

THE POLITICAL ECONOMY TRANSITION IN A DEVELOPING COUNTRY

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Abstract

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The current national economic and social development plan of the Lao People's Democratic Republic (Lao PDR) aims to promote economic development, shift the structure of the economy for modern industry, and foster the growth of culture and society (Luangrath, 2019). This results in the economic transition from a centralised economy to a market economy. Consequently, the purpose of this study is to investigate the variables that influence such transitions and the resulting modifications. To achieve these goals, qualitative data analysis, and in-depth interviews were conducted. The results demonstrate that such transition depends on both external (the role of Laos, the influence of China, and the roles of international organisations) and internal factors (mechanisms of state ideology, economic reform, legislation and regulations, and the adaptation of the country's leaders from one generation to the next). In response to the transitional economy, there are two essential changes, including capital groupings and state adjustments. The study proposes that investors interested in investing in Laos should research the country's ideological mechanism, new economic reform policies, legislation and regulations, and economic transition history in depth since these are essential elements contributing to the economy in transition.

Keywords: Political Economy, Transition, Market Economy, Lao PDR

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1. INTRODUCTION

The end of the Cold War resulted in greater economic cooperation, trade, and investment in the Mekong region, which connects China and

the Lao People's Democratic Republic (Lao PDR), Vietnam, and Thailand (Kelly & Lu, 2021). This led to a significant increase in opportunities for economic cooperation between the countries. China's economic reforms in the late 1970s resulted in

the country's rapid economic development (Kroeber, 2020). As a result of geopolitical interests and geographic proximity, China's role in the region has grown in importance (Corrigan, 2016). China, Vietnam, and the Lao PDR are Marxist socialist states with a one-party political system that wields absolute power. The economy has been transformed from a centralized planning one to a socialist market one (Flores, 2017; Bhatti & McDonald, 2020). China employs the economic reform concept called the "Four Modern Policies", while the Lao PDR uses the "New Imagination Policy or New Economic Mechanism (NEM)", and Vietnam has implemented the one known as "Economic Renovation". These economic reforms in China, the Lao PDR, and Vietnam encourage foreign direct investment and free trade liberalization, as well as enterprise and land reforms, in addition to financial sector development (Mya, 2006). As a result of the aforementioned political and administrative structure, power is frequently centred on the Lao People's Revolutionary Party, as well as the management, legislative, and judicial branches. Thus, the party has grown to become the most powerful political organization in the country. Before that, the implications reflected the changing context of China and Vietnam (Sahut & Teulon, 2022).

On December 2, 1975, the Lao PDR transitioned from a monarchy to a socialist regime (Intal & Chen, 2017). Sixteen years later, on August 14, 1991, the first constitution was promulgated and the centralization concentrates political and administrative power (Bui, 2019). The central government relies on the resolutions of the Lao People's Revolutionary Party's General Assembly as the country's primary governing authority (Punya & Rehbein, 2020). To guarantee a seamless transition and alignment of interests and political power between the new and old power groups, which have a long history of power and riches at the local level, the new rulers kept the same rights to govern at the local level (Soukamneuth, 2006). As a result, the administration has devised a 10-year socio-economic development strategy plan (2016-2025) with the primary objective of removing the state from the status of an undeveloped nation by 2020 and ensuring continued improvement (Punya & Rehbein, 2020). By executing the resolutions of the 10th session of the Lao People's Revolutionary Party, the country will have completed its transition from undeveloped to developed by 2025. This will lead to the Lao PDR prioritising economic development, consistently encouraging economic development, shifting the structure of the economy in the direction of modern industry, and fostering the growth of culture and society (Luangrath, 2019). The Lao PDR is now undertaking its 9th national economic and social development plan for the next five years (2021-2025). The country's driving force is to become Asia's electric power producer and exporter (the battery of Asia) and a centre of connectivity in the neighborhood or a land-linked country in order to advance the Lao economy, which consists mostly of the agricultural, industrial, and export sectors (Sahut & Teulon, 2022).

Even though the transition from a centralised economy to a market economy in the Lao PDR is significant for economic development in Southeast Asia, including Thailand, there is little research on

the factors influencing this transition and the adaptation of relevant parties in the country. This study examines the political economy under the socialist political regime (Socialism) of the Lao PDR, as well as the tactics and policies that drive the economy through a market system (market economy). The purpose of this research is to examine the variables influencing the transition from a centralised economy to a market economy in the Lao PDR, as well as the adjustments made to the country's transitional economic structure. This research achieves its objectives through qualitative data analysis and in-depth interviews. The findings indicate that the transition to a market economy in Laos is contingent on both internal and external variables. Internal factors include mechanisms of state ideology, economic reform, legislation and regulations, and adaptation of the country's leaders from generation to generation, whereas external factors include the role of the state in a borderless world, the role of China, and the roles of international organisations. In addition, there are two fundamental alterations in response to the transitional economy, notably capital groupings and state adjustments. Foreign investors and the government interested in investing in the Lao PDR would find the study's conclusions useful, as it identifies significant elements impacting the transition to a market economy based on the diverse viewpoints of relevant parties and the adaptations of many sectors in Laos. Those interested in investing in the Lao PDR may thus develop an investment strategy that maximises their returns.

