

SOCIALISM IN A SUBSISTENCE ECONOMY:  
THE LAOTIAN WAY

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"To advance to socialism from a small farmers' natural economy of self-sufficiency and self-support is a very new path almost without any precedent in the world. It must go through various intermediary steps of transition, and must be a long one full of difficulties and hardships".

Kayson Phomvihane, Premier Minister of Laos,  
April 27, 1982<sup>1</sup>

INTRODUCTION

One major reason for writing this paper was the author's surprise about the scarce knowledge among scholars of Southeast Asian studies as far as the development in Laos after 1975 is concerned. Admittedly, there are a number of limitations to academic research about the "Laotian Way" to socialism. First of all, there are hardly any solid data and reliable statistics available which makes any attempt of analysis more a kind of a puzzle. Secondly, there is still the actual inaccessability of the country beyond the 15 km-perimeter of the capital city Vientiane, a government regulation, which makes it very difficult for foreign observers and researchers to assess the response of the majority of the Laotian population to the frequent changes of development policy<sup>2</sup>.

Finally, it is very hard to find out if these recent changes were a) mainly a response to basic demands (and needs) of the people (like sufficient food etc.) or b) the result of intra-party struggles for the "correct line" or c) if these changes have been dictated by external political forces (Soviet

or Vietnamese advisers?) and therefore do not necessarily reflect the ideology of the Laotian party leadership<sup>3</sup>. Consequently and taking all these limiting factors into account, any analysis must be very cautious. Nevertheless, the few available data and accounts from visitors, refugees and government officials permit us to conclude that Laos is not such a notorious "black box" to interested students as, for instance, Kampuchea has been under Pol Pot's regime (1975-1978) or as North-Korea was in its early years of socialist transformation.

This paper will be organized in three main sections, namely a country profile, a descriptive analysis of socialist transformation and development policies in post-war Laos and finally an evaluation of recent economic development patterns followed by a general conclusion which will take future perspectives in the wider context of regional co-operation into account<sup>4</sup>.

## I. COUNTRY PROFILE OF LAOS

In the modern history of Laos the year 1975 was a milestone of important change. Since the early 18th. century the country was ruled for the first time by a national and central government. After 30 years of colonial and civil war the people had fought their way back to historic unity. Compared with Vietnam and Kampuchea, Laos was by far the poorest and most undeveloped colony of French Indochina and it still remains the least developed country of Southeast Asia according to average per capita income data—despite of its wealth of potential resources, namely minerals, hydro-energy and timber (60 % of the land is covered by thick forest). Moreover, the country is still sparsely populated: 15 people per square kilometre (for comparison: Kampuchea 50 : km<sup>2</sup> and Vietnam 160 : km<sup>2</sup> according to figures of 1979).

If we assess all these factors as exceptional and highly conducive to national and self-reliant development, we have to look at the limiting factors as well. Laos is a landlocked country with a very poor infrastructure and a thin road system. Most goods are traditionally transported by water ways which, however, go only from North to South and do not connect Eastern with Western regions. The country has no railway yet though German engineers had started the construction already at the turn of the century. This situation has always caused transport bottlenecks and encouraged informal frontier trade ("smuggle") rather than "export" via the main city of Vientiane. Consequently, the budget for a national administration and national planning has never been sufficient and outside forces had always a strong impact on the border regions of the country.

Another serious limiting factor to pursuing a kind of "national" policy in Laos is that more than half of the population consists of tribal minority groups which have always avoided political relations with the capital city. Also these people have never shown any interest in "nationbuilding" of whatever ideological colour and faith.

Most of these tribal people speak a language quite different from Lao and have so far been able to safeguard their cultural and tribal identity based in economic terms on subsistence agriculture and slash-and-burn mountain farming. For more than 90 % of the Laotian population health and housing conditions are miserably poor, illiteracy is still at a level of ever 70 % which is partly due to the linguistic heterogeneity of the people and partly a result of French colonial policy which was not interested in a nation-wide school system for Laos but had set up only one lycée which catered for the children of the French-educated upper class.

Furthermore, French colonialism had done very little to improve the backward economic situation of Laos but saw its primary aim in extracting a few easily accessible raw materials like coffee and cotton and minerals like tin. A deeper capitalist penetration of Laos, a 'mise en valeur' (Samir Amin) of the colony as it happened at the same time in Kampuchea and Vietnam, was mainly obstructed by high transport costs (due to the poor infrastructure!) and by the lack of possibilities of agricultural surplus production in combination with "cheap" labour which would have made larger capital investments profitable. As a consequence of the low economic importance of Laos to the French colonial power (but not its strategic importance as a buffer to China and a hinterland to Vietnam!) the old feudal ruling classes of Laos were allowed to remain in power though they had to obey orders from a small group of colonial overlords who represented the French interests.

While the productive sector remained on a meagre subsistence level and productivity stagnated, the sphere of circulation and trade was also of limited extent and dominated by a few Chinese and Vietnamese merchants who were equally not able to accumulate great fortunes - again due to the relatively small amount of surplus which could be extracted from the country at low capital costs.

