

Laos Is Open for Business, but on Its Own Terms

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When Barack Obama traveled to Cuba in March, he became the first U.S. president in almost 90 years to set foot on the island nation. But during the final year of his presidency, he will become the first-ever sitting U.S. president to visit another communist-ruled former foe: Laos. In September, Obama will go to its capital, Vientiane, for the summit of the Association of Southeast Asian Nations (ASEAN).

Given Cuba's proximity to Florida and the huge Cuban-American community in the United States, it is hardly surprising that Obama's visit to Havana has attracted much more attention than his upcoming trip to Laos. But seen in a global geopolitical context, Laos is without doubt strategically more important than Cuba. The land-locked country's population may be fewer than 7 million, but it serves as the buffer between China and the rest of Southeast Asia, over which Beijing is rapidly expanding its influence.

Obama's decision to visit Laos was announced in November last year. At the time, Deputy National Security Adviser Ben Rhodes told a think-tank audience in Washington that "the emerging relationship between the United States and Laos focuses on such areas as health, nutrition and basic education." Rhodes did not mention the China factor but, hardly by coincidence, Obama's visit comes at a time when some analysts believe that Lao leaders are trying hard to shake off their dependence on China and pivot toward Vietnam. As Hanoi has recently sought improved ties with Washington in order to hedge against China's rising regional influence, some observers see the U.S. outreach to Laos through the same prism.

The China Factor

The idea that the Lao government is seeking to distance itself from China and warm relations with Vietnam gathered momentum in January, when the ruling Lao People's Revolutionary Party (LPRP), the country's only legally permitted political party, elected new leadership. The new LPRP secretary-general, Bounnhang Vorachith, is a veteran of Laos' revolutionary struggle and received military and political training in Vietnam in the 1950s and 1960s. At the same time, party stalwart and Deputy Prime Minister Somsavat Lengsavad, an ethnic Chinese who also goes by the name Ling Xu Guang, was sidelined. Somsavat had been instrumental in drawing Chinese investors into Laos, many of whom are now coming under close scrutiny by Lao authorities; some may have their contracts canceled and even be forced to leave the country.

However, sources close to the Lao leadership argue that the notion of a power struggle between "pro-Chinese" and "pro-Vietnamese" factions within the LPRP and the government it controls is misleading and oversimplifies a much broader problem. Rather, the recent shake-up in party leadership

comes after years of dissatisfaction with gangster-like Chinese businessmen who have used phony projects in Laos to launder their ill-gotten gains from China.

In that regard, the leadership shift, and the anti-corruption measures that it signals, isn't a snub to the Chinese government; in fact, Beijing is not opposed to the policies that the new LPRP leadership has pledged to enforce. "The new policies are not aimed at China, but against shoddy Chinese investors who have been treating Laos as a dumping ground for their black money, and are behaving as if Laos was their own playground where they can do whatever they want," said a well-placed source who requested anonymity because of his close links to the political leadership of Laos.

The land-locked country's population may be small, but Laos serves as the buffer between China and the rest of Southeast Asia, over which Beijing is rapidly expanding its influence.

The roots of the problem go back to the Special Economic Zones (SEZ) that the Lao government set up in the early 2000s in order to attract badly needed foreign investment to a country that, until only two decades ago, was among the poorest in the world. In those zones, most of which are located in border areas and remote parts of the country, investors are given tax breaks and enjoy relaxed import and export regulations for whatever goods they produce. The government hoped that the SEZs would create about 50,000 jobs in rural areas, and boost local per capita incomes to as much as \$2,400 annually—a huge sum by Lao standards; per capita income was \$1,780 in 2000, and reached \$5,060 in 2014, according to World Bank data. The SEZs were designed to accommodate commercial centers, service areas for the public and processing plants.

At first, the results seemed impressive. In August 2015, 213 companies with a total registered capital of \$4.2 billion had pledged to invest in SEZs. According to a report released last year by the Lao National Committee for Special Economic Zones, more than \$1.9 billion had already been spent on what the committee called "development activities" in the zones. Of those 213 companies, 95 were Chinese, 17 Thai, 14 Japanese, five Vietnamese and five Malaysian. Twenty-two percent of the companies were reported to be Lao entities, probably joint ventures or foreign capital going through local companies. The rest were from unspecified sources.

Most of the Chinese investment was slated to go into the mining and construction sectors, but before long it became clear that few businesses were being developed in most of the SEZs. Instead, many Chinese investors simply bribed government and party officials to be able to park and launder money in Laos. If there was any activity at all, money meant to boost rural development had gone into dubious projects of little or no value to the local population.

