



PART II

# LAO PEOPLE'S DEMOCRATIC REPUBLIC







## The Institution-Building Context in Lao PDR

*Naazneen H. Barma and Stephanie Robert Oksen*

The Lao People's Democratic Republic is a small, landlocked, geographically diverse country, populated sparsely with 6.5 million multiethnic peoples. Lao PDR is one of the poorest countries in the East Asia and the Pacific region, but it has enjoyed more than two decades of rapid economic development. The country's overall level of institutional capacity has risen steadily over the past 20 years—in tandem with growth and as a result of a concerted program of economic and administrative reforms. This brief introduction contextualizes the political economy environment and imperatives that have enabled and shaped two particular cases of successful institutional development in Lao PDR—the Ministry of Public Works and Transport (MPWT) in the roads sector and Électricité du Laos (EDL) in the power sector.

Lao PDR is a one-party, socialist republic governed by the Lao People's Revolutionary Party (LPRP), which came to power in 1975. LPRP is the first contemporary authority to govern the whole country, and the centralization and legitimization of authority have been the crucial challenges of nation- and state-building in the modern, post-independence period.<sup>1</sup> These challenges have been compounded by the country's diverse and difficult geography, its very low population density, and the sociopolitical and economic divisions in Lao PDR—including those among the lowland Lao of the Mekong valley, the highland Lao of the plains in the country's north and east, and the diverse ethnic peoples of Lao PDR, many of whom dwell in remote, mountainous areas.<sup>2</sup> Political and administrative governance decisions at all levels—from the macro-level trajectory set for economic



reform and modernization, to the micro-institutional questions of government agencies' mandates and modes of organization—should be viewed in the context of the overarching sociopolitical and economic challenges associated with nation- and state-building.

### **Traditional Fragmentation and the Socialist Revolution**

The traditional Lao sociopolitical structure was one of hereditary, decentralized governance units, linked together in a hierarchy of personal loyalties best conceptualized as concentric circles. Scholars describe this concentric structure of power as a *mandala* system—a multitude of clan-based settlements (*meaung*) with similar internal organization, positioned in a hierarchy where larger centers functioning more as principalities extract tribute from smaller ones and power relationships are variable and constantly shifting (Stuart-Fox 1997, 7). The territory known as modern Lao PDR was always organized in three main divisions, North, Central, and South—each linked, at various times, more closely with neighboring countries and peoples than with each other. For most of the country's centuries-long history, these three regions were governed independently of each other; this was also the case, in practice, even under the nominally national unity governments of post-independence Lao PDR (Stuart-Fox 2004). Colonial French administrators and post-colonial Lao elites found that the notion of the nation-state—a centrally administered territory with agreed-upon boundaries—faced tensions when confronted with the Southeast Asian *mandala*-centered traditional model of power.

Political culture and organization in Laos has remained rooted in regional clans, with powerful families enmeshed in regional and personal rivalries continuing to exert hereditary political and economic influence through patronage and marital ties, as well as through regional business networks (Stuart-Fox 1997, 60; Soukamneuth 2006, 62–64). The core LPRP leadership cadre originally comprised socialist revolutionaries with few traditional sources of power. Many of them came from disenfranchised tribal and mountainous groups and were elevated on the basis of their military prowess and international socialist ties, particularly with the Vietnamese regime. Yet, both the LPRP and the government bureaucracy have incorporated and become more beholden to the traditionally powerful, regionally based clans, although the armed forces, a small revolutionary cadre, and overseas-educated technocrats serve as counterweights

within the state apparatus.<sup>3</sup> These regional clans occupy high-level ranks in the Party's all-powerful Central Committee, which governs the country from Vientiane. They also exercise a great deal of influence through their placement in and connections with provincial governor's offices, which remain extremely powerful in the country's overall political equilibrium. The Party has pursued centralizing reforms, particularly in pursuit of creating a genuinely national economy and taking the reins of economic and fiscal governance (Soukamneuth 2006, 71, 187–90). Nonetheless, the marketization reforms initiated in 1986 have cemented the concentrated and interlocking political-economic dominance of the powerful Lao clans (Stuart-Fox 2004, 8). Because of the political nature of the bureaucracy and state apparatus, decision making in Lao PDR is concentrated in the hands of very high-level officials—in particular those in the LPRP's Central Committee, which includes key ministers and provincial governors.