As a result of the rugged geography of the mountainous country and in the absence of any national communication and road system Laos was for nearly 200 years paralyzed by a never-ending internal power struggle between the few ruling families which were formerly supported by the neighbour countries Thailand, Kampuchea, Vietnam and Burma, or, later by the big foreign powers, namely the USA, China, the Soviet Union and the new regional power: Vietnam. Finally, the Southern and Western part of Laos became a "zone" which was dependent on US support whereas the Northern provinces of Sam Neua and

Phong Saly received help from socialist countries. Radical socio-economic changes in Laos were therefore dependent on overall changes in Vietnam and Kampuchea. Only after the American troops started to pull out of Vietnam and stopped financing a mere puppet-regime in Vietiane, the traditional power structure of Laos was bound to collapse, too, especially as the Pathet Lao had the determined support from two divisions of well-trained Vietnamese troops who after independence stayed in the country to "protect the border regions".

Although the economic formation of Laos was most backward, rural based and undeveloped, it could not escape from the destructive effects of a thirty years war: the traditional mode of subsistence was partly destroyed by "carpet bombing" and about one third of the population had become war refugees<sup>5</sup>. The resettlement and economic integration of these displaced people became the major challenge but also a very costly necessity to the new socialist state.

Another serious effect of the war was the polarisation of the country in three different zones: the comparatively affluent region around Vientiane where many refugees had gathered, the war-disputed regions in Central and Southern Laos where the destruction had been the worst and the already liberated areas in the Northern part of the country. Thus, besides all other problems of socialist transformation, the task of achieving economic unity was by itself already an immense challenge to the new government, especially under the existing conditions of poverty and lack of funds.

The second major problem which arose immediately after the first consolidation of political power in Laos was to lift up a battered socio-economic formation of bare subsistence to a stage where it could produce at least some surplus if only in order to provide food and basic goods for the maintenance of a kind of public sector. During the former years of war such budget problems were conveniently solved by accepting vast amounts of foreign help (mainly from the USA) which in the extreme case of the "Vientiane zone" finally amounted to about 40 times of the entire domestic tax revenue<sup>6</sup>. Hence, the restructuring of the Laotian economy could hardly be perceived without just another injection of substantial foreign aid after the war was over. The crucial question, however, was and remains, if such a new dependency of external help and financial support - be it from the Soviet Union, Vietnam, China or even Thailand - would not also force the country into close political ties with the donor countries and thereby make self-reliance and genuine national development strategies impossible for the near future.

Talking in terms of development policies, this is not to suggest that the Laotian government had after 1975 a number of options from which it could choose freely according to the basic needs of the people and in line with the dominant political culture of the country. On the contrary, due to the retreat

of the French and the USA, the Sino-Soviet conflict and its further extension into a Sino-Vietnamese conflict as well as due to the fragile political relationship with Thailand (which still is the lifeline for Laotian trade!), the actual number of options for external support became very limited.

Although foreign observers (like the author) expected in 1975 that Laos would and should attempt to go its own way and rely on slow but steady development of its vast natural resources in order to preserve political independence, this was probably an academic illusion if confronted with the new regional power structure, especially under the impact of once again rising Vietnamese hegemonism. However, if the Laotian path of development was mainly self-reliant, it had to be based on growth stimulated internally (not externally as before) and rather on mobilization of idle labour than on foreign capital investments. Bearing in mind that Laotian peasants work as an average during the year only about 100 days in the fields<sup>7</sup>, here was the starting point for a national policy to provide and organize off-season employment such as road construction, tool making, irrigation, and in fact, an overhauling of the whole war-torn infrastructure in order to allow for a higher level of agricultural productivity<sup>8</sup>.

Again, it can be argued that the Laotian government did not yet have the power to implement such a national scheme. By contrast, it could also be claimed that by doing this, the reputation and legitimacy of the government in Vientiane would have improved—provided the policy was successful and carried out with caution.

## II. SOCIALIST TRANSFORMATION AND DEVELOPMENT POLICIES IN POST-WAR LAOS

Owing to the lack of transport facilities, roads and an overall infrastructure like communication and public services, the economy of Laos can hardly be called a national economy. Especially the communication network between the remote provinces and the capital city of Vientiane is still in a very poor condition. In addition, the economic structure of this least developed country of Southeast Asia with an average per capita income of only 100 US-Dollars annually (1982) is characterized by a large sector of subsistence and subsistence agriculture (and some fishing) in which about 90 % of the population (total 3.6 in 1982) find employment. Although the country is rich in mineral resources and could generate much energy from water power, the industrial sector is still embryonic, a legacy of the colonial past ("cheap" imports from France!) and due to the difficulties of exploiting mineral resources at

low costs. Out of a total workforce of 1.7 million people, there were in 1980 only about 10 000 industrial workers and only about 3 % of the population are employed in small-scale commercial manufacturing. After the communist takeover in 1975 about 50 000 merchants and middle-men have fled the country thus reducing the number of people working in trade and commerce quite significantly.

