

POLICY SPACE IN SMALL STATES:
HYDROPOWER AND ROAD DEVELOPMENT IN LAOS

JANO BOURGEOIS

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Abstract

The Lao People's Democratic Republic is used as a case study of a small state. The objective is to explain how the factor of smallness can influence the policy space available to a state. The specific policies analyzed are the ones relating to subregional development road and hydropower projects under the Greater Mekong Subregion umbrella. Other intervening factors, including landlockedness, low level of economic development, type of political regime, geographical location, and history, affecting Lao policy choices are examined. The conclusion is that isolating the precise effects of the factor of smallness separately from the other factors has not been possible with the case under scrutiny. It suggests a weakness in the operational and analytical value of the concept of smallness.

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List of Acronyms

ADB	Asian Development Bank
AEM	ASEAN Economic Ministers
AMEICC	AEM-METI Economic and Industrial Cooperation Committee
ASEAN	Association of South East Asian Nations
BOOT	Build, Own, Operate, Transfer
CBTA	Cross-Border Transport Agreement
CWE	China International Water and Electric Corporation
ECAFE	United Nations Economic Commission for Asia and the Far East
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
EDF	Électricité de France (<i>Electricity of France</i>)
EDL	Électricité du Laos (<i>Electricity of Laos</i>)
EGAT	Electricity Generating Authority of Thailand
EGCO	Electricity Generating Company of Thailand
EWEC	East-West Economic Corridor
GDP	Gross Domestic Product
GMS	Greater Mekong Subregion
GoL	Government of Laos
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association (World Bank)
JBIC	Japanese Bank for International Cooperation
JODC	Japan Overseas Development Corporation
KPL	Khaosan Pathet Lao (Lao government news agency)
Lao PDR	Lao People's Democratic Republic
LPRP	Lao People's Revolutionary Party
METI	Minister of Economy, Trade and Industry of Japan
MIGA	Multilateral Investment Guarantee Agency (World Bank)
MOU	Memorandum of Understanding
MC	Mekong Committee
MRC	Mekong River Commission
NGO	Non-governmental organization
NORAD	Norwegian Agency for International Development
NT2	Nam Theun 2
NTR	Normal Trade Relations
ODA	Official Development Assistance
PPA	Power Purchase Agreement
THPC	Theun Hinboun Power Company
UN	United Nations
UNDP	United Nations Development Programme
US	United States of America
WB	World Bank Group
YHBC	Yunnan Highway and Bridge Company of China

INTRODUCTION

The study of international relations is often focused on the states which are able to influence the structure of the system rather than those which are “system-takers.” These states are the “superpowers,” “great powers” and other large and influential members of the international system. It is believed that an understanding of how these states function and operate will provide insights about the determination of the mechanics of the international system (Hey 2003, 5). As a result, the receiving side of the international system is much less studied. In fact, some even say that small states in international relations are a neglected subject (Handel 1990, 3). However, the security/conflict aspect of small states comes under scrutiny. What is neglected is usually the more day-to-day aspect of policymaking for small states.

Why then would anybody be interested in studying small states that have a hard time, by definition, influencing the shape of the international relations system by themselves? The first reason might be that even though the system might be shaped by a few powerful countries, since most of the states of the world are system-takers it might be interesting to understand better the reality and possibilities of these numerous members of the international system. What motivated Burton Benedict’s study of small states was largely the fact that among the newly formed Commonwealth, more than 50% of the members were considered small states (Clarke and Payne 1987, ix-x). The sheer number of states in this position should prompt at least basic research on the subject. In fact, studying the system-takers may be the best way to understand the consequences of any international relations system.

Why choose Laos as a case of small state? In terms of area, it is not that small. Its territory is roughly equivalent to that of the United Kingdom, and nobody would argue that the United Kingdom is a “small state” in international relations. However, Laos is a small state in its very low population density as well as its low absolute population size¹. Among the small states, Laos stands out as a “woefully neglected” case study (Hey 2003, 11). This is surprising since it represents a very striking case of a small state. It is landlocked, poor enough to be considered a member of the least-developed countries category, stuck between regional competitors (Thailand and Vietnam), has a border with a very important country, China, and does not represent a typical case of ethnic homogeneity or markedly high participation in international organizations or treaties. This general atypicality is one of the many reasons to be interested in this case.

The subject of this thesis is the small state of Lao People’s Democratic Republic (Lao PDR) and its policy choices regarding subregional infrastructure development. We try to answer the specific research question of *how* does smallness influence Lao PDR’s policy choices. That is, we try to identify the mechanisms through which smallness affects policy choices. The working hypothesis is that smallness makes Lao PDR vulnerable to the manipulation of neighbouring countries and other international actors because, as stated in the literature on small states, it is economically and politically dependent on external actors for its survival.

¹ According to the 2006 *CIA World Factbook*, the area of Laos is 236 800 square kilometres whereas the area of United Kingdom is 244 820 square kilometres. The total population of Laos is around 6.4 million people with a density of 27.1 persons per square kilometre, whereas the population of the United Kingdom is 60.6 million people with a density of 247.5 persons per square kilometre (Central Intelligence Agency 2006).

What was called Indochina in the colonial past, and is now usually referred to as the Greater Mekong Subregion (GMS), is blossoming with subregional cooperation projects. Laos, as well as Burma (Myanmar), Vietnam and Cambodia, once very much closed to the larger international community, are opening to the world, if only partially (Damit *et al.* 2004). A part of this opening has been the recent inclusion of these countries in the Association of South East Asian Nations (ASEAN). Also important is the opening of these countries to each other, largely due to a decrease in hostilities and distrust which had been running high for decades (if not more) in the region. This has opened the possibility for these countries to cooperate on a subregional common infrastructure development project. The moribund Mekong Committee has been revived under the guise of the Mekong River Commission and has resumed work on water management in the Mekong basin (Akatsuka and Asaeda 1996; Jacobs 2002; Miller 1996). The Asian Development Bank put up an ambitious financing scheme for the GMS (Asian Development Bank 1997).

Roads, Mekong navigation, telecommunications, electricity generation and distribution, and tourism are a few of the areas in which these states try to accomplish something together. Because it is very well-endowed in hydropower generation resources as well as because of its geographical centrality, Laos is a key for many of these projects. For practical considerations, it has been necessary for research purposes to concentrate only on the areas of road-building and hydropower, because they are the projects on which there is the most information and which are on the “now happening” side rather than only on the “will (probably) happen” side. Roads are an example of infrastructure from which all partners should benefit. Every country integrated into the road network should benefit from a better transportation network, especially Laos because it has a very rudimentary road system. Hydropower, on the other side, provides an interesting contrast because it is full of

asymmetries. Production in Laos is intended for consumption mainly in Thailand and Vietnam, not for Laos itself. Thus, the costs and benefits are asymmetrically distributed. Anything touching the Mekong, a subregional common resource, also affects questions of hydropolitics. Many aspects are to be considered in these seemingly “win-win” projects, including opposition from environmental groups, mostly from the international NGO sector in Laos, to hydropower development on social and environmental grounds. We focus on the policy choices of Laos regarding subregional transport and hydropower projects as a case of policy to be analyzed to understand how smallness can affect the way in which Laos makes its policy decisions.

In order to answer this tricky question of the influence of the factor of smallness of Laos on the outcome of road and hydropower building, this thesis will be organised analytically; each sub-aspect of the problem will be treated separately before trying to bring a significant answer to the basic research question on how being small influences the policy choices available to Laos.

Chapter 1 is a literature review of the core theoretical background on which this study is based. In this chapter, it is also necessary to go through the tricky problem of definition. As in all social sciences, the problem of definition in the field of small states is important. Laurent Goetschel argues that: “[...] reflecting on the essence of small states, their criteria of definition, and the relations they entertain with their environment generally brings valuable insights into today’s international relations and states’ behaviour. This is mainly due to the high sensitivity of small states to certain basic characteristics governing the international system” (Goetschel 1998, 14). Even though this discussion might be a bit tedious and lengthy, it is necessary because much confusion is possible with the concept of small states. After clearing the problem of definition, it will be possible to do a significant

literature review of the current knowledge on small states and how this knowledge has evolved over time.

