries as Singapore, high performing economies as Thailand and Malaysia and laggards as Laos and Myanmar. “Practical problems caused by regional integration of countries with different degrees of economic development, as well as different political and social systems” (Pholsena and Banomyong 2006: 118) have seen the emergence of growth triangles or quadrangles.

“To facilitate trade liberalisation, groups of countries have formed free-trade areas and common markets based on regional integration, within which all import tariffs and quotas are removed” (Inuma 2002: 27). In the absence of such tariffs, reasons for market integration include among others the removal of transaction costs and fostering competition, improved security of supply, complementing economies in terms of factors of production, etc. Because different countries in different regions have different factor endowments and different load curves, interconnection leads to the harmonisation of market, system rules and regulations, a more efficient use of assets, and emergency back-up. Interconnected markets can turn into integrated markets. However, concerns stemming from the dependency of imports for instance, or energy policy, the environment, etc give rise to political reservations.

2.4 Liberalisation and Human Development

Economic development through liberalisation connotes ideas of structural change, economic growth, increases in wealth accumulation, expansion in the distribution of economic benefits to participants and beneficiaries, rapid change in exposure and incorporation of technologies, capital deepening and widening, restructuring of public-private relationship, restructuring of policy institutions, and new focus on the economic health of the individual (Gillis, Perkins, Roemer and Snodgrass 1996). Basically, it refers to a structural, never-ending process leading to the optimisation of economic potential, ascending the value chain in a way that increases returns to scale and developing the ability to control the impact of global market forces while remaining competitive and viable, hence reducing one’s substitutability. However, development studies have emphasised the concepts of *well-being* and *human* development as “development is a multi-dimensional concept which embraces multifarious economic and social objectives concerned with the distribution of income, the provision of basic needs, and the real and psychological well-being of people” (Thirlwall 2002: 44). Fundamentally, these approaches underscore the importance of participation and empowerment as critical processes and outcomes of economic growth. They redefine the narrow monetary-based conceptions of income, and consequently, economic development. For instance, the human development index is a measurement combining education, health, and income to determine the levels to accurately capture the progress of efforts to combat poverty and inequality. These developments in international institutions indicate the move from the narrow view of poverty as lack of monetary capacity towards a broader view that includes institutionalised social exclusions and feeling of disempowerment.

Given this broader meaning of development, countries embarking on liberalisation face greater pressure to conform to measurement standards and accounting for policy reforms that uncover deeper issues of society. For instance, whilst Dowling and Valenzuela’s (2004) view economic development as a process of moving upwards from low levels of income, it can be argued that features of economic development in the form of better health, life expectancy, literacy among others follow in some way from the growth of per capita GNP. Viewed in this way, Nobel-prize winning economic historian Douglas North may be right when he asserts, “economic development is based on the continuous interaction of institutions and organisations in an economic setting of scarcity and competition, with competition forcing organisations to continually invest in skills and knowledge that shape perceptions about opportunities and choices in turn incrementally alter institutions” (Peet 1999: 58-60). Therefore, we cannot say that trade liberalisation leads to economic development simply on the basis of an increase in GDP/capita of countries but rather we must account for the distributional component of trade liberalisation. Institutions matter in promoting economic development because they provide the framework upon which the market can function. Hence, trade liberalisation must accompany responsive social and political institutions to facilitate economic development (North 1994, 1996).

Several theoretical debates have explored the connections between trade and wage skills, which are a socio-economic issue that affects policy dynamics. For instance, several studies seem to show that the wages of unskilled workers have fallen relative to skilled workers through the process of what the authors call ‘skill-enhancing trade’ associated with greater inflows of foreign direct investment and modern technology (Acemoglu 2003; De Santis, 2002; Freeman, 1995). This has been illustrated in the Brazilian case (Arbache et. al. 2004) where wages fell substantially in the traded sector after trade liberalisation, consistent with there being reduced rents as industries faced greater competition.

Finally, there are also studies which have directly used social indicators to measure the link between liberalisation and economic development. For instance, Jones et. al. (2007) conclude in their study that the vulnerable sectors of society stand to lose in liberalisation, particularly child well-being and the agricultural sectors. Using the data on Laos and Vietnam, the study suggests that liberalisation has marked differences in child well-being outcomes depending on ethnicity, household poverty status, educational attainment, etc. It is important that policies take into consideration the linkages between economic globalisation and children's experiences of poverty. Others have looked at the impact to other economic sectors, ethnic groups, or social position.