The huge exodus of nearly the entire middle class from the "Vientiane zone" (the former growth pole of the country!) also resulted in a severe shortage of teachers, technical experts, medical staff and administrative cadres; all of which had to be replaced by mostly unexperienced peasant-soldiers from the Northern regions. Consequently, the new government was not confronted with an immediate "class"-problem (as were the governments in Vietnam and Kampuchea) but it faced even greater difficulties to set up reliable institutions and an administration which was capable to implement the new economic policy. Another problem was the creation of a "revolutionary" civil service. Most of the experienced administrators were politically unacceptable to the party and those few who were acceptable were also unexperienced and therefore often tried to solve problems in a heavy-handed manner. Impatient after many years of war these cadres tended to apply coercion rather than persuasion. People who did not fully comply with the new policy were sent to "seminars" or re-education camps and ordered to do manual work in order to contemplate their "crimes". Later, the gap was filled with about 6.000 civilian experts from Vietnam and at least 800 advisers from the Soviet Union.

Early in 1976 the Laotian government designed a plan which should cope with the most urgent problems of the country and which was to fix the new priorities for future national development. The main target areas of this plan were<sup>9</sup>:

1. Self-sufficiency of rice and other basic food stuffs. (At that time the country had a food deficit of over 100 000 tons of rice a year!)
2. Improving of irrigation systems in order to increase agricultural productivity (mainly by large public work programs)
3. Resettlement of war-refugees and the integration of all tribal minorities into the national economy.
4. Quick merger of the "overdeveloped" region of Vientiane with the poor Northern regions and the rest of the country, namely the embattled plains where most of the destruction had taken place. (This part of the plan was to impose a more equal and even pace of development).

Until the mid-sixties Laos had still been fairly self-sufficient in rice, vegetables and meat during years of good harvests. However, the people had already suffered from shortages of food in years of bad harvests because there was not enough agricultural surplus stored away by merchants or the government and only a few goods could be traded for food imports. Then this fragile

food balance had been disrupted by the impact of protracted war. Nowadays the main reasons for low agricultural productivity in Laos are: primitive methods of farming, lack of irrigation and mechanization, bad and low-yielding seeds, lack of fertilizer, farming tools and other necessary farm inputs. Hence, the agricultural sector became the core of national development. However, rural planning also became the main political issue among the various factions and was subjected to a fierce intra-party struggle. Accordingly, it varied in its speed and respective strategy of implementation significantly during the last five years.

Immediately after independence all farmers were coaxed by zealous cadres to "donate" their surplus grain to the state, and if they were not willing to do so, they received at best much less for their products from the government than on the free market which still continued to exist. Meanwhile, the government tried to introduce a new socialist system of farming based on village units and communal programs which followed the rural Laotian tradition of mutual help. After two years of unsuccessful attempts to mobilize and organize the peasants in this direction by ways of "gentle" revolution the government had to realize that in an economy which merely provided the means of subsistence to the people such ambitious plans of rural agitation (following a system which may have worked in China after 1949!) were bound to fail in Laos mainly because no material incentives were offered.

In addition, the traditional forces geared to preserve subsistence as a base of rural life proved to be stronger than the new modernizing forces because the government could not yet provide much assistance to lift up productivity. After the war had finally been over, the people went back to their fields as soon as they could - and they produced just as much as they needed for their own livelihood. In the rare case of surplus production the farmers preferred to barter it against smuggled goods from Thailand which included items not legally available in Laos. Thus, in the absence of substantial foreign help the Laotian government became soon to realize that funds for a nation-wide and centralized administration as well as for accelerated rural development could only be extracted from the (already ailing) agricultural sector as the only possible source of capital accumulation.

Therefore, in early 1977, the government introduced a reformed agricultural tax system. According to this new law every family was allowed to keep only 100 kg. rice and 50 kg. of seeds for itself. For the rest of the paddy production taxes had to be paid which varied from 8 % (up to 500 kg paddy) to 30 % (over 2,500 kg paddy) per household. Only "industrial crops" like jute, cassava or coffee were not subject to taxation. The agrarian tax could be paid in kind or in cash. Families which had just settled on newly cleared land or those who had lost one member during the war fighting on the Pathet-Lao side were tax-exempted.

Although the new taxes amounted to considerably less a burden than the tenancy rates which were formerly collected from peasants in the Vientiane zone (by the end of the war about 35 % of rural cultivators in this region were tenants and had to pay rents up to 60 % of the harvest!) the poorer peasants were now—though indirectly—discouraged to produce more than just enough for their living in order to avoid the progressive taxes. Moreover, when the government tried to implement the same taxation policy within the tribal areas (taxes on animal production), especially in those regions where people had never paid any taxes to a central administration before, political conflict arose immediately. Tribal groups like the rebellious H'mong people (or "Meo") part of whom had fought on the American side against the Pathet Lao responded quickly by slaughtering their cattle and either decided to migrate deeper into the mountains or to escape to Thailand if possible.