Following this general literature review, chapter 2 will establish the basic theoretical framework derived from previous work and specifically applied to the case of Laos and subregional transport and hydropower development. This chapter provides a clear picture of what the theory on small states predicts for a state such as Laos. This chapter also includes a description of the methodology applied for this research.

Chapter 3 provides information on specific aspects of Laos that have consequences for our analysis. Some of the information presented in chapters 4 and 5 would simply not make sense without this brief summary of relevant aspects of Lao foreign relations history, largely a reflection of Laos' position between stronger political entities which competed for the control of Lane Xang kingdom first, fragments of it later, and the "modern" post-colonial Lao in later years. Recent international relations, basically the political dominance of Vietnam over Laos from the 1975 revolution until the late 1990s, and the changing relationships of Laos with various actors beyond Vietnam, are also summarized. To finish this chapter, a portrait of the Lao regime under the communist rule of the Lao People's Revolutionary Party (LPRP) is necessary, because it affects how Laos makes policy choices.

Chapter 4 is one of the core chapters of the specific case study. It is an analysis of the subregional hydropower development projects in Laos. This, comprising the issue of dam-building and electric transmission lines to get electricity to the market, must include a basic understanding of regional hydropolitics as well as of the technical implications of hydropower generation and electricity networking. After an overview of the general aspects of the hydropower projects, we take three actual hydropower dam cases and do process tracing, as far as is possible in an information-scarce environment like Laos, of how Lao

policies have been affected by its smallness, while trying to isolate the independent effects of the hydropolitical and technical realities it faces. The goal is to understand why the projects have taken this shape and whether Laos had the ability to influence the outcome. The analysis will be done from the Lao perspective, and nothing will be assumed regarding the motivation of other actors. Our only interest will be what they do and how Laos is able or unable to shape it according to its perception of its best interest.

Chapter 5 examines the other type of infrastructure of interest in this thesis: subregional road projects. The technical reality of transport projects is very different from that of hydropower projects. The main theoretical point added for this section is the concept of landlockedness. The Lao government's strategy is to use road development to bring Laos from a "landlocked" status to a "landlinked" status (Embassy of the Lao People's Democratic Republic 1999). Using two concrete cases of transport projects it will be made clear how the smallness of Laos influences the choice of transport infrastructure to be upgraded or built, as well as the extent of Lao policy space to maximize the benefit it gets from these projects.

Chapter 6 is an analytic synthesis of the specific projects examined in conjunction with the theoretical framework and the specific factors affecting Laos. It will specifically highlight the ways in which the information gathered can confirm or refute the working hypothesis on the influence of the factor of smallness, independent from other variables, on the policy space available to the Lao government in the specific areas chosen.

CHAPTER 1: About Small States

This chapter summarizes the literature on the subject of small states' policy behaviour. Section 1.1 summarizes the debate about the definition of the small states while section 1.2 reviews what knowledge past research has created.

1.1 Definition of the object of inquiry

The problem of defining the concept of *small state* is quite important. The literature on small states usually spends enormous amounts of energy trying to produce a definition which is suitable and acceptable by researchers on the small states' political and economic reality (Hey 2003, 2). The definitional problem is by no mean limited to the study of small states. Social sciences in general tend to suffer from similar problems because concepts tend to have various meanings, as opposed to the natural sciences where concepts usually have an agreed-upon meaning. This is why we follow most authors in the field of small states in making a considerable effort to clearly defining the concept. But first, it is necessary to draw a brief overview of past efforts' at defining the concept.

In the literature on the subject of the less powerful states, or *small states* for the purpose of this paper, the term *weak states* is also often used. We will try to avoid this term, whenever possible, because it may lead to confusion with the concept of a weak state often encountered in comparative politics. The latter is used to reflect conditions of internal weakness of a state in relation to its society (which obviously can influence its external power but which does not necessarily do so) rather than the relative weakness of a state in external affairs (Migdal 1988).

The most straightforward attempt at an objective definition has been made by choosing arbitrarily a population threshold below which a state should be defined as

“small”. J.A.R. Marriott picked a population threshold of 20 million people in his study of small states and the prospect of federalism (Marriott 1943, 63). Seventeen years later, another author, T.G. Masaryk, arbitrarily picked the same population size as a threshold (Masaryk 1966, 23). This population size was, however, far from being a consensual definition. Simon Kuznets decided that it made more sense to define small states as those of population below 10 million, because he considered that too many states of population size between 10 and 20 millions were not exhibiting what he saw as the “critical economic characteristics of a small nation”, whereas those below 10 millions were more consistently doing so (Kuznets 1960, 14). A decade later, R.P. Barston chose a variable threshold of below 10 to 15 million people because it seemed to include most states that he considered as behaving like small states in their external relations (Barston 1971, 41-50). There seems to be as many population thresholds as there are authors working on the topic. These population thresholds would all include Laos, which has a population of 6.4 million in 2006 (Central Intelligence Agency 2006).

Yet another attempt at definition came out with a much smaller threshold of population size of a population below 1 million people, which would not include Laos. This definition, it must be acknowledged, was crafted to be used in the study of a specific community: the small country member of the British Commonwealth (Clarke and Payne 1987, xvii). However, a seminar interested in the same community of newly decolonized small Commonwealth countries, held in 1967, failed to agree on a definition that would be acceptable by all participants (Benedict 1967). This illustrates quite well that even when considering the same group, it might be difficult to get a satisfactory definition. In 1972, in a Sussex University-sponsored conference on small developing countries held partly as an intellectual follow-up on the 1967 seminar, Selwyn proposed to define the small states

(again the same community of states) in terms of economic dependency, a definition which he clarified and fixed in a later policy-oriented paper (Selwyn 1975). This definition was very different since it tried to use a qualitative filter rather than an arbitrary population size threshold. However, academics interested in the small British Commonwealth member countries (mostly countries in the Caribbean) did eventually come back to the population definition (Clarke and Payne 1987). These last three definitions were not intended to be quasi-universal analytical tools to be used by academics of all circles, but were rather aimed at describing more specifically the problems encountered by small British Commonwealth members. It is thus not surprising that it targeted the countries under study with a very limiting definition.

Another approach is the one of David Vital (or *approaches* since he eventually changed his preferred definition in subsequent work on the subject). In his first work on the topic, Vital outlines the fact that “[...] if an objective definition is attempted it will be circular along the lines of: those powers which lack the resources and ability to maintain an independent international role are true small powers, those that do not are pseudo small powers [...]” (Vital 1967, 7). He chooses to go by population size threshold. However, he modifies the arbitrary population size threshold with another variable: economic development. Vital argues that economically advanced countries should be considered part of the *small powers* group (the term he uses instead of the term small states) if they have a population size below 10-15 million, and underdeveloped countries should be considered so when their population size is below 20-30 million (Vital 1967, 8). There is a caveat to this, because he mentions that “micro-powers” should not be considered part of this group since they “surely constitute yet another class of states with reasonably distinct and characteristic problems of their own” (Vital 1967, 8). This feature is a bit discomfoting because it makes

clear that David Vital's definition (1967) is not meant at all to describe the same group of small states as the definitions of Selwyn (Selwyn 1975) and Clarke and Payne (Clarke and Payne 1987). Actually, most of the states considered as being small in Selwyn and in Clarke and Payne are to be put in the category of micro-powers according to Vital's classification. Laos would be considered a small power, but not a micro-power, because of its larger territory and population size.

Jeanne A.K. Hey points out, in introduction to the book she edited on the foreign policy of small states, the fact that the terms *small states*, *small powers*, *small nations* and *weak states*, *weak powers*, *weak nations* tend to be used interchangeably and that authors often are referring to three distinct communities using the same word (even though they have different concepts and definitions in mind). The three communities she identifies are, based on distinctions made by Vital (1967) the *microstates*, the *small developed states* and, a category including Laos, the *small developing states* (Hey 2003, 2). It is partly because of this possible confusion that enormous efforts have to be made in each work on the subject of the definition of the small states. Any work can be on a particular subgroup or can try to tackle the three categories at once. This may be one of the many reasons why some studies end with totally different conclusions with respect to the consequences of smallness on the behaviour of the states. Because Laos is a small developing state, we will concentrate on the analyses that relate to this subgroup of the small states.