3. SOCIOECONOMIC IMPLICATIONS OF ECONOMIC LIBERALISATION AND INTEGRATION OF LAOS

3.1 Transition, Structural Change and the Role of the State

After years of French colonialism, proxy wars, indirect involvement with the Vietnam War, the persistent communist rule and state-managed development, the Lao government joined the bandwagon of economic liberalisation albeit with substantial pressures from external actors to dismantle the socialist state. With the declining political support of the Soviet Union as part of its internal reforms, Laos and other socialist states embarked on a series of partial liberalisation starting in the 1980s. The driving force is the recognition of the Communist Party of the 'inadequacies of their policies and the malaise of their population' thirteen years after the establishment of their revolutionary government (Zasloff 1991: 37). The government initiated marketisation, decentralisation and privatisation – key reforms that unleashed the market forces from the grip of the communist state. In the form of the New Economic Mechanism in 1986, the transition signalled the move away from the socialist model of central planning towards more market-orientated growth strategy. These include the restructuring of state-owned enterprises (SOEs) with performance related changes, selective deregulation of agriculture, private sector development and trade reform, which all in all accedes to the view that the state's role is limited to the setting up of fundamentals of a fully-functional market economy. Whilst this is a unilateral effort, it is partly a result of structural adjustment programmes as advocated by the lending programmes of IMF and World Bank. Like in most developing countries in Latin America and Africa in the 1980s onwards, Laos was pressured to open its economy on the main premise that "free competition and market mechanisms, in all countries and under all circumstances, would bring about a more optimal allocation of production factors and a more optimal distribution of commodities, than a regulated economy with administrative control and central planning" (Martinussen 2005: 261). Although these international institutions have long been criticised for the failure of SAPs in addressing the poverty-generating effects of conditionalities in times of transition and economic restructuring, free trade policy coupled with financial liberalisation and deregulation of the public sectors remained to be the antidote to economic crisis, as seen in the *shock therapy* in Russia and other socialist states. An interesting point is that Laos must have missed the exceptional treatment given to the East and Southeast Asian nations, which are testimony to the non-hegemonic aspects of market and democratic orientation since the East Asian miracle was partly attributed to the state-led approach of managed development and "state-led economic development has been a feature of Southeast Asian governance" (James 2005: 532). It seems that more often than not, developing and transition economies are affected by more than one processes of development at a time.

Even after the 1997 Asian Financial Crisis, wherein East and Southeast Asian countries experienced drastic negative socio-economic consequences brought about by unfettered financial liberalisation and moving capital, Laos could not in anyway backtrack in its liberalisation commitments. After joining ASEAN and AFTA, it expressed interest in acceding to WTO and the series of regional free trade arrangements with other countries through ASEAN (Stuart-Fox 2004). Whilst other countries like Malaysia imposed capital controls instead of opting for financial liberalisation, Laos was never in the negotiating position as it is a poor, neglected country in Asia Pacific. However, it is no different with its authoritarian one-party state with considerable emphasis still rooted in the maintenance of power, and only gradual move towards economic liberalisation given the increasing pressure to integrate into the world economy for continued development. As such, "the most desirable market-oriented reforms, as seen from an economic perspective, in many cases cannot be implemented because the prevailing political power structure has important implications for the theoretical approach to the issue" (Martinussen 2005: 274). Whilst "fundamental frameworks for central reforms are in place /…/ for decentralisation and civil service, the commitment to move from mere words to action appears to be shallow, especially on the political level" (Sida 2005: 6). Thus instead of a complete unilateral, regional or multilateral liberalisation, Laos seems to exhibit a compromise between state-managed and market-led model. Though the role of the state has been reduced following increased economic liberalisation, the one-party rule is still prevalent. The extent upon which it is less successful than the *doi moi* policy of Vietnam can be attributed to Vietnam's geostrategic location, available resource base, and successful combination of reform package.

The usual dilemma of economies in transition has been how to retain control over the political power while exercising market and economic reforms. Socialist countries were organised politically through a centralised party system, *Politburo*, which served as the vanguards of the working class. In particular, socialist systems in Indochina have similarities with respect to the power structure, and Laos inherits the same system from the Soviet Union. However, as transition occurs, the power structure needs to be retained if liberalisation commitments of the revolutionary government would be carried through. As Brown (1995: 99) argues, "the success in the economic realm tends to strengthen the hold of an authoritarian regime". If the economic well-being of the country is sound, i.e. economic development guarantees a rice bowl for the people, raises their standards of living through purchase of houses, scooters, etc, this tends to strengthen the ruling party's regime. In the 1990s and early 2000s, Laos' annual average growth rate was 6.3 percent, and the incidence of poverty fell from 46 percent of the population in 1992-93 to 33.5 percent in 2002-2003 (WB 2007: 7). Taking this crude number, notwithstanding the differences in absolute and relative poverty, the lack of political liberalisation in this increasingly 'free' world might be bypassed for tangible economic benefits by the population of such a transition economy as Laos. But it wouldn't be long until there are demands on the political liberalisation as responsive social and political institutions facilitate economic development such that the ADB, in its country strategy program spanning 2007-2011, has stressed its assistance to the Government in improving policies and institutional capacity to support broad-based, private-sector-led growth (ADB 2006).