Hence, the net result of the new agricultural tax policy was that the rural economy stagnated even further and that local opposition arose against the new régime. In addition, the Southern provinces of Laos strengthened their informal trade relations with the neighbouring provinces in Thailand and Kampuchea. Furthermore, the attempt to impose such laws in a country where never before any working system of central government had existed, turned out to be a bureaucratic illusion. Thus, the government managed to receive only a small amount of revenue from the new agricultural taxes but for the first time after it took control of political power the authorities had to face mounting rural unrest and in some places hard-core resistance, too.

After the failure of the taxation policy became obvious and events in Kampuchea as well as the conflict between China and Vietnam cast its shadow on the Vietiane government owing to political purges against "Pro-Maoists elements"<sup>10</sup>, the Central Committee of the Laotian Revolutionary Party decided in November 1979 to take another dramatic turn of its economic policy. A currency reform which devalued the kip (Laotian national currency) by 75 % was followed by various measures to relax private trade, by a number of drastic revisions of farmgate prices and increases in wages and salaries, thus diluting the formerly rigorous but so far unsuccessful socialist system. By the end of 1979 state purchase prices for most crops including paddy which formerly had been much lower than free market prices were raised by 300-500 % (!)<sup>11</sup>. Owing to this new policy, price levels came much closer to those prevailing in Thailand, a strategy, which aimed at discouraging the smuggle of food out of the country. Furthermore, the stiff agricultural tax was considerably lowered in order to encourage the peasants to produce more. Also, tax collecting cadres were told to avoid any harsh actions against people who were not able to pay up.

As proclaimed by the Central Government of Laos on the 7th. of August 1980, the farmers are now subject to the following taxes which are paid in produce and estimated against harvest figures<sup>12</sup>.

## Rice :

- a) "good land" (a harvest above 1,600 kg/ha in irrigated fields only)  
tax = 100 kg/ha
- b) "medium quality land" (harvest between 1,300-1,600 kg/ha in irrigated and dry fields)  
tax = 80 kg/ha
- c) "poor quality land" (harvest less than 1,300 kg/ha in irrigated or dry fields)  
tax = 60 kg/ha

## Maize :

any land giving a harvest above 1,000 kg/ha is taxed at 60 kg/ha

## Timber and Orchards :

private owners pay an overall tax of 7 % of the product.

## Tax exemptions :

- 1) Only the traditional rice crop (Na Pi) is taxed as above. Second cropping (Na Xeng) is exempt from any tax.
- 2) In minority (hilltribe) areas, any family producing less than 100 kg of rice per head is exempt from any tax on that rice.
- 3) New irrigated rice fields are exempt from tax for 3 years. But new dry rice fields (swidden) are not exempt.
- 4) Following disasters such as floods, droughts and pest invasion, taxes are reduced or exempted in affected areas.
- 5) Agricultural cooperatives are exempt from any taxation above 7 % of the product.
- 6) Family vegetable gardens (grown by the family for own consumption) are not taxed.
- 7) Employees (wage-earners), whatever their job, pay no income tax at all. But self-employed traders, businessmen and entrepreneurs do pay tax and the percentage increases with their respective profits.

The immediate result of this economic policy of liberalisation was that the annual deficit of food which still stood at about 100,000 tons of food grains in 1977 was reduced to 60,000 tons in 1979 and to nearly self-sufficiency in 1981. Private traders were once again allowed to import goods on payment of customs and annual license fees to the government. Further, private exports of timber, tin, coffee and other commodities were encouraged in order to obtain more hard currency and to close the trade deficit. Finally, provincial authorities are now permitted to involve in direct border trade; provided they give 50 % of the revenue to the central government in Vientiane. These measures are especially relevant for transborder trade with Vietnam and Kampuchea (but less with Thailand)<sup>13</sup> and designed to create a closer economic

relationship between neighbour regions - though this policy may eventually lead to a further fragmentation and "regionalisation" of the Laotian economy. The liberalisation of border trade also aims at a better supply of spare parts to the regional centers and the procurement of urgently required goods for national reconstruction.

Observers have been guessing a lot about the set of reasons leading to the sudden economic reforms. Apart from the realization of former mistakes in carrying out campaigns and policies and the obvious failure of "spontaneous" mobilization of the rural people, the visit of a Soviet planning commission in February 1979 must have had great influence upon taking the new decision. The Laotian government was advised to coordinate its First Five-Year-Plan (1981-1985) closely with the Soviet and Vietnamese Plans<sup>14</sup>. The delegation from Moscow had obviously advised the Laotian government to slow down its drastic rural policy in order to stop the exodus of refugees and to broaden its mass support. As a further help to get the new plan off the ground the Soviets had also promised a substantial amount of development aid like tractors and water pumps. Already in 1977 the Soviet Union had committed loans and credits to the amount of 40 million US-Dollars as well as military aid to Laos as an attempt to sweeten the "Treaty on Trade and Cooperation" which was signed together with Vietnam to cement a "special relationship".<sup>15</sup>

The other main supplier of aid - the International Monetary Fund (IMF) - had also continuously admonished the Laotians to increase productivity and exports through a "liberalisation" of the economy. Moreover, the IMF had pleaded vigorously and constantly for the "opening up" of the country to foreign investors and international trade for the purpose of creating additional employment opportunities in Laos<sup>16</sup>. Under such heavy pressure from its two major sources of credit and at a time of domestic unrest the Laotian government could hardly reject the recommendations. Ironically, the West and a major socialist country like the Soviet Union were pulling this time into the same direction, i. e. forcing the Laotians to revise basic Marxist development concepts and once again open their economy to foreign interests and influences in order to solve short-term problems.