The other approach used by scholars to define the small state concept starts from a different point. Rather than arbitrarily picking a certain population threshold below which a state is considered to be small, this approach tends to adopt a definition based on perceptual elements or perceived relative position in the international system. This is the approach favoured in the later work of David Vital. His position, which is a change from

his earlier work, is that a conceptual definition based on a notion of smallness of a state loosely defined and eschewing rigid specifications is preferable for the advancement of our understanding because it avoids many of the pitfalls of the strictly “population-based” definitions (Vital 1971). One of the most important elements stemming from this choice is that it is possible to craft a definition based on the perception of smallness by a country rather than through an “objective” definition. This position is relatively recent in political science because, historically, population has been the main benchmark used to classify states according to their power and influence on the international system. Handel points out that most definitions and classifications up to the 1950s and 1960s were based on population, with sometimes the addition of the concept of *effective population*² (Handel 1990, 13-14).

Important theoretical grounding for this approach, which relates to the larger literature on power and influence in international politics, has been provided by the work of both Robert Keohane and Robert Rothstein in the 1960s. Rothstein argues quite convincingly that: “a small power is a state which recognizes that it can not obtain security primarily by use of its own capabilities, and that it must rely fundamentally on the aid of others” (Rothstein 1968, 29). Obviously, this definition is influenced by the era in which it was crafted, the Cold War, with the heavy emphasis on state security that characterises it. The influence of the realist school of thought is also present, reflected by the choice of the term *small power*. It is a definition which is driven by power in a realist world-system.

² *Effective population* is composed of absolute population size as well as a measure of wealth (like gross national product (GNP) per capita or absolute GNP) supposed to represent the quality of mobilization of the population and the capacity to produce armaments and organize in case of war.

However, far from being irrelevant, it points to an interesting direction in that it identifies the importance of the recognition of *smallness* by the state as a major aspect of this condition. This is still insufficient for a solid study of the reality of small states since too many countries in today's world could fit into this definition. Arguably, a country like Canada is unable to "obtain security primarily by use of its own capabilities" (Rothstein 1968), since it must rely on the United States and other allies in the North Atlantic Treaty Organization to fulfill its security needs.

Robert Keohane's definition is a bit different, but is also based on perceptions. He defined the small power (note again the choice of *power* rather than *state*) like this: "A small power is a state whose leaders consider that it can never, acting alone or in a small group, make a significant impact on the system." (Keohane 1969, 296) This brings to the fore the idea of the small state as a relative position in the system of international relations rather than an absolute and easily definable condition. Under such a definition, Canada could no longer be counted as a small state since it is sometimes able, along with the help of other middle powers, to influence the international agenda and, in a certain way, the system (Behringer 2005; Jordaan 2003). Again, it is a definition using not objective data to classify a country as a small state, but rather its perceived role in the international hierarchy of states. In that sense, Laos obviously counts as a small state because it is largely peripheral to the international system and mostly peripheral even in regional political affairs as will be made clear in chapter 4.

More recently, Handel has continued in this tradition of defining states according to their role in the international system (1990). He argues that many efforts at classification in this way were flawed because primary interest was given to the attributes and definition of the super-powers, and then only as an afterthought are other types of states defined

(Handel 1990, 10-11). Looking at it from the bottom, he considers that the condition of *weak-power* is defined by a weak ability to influence the international system and a limited ability to secure its own existence by itself. He argues that such an ambiguous definition is sufficient for research purposes, and that it is even necessary to escape from the endless quarrels on definition (Handel 1990, 50).

Even more recently, Laurent Goetschel used a definition almost identical to the ones used by Rothstein (1968) and Keohane (1969). He wrote that: “[...] ‘small’ in the context of foreign and security policy meant that such a state was perceived as no danger to neighboring states” (Goetschel 1998, 13). This definition demonstrates how enduring the notion of the importance of perception has been since it was first theorized in the 1960s. However, from a larger analytical perspective, it is also a definition which is clearly focused on questions of security. This might be justified on the ground that, historically, small states were highly threatened of absorption by stronger states, but, as Handel shows, very few small states disappeared during the 20th century (1990, 7). Furthermore, Hey goes as far as to say that: “The turn of the century is probably the safest moment in history for small states in terms of their physical security” (Hey 2003, 8). Obviously, this is true mainly for external threats and not for internal problems. Nevertheless, it seems plausible that in international relations, small states are less threatened than they have been in the past. Thus, a definition based mostly, or only, on considerations of international security is missing the new types of challenge faced by small states that are possibly easier to identify, for example, economic or political dependency, or subservience based on considerations other than strictly external security. Handel points out that in most studies of small states in the field of international relations, economic issues and weaknesses are not considered, whereas economic studies usually fail to include real awareness of military and political issues.

Considering that a normative constraint exists on the use of force by greater powers on small states, he argues that economics is the field of choice to study the international relations of small states (Handel 1990, 217).

While considering the “[...] outdated focus on state security” (Hey 2003, 8) that she identifies in foreign policy analysis, Hey chooses a perception-based definition for small states. Her definition is that: “[...] if a state’s people and institutions generally perceive that state to be small, or if other states’ peoples and institutions perceive that state as small, it shall be so considered” (Hey 2003, 3). This definition has the great advantage of making “our research efforts parallel to the world in which small states and others interact” (Hey 2003, 4). Incidentally, with this definition in mind, the Lao PDR was chosen as a case study, written by Zachary Abuza (2003), to be included in Hey’s book (2003) on small states’ foreign policy behaviour. This is the definition adopted for the purpose of this paper whenever references are made to the concept of small state.

In margin of these efforts at defining and studying the small states in international relations, Baehr concluded that the definitional problems inherent in the concept of small state were so large that they were unlikely to ever be overcome, and that, consequently, the very concept of smallness became useless as an analytical tool (Baehr 1975, 459). It has even been argued that despite many years of efforts toward finding a satisfactory definition, the exact same problems as those encountered by social scientists in the 1960s are faced by today’s social scientists in the field of the study of small states (Pace 2000, 107). The option of denying the existence of small states is not available. Wilhelm Christmas-Moller argues quite convincingly that, since it is evident for any observer that small states do exist as a sub-category of states, there must be a way to define them in a conceptually meaningful way. If no good way has been found yet, researchers have to go back to the “drawing table”

to do so (Christmas-Möller 1983, 43). Instead of trying to devise yet another definition which would be different from the definitions used by other academics, we decided to go along with a definition which, in our eyes, has analytical value. The next section organizes current knowledge on small states according to Hey's definition and focuses on states in the small developing states category, not microstates or developed small states.

1.2 Knowledge about small states

Apart from quarrelling over definitions, there has been some interesting and insightful research done over the years. However, conclusions on the consequences of smallness for a state differ among studies. Reviewing past efforts at understanding this phenomenon will be done so that it will be possible to build upon that knowledge in this case study. The literature review will be done approximately in a chronological order while making sure to position authors in the tradition to which they belong.

Obviously, the context in which these studies took place influenced both the definition chosen and the type of insight gleaned. This reality clearly shows in the work of Burton Benedict (1967). The basic premise of his work was that the states under study, which he called "smaller territories", should all be former British colonies now members of the British Commonwealth, and have a "very small population size" (Benedict 1967). This work done by Benedict and other intellectuals was a response to decolonization of small territories of the former British Empire. We therefore do not expect their results to be directly applicable to the case of Laos.

In the tradition of the small states' role in an hierarchical international system, David Vital tried to answer these three questions (Vital 1967, 5):

- (a) What are the practical consequences for the small power of the material inequality of the states?
- (b) What are the limits of the small power's strength and, in particular, its capacity to withstand great external stress?
- (c) Given its limited resources and the ease in which overwhelming strength can be marshalled against it, what national policies are open to the small power to pursue?