The paper consists of five sections. Section 1 provides an overview of the history of economic transition in Asian nations and the evolution of socio-economic growth in the Lao PDR, as well as the objectives, key results, and contributions of the research. Section 2 examines the relevant literature, while Section 3 discusses the research methodology. Section 4 contains the study's findings and discussion. Section 5 provides the study's conclusions, as well as its limitations and suggestions.

2. LITERATURE REVIEW

Two noteworthy topics emerge from an examination of the prior research. The first is the transition from a centralised to a market-based economy. China is the nation most frequently included in case studies (the China model). According to several studies (Anderson, 2006; Petras, 2006; Pei, 2006), China's approach to economic development under the leadership and planning of the Communist Party of China was flawed, and China's transition from a centralised to a market economy has had a number of negative consequences. At the beginning of the 21st century, new and expanding multinational firms began to play a larger role in China's economy (Grosse, Gamso, & Nelson, 2021). After the Chinese government increased economic and financial liberalisation in accordance with the World Trade Organization agreement, allowing foreign companies more freedom to conduct business, banking, and financial transaction in China, the Chinese people's standard of living declined (Anderson, 2006). For instance, China's economic transformation from socialism to capitalism caused a decline in the general quality of life of the majority of

the population since the state welfare system was eliminated. Tens of millions of people had lost their employment, and those who remained were forced to labour in abhorrent conditions in factories of foreign export sectors with poor salaries, hazardous working conditions, and severe pollution (Kroeber, 2020). In contrast, while a tiny handful of investors and party officials have profited from the exploitation of Chinese workers and corruption, China's tremendous economic growth over the past three decades has produced a great number of affluent bourgeois individuals (Wu, 2019). In contrast to the majority of the population, the new, wealthy, and super-rich bourgeoisie enjoy a number of benefits and privileges from both within and outside the country, including supreme well-being, healthcare, services, education, and the patronage of high-ranking party members (Lu, Fan, & Fu, 2021). This could eventually lead to more class conflicts. Moreover, China has shifted from Maoist communism to new Leninism (neo-Leninism), which allows the country to receive external investment while the state retains control of key industries, resulting in an economically inefficient and ineffective system (Petras, 2006). Crony capitalism with Chinese characteristics, which is characterized by unchecked state power and illicit wealth, has also harmed the Chinese economy. This is due to the fact that the vast majority of modern Chinese capitalists are the children of high-level party officials who graduated from domestic and foreign universities using their fathers' political connections and corrupt government officials to create wealth for their own businesses. They have the privilege of borrowing money from state-owned banks and receiving state concessions, investing with the government in monopoly businesses by purchasing them from the state at a low cost, or buying land to build real estate at a reduced price. They also run their companies by exploiting their workers while ignoring the interests of the state and the people (Ghazi-Tehrani & Pontell, 2022). In conclusion, the process of transitioning from a centralized to a market economy is the shift from state capitalism to liberal capitalism, resulting in the emergence of a new bourgeoisie, enormous benefits, and privileges from the growth of the market economy. The majority of them are descended from the elite as well as party officials.

The second issue is the transition from a centralized to a market economy. In the Lao PDR, the emphasis is on the dimension of development from a traditional society to a modern one. The Lao government has promoted centralization, political public administration, and fragmented and fiscally independent economies across the region, in which the central government's economic and political transition process is strengthened, allowing the central government to control and enforce economic governance at some level. This has had an impact on the traditional autonomy of provinces (Soukamneuth, 2006). The Lao People's Revolutionary Party has used political tools in its operations by adjusting various economic constraints, while also attempting to centralize political power and use centralized influence in rural areas to ignore the Lao People's Revolutionary Party's ideology with the structure of economic and political relations (Yamada, 2018). Comparative research of frontier