As a major development issue, anti-corruption efforts form the core reform programme to strengthen institutions. What is interesting is that major donor agencies advocate for *good governance* more than *democracy*, which makes the structure of political power in Laos intact despite it being a major source of corruption. As such, it becomes difficult to implement reforms if and when the Lao government, ruled by political clans, is the major agent of development and change. Sida laments that, “it can even be questioned if the ageing political leadership fully understand such concepts as rule of law or good governance, and their implications if and when implemented” (2005: 6). The passage of the anti-corruption law by the national assembly is ‘useless’ if there is no rule of law, where officials and persons can get away from graft and corruption or that prosecution is inhibited or dragged down by offenders whose connections are constantly tapped to evade charges. In addition, the Lao government has been so good at not implementing or even initiating reforms pursuant to its high dependence on foreign aid. As Stuart-Fox writes “Lao are accomplished negotiators. Discussions take place at middle-level technocrats who speak English, arguments for change are laid out, agreement over likely benefits but nothing is done” (Stuart-Fox 2006: 72). The status quo is inertia that remains prevalent and sustained since political power and everything that comes with it revolves around the Party, which “presides over a transitional market economy [and which] permeates and controls four key institutions in the country: the government, the bureaucracy, mass organisations, and the military” (Ibid: 65). Everything done, from decisions in the government to the operations in the military, through the convoluted networks of contacts and the system of patronage, is in the interest of the Party and its members first, rather than in the name of development, the populace or society at large. In the recent *Asian Survey*, Forbes & Cutler laments, “there are no organised opposition groups in Laos, no non-governmental organisations (NGOs), and no real human rights or political freedoms” (2006: 176). The political-economic elite that has been created, together with its supporters and networks, is difficult to easily dismantle as it draws upon values and social interaction that are traditionally Lao and culturally deep-rooted. Since the Party is in the driving seat, changes have to come from above. Its neighbours, China and Vietnam, on whose footsteps the Party is following with regards to economic liberalisation with tight political control, can somehow indirectly try to guide certain policy-making that would promote more development and de-emphasise the primary role of the Party in economic, social and political decision-making.

3.2 Increased Connectivity as a Development Project?

Laos' geopolitical situation in Southeast Asia, being at the centre of the GMS, is being leveraged on to transform the country from a once-landlocked position to being landlinked through the establishment of transportation corridors linking the five bordering and economically more prosperous countries. Such strategy assumes that development depends on transport as it enhances communication, accessibility to goods and markets. However, "transport will not necessarily ensure development unless it is an element in a planned package of inputs" (Hilling 2002: 82). The debate on the facilitating role of transportation, given both the positive (forward and backward linkages, positive changes in mobility and accessibility, etc) and negative implications (opportunity cost of such investment, undesirable environmental impacts, etc), has led to the conclusion that careful planning of transport is necessary for maximum beneficial and least harmful effect on the development process (Ibid: 85). Interestingly, the ADB is the driving force and entity behind the implementation of the GMS project of enhanced connectivity based on four thrusts, namely:

> "strengthening connectivity and facilitating cross-border movement and tourism, integrating national markets to promote economic efficiency and private-sector development, addressing health and other social, economic, and capacity-building issues associated with subregional linkages, and managing the environment and shared natural resources – especially of the watershed systems of the Mekong River – to help ensure sustainable development and conservation of natural resources" (ADB 2004: 6).

The ADB is working in consistent collaboration with the government through a national program to expand sectors such as agriculture, health, education, and infrastructure as these should facilitate economic opportunities in commercialised agriculture, rural development, and improved provision of basic services. (ADB 2006).