The practical consequences of smallness that Vital identifies are mostly related to the economic field. Most prominently, he highlights the fact that foreign trade is a necessity for a small state because the resource base and the human capital present in such a country are likely to be pretty restrictive; thus he argues that specialization in the few economic areas where there might be a comparative advantage is needed for small states to participate in trade effectively (Vital 1967, 38-41). Another aspect of smallness is that such a country, according to Vital, will probably be dependent on foreign aid (1967, 57). This latter element makes clear that Vital has the developing small states in mind, not the developed ones. Lao PDR can be identified as such a state with a heavy dependence on foreign aid. Official Development Assistance (ODA), from 1990 to 2004, represented between 11% and 22% of the annual Gross Domestic Product (GDP), depending on the year (World Bank 2006). Obviously, developed small states, such as Switzerland, Belgium or Luxembourg, do not rely heavily on foreign aid (they are actually ODA providers) and are not comparable economically to states such as Lao PDR.

As a result of economic weakness, Vital argues, a small state is likely to have very limited intelligence and diplomatic capacities, relative to other states as well as in absolute terms. Being limited, the individual taking care of a given foreign policy issue (or any

national issue at all) is likely to have an important personal imprint on decisions made. This feature, *personalism*, is identified as an important practical consequence of smallness of a state (Vital 1967, 30-31). The capacity of a small state to withstand great external stress is reduced by the economic weaknesses outlined above. Heavy dependence on foreign trade, while representing only a small proportion of the foreign trade of any of its partners, makes it very difficult for a small state to resist economic warfare, unless a very important geographical feature (like the Suez canal in Egypt) gives the small state an important strategic edge (Vital 1967, 97). This vulnerability is further increased if the markets on which the small state depends are few. Again, this is a case of asymmetry where the small state cannot really hurt its trading partner, but its larger trading partner can quite badly affect the small state (Vital 1967, 97). What then are the policy options he sees as possible for small states? He answers this question by saying that even though a small state has the possibility of adopting *passive*, *active* or *defensive* policies, it will have very focused policies on temporally immediate and geographically proximate interests (Vital 1967, 121-122).

In later work, Vital argues that the most important aspect of the reality of small states is that they are deprived of choices, that they direly need multilateralism and alliances for security and foreign policy objectives and that all these constraints largely limit their participation in international relations (1971). To say the least, the emphasis on economics has been replaced by a heavy emphasis on political constraints.

The input of Rothstein is also very important. He studied the impact of different international relation systems and how they influence the policy options for small states. Even though he found that small states were always highly constrained, he suggested that bipolarity afforded small states some manoeuvrability through a bid from the superpowers for their allegiance, whereas a multipolar balance of power offered security based on the

great powers acting as balances to each other (Rothstein 1968). Rothstein thus highlighted the fact that strategies adopted by small states were highly dependent on the character of the international system in which the policy is decided.

Among the early authors on the small states, Marshall Singer agrees with Vital and Rothstein on the fact that the policy options of small states are severely constrained. However, Singer points out that if small states are clearly lacking in “coercive power,” they can manage to exploit a sizable “attractive power.” By exploiting their importance (geographic, strategic, tactic, economic or any other), small states, he argues, can manage to enhance their foreign policy success and possibly enlarge their policy choices (Singer 1972).

Selwyn specifically researched the development policy options of the poor small states. It is, thus, research closer to the field of applied economics than to the field of international relations. What he found out is that smallness as such was not a problem. What he identified as the root cause of difficulties for development policy (and he assumed also that it held true for other policies) for these countries were the economic dependence likely to come with smallness (Selwyn 1975). His conclusion is that smallness often comes with economic dependence problems and that it intensifies any weaknesses that a state may have but is not an explanatory factor as such.

Maurice East, upon analysis of the diplomatic capacities of small states, going against what was considered conventional wisdom, concluded that small states were not risk averse, as was assumed, but were rather risk-takers. This tendency to engage in risky behaviour stemmed not from a fully-informed decision but rather from the fact that diplomatic and intelligence-gathering capacities are so weak for small countries that they are often forced to become involved in international affairs only after stakes are already high

and risky behaviour is possibly the only choice apart from inaction (East 1975). These conclusions contrasted with what was expected from small states on a “rational” basis.

An important contribution has been made by Michael Handel in that he tried to formalize some aspects of the study of small states. He identified two sources of power for any given state: internal power (consisting of its territory, resources, industrial capacity, population size and skill, ethnic homogeneity, social cohesion, institutions, military capacity and diplomacy) and external power (formal alliances, participation in international organizations and treaties, or informal ties such as patron-client relationships or control of a regional or global collective good). He concluded that small states lacked internal power and had to rely on manoeuvres in the realm of external power to achieve anything in the foreign policy area (Handel 1990, 68-70). This predominance of external power over internal power makes the small states, according to Handel, particularly vulnerable to economic dependence on stronger countries and consequently to other dependent relations such as patron-client relationships. It also means that the state of the international system, whether it is bipolar, a balance of power situation or a hegemonic system, has a huge influence on small states since their only source of power lies in the realm of the international system and not in their innate strength (Handel 1990, 148-175). He also highlights the fact that the situation of a small state is highly case specific because it depends on the specific posture of its neighbours (1990, 6). It is also significant that the only major survival threat to small states that he sees as significant is eventual reunification with another state, not full fledged invasion of a country or loss of territory. This is largely due to the emergence of normative constraints on the use of force against weaker countries meaning that political and cultural absorption is more likely than military conquest (Handel 1990, 259). This is a problem for Lao PDR, which has a large proportion of people who can ethnically be considered Thai.

There is actually a debate in academic circles regarding the existence of a real ethnic difference between ethnic Lao (the dominant ethnic group in Lao PDR) and ethnic Tai Issan of Thailand (Evans 1999, 16-20). Handel concludes that small states are likely to have very limited foreign policy interests and tend to be quite passive, but at the same time he mentions that because of their limited foreign policy interests, they might be able to seize opportunities more quickly when they occur (Handel 1990, 45).

Peter Katzenstein, studying the policy performance of small European states concluded that many small states of Europe, most of them with weak military capabilities, were more flexible and creative in their foreign policies (Katzenstein 1985). This conclusion meant that small states were not at a permanent disadvantage in all aspects of foreign policy. In this perspective, small states were pictured as being able to work their way through the international system even though they were unable to shape it. Again, though, it is important to highlight the fact that this study focused on one of the sub-groups of small states identified by Hey, namely the “small states in the developed world” (Hey 2003, 2). This is an important thing to keep in mind because it is quite possible that smallness has a different effect on developed and developing countries, not to mention the effect of it when it is extreme smallness (i.e. the microstates). The position of Katzenstein (1985) is reminiscent of the conclusions of Singer (1972) in that both agree that even though constraints are important on the small states’ behaviour, there is space for small states to defend their foreign policy interests.

For Paul Sutton, one of the most important consequences of smallness is that it is likely to lead to increased personalism in the management of the foreign affairs of a country (Sutton 1987, 15). He also stated that relative to the international system, the small states, because they are unable to influence the system, are forced to adopt passive and reactive

policies. In fact, he identifies the systemic constraints as the most determinant for a small state's choices (Sutton 1987, 20). This may seem contradictory because it concludes that both personalism and systemic constraints are exacerbated in a small state. However, it must be understood from the perspective that systemic constraints establish the range of choices, but such choices are made in a personalistic way rather than through the systematic work of a bureaucracy as in larger states. To further confuse his point, Sutton concludes that in the end, the variable of smallness might: "[...] offer some insight, but yields little in the way of explanation" (Sutton 1987, 23).

Hey lists the commonly cited behaviours of small states in a "comprehensive and serviceable list" (Hey 2003, 5). Various scholars identified, over the years, the following foreign policy behaviours of small states. They:

- Exhibit a low level of participation in world affairs
- Address a narrow scope of foreign policy issues
- Limit their behaviour to their immediate geographic areas
- Employ diplomatic and economic foreign policy instruments, as opposed to military instruments
- Emphasize internationalist principles, international law, and other "morally minded" ideals
- Secure multinational agreements and join multinational institutions whenever possible
- Choose neutral positions
- Rely on superpowers for protection, partnerships, and resources
- Aim to cooperate and to avoid conflict with others

- Spend a disproportionate amount of foreign policy resources on ensuring physical and political security and survival

As she herself mentions, even though all behaviours identified are coherent with a vision of the small states as insecure, resource-constrained and at a disadvantage when facing a “realist” system that they cannot influence, the list is too long to be meaningful, and it is often self-contradictory (Hey 2003, 5-6).