capitalism in the Lao PDR and patrimonial oligarchy in Cambodia revealed that the role of the state and economic geography between the two nations constituted a significant platform for reorganising economic power. State capitalism is transforming the Lao PDR and Cambodia into market economies. The distinction between the Lao PDR's marginal capitalism and Cambodia's oligarchy capitalism is one of greater market-state dependence. The Lao PDR has been involved and active in the regional economy. The central government delegated decision-making authority to regional elites, resulting in a spectacular rise in regional capitalism. In Cambodia, on the other hand, local capitalist oligarchy is prevalent, and the state rarely promotes an equal free market (Andriessse, 2013). Moreover, a study by Vongdara (2016) found that after the Lao PDR was established on December 2, 1975, it had two strategies: to protect and to develop the nation. By establishing connections with nations in the Association of Southeast Asian Nations (ASEAN) and the Mekong River region and adhering to the resolutions of the Lao People's Revolutionary Party's general meeting and the National Economic-Social Development Plan for the next ten years, the government has promoted socio-economic development, culture, security, peacebuilding, friendship, and cooperation (Vongdara, 2016). According to Punya (2019), the government of the Lao PDR has four sustainable development goals (SDGs) for the country's development: social development, environmental sustainability, economic development, and the improvement of good governance. These all assist in moulding Lao institutions and development strategies to conform to international standards. Furthermore, Souvannaseng (2019) conducted a study about the political economy of dependency and development in the Lao PDR and discovered that the development of the Laotian financial system has undergone a significant change since the end of the Cold War. When the Lao PDR participated in regional economic cooperation governed by the Bretton Woods-era financial system that later gave rise to the International Monetary Fund (IMF), the Lao PDR received significant financial support and investments from foreign private sectors over time. The Asian Development Bank (ADB) and the World Bank are supporting a global hydro lending landscape development plan in the Lao PDR through the NT Project. Funds are raised through modern financial tools with support from Organisation for Economic Co-operation and Development — Development Aid Committee (OECD — DAC) nations by governments as well as private businessmen from neighbouring countries such as Thailand, Malaysia, and China.

It can be concluded that the Lao PDR's economic development is dependent on external factors, owing to changes in the geopolitical environment (geopolitics) brought about by China, ASEAN, and international development organizations. This serves the Lao PDR on both multilateral and multilateral levels, as in the case of the China-ASEAN Free Trade Agreement (ASEAN-China FTA), which has an agreement to support economic relations and regional stability. In addition, cooperation between China and the Lao PDR will vary depending on each country's level of economic development, particularly the advancement of infrastructure in the Lao PDR, which is very similar to that of Chinese

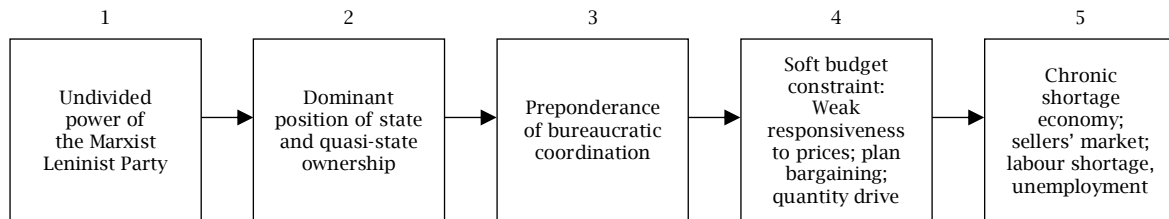
multinational corporations. China's strategy will be one of support and cooperation, as well as acting as both a supporter of and a co-operator in providing extensive assistance for economic development at both the government and local levels.

3. RESEARCH METHODOLOGY

The conceptual framework of this research seeks answers on the topic "The Political Economic Transition in the Lao PDR" from phenomena and

facts observed during the reform of the economic structure from centralized production to a market economy in the Lao PDR under the new imagination policy, which emphasized the mechanism of the market economy parallel to socialist politics until the identity of Lao capitalism (Laos's capitalism) emerged. Figure 1 depicts a socialist system model adapted from Sahut and Teulon (2022), which will be a prototype model for a transitional economy from a socialist system to a market system in the Lao PDR.

Figure 1. A model of the socialist system



This study is qualitative research that collects and analyses data through data analysis and in-depth interviews. The research evaluated elements affecting the transition from a centralised economy to a market economy in the Lao PDR, as well as adjustments within the country's transitional economic structure.

Data qualitative analysis begins with 1) organizing the acquired data, known as data organization, which is a management process that organizes data in both form and content, 2) data display, which can take the form of a descriptive presentation, and 3) concluding, interpreting, and verifying correctness, by drawing conclusions and interpreting the findings from the presentation, and confirming the accuracy and reliability. The subject's conclusions and interpretations can take various forms, such as a description, conceptual framework, or theory. The secondary data were gathered from Thai, Lao, and English documents, research papers, theses, and articles. This method was used to draw a conclusion on the factors driving the transitional economy in the Lao PDR and the subsequent adjustments.

In-depth interviews were conducted to determine the elements driving the Lao PDR's transitional economy. Ten participants from Thailand and the Lao PDR who have expertise, understanding, and experience pertaining to the transitional economy in the Lao PDR and other Southeast Asian nations were selected as the key informants. These samples were selected by a purposive sampling technique. As illustrated in Table 1, the key informants were classified into five groups: Lao businessmen, Lao politicians, Lao policymakers, Thai businessmen, and Thai academics. The interview is semi-structured, with the interviewer asking only a few predetermined questions and the remainder being unplanned. To fulfil the objectives of the study, several open-ended questions were posed addressing the factors influencing the Lao PDR's transition from a centralised economy to a market economy. The primary question is "What is the most critical element that you believe will lead to a transitional

economy in the Lao People's Democratic Republic?". However, some questions may differ based on the expertise of each group. Without interference from researchers, the participants' responses accurately reflected their perspectives.