Through increased connectivity, the capital city of Laos, Vientiane, is now seen as a pivotal location in the network of important cities of the countries at the border – Bangkok, Hanoi, Ho Chi Minh City, Kunming, Phnom Penh, and Yangon. The new trans-regional communication and trade networks under the GMS schemes are being further boosted by encouragement from ASEAN. Proponents of this development strategy argue that better connectivity will accelerate economic integration and enhance access to basic social services, especially for the poor in the border areas, whilst improving the transport infrastructure from the capital to the rest of Laos. Accessibility is considered essential to rural development, employment and income-generation opportunities as well as for the development of off-farm employment as it increases the rural population's mobility, providing the opportunity to travel to areas where there is demand for labour. This should pave way for better range of goods and services made available to the people in remote areas. However, Andersson et al. (2007) in the Sida country economic report on regional development in Lao PDR illustrate that the uneven distribution of the population, labour force and markets, along with ethnic diversity settlements living in the more remote areas that are not easily accessible, have slowed down the emergence of an integrated domestic economy. This is demonstrated by the wide differences among provinces in terms of prices and availability of goods. Whilst massive infrastructure projects are being undertaken in the country with a bid to link the country to the region, in peripheral highland areas, reforms are distant and transport costs remain high due to the unreliable national transport system. The actual impact of these transport projects has been much lower market integration than expected, perpetuating the rural-urban inequality. Where some market integration occurs, mainly along the Mekong River, "farmers are responding to and benefiting from the incentives enshrined in the New Economic Mechanism (NEM)" (Jerndal and Rigg 1999: 45). Håkangård's study of the main north-south highway - Route 13, illustrates that richer households have enjoyed numerous new moneymaking opportunities from the project while poorer households were too busy surviving to take advantage of the reforms (Håkangård 1992). Overall, the idea of transforming Laos into a transport hub upon which goods and services will freely flow at lower transaction costs has been a hard-sell for critics of these donor agencies, governments, and institutions.

A social consequence of increased connectivity, beside the above marginalisation of the people living in remote areas, is the feared mobility of drugs, human trafficking particularly women and diseases (Pholsena and Banomyong: 144). Roads do not discriminate as they would carry manufactured goods to consumers, farm produce to the market but also illicit drugs, trafficked human beings and communicable diseases. Transportation corridor routes can have a significant impact on the transmission of sexually transmitted diseases, especially HIV/AIDS, within and across borders, imposing social and economic costs. Currently, Laos boasts a very low level of HIV/AIDS prevalence among Southeast Asian countries but its neighbours Thailand, Vietnam and Myanmar are the ones with the most incidences. With transportation links established and with the lengthy borders of Laos connected with Thailand (1736 km), Myanmar (230km), China (416km), Vietnam (1957km) and Cambodia (492km) [that] are difficult to control and [where] check points only exist along principal land routes and river crossings” (Lee 2003: 118), the spread of the HIV/AIDS and other ills are imminent. Like other Southeast Asian countries experiencing persistent problems on poverty, eroding healthcare systems, prostitution, human trafficking and drug use, Laos’ institutional capacity to implement social protection for the HIV victims is weak and therefore cannot handle the escalation of HIV/AIDS crisis into a full epidemic (Jönsson 2006). Overall, Laos faces a crisis of economic and social stagnation due to the very slow implementation of its development initiatives. In the Party’s attempt to deflect criticism and protect its political power from eroding, donor fatigue in addition to escalating multiple crises are reducing the prospects of the country from joining the fruits of the “Asian Renaissance” in the twenty-first century.

3.3 Increased Connectivity and Trade Liberalisation: A Direct Relationship?

On the brighter side, donor agencies believe that increased connectivity leads to higher trade – a catalyst for economic growth given the appropriate trade policy. With very little resource base and no access to seawater for trade, the country has been expected to open its doors to foreign investment and capital inflows of any kind. The intensification of cross-border trade and increased foreign direct investment flows, promoted by rapid liberalisation, are very evident signs of globalisation effects in Laos at the sub-regional and international levels. Laos has implemented trade reforms as part of the NEM by simplifying tariff codes and eliminating quantitative restrictions. Under the AFTA commitments, Laos “will complete the liberalization schedule by 2008 by reducing tariff on imports from ASEAN countries to 0-20 percent by 2005 and 0-5 percent by 2008” (World Bank 2007: 21). As a country taking most of its imports within the region, Laos may benefit from the lower tariffs and duties of products coming from China, Thailand and Vietnam. A look at the trade figures in Table 1 and 2 below point out that exports are directed principally to Thailand followed by Vietnam, while imports are from Thailand, China, and Vietnam, showing how “market forces are emanating from neighbouring countries as production in the Mekong corridor is oriented towards the demand profiles of China, Vietnam, and especially Thailand” (Rigg 2005: 143). Being surrounded by other bustling economies, Laos complements its economic integration in the ASEAN region by aspiring to WTO membership and is still classified as a least developed country. According to WTO and ASEAN rules, its exports will receive preferential treatments from industrial countries and original members of the ASEAN (World Bank 2007:

11). However, there is a big caution here. The WTO Doha Round today has been under severe attack due to the problematic negotiations brought about by defections from the Round. In particular, there is widespread fear that developed countries will abolish the special treatments and differential agreements of developing countries with the industrialised nations in order to "level the trade playing field".