The purpose of her book is to refine the understanding of foreign policy behaviour of small states. In order to do so, she mandated authors to write on a specific case of a small state under a common conceptual framework. She bases this framework on the work of James Rosenau on comparative foreign policy (Rosenau 1966). The basic notion in his work that is used by Hey: “ [...] is that different categories of inputs into the policy process (system, state, individual) will vary in their explanatory potency according to the ‘type’ [small being one of the types of state Rosenau identifies] of state under consideration” (Hey 2003, 9). Each author then evaluates the explanatory potency of the systemic, state and individual level of analysis on the small state case studied. With the eight case studies done with this common methodology (including one on Laos), the main conclusions that she draws in her study are that (Hey 2003, 193-194):

1. Small states are effectively heavily constrained by systemic factors
2. They are more likely to have regime security as their primary foreign policy goal
3. Their level of economic development has a high influence on the degree of pervasiveness of personalism in foreign policy making

This conclusion is interesting for this thesis because it gives an idea of specific outcomes that should be found in studying policies of a small state. For the purpose of the present study on small states, one of the case studies included in Hey’s book is of special

interest. Indeed, Zachary Abuza wrote a case study on Laos' foreign policy. The present work is complementary to his work because it is a study about how some factors affect policy space, not a general overview trying to observe whether Laos' foreign policy is determined at the systemic, state or individual level. His findings are nevertheless extremely interesting. Historically, he finds that before 1975 (foundation of the Lao PDR), the systemic level of analysis brings the most insight, from 1975 to 1992 (the era of the domination of the communist leader Kaysone Phomvihon) the analysis at the individual level is most relevant, and from 1992 onward, the state-level is the one which brings the best explanation of the foreign policy behaviour (Abuza 2003, 182-184). Abuza's work will be useful because it points to certain elements, at different levels, in the case of Laos that we must examine to understand its policymaking. However rather than trying to determine the importance of a given level of analysis, this study aims to know what are the specific mechanisms through which smallness affects policy space on specific cases.

CHAPTER 2: Framing research about small states' policy space

This chapter outlines the theoretical framework used for the purpose of this thesis. It also summarizes the methodology employed for the purpose of data-gathering and the specific research challenges that have been encountered.

2.1 Theoretical framework

The overarching perspective that is used in this thesis is that the factor of smallness should have identifiable effects on the policy conducted by a small state, independent of other factors. The first step to test this assumption is to have a rich and textured background analysis, including an historical perspective and elements of comparative politics, on the case study regarding aspects that can affect policy space. This background is important since this is not a comparative study but rather a single case study: the background acts as a counter-explanation to the smallness factor. If the variable of smallness does not bring additional understanding to the policy cases studied, then it would be necessary to conclude that either we have not understood how this factor affects the process or that it does not have an effect. Policy space is the ability that a country, and its policy-makers, has to decide autonomously of its policies; the capacity it has to take decision that may go against external pressures. In a nutshell, the goal is to see whether a holistic analysis of the topic can be meaningfully supplemented by an analysis of a precise variable: smallness.

Based on Hey's work (2003) the theoretical framework guiding the analysis of this thesis is that if smallness has an effect, we should observe in the policy cases studied a heavy systemic constraint on policy space, policy space being used primarily to achieve regime security, and a high level of personalism in the whole process, because the country

case chosen, Laos, is an economically poor state which should translate into high personalism, and decisions made on thin information and intelligence, according to Hey's conclusions (2003, 193-194).

However, we add to this framework the idea that systemic constraints can be exerted through economic as well as political strategies. In each policy case under scrutiny, this consideration is part of the observations made. Another element that we observe in addition to the use of the policy space in each policy case is the source of power permitting a certain freedom to the Government of Laos (GoL), whether internal or external along the framework of Handel (1990, 68-69). If the source is largely internal, then it is difficult to conclude that it is related to the small size of a state, in agreement with Handel's conclusions that small states derive policy space through the use of external power (Handel 1990).

To answer the question of how smallness influences Lao PDR policy choices, the hypothesis is that using the variable of smallness does bring a deeper understanding of the policy space available to a government than simply relying on other analytical lenses. The expectation is that some elements of the policy case study will be explainable only by the factor of smallness, through either its economic or political effect. The initial intent of this thesis was two-fold: to test whether smallness was a meaningful explanatory variable in the policy space of small states, and to characterize the exact mechanisms on the specific policy cases observed. This was an overambitious project, and the scope of the study has been reduced to identifying whether or not, through process tracing of some actual cases of policy, smallness adds anything to the analysis.

2.1 Methodology

Both primary and secondary sources of information are used to conduct the analysis. A caveat that must be mentioned is that because it is a country where information is tightly controlled by the Party, any research in Laos is very difficult. Thus, primary sources of information through interviews in the country are hard to access, largely because anybody speaking to a researcher might possibly have his or her security threatened by the government. NGO workers or academic researchers can be forced to leave the country for speaking too loudly about sensitive issues. Lao citizens, be they government workers, businessmen or NGO workers can lose their job or end up in jail for simply sharing their knowledge with foreigners. It has thus been difficult to gather much information.

Two field research trips, of respectively 2 months and 4 months, were used to gather some basic information through bibliographic research and interviews, and much more time could probably have proven useful. Most interviews were conducted in the cities of Vientiane, Savannakhet and Luang Namtha. The interviews A1 to A5 were conducted with people in the NGO sector, B1 to B3 with people in the Business sector, C1 and C2 with people in the Lao government, D1 to D3 with people in international organizations, and E1 and E2 with researchers. All interviews have been conducted in accordance with the *Tri-Council Policy Statement: Ethical Conduct for Research Involving Humans*, the *Carleton University Policies and Procedures for the Ethical Conduct of Research*, and the conditions of approval established by the Carleton University Research Ethics Committee. In accordance with these ethical guidelines, the names of the research participants are not publicly divulged.

Apart from interviews, primary sources that will be used are official sources, which means that, especially with respect to Lao sources, they will, most of the time, be uncritical and possibly heavily biased. Among these sources are the *Vientiane Times* and *KPL Lao News*

Agency, both Lao government-controlled news providers (like all newspaper or news sources from Laos). Even though they might be uncritical and biased, tidbits of factual information can be extracted, as well as, perhaps more interestingly, the views of the LPRP on certain issues. Primary sources will be used, whenever possible, in conjunction with secondary sources that might help to determine the credibility of the information.

Chapter 3 acts as the first part of the background analysis referred to in section 2.1. Chapters 4 and 5 also include topic-specific background analysis. All of these are based on the information gathered through primary and secondary research. The goal is to have a quasi-neutral portrait. Very precise process-tracing has been impossible to attain, partly due to the research environment of Laos, characterized by the culture of secrecy, and therefore lack of transparency, of the LPRP and consequently of many aspects of policy in Lao PDR.

A caveat regarding the choice of policy topic studied, subregional hydropower and transportation projects, has to be made. Ideally, some non-cases (cases where nothing happens) would have been studied. But the fact is doing a process tracing of a non-event is very difficult, and probably impossible in a non-transparent country like Laos. Consequently, only “cases” have been examined. They are treated as independent analysis, with efforts at pinpointing the specific impact of smallness in the process under study. Chapter 6 brings together the elements of analysis encountered throughout the policy cases, and assesses through the theoretical framework whether they provide us with better explanatory power than if we had neglected to look at the phenomenon from the smallness perspective.

However, before getting to the examination of the core phenomenon, chapter 3 sets out the general background which serves as a competing explanation.

CHAPTER 3: The specific Lao context

This chapter will provide a brief background on historical and political aspects of Laos. It will highlight how Laos has always been surrounded by competing powers, how today's relations of Lao PDR are generally structured, as well as how the current Lao PDR political regime works. History tells us that Laos has always been a weak political entity that had to deal with more powerful neighbours, but it also makes clear that Laos has not historically been a fully sovereign entity either. Examination of more contemporary political issues in Lao PDR shows how it is highly linked with Vietnam for various reasons and how even in its opening to the world it follows its age-old strategy of acting under the protection of an "older brother". The examination of domestic politics do provides a sense that policy space might be influenced by the type of political organisation of Lao PDR either autonomously or in conjunction with the factor of smallness. This information is important because it situates the specific policy cases to be examined in chapters 4 and 5 within a larger historical framework.