The Kings Romans Casino, built in an SEZ near the confluence of the

Mekong and Ruak rivers where the borders of Laos, Thailand and Myanmar intersect, exemplifies that ominous trend. In a report published in September 2015 the Los Angeles Times described the massive casino as “an island of extravagance in the Laotian jungle, its corrugated green domes arching high above the treetops. Inside, hundreds of stone-faced gamblers hunch over baccarat tables, betting thousands of dollars a hand in heavy silence. Out back, a parking lot full of Rolls-Royce limousines adjoins dusty construction and banana plantations.” A Kings Romans chauffeur spoke of easy access to not only gambling, but also prostitution, telling the Los Angeles Times reporter, “Here, you can get whatever you want, as long as you have money.”

The casino was built in the Golden Triangle, a major Asian production hub for opiates, crystal meth and other synthetic drugs. As for the promise that businesses in SEZs would improve the economic livelihoods of Lao citizens, few of the casino’s employees are Lao; most are Chinese or from Myanmar.

From Reforms to Corruption

The casino might be an extreme example of how some SEZs are failing to serve their intended function, but the pattern is similar, if on a smaller scale, in SEZs in many other parts of Laos. That has prompted international law enforcement agencies to pressure Lao authorities to crack down on money laundering. As a result, a financial intelligence unit was set up within Laos’ state bank in 2007, though not a single money-laundering case has made it to court since its creation.

But pressure to advance anti-corruption measures also comes from a historically powerful lobby in Lao society, leading to the recent shake-ups in the ruling party’s leadership. Already in 2014, a group of LPRP veterans convened to address rampant corruption and fiscal irresponsibility. The most prominent of them were Khamtay Siphandon, LPRP leader from 1992 to 2006 and the country’s president from 1998 to 2006; Sisavath Keobounphanh, vice president from 1996 to 1998; and Saman Vignaket, a former chairman of the National Assembly, Laos’ parliament. Those same party figures played an important role in the revolutionary struggle that turned the former French protectorate—a status it held since until 1953, when it became an independent kingdom—into the communist-ruled Lao People’s Democratic Republic in 1975.



Lao honor guards at Wattay International Airport, Vientiane, Laos, Nov. 4, 2012 (AP photo by Vincent Thian).

Once in power, Laos' communist regime introduced a Soviet-style system, forbidding private enterprise and introducing collective farms in rural areas. That caused severe economic stagnation and prompted hundreds of thousands to flee across the Mekong into Thailand. Most were later resettled in countries such as Australia, the United States, France and Canada. In response, the Lao government introduced the New Economic Mechanism in 1986, combining what the Lao called "chin thanakaan mai," or "new thinking," and "kanpatihup setthakit," or "reform economy." For the first time, government authorities not only allowed but also encouraged the creation of small-scale private enterprises such as hotels, restaurants and general stores. Some Lao are proud of the fact that the new economic policies were implemented even before Mikhail Gorbachev launched his "glasnost" and "perestroika" reforms in the Soviet Union, but the reforms in Laos never went beyond the economy—the LPRP never even contemplated democracy or a multiparty system.

The New Economic Mechanism was followed in 1989 by a liberal foreign-investment law, signaling to the world that Laos was open for business. As a result, the impoverished country did experience several years of impressive economic growth. With assistance from international financial institutions such as the World Bank and the Asian Development Bank, the government built hydroelectric power stations, enabling Laos to sell electricity to Thailand and Vietnam. Thai companies set up factories in Laos, and international donors helped improve the country's run-down infrastructure. In April 1994, the first bridge connecting Laos with Thailand was opened with funding from the Australian government, and Sweden and the World Bank assisted Laos in upgrading its road network.

During the first decade of the new economic policies, manufacturing, mining and timber processing attracted the lion's share of foreign investment. Remittances from abroad, notably from Laotians who had settled in Western countries, also became an important source of income. Gradually, living standards began to improve. Privately owned shops, hotels and restaurants sprung up in Vientiane and other towns. Economic growth during the past decade has averaged around 7 percent, compared to negative growth in late 1980s—an impressive figure, even if living standards remain poor compared to wealthier neighbors such as Thailand, Vietnam and China.

But beginning in the late 1990s, an influx of dirty money from China began to alarm the revolutionary veterans who had initiated the reforms in the 1980s. Officers and officials who had served in the revolutionary war began to wallow in money, living in luxury that had been unimaginable in the past.

The 10th LPRP party congress in January 2016 signaled that the corruption would no longer be tolerated. Somsavat Lengsavad, the deputy prime minister in charge of the SEZs and considered the main culprit, was ousted. Asang Laoly, another deputy prime minister who comes from a tribal community in the northern province of Luang Prabang, which has seen a massive influx of Chinese investment, was also sidelined.