Table 1: Amount of Exports of Laos' Main Trading Partners (million USD)

Ranking	Country	2002	2003	2004	2005	2006
1	Thailand	85.0	94.3	104.3	204.4	454.7
2	Vietnam	56.9	55.2	67.5	86.7	101.8
5	China	8.8	10.2	11.4	23.2	45.1

Source: ADB 2007 Key indicators of Lao PDR

Table 2: Amount of Imports of Laos' Main Trading Partners (million USD)

Ranking	Country	2002	2003	2004	2005	2006
1	Thailand	444.0	501.5	639.5	846.2	1127.6
2	China	59.7	108.1	108.8	115.9	185.6
3	Vietnam	71.2	57.0	75.2	73.5	86.2

Source: ADB 2007 Key indicators of Lao PDR

Better transport infrastructure has permitted more transactions and activities especially with the dynamic economies of China and Thailand engaging with Laos. External trade is a major source of growth, "60.8% of GDP in 2006" (World Bank 2007). Note the constant increase in exports and imports following the 2001 stabilisation programme adopted by the government. In particular, the *China effect* – "China less as a potential replacement for Thailand in its economic relations and more as a protection against regional economic instability, as it represents an undeniable source of investment, trade and aid" (Pholsena and Banomyong 2006: 58). Exports consist mainly of wood products, garments, electricity and coffee (ADB 2007), production of which use the already abundant factors of production, thus comparative advantage in certain goods while others have preferential treatments. Laos has consistently enjoyed a balance of trade deficit due to rising imports, principally consisting of industrial inputs to fund massive hydroelectric power plants. The above tables might however be an underestimation of the actual trade figures as "the porous nature of the borders, as well as large scale hydroelectric projects, conceals the true nature of imports and exports in the country" (Pholsena and Banomyong 2006: 74).

Furthermore, Laos stands to lose in the ASEAN free trade agreements since ASEAN states themselves tend to prioritise bilateral and multilateral trade arrangements over an ASEAN-wide negotiation with major powers. "National interests continue to dominate over regional interests /…/ in short, the political agenda of each member does not facilitate economic integration" (Pholsena and Banomyong 2006: 127). For instance, Singapore, Thailand, the Philippines and Indonesia prefer bilateral trade relations with major trading partners like the US, China and Japan. This implies that the perceived lower transaction costs in a regional trade agreement through harmonised tariffs within ASEAN may not necessarily happen. Bilateralism undercuts multilateral and regional arrangements. In effect, the de-prioritisation of ASEAN-wide agreements would force Laos to re-negotiate with these countries at the bilateral or multilateral levels. This is problematic as the country has just opened its relationship to non-socialist countries in the 1990s. Its normalisation policy with the US was recently been approved but it will take time to have agreements of the same benefits with other ASEAN countries to be ratified. In addition, there are questions around the efficacy of ASEAN and the regional trade agreements. Unlike the EU where common standards to prevent variation of pricing of goods, ASEAN will still have to develop specialisation of production to avoid duplication of manufactured goods in addition to tariff restructuring. Gordon (1995) remarked that "ASEAN members, aside from Singapore, largely produce similar commodities, and as they began producing manufactured goods, those too were very similar" (Gordon 1995: 215). A good example is the fact that most Asian countries are rice producers and agricultural products are normally grown in many places in the region. This makes it impossible for countries to shift from agricultural to industrial products, not to mention that even Malaysia which is an industrialising country still engages in agriculture. Hence, Laos cannot rely on the Southeast Asian integration project to expand its market access. There are myriads of internal issues that need to be sorted out.

3.4 Factor Endowments and Dependency

Laos boasts good potential for the development of hydropower, mining, eco- and cultural tourism, and commercial agriculture, in addition of a potential niche market for SME development, regional employment and transit trade (ADB 2006: 2). Its place in the region is more of cooperation than competition and integration into ASEAN provides it with a security community and the ability to gradually integrate into the regional community based on the complementarities between it and its neighbours, Thailand in particular. Close relations with China, for instance, provides a buffer against possible instability in the region such as the former Asian financial crisis. Increased interest has also aroused from neighbouring countries on securing a foothold in Laos, such as China, Myanmar, Thailand, and Vietnam, with talks of a transnational economic quadrilateral including Myanmar and Yunnan, and led by Thailand. As figures show, Thailand is consistently Laos' biggest trading partner, based on exports and imports figures in Tables 1 and 2 above, but also the largest foreign investor. In 2000, Thailand's investment in Laos amount to 2,934,039,988 USD with around 261 projects, as shown in Table 3 below. The majority of exports geared towards Thailand indicate a high vulnerability of the country to external conditions.