3.1 External relations: an historical perspective

The current situation of Lao PDR is the result of a long historical process. In order to have a better perspective on today's phenomenon, it is useful to review what happened in the Lao territory in relations to neighbouring political actors. We will briefly highlight the elements of smallness that have characterized Laos, starting with the proto-Lao kingdoms era, continuing with the colonial period under French and Siamese competition, and then proceed to the post-war Laos before the communist revolution.

3.1.1 Before Laos

Laos has a long history of being stuck in the middle of countries³ more powerful than itself. The first “Laotian kingdom” of Lane Xang had to contend with the predatory kingdoms of Burma to the north, Vietnam to the east, and Siam (present-day Thailand) to the west (Brown and Zasloff 1994). The Lane Xang kingdom was actually made possible because Fa Ngum received from the Angkor kingdom (Khmer) a 10,000 man army to unite various principalities on what is now the Lao territory. Fa Ngum was crowned king in 1354. Even the founding of this kingdom is due to an external political actor rather than a “domestic” movement. In 1690, after many years of relative autonomy and unity gained through complex networks of alliances with smaller principalities and playing neighbouring kingdoms against each other, Lane Xang broke up into the principality of Luang Prabang, which survived by offering tribute to both east (Vietnam) and west (Siam), and Vientiane and Champassak, which were reduced by the end of the eighteenth century to tributaries of Siam (Dommen 1994). According to Christian Taillard only two of five tentative unification episodes in Laos' history from the 16th to 18th centuries were undertaken by the Lao themselves; the others were undertaken in alliance with powerful neighbours (Taillard 1989, 30).

The French, in their 19th century expeditions looking for access routes to China, came across the “Siamese and the Vietnamese already contesting for suzerainty over the territory between the mountains and the Mekong” (Dommen 1994). In fact, the 19th century saw the three Lao kingdoms pretty much being the playground of Vietnamese and

³ We use the term “country” in a broad sense to designate “modern” states, as well as proto-states, and other form of quasi-national political grouping.

Siamese, a place to conduct battle and conquer without risking the lives of domestic populations⁴.

3.1.2 Colonial era

The slow incorporation of pieces of what is now Laos by the Vietnamese and the Siamese was halted by the French intervention: they imposed a treaty of protectorate on Annam (Vietnam) in 1884, and kingdoms in Laos were to become a protectorate in 1894 (Dommen 1994). Interestingly, the French tried to prove that Vietnamese had historical claims to the left-bank of the Mekong (roughly the territory of Laos) against Siamese claims over the Tai populations. Neither the French nor the Siamese had the idea that one of the Lao kingdoms could have a claim to itself (Jerndal and Rigg 1998, 816). The idea that sovereignty over Lao territory could be in Lao hands was not there. From 1894 to independence from France in 1954, Laos was an administrative unit of French Indochina. It was considered a resource rich annex to Vietnam but was never really considered a potential autonomous entity (Evans 2002, 43-45). In fact, the French administration intended at some point to dismember the Lao unit and to apportion resulting territories to Tonkin, Annam and Cambodia (Ivarsson 1998). Finally, the French did keep a territorial unit in Laos during their control of Indochina. It became independent from France in 1954 under a coalition including royalists and communists. This government officially adopted a neutral position regarding the conflicts in other countries of the region.

⁴ Because, according to Manich, the control of population was considered important whereas territory, until the confrontation with the West, was not an important issue (Manich 1967, 45).

3.1.3 Post-war Laos

This newly created country, (Steinberg et al. 1985; Stuart-Fox 1996), or re-established one (Dommen 1985; Sasorith 1953) depending on which scholar you agree with, was the theatre of a sporadic civil war until the final victory of the communist side in 1975. During this period, both sides had a close relationship with foreign powers. Communist Pathet Lao leaders forged a close alliance with Hanoi while the Americans, partly through their regional ally, Thailand, proceeded to sponsor a massive mercenary army and to engage in their so-called 'secret war' on the royalist faction side (Jerndal and Rigg 1998, 814). Foreign countries were central to the domestic destiny of Laos and in the conflict between royalists and communists. More current international relations after the communist victory will be analyzed more specifically in the next section.

The history of Laos is so full of foreign influences that “The claim is made that Laos has been so closely linked to neighbouring states (Siam historically, Vietnam more recently) and distant powers (France, and later the USA) that it has never enjoyed true sovereignty” (Jerndal and Rigg 1998, 813).

3.2 External relations: changing relationships

The victory of the communist LPRP brought major political change in Laos. The Lao PDR would now have different relations with other countries. In this section, we review what the foreign relations of Lao PDR have been in the recent past, how they have evolved more recently, and how these foreign relations can generally shed light on the policy choices available to Lao PDR.

3.2.1 From the Revolution to the end of Communism: Vietnamese domination

One attribute clearly applies to the 1975-1990 period: the predominant influence of Vietnam on the foreign policy of Lao PDR. Relations with countries other than Vietnam were largely determined by Vietnamese actions and policies. In fact, the Lao PDR has been dubbed by many observers as a client-state of Vietnam, at least for this period, if not up to the present (Emmers 2005a; Gunn 1991; Jerndal and Rigg 1998; Mitton 1999a; Neher and Marlay 1995). It has even been argued that Lao PDR was so subservient to Vietnam that it did not play any role in contemporary international politics (Neher and Marlay 1995, 163). Under the authority of the 25 years of duration Treaty of Friendship it signed with Laos in 1977, Vietnam had the right to deploy 60,000 troops and numerous advisors in Lao territory to secure the country's defence (Bedlington 1982, 90).

The Vietnamese invasion of Kampuchea (Cambodia) in 1979 provides a good example of Lao deference to Vietnam. Lao PDR relations with China, which were cordial before, soured quite a bit, with the end of economic assistance from China to Lao PDR and inflammatory language on both sides (Bedlington 1981, 106). Interestingly enough, though, the Chinese leadership blamed not Laos, but rather the USSR and Vietnam for the Lao diplomatic attacks on China, as if they knew where real decisions were being made (Brown and Zasloff 1980, 108). It seems, however, that Lao leadership sent private messages to China explaining the reasons why they had to condemn China as an 'international reactionary' in order to try to minimize the real impact of their public declaration (Rigg 1998, 165).

According to Bedlington, the border closing imposed by Thailand in reaction to Lao support of the invasion of Kampuchea by Vietnam was caused not by Lao policy as such, but rather by a desire by Thailand to punish Vietnam by forcing it to provide scarce

resources to its client-state, the Lao PDR, or else losing part of its influence over it (Bedlington 1981, 103). Through its relations with Laos, Thailand reacted to Vietnam's actions with which it disagreed.

Lao relations with the Soviet Union were good, but some say that they were at first limited by the Soviet desire to leave leadership of all communist Indochina to Vietnam (Bedlington 1981; Thayer 1983). However the Soviet Union still provided economic aid and advisors to Lao PDR (Bedlington 1982, 91). From 1982 onward, the Soviet Union increased its aid to Laos. In 1982, Sisana Sisane, a member of the Central Committee and Minister of Information, Propaganda and Culture, commenting on the stronger relationship of Laos with Vietnam than with the Soviet Union, explained that the Lao-Vietnam special relationship was a "military alliance" forged during a common struggle, while the Lao-Soviet relationship was one of "militant solidarity" based on "all-round co-operation" (Thayer 1983, 86). This state of hierarchy in the relationship stayed pretty much the same, until the fall of the Soviet Union and the end of Soviet economic assistance, and incidentally of Laos' relationship with the Soviet Union and subsequently Russia.

3.2.2 Current foreign relations

In the late 1990s, Laos opened up to the world, largely, some say, because Vietnam also did so (Kurlantzik 2005, 115). No matter what the exact cause of this opening, the results are much more diversified relations with the rest of the world as well as more autonomous dealings than in the previous period. According to a diplomat, in a nutshell: "Laos' foreign policy is about balancing Thailand, Vietnam and China and attracting foreign aid" (Today Online Asia 2006). Although this is a little bit simplistic, it conveys the essence of what happens in the region.