Table 1. Five-group key informants

Key informants	Sample size (n)
Lao businessmen	2
Lao politicians	2
Lao policymakers	2
Thai businessmen	2
Thai academicians	2
Total	10

Qualitative research methods may be effective for expressing the feelings, attitudes, and experiences of participants and for comprehending the human experience in particular circumstances (Tracy, 2020). As this study seeks to investigate a particular issue in a particular nation, such advantages are appropriate. To determine the true link between crucial components and a transitional economy, however, it is necessary to employ quantitative approaches, such as analysis of variance (ANOVA) for a single dependent variable or multivariate analysis of variance (MANOVA) for multi dependent variables, to gather quantifiable proof of this relationship (Breitsohl, 2019; Huang, 2020).

4. RESULTS AND DISCUSSION

4.1. The transition from a centralized economy to a market economy in the Lao PDR

According to an in-depth interview, five-group key informants identified that the transition from a centralized economy to a market economy in the Lao PDR can be caused by various factors and this transitional economy leads to an adjustment of domestic and foreign investors in the country. These factors are shown in Table 2.

Table 2. Factors affecting the transition from a centralized economy to a market economy in the Lao PDR, identified by five-group key informants

Key informants	Factors
Lao businessmen	<ol style="list-style-type: none"> Government controls: Laos has issued measures to regulate the private sector's affairs and enterprises. Commerce cooperatives, state retail shops, and state enterprises were founded in order to dominate production and trade. A State Bank was founded in the financial and banking system to ensure the nation's financial management. Promoting foreign investments: Laos supports foreign investments by amending the previous Foreign Investment Law to the Law on the Promotion of Foreign Investment, 2004 (No. 11/NA), which establishes standards for investment promotion and protection of foreign investment to increase foreign investors' trust. Introducing 11 money politics-related private equity firms to the Lao Stock Exchange: The majority of businesses are state-owned enterprises and joint ventures with other nations, particularly Thailand and China, for example, hydroelectric power projects, high-speed train projects, and the construction sector.
Lao politicians	<ol style="list-style-type: none"> Concrete economic reforms: The Laos government implements concrete economic reforms through expanding the involvement of the private sector in corporate operations. Flexible financial systems and regulations: To boost commerce and investment, the role of commercial banks has been expanded, and foreign banks are now permitted to operate within the country. Laws updates: Since 1988, the Lao government has steadily enacted a variety of laws to provide security for domestic and foreign entrepreneurs and investors. Reforming Laos's market economy to conform to the country's socialist direction: The Office of the Prime Minister has announced a Decree on the Organization and Operation of the Lao National Chamber of Commerce and Industry (LNCCI), which serves as the intermediary between the state and business units and as a spokesman for employers and other associations.
Lao policymakers	<ol style="list-style-type: none"> Adoption of the new Economic Mechanism (NEM): Its key principle is to reduce centralised control and increase the use of the market mechanism to grow the national economy. Economic reforms: Laos transforms its economy by admitting foreign investments and fostering free trade in order to attain its objective of shedding its classification as a Least Developed Country (LDC) by 2024. Cooperation between the state and private sectors: The formation of seven assistant committees to the Prime Minister is a strong indication that, for the first time, the government of Laos allowed the private sector to participate in developing the nation's economic policies.
Thai businessmen	<ol style="list-style-type: none"> Privileges for foreign investors: The government of Laos offers special advantages to foreign investors. Individual investors are not taxed on earnings made from the sale of securities. A legal entity's tax payment is exempt, but dividend income is subject to a 10% tax. Investment promotion from the government of Laos: The Lao government supports both domestic and foreign investors equally by combining all services for investment project approval as a one-stop service, thus shortening the process and reducing the amount of time required for project approval. Tax exemption: Investors will receive tax exemption privileges based on the type of business and investment zone, and foreign investors will be permitted to acquire the residential property.
Thai academicians	<ol style="list-style-type: none"> The concept of the 9th Laos Economic and Social Development Plan: The purpose of this plan is to help the country effectively emerge from the LDCs by 2067 with comprehensive quality and environmentally friendly growth, and to achieve the Sustainable Development Goals (SDGs) by 2029, based on the country's existing potential. Economic problems: The majority of Laos's economic issues are persistent. For instance, the public debt exceeded 70.94% of GDP in 2021. This is a cumulative issue resulting from the budget deficit, current account deficit, state budget leak, insufficient tax collection, inadequate foreign reserves, inflation, a high cost of living, and a poor local manufacturing sector. Social problems: Numerous socioeconomic issues plague Laos, including an epidemic of drug addiction, human trafficking, corruption, development and wealth disparity, and the presence of unauthorised foreign labour. In addition, Lao society began to criticise the government administration owing to economic issues, environmental issues, and breaches of human rights. In addition, Cambodia, Vietnam, and international NGOs have maintained their opposition to the construction of dams on the Mekong River in Laos.