It may have been also no coincidence that at the time the changes were implemented, the Laotian government purged a large number of "Pro-Peking elements" within its party and administration as a further attempt to clear the path for the new policy. To replace these few experienced cadres a number of foreign trained experts and former members of the Vientiane establishment were again given responsible positions in planning, agriculture, health and education soon after they had "graduated" from re-education camps or returned from self-imposed exile. It is interesting to note that a similar process had happened after Heng Samrin took over the government in Kampuchea. He co-opted prominent members of the former Lon Nol régime to broaden his

power base and to mollify the remnants of the former upper middle class in the capital city.

As a step to revitalize and "loyalize" the bureaucracy whose salaries and standard of living had badly suffered from inflation, the government of Laos announced substantial salary increases for all civil servants - in some cases up to 170 %. Clearly the introduction of the new economic policy was combined with a number of measures to consolidate the economic and political power base of the new regime in order to make it less vulnerable to oppositional movements inside the country. But it is also worthwhile to note that these steps were hardly in line with the framework of Marxist ideology and economic austerity followed during the previous years but rather similar to steps the Soviet Union had taken in the early 20's (New Economic Policy) - at a time, when the first phase of revolutionary hopes had come to a sudden halt. Thus, the policy of overcoming income disparities at the urban-rural and regional level immediately was dropped and soon the new development strategy resulted also in new social stratification thereby again increasing the distance to a more equal and just socialist system.

### III. EVALUATION OF DEVELOPMENT POLICIES IN POST-WAR LAOS

According to the official foreign trade statistics of Laos, the new economic policy of "opening up" the country and the deliberate liberalisation of agricultural policies have shown some promising results since the turning point in 1979. However, it may still be too early to come to a reliable assessment after only two years. Nevertheless, the relation between exports and imports which was 1 : 7 in 1978 and even 1 : 16 in 1970 has meanwhile reached a ratio of about 1 : 4 and consequently the foreign debts service could be reduced from 17 % of merchandise exports to a healthy 5 %. (see Table I) This figures do not suggest, however, that the structure of the Laotian economy has changed significantly, too.

If we look at the government budget for Laos, it becomes clear that during the years 1977-1979 the authorities were able to bring the overall deficit to a halt and even reduce it in 1979. Due to the new economic policy, however, state revenues increased considerably but expenditure in terms of wage and salary increases moved even faster.

The official data below show that from 1977-1979 the Central Bank of Laos had tried to cover at least a part of the overall deficit by giving credits and increasing the amount of money in circulation. This fiscal policy accelerated

Table I: External Trade Sheet of Laos (in Mio.US-Dollars)

Year	1962	1966	1968	1970	1973	1974
Imports	24.1	41.8	53.7	114	57	65
Exports	0.8	1.5	6	7	5.1	11
Year	1975	1976	1977	1978	1979	1980
Imports	30	42	59.1	76.3	94.3	130.1
Exports	4.2	7.5	9.6	11.8	35.2	30.5
Debt service ratio	8.9 %	13 %	16 %	17 %	7 %	5 %

Source: Government of Laos

Table II: Laos-Government Budget (in million kips)<sup>+</sup>

Year	1977	1978	1979	1980	1981
Revenue	82.4	105.7	268.0	748.2	930.0
Transfer from state enterprises	50.8	32.7	200.2	567.8	700.0
Taxes on the privat sector	29.8	55.2	48.4	98.3	140.0
Other revenues	1.8	17.8	19.4	82.1	90.0
Expenditure	490.4	572.5	636.0	1776.9	2160.0
Current expenditure	298.5	384.0	393.9	1028.0	1210.0
Wages and salaries	...	105.0	114.0	343.0	...
Subsidies	...	168.0	165.0	68.0	...
Capital current expenditure	191.9	188.5	242.1	748.9	950.0
Overall deficit	- 408.0	- 466.8	- 368.0	- 1028.7	- 1230.0
Financing	408.0	466.8	368.0	1028.7	1230.0
Central bank credit	50.7	35.8	13.6	- 4.0	-
External resources	357.3	431.0	354.4	1032.7	1230.0

Source: All data provided by Lao authorities

+) Until December 1979 4 KN (kip national) = 1 US-Dollar, later 10 KN = 1 US-\$. This is the official exchange rate, the black market rate for US-Dollars is several times higher. (1981: 25 KN = 1 US-\$ )

inflation (domestic liquidity doubled in 1976 and rose by 70 % in 1977, between 1975 and 1977 the currency in circulation rose by 120 % alone!) and black market prices rose by 300 % in both 1976 and 1977. After 1979 the Laotian budget relied again heavily on foreign aid, which in 1980 and 1981 financed over 50 % of budgetary expenditures. Though debt servicing is not yet a major constraint to the balance of payments because most of the debt is concessional in nature, the heavy dependence on "external resources" shows how far Laos is still away from self-reliance and how much the new policy paved the way into a debt-trap if this trend can not be arrested soon. In addition, Laos suffers from very unequal terms of trade (expensive imports like oil, little income from exports like second-grade coffee!)