Table 3: Foreign Investment in Laos, Summary by Country

Rank	Countries	Number of Projects	Investment in USD
1	Thailand	261	2.934.039.988
2	USA	47	1.490.767.402
3	R. Korea	35	634.040.507
4	Malaysia	21	292.448.547
5	China	73	87.294.982
6	United Kingdom	19	69.659.200
7	Taiwan	36	67.495.836
8	Australia	44	41.841.034
9	France	93	38.358.298
10	Hong Kong	20	26.033.100
11	Singapore	17	20.359.384
12	Russia	15	18.928.705
13	Japan	29	18.596.585
14	Vietnam	22	13.871.851
15	Indonesia	1	5.000.000
16	DP Korea	1	3.300.000
17	Switzerland	5	2.880.000
18	Belgium	6	2.723.952
19	German	8	2.672.900
20	Macao	1	2.534.856
21	Canada	11	2.452.366
22	Finland	3	1.249.065
23	Sweden	7	904.675
24	Norway	3	900.000
25	New Zealand	3	853.500
26	Italy	5	809.880

27	Holland	4	760.000
28	India	3	544.600
29	Denmark	6	477.000
30	Austria	3	212.000
31	Ukraine	1	200.000
32	Bangladesh	2	150.000
33	Chile	1	120.000
34	Cambodia	1	100.000
35	International	1	100.000
36	Myanmar	1	50.000
	Laos' Shares		**1.283.019.699**
	TOTAL:	**809 projects**	**7.065.749.911**

Source: Permanent Office of the Foreign Investment Management Committee, as of March 2000

ADB's flagship GMS Project has been driving increased trade flows among member countries, linking markets, attracting foreign investments, etc with a bid to alleviating poverty and build regional cooperation (Askew et al, 2007: 184). Many potential foreign investors view the GMS from the vantage point of Laos being at the centre of the GMS where the border countries are bound by their dependence on the Mekong River, but also because Thailand remains a communication and transportation hub. Moreover, in an Indochinese regional context, Laos seems to have a complementary productive capacity to be developed, such that Vietnam has abundant resources of coal and petroleum, Cambodia has promising prospects for off-shore gas and petroleum exploitation and Laos has the largest hydropower potential – some 18000MW according to a study undertaken by the Swedish International Development Agency (Jerndal and Rigg 1999: 51). These different factor endowments indicate the possibility of comparative advantages and dynamic gains from trade due to uneven geographic distribution in the subregion. Accomplishing this would require excellent infrastructural links with the region and the world and the GMS programme currently represents the most comprehensive regional programme that focuses on investment on infrastructure development to facilitate and enable exploitation of locally abundant factors such as hydropower potential and natural resources. "The GMS has, in short, become the vehicle by which landlockedness can be transformed from a national liability into a national asset" (Jerndal and Rigg 1999: 39), i.e. increasing the realisation of the country's potential by being able to exchange the productive outputs from the country's natural resources with the rest of the world through imports and exports, thereby further fuelling the engine for trade, growth and development

With a positive outlook, Laos stands to benefit from collective bargaining power in the regional and world economy, as well as enjoy rational scale economies given its strategic positioning and abundant natural resources. Inuma (2002) notes that "there is a pattern of globalisation, wherein capital investment flows into Laos from both regional economies and industrial economies of the world while labour-intensive products and natural resources flow out to both regional economies and industrial economies" (Inuma 2002: 89). Foreign Direct Investment, as per ADB 2007 Indicators on Lao PDR, has soared five folds from a mere net 60m USD in 2002 to 319m USD in 2006. However, at present, it merely functions both as a peripheral supplier of resources for more economically developed nations and a transport way-station, a trucking stop linking the more powerful economic players, particularly Thailand, China, and Vietnam, thereby putting constraints on the country's potential to exploit its comparative advantages (Pholsena and Banomyong 2006: 88; Evans 1999:58). Bourdet (2000) has argued that economic integration between complementary economies usually has small trade creating effects and to sum it up, "the country is, at present, more an area of secondary transit than the chief artery controlling exchanges and resultant revenues" (Pholsena and Banomyong 2006: 131). Because Laos lags far behind its industrialised and more advanced neighbours, it might at times be marginalised. There are varied and complex reasons for marginalisation, including deep-seated structural problems, weak policy frameworks and institutions (Lee 2003: 111). A good example is how the country has been vulnerable due to its weaker position in bilateral relations with Thailand, in negotiating energy prices. With very limited productive capacity compared to its neighbours, the Communist party is most likely to sustain its liberalisation project in order to take advantage of cheaper imports whilst developing its export based. Like Vietnam, the party leaders will also likely to control the pace and extent of liberalisation, making sure that their political interests are well guarded despite market opening.