### **State Building and Multifaceted Reform**

A series of initial obstacles notwithstanding, LPRP has essentially succeeded in extending its governing authority across the country, binding the nation itself together, and building a national economy and administrative infrastructure. The party has governed the Lao PDR with a great deal of overall stability since 1975 under the socialist principle of democratic centralism. In the early years of the Lao PDR, the Soviet Union and communist Eastern Europe provided the country with 60 percent of its military aid, and advisors from the Communist bloc were prominent in Lao PDR. Vietnam played an even more direct role in the country's governance, with advisers placed at all key levels in the administration working closely with LPRP cadres.<sup>4</sup>

Guided by a blueprint for socialist economic modernization at the outset, the LPRP identified crucial sectors for investment and capacity building, including the power and roads sectors. Yet LPRP's attempts at more radical socialist economic methods, such as agricultural collectivization, nationalization of large businesses, and a centrally planned economy, were recognized as failures relatively early, prompting market-oriented reforms in the 1980s (Evans 2002, 195). A crucial turning point in the country's development trajectory was the government's 1986 decision to embark on the New Economic Mechanism (NEM), a program of market-oriented economic reforms accompanied by significant administrative reforms. Although the

Lao state continues to be involved in a great deal of economic activity, NEM reforms have transformed the country's political economy over the past three decades.

Lao PDR has been characterized by recurrent patterns of decentralization and recentralization. Under NEM, the government officially devolved control over revenues and budgetary expenditures, as well as some measure of autonomy on civil service management, to provincial authorities. Because of a combination of weaker government capacity and parochial political imperatives at the provincial level, the reform led to fiscal imbalances and macroeconomic instability, which in turn led to a marked deterioration in public service delivery. At the end of the 1980s, as marketization reforms picked up steam, the party recognized the inefficiency of the administrative system, which had become heavily bureaucratic and faced a dearth of skilled engineers and administrative staff at the local level.<sup>5</sup> As a result, the government embarked on an attempt at administrative centralization, formulated first in the 1991 Lao Constitution, which called for a centralization of revenues and reaffirmed “democratic centralism” as the management principle guiding public administration. Through the 1990s, line ministries regained more direct control over their provincial technical branches. Yet provincial governors, holding high ranks in the LPRP, remained politically powerful—and defended their autonomy in the management of their localities.

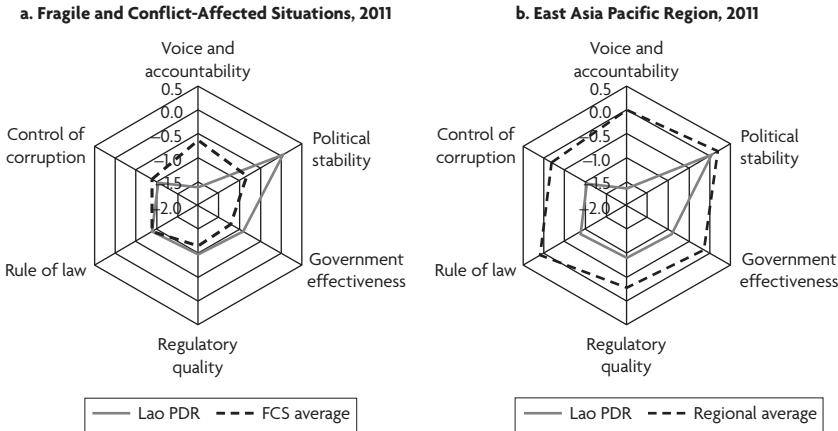
The Lao government maintains its vision of a centralized state and its principle of democratic centralism, while still pursuing a measure of devolution. Government elites—supported and advised by development partners—are progressively building a centralized state apparatus to enforce national policies and integration, while devolving day-to-day management and implementation to the provincial authorities. Thus, the Ministry of Planning and Investment and the Ministry of Finance have retained their prerogative as the agencies charged, respectively, with defining socioeconomic development priorities and centralizing all revenues and reallocating them on the basis of a bottom-up planning system. At the same time, in the early 2000s, the provinces were officially handed back some measure of fiscal and administrative functional autonomy—with the goal of building the provinces as the strategic, decision-making units, and the districts as the planning, budgeting, and implementation units. Today, Lao PDR is often characterized as a deconcentrated system with powerful governors, an administrative result that matches the country's political imperatives.

## Economic Objectives and Institutional Capacity

Lao PDR remains today one of the poorest countries in the East Asia and Pacific region—with poverty rates still particularly high among ethnic minorities and remote rural populations. From 1990 onward, however—as the market-oriented reforms took hold—Lao PDR has enjoyed a period of robust economic development and poverty reduction. Over the past two decades, the economy has grown at an average of 6.5 percent per year, and per capita incomes tripled to US\$1,260 in 2012. The number of poor households fell from 46 percent in 1992–93 to 27 percent in 2007–08.

An overarching development imperative for the Lao government has been its focus on moving out of least-developed country status and joining regional neighbors in the ranks of middle-income countries.<sup>6</sup> The original LPRP leadership cohort recognized relatively early that growth and development would be central to their legitimacy and to the long-term stability of the country under their rule. A common refrain today is that Lao PDR wants to be like its Association of Southeast Asian Nations (ASEAN) neighbors in terms of economic development and social modernization. LPRP has guided the country's economic liberalization while retaining political and administrative control, explicitly following the examples of China and Vietnam. At the same time, the role of multilateral development banks and bilateral donors was enhanced with the initiation of reforms in the mid-1980s.