By far the most surprising part of the Laotian agricultural policy is that there has been no land reform yet. Until now, absentee ownership, tenancy, share-cropping and wage labour do still survive and these features of the former economic system probably form the main obstacle to collectivisation and socialist transformation of agriculture. In fact, nowadays five forms of economic organization and ownership of means of production do still co-exist in Laos:

- a) the state economy (state farms, banks, industry, transport and state trading organizations)
- b) the collective economy, i.e. the reorganization of peasants (mainly in the plains) into agricultural co-operatives
- c) the individual economy of farmers, traders, grocers, private repair shops etc., some of which still employ wage labour
- d) the capitalist economy (composed of private enterprises and trading companies which are still allowed to function though they are limited by government regulations)
- e) the state-capitalist economy of joint ventures between private and state enterprises as a new form of economic and trade co-operation

Considering in addition the existence of large tribal groups in the remoter areas who still live in a state of prefeudal ("primitive") socio-economic formation, the picture of extreme structural heterogeneity in Laos is complete. Therefore the first major dilemma of the Laotian government is that it has to deal with several economic systems, which are only loosely linked to each other and on the background of an uneven pace of development. Furthermore, the absence of a nation-wide transport system and ethnic diversity make a national development policy even more difficult.

This complex set of development obstacles reflects the second major dilemma of the country, namely the difficulty of a self-sustained transformation of a subsistence economy into an example of speedy socialist growth even though the potential resources for such a development path are generally available. But already the first years of ad-hoc management after the end of the war have

demonstrated how difficult it would be to break the vicious circle of widespread poverty: so far the Laotian economy which is based mainly on subsistence produced no tangible surplus - in the absence of agricultural surplus the government could not collect significant taxes from the peasants - no taxes meant also no government funds available for public works like irrigation and other development projects - later on the enforced increase of taxes even reduced agricultural production (indirectly) and resulted in an increasing number of refugees who thought that their subsistence and cultural autonomy was endangered the more powerful the central administration in Vientiane would become.

These cumulative effects again caused difficulties which brought about the need for financial help from outside, aid which was - due to the political circumstances - only available from the Soviet Union (or China). But in order to tap these new resources of foreign economic assistance the Laotian government was forced to take a sharp "revisionist" turn and to reduce the speed of transforming the relations of production. Moreover, by taking this direction a rising social stratification and a growing income gap (even on altitudinal levels!) between the different groups of the population became unavoidable thereby putting the new policy into clear contradiction to the former revolutionary goals and linking its future closely to Vietnam and the Soviet Union.

As a first result of this policy the "Vientiane zone" is now (once again!) in terms of development policy officially earmarked as the "motor of growth" of the country and assigned to pull the undeveloped regions along the path of growth as soon as substantial funds will be available for distribution.

#### IV. CONCLUSION

The recent attempts of economic transformation in Laos towards a socialist economy illustrate that it is nearly impossible to promote self-reliant growth in a poor country without mobilizing the majority of the population successfully for a common goal. In the case of Laos this path of independent development has been further obstructed by the political domination of foreign economic advisers (and at least 50 000 Vietnamese troops which are stationed in Laos) but also by internal limiting factors which have been listed above. Consequently, the more the revolutionary mobilization of rural labour became unrealistic as a working concept of socialist accumulation, the more the government had to seek for help from outside in order to make even a very modest take-off possible at all. After the first waves of revolutionary enthusiasm had passed and stocks from the days of war-aid were used up, the government

gave up the "radical line" of seeking for self-reliance and tried to squeeze necessary budget funds out of the underdeveloped agricultural sector, a policy, which also proved to be a failure due to the low response of the peasants who expressed their disagreement simply by ways of non-cooperation or migration.

Instead of introducing a land reform immediately and thus following a long-term strategy of gradual growth based on the country's own resources, the Laotian government once again changed its policy (though maybe not willingly) towards economic laissez-faire but at the high cost of having to accept foreign assistance and certain political implications which were not necessarily related to its own national goals. For example, exports are still based up to nearly 100 % on raw materials which could be locally processed in order to increase employment as well as creating new opportunities for a modest semi-industrialization. In addition, the integration of the First National Development Plan into the Soviet Gosplan and Vietnam's ambitious attempts of regional (Ex-Indochina) planning may for the future cement the role of Laos as a supplier of crude raw materials only and thus reduce the chances for setting-up its own appropriate industrial and mining sector. In exchange Laos may receive some aid to increase agricultural productivity but a closer cohesion between rural and manufacturing units which would be needed to satisfy the basic needs of the country people will have to be postponed into the distant future.