Source: Implied by the authors.

After analyzing the results in Table 2 along with the document analysis, it can be concluded that the factors leading to economic transition in the Lao PDR that lead to an adjustment of various sectors can be divided into two main categories: internal and external factors.

Internal factors include an ideological mechanism of the state, new economic reform, legislation and regulations contributing to the market economy, and adaptation of the Lao PDR leaders over the generations.

Mechanisms of state ideology: Through the governance system, the Lao People's Revolutionary Party (LPRP) is the only political party with power, and is appointed as a policymaker in regard to the country's political, social, cultural, and economic aspects. This would allow the state to pass on its political socialist ideology to the next generation via the party system and the elite class system. Since the 1990s, governments have struggled to adapt to the economic, political, and social volatility

that has resulted from the transition of national development policies to the "re-imagining" of economic reforms and the transfer of power to a new generation of leaders (Yamada, 2018).

Economic reform: Economic reform began in November 1986, at the Lao PDR's fourth Party Assembly. The second five-year economic and social development plan (1986-1990), as well as a national development policy based on the "New Imagination" concept or "The New Economic Mechanism (NEM)", was adopted and accepted. The key principle of the new imagination policy is to relax centralized control and use market mechanisms to develop more economically. However, in order for the Lao PDR's market economy reform to be effective in practice, a Prime Minister's Decree on the LNCCI (No. 125/PM, of July 24, 2003) was announced, with the establishment of the Lao National Trade and Industry Council. As a result, the Lao National Trade and Industry Council is regarded as the first public organization for Lao businessmen. The goal is to

form a bargaining mechanism between government organizations and the business sector, whose roles and powers are in determining guidelines or policies to achieve practical results, as are the powers of the Lao PDR state. However, the market economy is a system that is developed through the practice of determining the value of things in order to achieve equilibrium in the exchange with the expectation that the utility of the people of the entire country, including maintaining political stability, will be maximized (Ministry of Planning and Investment, Department of International Cooperation, 2009; Ministry of Planning and Investment, Lao, 2018).

Legislation and regulations contributing to the market economy: For legislation and regulations that contribute to the market economy, the government of Lao PDR encourages investment, both from Lao nationals and from foreign investors, by facilitating equality in submitting proposals for investment project approval as a one-stop service. This shortens the process and time required for project approval. They also receive special tax exemptions based on the type of business and investment area, as well as the right to own land for living purposes under Lao PDR law. The Ministry of Industry and Trade and the Ministry of Planning and Investment are in charge of project approval and investment. The Ministry of Industry and Trade is in charge of project approval or investment in general business, such as creating a public company and transitioning from a private to a public one, as well as the registration of foreign enterprise branches in the Lao PDR, in addition to the establishment of an enterprise in which foreign investors invest 100 per cent unilaterally, a company in which foreign investors own 50 per cent or more, a state-owned company, or a mixed company, which the enterprise law requires the prime minister to approve. In addition, the Ministry of Planning and Investment is in charge of project approval or investment in a concession venture, with the following project approval hierarchy: 1) a project or entity with an investment value of more than US\$20 million must be approved by the National Council; and 2) projects or enterprises with an investment value of US\$5 to US\$20 million must be approved by the Department of Planning and Investment (Ministry of Planning and Investment, Lao, 2018; UNCTAD Compendium of Investment Laws, 2022).

Adaptation of Lao PDR leaders from generation to generation: In terms of the adaptation of PDR leaders over the generations following the Lao People's Revolutionary Party's change of governance, Kaisone Phomvihane, who held that position from 1975 to 1986, was instrumental in laying the groundwork for political and socialist governance. As secretary-general of the Lao People's Revolutionary Party, he was a good role model for revolutionaries at every stage of the Lao revolution. He was a political, economic, and socio-cultural leader on all fronts. He also continued the mission of establishing a socialist state in the Lao PDR, creating various infrastructures to support the socialist regime. Kaisone Phomvihane's political leadership is particularly notable for initiating a reform policy based on a new imaginary approach in 1986. It supports and accepts the ideology of a state-centred socialist state (socialist market economy) to the point where it can be passed down

to the next generation of leaders. Until now, political leadership has been defined as a political leader's personality within the context of an institutional structure that leads to goals and success. As reflected in the present, the Lao PDR has adopted the 9th Five-Year National Economic-Social Development Plan (2021–2025). The driving mechanism for the country is to become an electric power producer and exporter in Asia (the battery of Asia), as well as the regional connectivity centre (land-linked country). In addition, the agriculture, industrial, export, and tourism sectors are the main and critical drivers of the Lao PDR economy. The Lao PDR's economic structure has changed dramatically since then. The government has established a development vision that will last until 2030. The Lao PDR will be a developing country with upper-middle income levels and sustainable economic growth based on strong industrial and infrastructure systems to support industry expansion and modernization, reducing development disparities between cities and rural areas, and allowing the country to actively move towards regional and international integration.