3.5 Industrial Structure and Productivity

A key consequence of trade liberalisation is industrial restructuring leading to greater openness and arguably gradual transformation of the economy from being agriculture-based to export-based sectors. The East Asian experience demonstrates this as selective trade liberalisation complemented by heavy state intervention in particular strategic sectors became pivotal in the East Asian Miracle. If economic liberalisation aims to reduce domestic trade barriers and obtain better access to foreign markets, the major consequences of trade liberalisation are to induce rationalisation of the domestic industrial structure and enhance productivity (Eaton and Harris 1997: 206).

Table 4: Output of Major Economic Sectors as % of GDP

Sectors	1990	1995	2000	2002	2003	2004	2005
Agriculture	61.2	55.0	52.6	50.4	48.6	47.0	44.8
Industry	14.5	19.0	22.9	24.7	25.9	27.3	29.5
Services	24.3	26.0	24.6	25.0	25.5	25.7	25.7

Source: ADB 2007: Key Indicators of Lao PDR, p.270

Table 4 shows the rising share of industry and services, and falling share of agriculture, consistent with Gillis, Perkins, Roemer and Snodgrass (1996) definition of economic development. As of 2005, as a percentage of GDP, agriculture had a 44.8% share, industry 29.5% and services 25.7% (World Bank 2007). This theoretical proposition shows that countries opening to the global market inevitably needs to move from simple (agriculture-based) economies into more complex (industry/service-based) economies. Trade liberalisation corresponds to other parallel processes of economic modernisation, such as increasing urbanisation, labour migration, and integration to the global community. To date, urban economic growth has been the result of policies promoting industrialisation and services, with economic activity concentrated around Vientiane and the central provinces, to the detriment of agricultural sector. Since "the majority of households rely on simple agricultural activities with low productivity and value-added" (Sida 2007: 9), this stagnation in agricultural sector has constrained economic development by limiting the demand for manufactured goods, the extent of savings and the quality of the labour force. Productivity growth in Laos is constrained by factors such as poor human capital, lacklustre infrastructure networks, insulation of the agricultural sector from other sectors of the economy which altogether lead to low levels of per capita production and income. Low income implies lower propensity to save and invest, thereby limiting the productivity potential. Bourdet (2000) has proposed that a strategy for agricultural development should give "correct incentives, include measures to build up human capital, infrastructures and market institutions [and] the creation of clearly delineated, enforceable and transferable property rights leads to higher levels of investment that increase the returns to farming" (Bourdet 2000: 53). This process is not specific to Laos though, since most economic restructuring would require the movement of the labour force from the agricultural sector towards industry-based jobs in the urban centres. We can therefore understand why there are dual worlds existing parallel of each other in transition economies. As urbanisation drives people to support the expanding economy through positions in the factories or industries, there are still people left behind who suffer the most since the government cares less about those who did not opt to move to the industrial sector. As Evrard et al. note, after 1985, highland villages had to be moved nearer to the nerve centres of development to benefit from rural development policies and access to services (Evrard and Goudineau 2004) as part of a planned resettlement which caused diversified rural mobility and complicated the management of the interethnic relationships. Overall, the Lao experience validates the fears surrounding trade liberalisation – that it both creates growth but distributes it unevenly.

Moreover, the lack of skilled personnel as a result of the exodus of qualified people following the communist takeover, both in technical and managerial responsibilities, has severely constrained and still affects the infrastructure needed for the growth and blossoming of the integrated market economy. This deficiency in qualified human resource is certainly a constraining factor to a sustainable economic and social development, as 2007 World Bank figures show an improving yet low literacy rate of 68.7% in 2006, significant urban/rural and gaps in education (secondary enrollment of 46.7% and tertiary 7.9% in 2005), and the growing rural-urban disparity (WB 2007).

3.6 Institutions and Aid Effectiveness

When we speak of institutions, there are various ways to define it depending on its use. Institutions can be "stable recurring patterns of behaviour over time" (Huntington 1968), in which it refers to regularised sets of human behaviour that constitutes social, political or economic norms and practices. For instance, the act of going to polls every six years becomes an institution, called *voting*, and it functions as a way to transfer power in a peaceful manner. In the same light, economic relations follow institutional structures, such as contracts wherein two or more individuals agree to conduct a transaction on the basis of voluntary exchange of goods. If we talk about *institutional reforms*, we speak of changing the established norms and practices that have been regularised over time since people follow them. An anti-corruption institutional reform constitutes changing the graft and corruption practices of individuals who follow these norms.

Laos is known for its weak institutional capacity to deliver services to the people. The failing healthcare system that endangers the lives of Laotians from basic diseases is an institutional failure and requires an overhaul in the public sector. Infant mortality rate per 1000 births is 62, mortality rate under-5 is 79 and life expectancy is about 55.7 years (WB 2007). Other institutional problems are related to the operationalisation of the market, such that the state relinquishes its control over what and how much to produce of goods. The market forces are expected to function as the major determinant of supply and demand for capitals, goods and labour but considering the time to set up a business for example, of 198 days (WB2007), this shows how slow the approval process can be, as well as a hindrance to expanding the private sector development for promotion of economic activities. Transition economies like Laos and Vietnam adopt a case by case, selective form of liberalisation.