Looking once again at the earlier mentioned development goals, Laos was not able to arrive at self-sufficiency of food after five years of planning socialist development though the country is scarcely populated and additional land for cultivation is available<sup>17</sup>. Although irrigation has been considerably extended in the fertile region of Vientiane, the overall productivity of the rural sector has increased only marginally. The integration of tribal minorities into the national economy proved to be a failure and, on the contrary, has led to new opposition and fighting. Finally, the merger of the Vientiane zone with the rest of the country was not successful and the relative disparity has further increased. Therefore, measuring government policies after 1975 in Laos according to their own goals, the results were very modest and in some cases even counterproductive.

However, again it would be very unrealistic to review the economic development of Laos only in terms of the country's own interests. Rather a review of recent political and economic events suggests that Laos has been designed to be part and parcel of a wider regional development scheme based on division of labour between the former Indochina countries which is structured according to so-called comparative advantages. It seems that according to this masterplan Vietnam will be the geographic base for industrial development (due to its overpopulation, lack of employment, a skilled and disciplined

industrial labour force and sufficient port facilities and infrastructure for export purposes), Kampuchea under the Heng Samrin government will have to provide cheap rice and other agricultural products like meat and rubber for the Vietnamese industrialization and Laos as the junior partner among the three will be forced to back this kind of regional development with its ample resources and will have to provide the necessary energy for processing industries (based in Vietnam!) from its hydro-power dams and coal mines. Most probably the "terms of trade" between the three unequal partners will be determined - like in the Soviet dominated COMECON-organization - according to political seniority and military power and not by the urgent needs of the peasants. As Laos is by far the poorest country of the three but owing to its low density of population and its relatively large reserves of land and untapped resources - potentially probably the richest, it will in a long-term perspective have to lose the most by this kind of co-operation. Hence, the political liberation from American and French influences has so far not resulted in national self-determination but has rather been reproduced in a new and more structural form of economic dependency.

It is certainly a difficult task to build up even a very modest kind of socialist system on top of an impoverished and war-torn subsistence economy and the Laotian leaders are well aware of this crucial problem:

"The main obstacle is our small production permeated with the character of a natural (subsistence) economy. Therefore, the biggest problem at present is to encourage and provide assistance, guidance and organisation for the various strata of the people - particularly the working peasants - to take up voluntarily the path of socialist collective production, thus gradually eliminating poverty and backwardness."<sup>18</sup>

In this specific sense (socialism in a subsistence economy) Laos is probably a unique case and can not be compared with the Soviet-Union, China, North-Korea or even Vietnam. Consequently, the "Laotian way to Socialism" could become a model for other Less Developed Countries (LDC's) in the III. World. Thus, the theoretical observation of Dieter Senghaas (and elsewhere Samir Amin)<sup>19</sup> may prove to be correct that "where socialism became a societal determinant (and did not remain just one political force among others within capitalist societies), it was the basis and motive force of accelerated, delayed development under adverse internal and international conditions which, as a rule, make successful delayed development under the banner of capitalism improbable."<sup>20</sup>

In other words, socialism as seen from a developmental perspective acquires a rather new connotation: it is not so much a political and historical force which may be able to transcend mature capitalist societies like in Western Europe or North-America but its new historical function seems to

lie in overcoming structural obstacles which prevent social development in ex-colonial and peripheral-capitalist societies. However, as the case study of Laos illustrates, in the process of socialist development new structural obstacles like the growing "state-class"<sup>21</sup> emerge which block the way to self-sustained national development due to self-interest, a dependent ideology or even the acceptance of the military presence of an external power (Vietnam). Consequently, the new political structure of party, government and state is still based on a centralized, autocratic and commanding system which has its roots in the history of anticolonial struggle and the Leninist cadre model. Hence, the new problem which arises after formal political independence is to allow for internal democracy which is the base for a further mobilization of productive forces, a process, which is necessary to make the transition from an extensive to an intensive socialist economy possible. From this point of view the "gentle road to socialism" in Laos seems to be long and winding.

Notes:

- +) The author visited Laos several times before and after 1975 and conducted a number of interviews with Laotian refugees. An earlier version of this paper was originally presented at the "Conference on Indochina" at Chulalongkorn-University, Bangkok, on February 5, 1981.
- 1) As quoted from Far Eastern Economic Review (FEER), May 28, 1982, p. 23.
  - 2) These constraints also account for the "urban" bias in reports from visiting journalists and diplomats stationed in Vientiane. Only members of religious voluntary groups and members of international agencies are allowed to travel deeper into the country.
  - 3) It is in any case very hard to establish what is really the ideology of the Laotian leadership. Interestingly, Lao leaders have never claimed creativity in the ideological field like their neighbours in Vietnam or Kampuchea. They also have made no pretense at having developed an original revolutionary doctrine like a "Laotian Way to Socialism". This low profile of ideological pronouncements created no conflict at times when Chinese or (later) Vietnamese resolutions and programmes were copied without inhibition for implementation in Laos.
  - 4) This paper was re-written in May 1982 and hence, could not take the development after the Third Congress of the Lao People's Revolutionary