The “special relationship” with Vietnam remains. The domination part of the relationship is denied by the Lao leadership (Mitton 1999b), but they still consider their relationship to be “closer than lips and teeth” in the words of a Vietnamese official, and “deeper than the waters of the Mekong” by a Lao one (Luard 2001). One needs only to open any recent issue of the *Vientiane Times*, the official governmental English language newspaper, in order to see that the relationship is still strong. Announcements of cooperation links or loans on issues of journalism, trade, technology, sports, culture, security, education, trade union, party, postal service, propaganda, banking, army, training, diplomacy, roads, economy, transport, investment, industrial development, in fact almost all issues, between Lao PDR and Vietnam appear almost daily (Vientiane Times Reporters 2001-2006). High level delegations are also quite frequent between the two countries and respective communist parties. It is possible that this relationship might change because a younger generation of leaders is slowly taking the political space within the LPRP. According to Abuza, this new generation sees China as a better partner and model to obtain regime security and economic prosperity for Lao PDR (2003, 161). Tim Luard sees this possible change in international political partnership as a “competition between two Big Brothers” in the sense that the relationship with either of these countries is likely to be one of relative domination for Laos (Luard 2001). But Vietnam is still important and still seeks to be the one allowing Laos to break its economic dependence on Thailand, partly through road access to Vietnamese seaports. Even though Vietnam withdrew its 40,000 to 60,000 troops from Laos in 1988 (Lintner 1995b), its security role for Laos is far from over. In 1998, it was Vietnamese help that Lao leadership requested to quash an ethnic Hmong rebellion within its territory. Vietnam answered with deployment of 10,000 troops into Laos to help quell the rebellion (Abuza 2002; Lintner and Crispin 2000).

China's influence is growing, but it is still based mostly on economic linkages of industrial investment, loans and market access than on anything else (Stuart-Fox 2006, 14). There are now regular exchanges at party and military levels, and cross-border trade is thriving. This has become possible because relations with Vietnam have shifted to a less exclusive footing (Economist Intelligence Unit 2006b, 10). There are concrete advantages for Laos to intensify its relations with China. China is much more able to provide resources than Vietnam. When Laos was hard hit by the Asian financial crisis in the late 1990s, it was Beijing that offered export subsidies and interest-free loans and grants. This aid helped stabilize the country's economy and reduce inflation (Kurlantzik 2005, 119).

The important relationships with China and Vietnam are partly a consequence of the fear of Thailand in the Lao leadership. Relations with Thailand have not been easy for Laos. In 1987-1988, a border war for a very small piece of land took place between Lao PDR and Thailand. At some point, Thailand used its air force against the Lao army even though Lao PDR could count on 40,000 Vietnamese troops stationed in the country to help its defence (Sricharatchanya 1988).

The relations with Thailand are much better now than they have been in the past. Thai companies were among the first to invest in Laos's more open economy, and in 1994 Laos and Thailand completed a "Friendship Bridge" over the Mekong River close to Vientiane that made trade much easier. Lao-Thai cross-border trade grew substantially, as well as Thai investment in Laos (Kurlantzik 2005, 116). Imports from Thailand were at US\$40.9 million in 1987, increased to US\$419 million in 2000, and reached US\$639.4 million in 2004. Exports to Thailand were a US\$5.4 million in 1987 and grew to reach US\$104.3 million in 2004 (Asian Development Bank 2006a, 276). In fact, this renewed good relationship with Thailand is causing fears in Lao leadership. Now, the Thai threat is

not so much a security issue as it is a cultural threat. The ethnic Lao are an ethnic Tai people, and there are more ethnic Lao people that have Thai citizenship and live in Thailand (about 20 million) than there are in Lao PDR (about 2 million) (Abuza 2003, 161). Add to that the old irredentist pan-Tai project of Thailand, and you have a Lao government fearing if not political annexation, then cultural absorption. To prevent that, the GoL is ready to take steps such as an official ban on Thai television and foreign video CDs in Laos, even though it is practically impossible to enforce this (Kurlantzik 2005, 117).

Relations with the world's richest countries, Japan and US, are much less complicated. In fact, the relation with Japan is largely one of aid recipient. Japan has money to spend on development, Laos is poor. Since 1991, Japan has been the top-ranking donor in Laos, cooperating mainly in the area of human resources development, basic human needs, agriculture and forestry, and industrial infrastructure (MOFA 2006). The relations with US are dominated by three issues: opium eradication, soldiers missing in action (MIA), and trade normalization. Opium eradication is almost a closed file, since, according to the United Nations Office on Drugs and Crime, Laos is on target to achieve its goal of becoming opium-free (UNODC 2006). Normal Trade Relations (NTR) with the US were blocked largely by ethnic Hmong of Lao origin residing in the US. NTR is the equivalent of the "most favoured nation" status. For Laos, this means lower tariffs to access the US market. Before the NTR were granted, Laos was one of the few country without this privilege (along with Cuba and North Korea), even though Vietnam already had NTR (Forbes and Cutler 2005, 164). Laos was granted NTR in February 2005 (US Department of State 2005). The MIA has been an issue for a very long time. The GoL only started in the late 1990s to cooperate fully with the US on this issue (Abuza 2003).

Currently, Laos' foreign policy concentrates on its immediate neighbours. Laos maintains a low profile in the larger international arena (US Department of State 2005). The connection of Laos to its neighbours will be explored through its membership in two organizations: the Association of Southeast Asian Nations (ASEAN) and the Mekong River Commission (MRC).

The relations of Laos with ASEAN have changed drastically since the 70s and 80s. In fact, until Hanoi's withdrawal from Cambodia in 1989, good relations with ASEAN were practically impossible. After 1989, though, relations improved, with Laos getting observer status in 1992, Vietnam becoming a member of ASEAN in 1995, and Laos getting membership in 1997 (Emmers 2005b). According to Abuza, one of the main reasons why Laos joined is that it expected that it would be able to "[...] hide behind the organization's collective cloak from Western criticism of human rights violations and the lack of democratic reform. In the mid-1990s, ASEAN was self-confident and increasingly willing to stand up to the United States and European states, espousing 'Asian values' as justification for its political and human rights situation" (Abuza 2003, 171-172). The perceived political risks of joining ASEAN were small, considering the two principles at the heart of ASEAN: non-interference in the internal affairs of its members and consensus decision making (Ramcharan 2000). The inclusion of the three Indochinese countries (Vietnam, Laos, and Cambodia) and of Myanmar strengthened ASEAN's adherence to these two principles, even though Thailand and the Philippines pushed for a more interventionist model of "flexible engagement" for issues with transborder repercussions (Abuza 2003; Kraft 2000).

Another non-negligible political advantage of joining is that ASEAN is well-known for its capacity to defuse potential conflicts among its members (Goh 2003; Soesastro 2003), thus providing a certain security guarantee to Laos. On the economic side, the main

consequence of joining ASEAN, and consequently the ASEAN Free Trade Area (AFTA), is that tariffs have to be brought down below 5% by 2008. This might represent a revenue loss for the government (Lao-Araya 2002). However, Menon finds that AFTA will provide a good vehicle to negotiate market access issues with Thailand and that the reduction in government revenue from duties is likely to be low, particularly in light of the high share of informal trade and only low levels of trade diversion (Menon 1999). The main problem for Laos with ASEAN membership might be the high cost (to a relatively poor and small state like Laos) of maintaining the necessary staff to attend numerous ASEAN meetings and conferences (Emmers 2005b, 79).