Lao PDR has made steady improvements in its level of institutional capacity, graduating from the ranks of the fragile and conflict-affected situations (FCS) in the early 2000s. Its current governance structures have both strengths and weaknesses. The country is situated in a propitious neighborhood of economies with high growth potential and in which elites generally have a strong developmental orientation, albeit with varying systems of government. Yet, while Lao PDR compares favorably with other developing countries in East Asia and the Pacific and FCS in terms of political stability, it underperforms regional and FCS comparators on other key governance dimensions (see figures 4.1a and 4.1b). Significant areas of overall weakness include accountability and regulatory quality, although the single-party political system with strongly centralized accountability appears to have evolved somewhat in recent years. In particular, the role of the 100-plus member National Assembly in policy making continues to strengthen, and the State Audit Office has been expanded and now reports

**Figure 4.1. Governance in Lao PDR in Comparison with the Average**

Source: Worldwide Governance Indicators, World Bank Institute.

Note: Data are available at <http://info.worldbank.org/governance/wgi/index.asp>. The six governance indicators shown are aggregated from a series of underlying indices and scored from -2.5 to 2.5 for each country in the data set. These data should be treated with caution, but they provide a reasonable “at-a-glance” snapshot of a country’s governance context in comparative perspective. See also Kaufmann, Kraay, Mastruzzi (2010). FCS = fragile and conflict-affected situations; EAP = East Asia Pacific.

to the National Assembly rather than the government. Accountability pressures appear to be building overall; for example, a new hotline was established for the expression of citizens’ grievances to the National Assembly. Lao people are much more exposed to different systems of governance through connections with regional neighbors and, in particular, Thai television. The growing private sector, with international involvement, also raises accountability demands on government.

Government effectiveness and the rule of law are also challenges for Lao PDR. Governance and public administration reforms were introduced to support economic reforms, yet administrative capacity and efficiency remain a major constraint in both central and line ministries. Anecdotal evidence suggests that corruption—in the form of state capture as well as administrative rent-seeking—is common and increasingly problematic, but a lack of public opinion or enterprise surveys has hampered meaningful assessment of the issue. Legal reform has been pursued with a view to establishing the rule of law more firmly and numerous new laws have been enacted; but these remain little understood and, consequently, poorly and inconsistently implemented.<sup>7</sup> On the plus side—even as it continues to face weaknesses in accountability, regulatory quality, and government



effectiveness—the government has made important advances over the past five years in strengthening its public financial management system and improving internal oversight mechanisms, thus improving the overall level of public sector institutional quality.

## Notes

1. LPRP has developed a nationalist historiography that casts itself as the heir to the Kingdom of Lan Xang, which, centered in the ancient capital of Luang Prabang was the only other authority that governed most of contemporary Lao PDR.
2. Almost three-quarters of the Lao population live in rural areas. The population is made up of 49 recognized ethnic groups with 160 subcategories. The ethnic Lao make up the largest group, at 55 percent of the population, and predominantly live in the Mekong lowland areas; the ethnic minorities that comprise the rest of the population live mostly in the highland and mountainous regions of the country (Lao Department of Statistics 2008).
3. Today's core Party leadership, as represented in the Politburo, retains members from the original revolutionary group, with a strengthened role for the military (Stuart-Fox 2004, 207).
4. China, for regional geopolitical reasons (especially the conflict over Cambodia), was essentially frozen out of establishing close relations with LPRP by the Vietnamese; the Lao-China relationship only became stronger and more important from the mid-1990s onward (Evans 2002, 189–91).
5. 5th Party Resolution, 1988.
6. The Lao government's oft-stated goals in this area are to reduce the country's poverty level to 10 percent, achieve the Millennium Development Goals by 2015, and graduate from least-developed country status by 2020.
7. See Stuart-Fox (2004) for a deeper discussion of legal reforms, along with an analysis of the evolving politics of reform in Lao PDR.

## References

- Evans, Grant. 2002. *A Short History of Laos: The Land In-Between*. Chiang Mai: Silkworm Books.
- Kaufmann, Dani, Aart Kraay, and Massimo Mastruzzi. 2010. "The Worldwide Governance Indicators: Methodology and Analytical Issues." Policy Research Working Paper. 5430. World Bank, Washington, DC.
- Lao Department of Statistics. 2008. *Socioeconomic Atlas of the Lao PDR*.

- Soukamneuth, Bounlonh. 2006. "The Political Economy of Transition in Laos: From Peripheral Socialism to the Margins of Global Capital." PhD thesis, Cornell University.
- Stuart-Fox, Martin. 1997. *A History of Laos*. Cambridge: Cambridge University Press.
- . 2004. "Politics and Reform in the Lao People's Democratic Republic." Working Paper No. 1, Political Economy of Development Series, College of William & Mary.