Party into account. The congress was held in late April 1982. See for reference: Nayan Chanda, "Softly-softly socialism - Gentle persuasion works better with the peasants than force", FEER, May 28, 1982, pp.21. However, the third congress proclaimed five major development tasks, which are consistent with the former programs:

- a) Agriculture and forestry should be developed towards large-scale socialist production. But the formation of cooperatives should be voluntary and ethnic minorities must face no coercion in whatever form.
  - b) Laos should build a communication system including postal services, water ways and airways. A road-rail link with Vietnam has high priority.
  - c) Electricity networks should be established along with an engineering industry of small and medium-sized enterprises.
  - d) Non-socialist sectors of the society should be de-emphasized to make way for the socialist sectors.
  - e) Economic, scientific and technical managers should be trained to become "masters of their own country" (At the moment, about 2 000 Laotians are studying in the Soviet-Union and other Comecon-countries!).
- 5) See Hans U. Luther, *Der Vietnamkonflikt*, Berlin 1972, p.104. For a brief history of Laos see: Hans U. Luther, *Asien im Wandel*, Berlin 1970, pp.41, and by the same author: "Laos", *Handbuch der III. Welt*, D.Nohlen/F.Nuscheler (Hrsg.), 2.Auflage, 1982.
  - 6) *ibid.*, Luther 1972, p. 101.
  - 7) Quoted from: "Employment and Development in Laos", ILO-paper, Geneva 1980, pp. 52.
  - 8) For comparison with the economic problems of the Northeast of Thailand ("Isan") where mostly people of Lao origin and Lao culture live see: Hans U. Luther, *Peasants and State in Contemporary Thailand*, Hamburg 1978, p. 45-88.
  - 9) *ibid.*, ILO, p. 4.
  - 10) These cadres were in fact advocating a more nationalistic development policy and resisted domination by Vietnamese advisers. Consequently, they were branded "Maoists" and expelled from the party. (Interviews by the author).
  - 11) *Far Eastern Economic Yearbook*, Hongkong 1981, p. 184.
  - 12) UNHCR information sheet by Robert Cooper, Vientiane, January 1982. Compared with the tax regulations from 1977, the new tax system encourages not only production in general but gives incentives to irrigation projects, cooperatives and especially for planting of second crops. Whereas the former system allowed people only to "keep" a certain amount of their agricultural product, they are now more progressively taxed

and moreover encouraged to use also 'poor quality' land for cultivation.

- 13) Due to the economic and monetary adjustments in Laos, the border trade with Thailand slumped in 1980/81. Another reason were temporary closures of the border by Thailand.
- 14) Already the first Laotian domestic development plan (1978-1980) was closely linked to the Vietnamese plan. The subsequent five-year plan was designed to coincide with the Vietnamese five-year plan (1981-1985). It is also noteworthy that two months after Hanoi announced that it would collectivize agriculture in South-Vietnam, the Laotian leaders launched their cooperativization programme which turned out to be even less successful than its Vietnamese equivalent.
- 15) The signing of a "25-Year Treaty of Friendship and Cooperation" in July 1977 which affirmed the "special relationship" between Laos and Vietnam "legitimized" also the commitment of three divisions of Vietnamese troops in Laos. With the conclusion of this treaty, the long Vietnamese military presence in Laos was cemented and publicly acknowledged. It is not known how willingly the Laotian leaders signed this treaty. By 1982, the Vietnamese military presence in Laos was estimated as about 50 000 troops whereas the Lao People's Liberation Army was estimated at about 20 000.
- 16) See the article by Thierry Jean Rommel of the IMF's Asian Department in "The Nation", (Bangkok), August 6, 1981, with the title: "Laos offering incentives for massive development".
- 17) According to the Third Congress of the Lao People's Revolutionary Party in April 1982 which was held to adopt the country's first five-year plan (1981-1985) the output of rice had increased from 700 000 tons in 1976 to nearly 1,2 million tons in 1981 and for the first time Laos did not need to import rice. It remains to be seen if - as expected during the plan period - rice production will increase by a further 21 %. (FEER, May 28, 1982).
- 18) Kaysone Phomvihane as quoted in FEER, May 28, 1982, p. 22.
- 19) Samir Amin, Self-Reliance and the New International Economic Order, in: Monthly Review, Vol. 29, No. 3, 1977, p. 2.
- 20) Dieter Senghaas, Socialism in Historical and Developmental Perspective, Economics, Vol. 23, 1981, pp. 95, Tübingen, W-Germany.
- 21) The concept of "state class" means here the upper echelon of decision-makers in party, government and other state agencies, a group which receives a revenue from direct and indirect taxation of the peasants and hence, is more interested in socialist growth (with external help) than gradual development and equal distribution of national income and services.