External factors include the role of the state in a world without borders, the roles of China, and the roles of international organizations. The process of transition to a state-centred socialist market (socialist market economy) in Lao PDR, especially the role of the state in a world without borders, has been accelerated as a result of globalization. The roles of China and international organizations in the economic corridor are also revealed as follows.

The role of the State in a borderless world: Globalization is a component of the market system's power. This is a trend that is partly due to the state's role being reduced in various fields. Furthermore, globalization is a force that strengthens the market by broadening the scope of activities. Market operations with the rest of the world will continue to deteriorate as the state's opportunity and ability to control the market system decreases. There is the possibility of a market system dominating democratic processes, particularly the dominance of a market economy over democratic ethics. The nature of state relations in the age of globalization has shifted away from competition for territory and resources. It has evolved into a competition for a truly transnational market. As trade activities have shifted from trade ideology (mercantilism) to the monopolization of power and interests, they have become complex, involving various mechanisms and methods such as production from obtaining licences and patents from abroad (licencing or franchising). This has also resulted in new forms of diplomacy aimed at creating business alliances in trade and industry, where the partners are not the state as a whole, but rather a private company and the state.

China's role in the economic corridor: China has implemented a border trade policy and administration with the Lao PDR and Vietnam, which has resulted in the exchange of goods between border residents. The Chinese government has designated markets and areas within a 20-kilometre radius of the Lao PDR-Vietnam borderline, and the Chinese government will allow border residents to exchange goods more freely. Furthermore, the Chinese border trade system has decentralized

power from the centre so that local governments play a role in border trade management, but foreign policy remains centralized. The Ministry of Commerce People's Republic of China (MOFCOM) and the State Council jointly develop border trade policies and administrations. China aims to achieve bustling border areas, a good society, and national security.

Investments in the Lao PDR after 2007 have assisted the country to develop into the Mekong Region Economic Cooperation Framework (GMS) and the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategic Framework (ACMECS), all of which are part of the Lao PDR's need to accelerate its development in order to compete with other countries in the region. Economic cooperation takes the form of two strategic routes: the R3A route from Thailand (Chiang Rai Province) connecting to Northern Lao PDR and southern China, and the R9 route connecting Myanmar, Thailand, and central Lao PDR, linking with Vietnam, connecting the Lao PDR to surrounding countries and making the Lao PDR a larger market. The Lao PDR is thus undergoing a transition period from being land-locked to land-linked, which has resulted in it having two sea routes, the Laem Chabang Port and Danang Port, both in Thailand. Vietnam will establish the second Thai-Laos Friendship Bridge between Mukdahan Province and Savannakhet Province in the Chinese trade zone (World Bank, 2020).

The Vientiane-Kunming high-speed rail project, which is part of the China-Indochina Economic Corridor, as well as the Belt and Road Initiative (BRI) project initiated by Chinese President Xi Jinping in 2013 to expand transport routes connecting people in 70 countries via land and sea rail projects, was scheduled to open on December 3, 2021, after more than five years of construction. The China-Laos railway link is worth US\$5.9 billion (about 199 billion baht). China is responsible for 70 per cent of the project's financial burden, with the Lao PDR responsible for the remainder. Construction began in 2016, and this megaproject has an investment value that is roughly one-third the size of the country's economy. If the project fails, the Lao PDR could find itself in debt for more than 60 per cent of its investment, or US\$3.5 billion. Because it includes a loan from a Chinese export-import bank (Exim Bank), the Lao PDR will bear proportional liabilities of up to US\$1.060 million. China will have a burden of US\$2.480 billion. The remaining 40 per cent are those shares, with the Lao side required to provide money in proportion to its own shares, totalling 730 million US dollars. It is the Lao government's budget and the remaining US\$480 million, which is also a Chinese bank loan. China was required to contribute \$1.63 billion, while the Lao PDR owed a total of \$1.54 billion. This is extremely high when compared to the Lao PDR's gross domestic product of US\$19,136 million. However, the high-speed rail connecting Vientiane and Kunming has propelled the Lao PDR from local to global connectivity. Because a railway project serves as a model for entering the role of an external actor, the subsumption of such railway projects is also part of domestic politics, especially the resource scramble (World Bank, 2020).