In turn, those who have been promoted are not necessarily “pro-Vietnamese.” Rather, they are a slightly younger generation of technocrats and academics who appear more concerned about the nation's welfare than in seeking graft from shady Chinese businessmen.

The Dismal State of Human Rights

It remains to be seen how Laos' new leadership will tackle mismanagement of SEZs and curb criminal activities, and how that will affect its regional and foreign policies. While capital from genuine Chinese investors will be welcome, it is also certain that Laos will balance its foreign trade relations, increasing exchanges with countries other than China. Vietnam will remain a major investor and donor. According to an October 2015 World Bank report, Laos is also likely to increase “its integration into the regional and global economy. The launch of the Asean Economic Community at the start of 2016 will further liberalize the movement of goods and services, capital and high-skilled labor in the regional bloc.” As of 2016, Laos also serves as the chair of ASEAN, hence the September summit that Obama will attend in Vientiane.

But while expanding regional trade ties might be within reach, the success of efforts to improve ties with the U.S. could be constrained by Laos' dismal human rights record. While ASEAN is not overly concerned with human rights and democracy—most of its members are ruled by autocratic regimes—the issue will likely prove problematic for Washington. In a 2015 report, Human Rights Watch criticized the Lao government's failure to take “significant steps to remedy its poor human rights record” and persistent restrictions on “fundamental rights including freedom of speech, association and assembly.” Since 2010, the report added, “the government has arbitrarily arrested and

detained, and in at least two cases, forcibly disappeared civil society activists and those deemed critical of the government.”

Of special concern is the fate of prominent civil society leader Sombath Somphone, who was detained in December 2012 and has not been heard from since. Sombath, who studied agriculture in Hawaii in the early 1970s, promoted sustainable farming in poor rural communities since returning to Laos following the communist takeover in 1975. In 2012, his grass-roots activism put him afoul of the Lao government, which seeks to maintain its authority over organizing locals for development activities. International officials, including former Secretary of State Hillary Clinton have publicly decried Sombath’s disappearance.



Sombath Somphone receives the Ramon Magsaysay award for Community Leadership, Manila, Philippines, Aug. 31, 2005 (AP Photo/Bullit Marquez).

These abuses take place within a legal framework that makes Laos one of the most repressive countries of the region. In addition to forbidding any political parties besides the LPRP, Laos’ Soviet-style constitution prohibits all mass media activities that are contrary to “national interests” or “traditional culture and dignity.” Its penal code contains vague provisions that ban “slandering the state, distorting party or state policies, inciting disorder, or propagating information or opinions that weaken the state.” Journalists who “obstruct” the government’s work or do not produce “constructive reports” face lengthy prison sentences. The establishment of independent trade unions is also illegal.

Getting Past the Past With the U.S.

In his November speech announcing Obama’s upcoming visit, Rhodes made mention of the “historical lens” through which the United States is seen in

Southeast Asia. In Laos, he added, that means memories of “the bombs that fell during the U.S. invasion of Laos as part of the Vietnam War in the 1970s.” During the war, Laos became one of the most heavily bombed countries in history: In the nine-year period from 1964 to 1973, the U.S. dropped over 2 million tons of bombs on the country in an effort to interdict North Vietnamese supply lines, resulting in thousands of deaths. More than 40 years later, huge quantities of unexploded ordinance remain in remote areas of Laos and cause injuries and even deaths to this day.

Moreover, a low-intensity guerilla war with Hmong tribesmen in the northern highlands that persisted into the 1990s before all but fizzling out was the remnant of the Vietnam War-era Hmong resistance covertly supported by the CIA. The U.S. provided military assistance, training and financing to members of the Hmong, in a failed effort to keep communism from spilling over to Laos.

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On the other hand, Laos is the only communist country in Southeast Asia with which the United States has always maintained diplomatic relations. The United States established formal ties with Laos in 1955, and, unlike with Vietnam and Cambodia, the relationship was not affected by the communist takeovers in the region in 1975.

According to Rhodes, “there is a sense of potential in the relationship between the United States and Laos for the first time in a long time.” But to expect Laos to become an ally in U.S. efforts to contain, or even balance, China’s influence in the region would be unrealistic. The United States cannot turn a blind eye to Laos’ human rights record, either, and any criticism in that regard is likely to annoy Lao leaders. It is also highly improbable that a more pluralistic and transparent political system will emerge in Laos within the foreseeable future.

Furthermore, the recent shakeup in the LPRP’s leadership may not diminish China’s influence in Laos; rather, it could pave the way for a more responsible relationship between Beijing and Vientiane. But an increased U.S. presence in Laos will nevertheless be in Washington’s strategic interest and show its commitment to the region.

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