Foreign aid is critical to Laos' development and countries such as Japan, Sweden, France, Australia and institutions such as the IMF, the World Bank and the ADB are assisting in this. "In 2003, donor-funded programs accounted for 7 percent of GDP, 39 percent of total public expenditure, and 61 percent of the capital budget (World Bank 2007: 6). Being one of the poorest countries in the world, Laos' capacity to develop on its own is highly constrained, with a subsistence level agriculture dominating the majority of the economic activities, poor infrastructure in terms of institutions, human resource and physical set-up, as well as a long and devastating colonial legacy. Developmental Aid is one of the main sources of funds that assist in building up and ensuring a smooth transition to a market economy and democratic state, as well as fighting top priority social issues such as heightened poverty and human misery but developmental aid directed to mainly infrastructure projects and over reliance on such funding tend to lead to complacency, enhance the already-high corruption level and hinders development of the most critical sectors of the economy, its human resources.

4. CONCLUSIONS AND FUTURE RESEARCH

In its bid to transform the economy, rapidly develop and change its status of a less-developed country, Laos has embarked on market reforms and pursued unilateral, regional and multilateral trade and investment liberalisations in its development spree. A small nation bordered by bigger and more rapidly growing economies, Laos feels the urge to grow as well, either on its own ideologies (state-managed) or influenced by the regional neighbours and the West. It has turned its landlocked position to a landlinked one through various trans-regional transport and communication networks under programmes from ADB, IMF and World Bank. The latter generally extol virtues of integration and classical economics but have recently also geared attention to other aspects of development, let alone on economic growth.

Overall, this paper has argued that Laos offers a unique experience of trade liberalisation as it is situated in one of the most dynamic regions in the world yet remains one of the least developed countries since the post-independence period. More importantly, the project argues that trade liberalisation has varied and unpredictable consequences to institutional structures, socio-economic changes, and overall development pattern of countries especially socialist states like Laos and Vietnam. The paper likewise explored the context of failure of liberalisation despite the success of Vietnam and other European socialist states experiencing rapid transition of the economy and society.

Trade, especially with neighbouring countries, has increased tremendously with the better connectivity through transportation and communications networks as well as through the lowering of tariffs that promote exchanges. “Over the past 5 years, exports have averaged 23% growth. Imports have been boosted by foreign inputs for hydropower and mining projects” (ADB 2007: 213). Greater export orientation based on commodities such as electricity, wood, garments etc in which Laos has a comparative advantage in production due to its abundance in natural resources and, to a lesser extent cheap labour, have brought in much foreign capital, while imports have provided the population with a greater variety of products on the shelf as well as industrial inputs for massive infrastructural projects. However, the low degree of domestic market integration due to dispersed markets, labour, population and rudimentary infrastructure that makes it difficult to reach the remote areas, has meant that the distribution of the economic benefits to participants have mainly concentrated around the bigger cities of Vientiane and its surroundings, thereby perpetuating the inequality effects of economic development. Increased integration with the region meant that "improved transportation links facilitate trade and investment and promote tourism with neighbouring countries" (Ibid). Besides increased trade flows, regional integration also has potential socio-economic costs in the form of scourges such as HIV/AIDS and illicit trafficking, increased inequality, among others. Several institutional reforms have been initiated such as restructuring of state-owned enterprises, enactment of laws, fight against anti-corruption etc that has reduced the role of the state to a mere facilitator for the effective functioning of a market economy but the one-party ruling regime still maintains its grips on the economy, and is not likely to be relinquishing it any sooner. The economic development gains legitimise their position, similar to the other regime in Vietnam. Human capital remains a constraining factor to higher socio-economic development and while "solid rates of economic growth have reduced income poverty, more attention is needed to ensure that growth generates the target of reducing the number of poor households to below 15% and creating 652,000 additional productive jobs during 2006-2010" (ADB 2007: 215). This represents a big developmental challenge to the transitional economy of Laos in its present structure as the nature of the Lao political system has dire implications for the pace and sequencing of the transition process given that the "absence of democracy and transparency in interaction with the specific economic and historical conditions of Laos has contributed to the emergence of a bargaining economy in Laos with a stop-and-go macroeconomic stance" (Bourdet 2000: 80)

Going forward, future research could look at the impact of economic liberalisation in relation to power structures, especially in socialist states such as Laos and Vietnam and how political liberalisation can take place if economic reforms are handled by the Party given the assumption of modernisation theory that democratisation will follow once economic modernisation takes place.

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