The roles of international organizations: Since 1992, the ADB and the World Bank have played an important role in the development and

cooperation in the Greater Mekong Region (GMS), as well as connections to Southeast Asia, as a part of their cooperation with China. China has increased its investment in the Mekong region, and in 2004, China agreed to cooperate with the Lao PDR on large-scale electric power projects, including highway construction and hydroelectric power resource development (Japan International Cooperation Agency, 2020). Moreover, China not only maintains cooperation with Vietnam on coal and gas development projects in Vietnam but has also exchanged information on economic development and energy security. Furthermore, the two organizations serve as technical advisors to China on Mekong River Basin cooperation projects through the establishment of a fund to support expressway construction. Over 500 people will be employed in agricultural consulting, trade, and communications. China created a US\$20 million special fund with the ADB in 2004 for human resource development and poverty alleviation, in particular for Cambodia, the Lao PDR, Myanmar, and Vietnam (CLMV). China also participated in the Trans-Asian Railway project in 2005, consulting on the construction of interconnected routes, cross-border trade, drug trafficking, illegal activities, and so on (World Bank, 2020).

4.2. State and capital groups' adjustment within the transitional economic structure in the Lao PDR

This section is based on complete document analysis, and the study's findings show that there are two major changes resulting from this economic transition: the capital groups and the state adjustments. The latter will be described by a comparison of the economic reform model of China and Vietnam to create a model of a transitional economy from a socialist system to a market system in the Lao PDR.

Adjustment of the capital groups: Under state capitalism, the state drives the economy through the mechanism of state-owned enterprises and other ones, such as businesses related to public utilities, including electricity, water supply, telecommunications, postal services, etc. Yet, the policy based on "The New Economic Mechanism" has resulted in the formation of new capital groups, which include the domestic capitalist fund as well as concessions in large projects. The domestic capitalist fund is made up of Lao PDR economic and political elites. The new venture will be a venture capital group that will grow its business through close relationships with senior leaders at both the national and local levels. Banque Pour Le Commerce Exterieur Lao Public (BCEL), Lao Electricity Generating Public Company Limited (EDL-Gen), LAO World Public Company (LWPC), Petroleum Trading Laos Public Company Limited (PTL), Suwannee Home Center Public Company Limited (SVN), Pusi Construction and Development Public Company Limited (PCD), Lao Cement Public Company Limited (LCC), Mahathuen Leasing Public Company (MHTL), Lao Agrotech Public Company Limited (LAT), Vientiane Center Laos Public Company Limited (VCL), and Lao ASEAN Company Leasing Public Company Limited (LALCO) are the 11 companies that were pushed into the Lao Stock Exchange. In addition, the Lao Stock Exchange's market capitalization (market cap) at the end of 2021 was

7,652,564 million kip (23,915 million baht), with the 5 companies with the highest market cap as follows. EDL-Gen has a market capitalization of 3,996,742 million kip (12,489 million baht), BCEL 1,163,250 million kip (3,635 million baht), LALCO 693,450 million kip (2,167 million baht), LWPC 498,467 million kip (1,557 million baht), and PCD 471,420 million kip (1,473 million baht). There are 15,000 investor accounts, of which 12,000 are domestic investors and 3,000 are foreign ones from 47 countries. Foreign investors have the largest shareholdings in five companies, namely LWPC with 29.3 per cent foreign ownership, LALCO with 20.98 per cent, and LAT with 17.81 per cent. EDL-Gen foreign investors own 13.09 per cent of the company, while in PTL they own 12.22 per cent (“Overview of GMS exchanges”, n.d.).

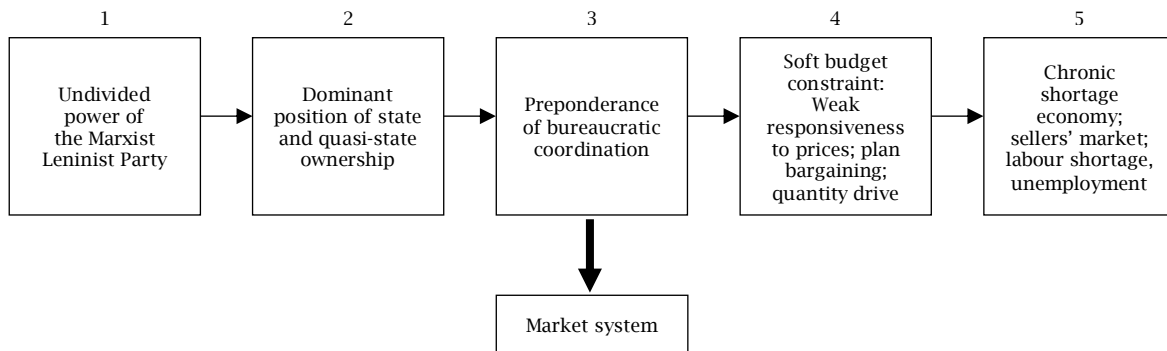
Concessions in large projects are a joint venture between the government or a representative company established by the government as well as the government or representatives of neighbouring countries, as in the case of EDL-Gen, which has a complex. The China-Laos railway project is estimated to cost US\$5.9 billion. China is responsible for 70 per cent of the project’s financial burden. Such projects will undoubtedly alter the Lao PDR’s economic, political, and social structures. The project has also benefited and stabilized the political system, as well as providing economic rent to the elite. That is, the political system is critical because it indicates whether power is distributed or concentrated within a single group of people, and how it is related to economic rent. Economic rent spreads to various groups, but in a military dictatorship, it is concentrated in only a small number of people.

The economic reform model of China and Vietnam: In comparison, both China and Vietnam have transformed their economies from socialist to market-based ones, making them post-socialist states. Following the Cultural Revolution (1966–1976), China reformed its centralized economy under Deng Xiaoping’s leadership. Modern Chinese economic

and industrial reforms began in accordance with the “four modernization” development policy, which focuses on agricultural, industrial, military, and science and technology development. Since 2000, China’s economy has grown at the fastest rate in the world (Petras, 2006; Sirikrai, 2015). Similarly, Vietnam uses the Chinese development model as an approach for the country’s transition under the Communist Party of Vietnam’s economic reform policy (Doi Moi), which is a free market liberalization (Wade, 2000). Meanwhile, the Lao PDR represents the next wave, learning from China and Vietnam to reform its economy. Since 1986, the new imagination policy, or NEM, has placed emphasis on market economy mechanisms parallel to socialist politics (Souvannaseng, 2019). In Vietnam, the Communist Party of Vietnam implemented economic reforms (Doi Moi) as part of free market liberalization. By incorporating reforms, the development of a quasi-liberal economy attempts to lead the middle line between capitalist individualism and Marxist collectivism. In agriculture and free trade, the land is developed by leaving it in the hands of the family or the private sector, whereas industry is controlled by the state or enterprise in collaboration with the private sector, with the state playing a leading role.

There is a set of economic rules related to liberalization, austerity reduction (deregulating), and privatization of state enterprises (privatizing), which is causing states and capital groups within a socialist country to adjust to the economic system with China as the main model, resulting in Vietnam and the Lao PDR taking it as a guideline for eventually developing their own country. Thus, this results in socialism within China’s capitalism and socialism within China’s capitalism. Vietnam’s capitalism and socialism within Lao capitalism are critical processes of transition from a socialist economy to a market economy that are unique to each country. In conclusion, the transitional economy from a socialist system to a market system in the Lao PDR can be illustrated as a model in Figure 2.

Figure 2. A model of a transitional economy from a socialist system to a market system in the Lao PDR



Source: Illustrated by the authors.

5. CONCLUSION

As a result of the “New Imagination Policy” or “The New Economic Mechanism (NEM)”, the Lao PRD has witnessed higher economic development and a stronger use of market mechanisms. The findings indicate that both internal and external variables

contribute to the economic transition in the Lao PDR and lead to the adaptation of several sectors. Internal elements include an ideological mechanism of the state, new economic reform, legislation and regulations that contribute to a market economy, and the adaptability of the Lao PDR leaders over the generations. External factors include the state’s

position in a world without boundaries; China's influence; and international organisations' roles. The process of transition to a state-centered socialist market (socialist market economy) in Lao PDR has been expedited by globalisation, particularly the role of the state in a world without borders. As a result of promoting globalisation, the socialist marketing economic structure took the shape of free market capitalism, based on the premise of allowing the market to define the rules. This will assist the economy in becoming more competitive and open to free trade, resulting in higher productivity and prosperity. Consequently, states and capital groups within socialist countries, such as Laos and Vietnam, have adapted to an economic system based on China's economic reform model as a result of a set of economic rules relating to liberalisation, austerity reduction (deregulation), and privatisation of state enterprises (privatizing).

The following recommendations are based on the findings: Prior to investing in Laos, investors must investigate the country's ideological mechanism,

new economic reform policies, legislation and regulations, and economic transition history in depth, since they are key variables contributing to the country's economy in transition. Therefore, international investors must evaluate these factors in order to maximise earnings and minimise risks. For instance, Laos's current national economic and social development plan aims for the country to become Asia's electric power producer and exporter; therefore, foreign investors may invest in the power and sustainable energy industry in Laos or provide funding for the Lao PDR to invest in such an industry. A limitation of this study is that the responses of key informants about the variables influencing economic transition may be influenced by their personal experiences and viewpoints on the issue. For this reason, quantitative methodologies, such as analysis of variance (ANOVA) or multivariate analysis of variance (MANOVA), are required to obtain quantitative evidence of the relationship between factors and a transitional economy.

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