The Mekong River Commission (MRC) is a much more focused organization, both geographically and by the issues with which it is concerned. Its mandate is "to cooperate in all fields of sustainable development, utilisation, management and conservation of the water and related resources of the Mekong River Basin" (Mekong River Commission 2005). It has a long history of bringing together the riparian countries of the Mekong to discuss and organize the use of the Mekong's water. In fact, the MRC is the new form of the Mekong Committee. Hydrological studies were first undertaken from 1949 to 1956 by the UN Economic Commission for Asia and the Far East (ECAFE) and the US Bureau of Reclamation. In 1957, the Mekong Committee (MC) was established with Thailand, Laos, Vietnam and Cambodia as members (Radosevich 1996, 226). Relations among members soured as they went in different political directions and as the Vietnam War divided the region. The Cambodian regime was expelled from the MC when the Khmer Rouge took power. From 1957 until the revival of the organization with re-admission of Cambodia in 1995 and the change from the MC to the MRC, the only dam built under supervision and coordination of the MC was the Nam Ngum dam in Laos (Elhance 1999, 214-220). Since

1996, the two upper states of the Mekong River Basin, the People's Republic of China and the Union of Myanmar, are dialogue partners with the MRC even though they are not full members (Mekong River Commission 2005). The MRC is one of the arenas where hydropolitics interplay happens.

The last element of international politics which is of concern to understand better the Lao position is the Greater Mekong Subregion (GMS) program. The GMS is not a formal organization as such. It is essentially an Asian Development Bank (ADB) led program of infrastructure (both software and hardware) development at the subregional level rather than at the national level among six political entities: Thailand, Myanmar (Burma), Laos, Vietnam, the Yunnan province of China, and Cambodia. It was launched in 1992, with nine priority areas of activities: transport, telecommunications, energy, tourism, human resources development, environment, agriculture, trade, and investment (Krongkaew 2004). For Laos, it represents an opportunity of funding to develop basic infrastructure and integrate into the regional economy. Two main projects of the GMS have an especially big influence on Laos: transport infrastructure and power grid interconnection. Specific cases of these two initiatives in Laos are examined in this paper.

3.3 Domestic politics: the lasting influence of the Party

Understanding the way in which Lao PDR is governed is important to understanding any policy space issue because it offers an insight as to what policies might be pursued and how the regime is likely to structure its relations with other actors in the international scene while pursuing its objectives. This understanding of domestic politics serves to unravel what part of a policy outcome or policy choice might be due to the specific political regime of Lao PDR, and which part to the factor of smallness, or the

interaction of smallness and low level of economic development, which in Hey's view leads to personalism (Hey 2003, 194)). First of all, the foundation history of the current Lao regime needs to be considered. After that brief primer, the governance structure in Lao PDR will be dealt with. The prominent feature of Lao PDR is clearly the dominant influence of the LPRP on everything. Accompanying this one-party system comes widespread corruption that taints the Lao political and economic life. This whole governance system rests on a mix of traditional Lao politics and innovations brought about by the party.

3.3.1 Foundations of Lao PDR

Lao PDR was established in 1975 after at least 20 years of struggle by the LPRP to gain control of the country. The LPRP probably could not have seized power without: "a large degree of assistance from Vietnam" (Abuza 2003, 159). The LPRP took over a country in which the political structure had been based for centuries on personal loyalty networks. Neither the era of Siamese domination, nor the French colonial era, nor Laos' independence in 1954 destroyed this system. The domination of aristocratic families and their patronage network was the prevalent trait of the pre-communist Laos (Brown and Zasloff 1994). When the LPRP took power in 1975, there was an expectation that it would: "[...] introduce a thoroughly modern approach to politics that would replace traditional Lao political culture" (Stuart-Fox 2006, 66). However, due to political constraints and a need to tighten their grip on the country as quickly as possible, the LPRP ended up dispensing patronage in the traditional Lao way, rewarding family members and loyal supporters in their networks with jobs and advantages in exchange for political support. Seeing an opportunity not to be left out of the new system; "Remaining members of former aristocratic families moved to cement relations with powerful Party members, for example,

through marriages between their children. Thus a new political and social elite began to form, an alliance of new power with old wealth and social standing, which used the Party to promote family interests” (Stuart-Fox 2006 , 67). Rather than a radical break with the past, the LPRP domination was based on a classic Lao clientelism network system.

3.3.2 The “leading nucleus” of Lao political life

Since 1975, the LPRP has been the center of all power in Lao PDR. This fact is widely recognised in the academic community. Even though it is largely based on the traditional Lao system of influence, the Party went farther in controlling all aspects of society. A good description of the LPRP’s significance is that:

The party is the leading core of the entire political system, hub of intelligence, and representative of the interest of the people of all strata. The party formulates and revises the major lines and policies on national development in all spheres; finds solutions to major problems; determines the policies regarding personnel management, training of cadres, and supplying key cadres for different levels; controls and supervises activities of party cadres and members, state agencies and mass organizations.
(Brown and Zasloff 1994)

This was even more obvious from 1975 until 1991, since no constitution had been promulgated and the Lao PDR was governed entirely by LPRP’s decrees and resolutions (Winter 2002, 5). A constitution was adopted in 1991 and LPRP’s total domination has been made less obvious to the casual observer. The only mention of the LPRP in the constitution is in article 3, where it is said that “The right of the multi-ethnic people to be the masters of the country is exercised and ensured through the functioning of the political system, with the Lao People’s Revolutionary Party as its leading nucleus” (Lao Supreme People's Council 1991).

Even though it is largely agreed that the LPRP dominates Lao PDR, for the external observer, or for the average Lao citizen who is not a member of the party, the inner

functioning of the LPRP is like a “black box” (Winter 2002, 9). The LPRP is a secretive party, and it is also very elitist, in the sense that very few people are members. In 1996, with only 78 000 (1.7% of Lao PDR population) it was the most exclusive communist party in the world before the collapse of most other communist regimes (Abuza 2003, 172). Now, at 100 000 members, it still manages to be present at all levels in Laos, from the national to the local, and in all key institutions (Winter 2002, 9). The academic with the greatest knowledge of what is going on inside the LPRP “black box” is probably Martin Stuart-Fox. There is no need here to discuss the nuts and bolts of the inner workings of the Party and how it exactly influences the society as a whole. The most important elements of the puzzle will simply be noted.

The LPRP controls four major institutions in Lao PDR: the government, the bureaucracy, mass organizations (Lao Women Union, Federation of Trade Unions, Lao Revolutionary Youth Union, Lao Front for National Construction), and the military. In all four, individuals in key positions are LPRP members. Actually, their membership in the LPRP makes these senior positions available to them. They would not get these posts if they were not members of the LPRP (Stuart-Fox 2006, 65). The role of the army is not totally agreed upon in the academic community. In fact, Abuza identifies the army as the only other real political actor in Lao PDR. The Lao People’s Army is well represented in the highest organs of power, the LPRP’s Central Committee and Politburo (Abuza 2003, 160). The Army can be seen as a relatively autonomous and powerful actor, but Stuart-Fox identifies the situation more as an overlap of the Army and the LPRP than as an Army autonomous from the Party (Stuart-Fox 2006, 66).

The LPRP also has another way of maintaining its close grip on Lao PDR: “Political dissent of even the most limited kind (in the form of political study groups, or small

peaceful public demonstrations) is quickly suppressed, using the full coercive power of the State. Anyone with political ambitions, therefore, has no alternative but to join the Party” (Stuart-Fox 2006, 64).

3.3.3 The implications of the resilience of the traditional Lao way

What does this system, based on personal relations and a patronage network, almost totally controlled by the institution of the LPRP (some would even say a few key individuals at the top of the LPRP), imply for policy-making? In such a system, the individual in position of power making the decision is highly important. Even though the LPRP has “taken China and Vietnam as models for economic liberalisation along with tight political control, the political culture of the Party in Laos, because it is so much smaller and because it draws on traditional Lao values and modes of social interaction, depends to a far greater extent on personal and family relationships and patronage” (Stuart-Fox 2006, 68-69). It becomes even more salient because Lao PDR is a poor country with very few resources to spend on data-gathering and intelligence activities for the leaders to make the best possible decisions.

The most glaring example of an individual having a huge impact on policy in Lao PDR is the Kaysone Phomivon era. He was one of the founders of the LPRP, and its lifetime secretary-general. He served as the first prime minister of the Lao People's Democratic Republic and then as president until his death in 1992. Kaysone was the *primus inter pares* in the LPRP. His rule was almost unchallenged and he was in firm control of everything. Kaysone believed that Thailand still had irredentist designs on Laos and he had close personal ties to the Vietnamese leadership. Thus, as long as he was alive, no closer ties to Thailand could be established, and the special relationship with Vietnam was highly revered. Kaysone largely dictated the agenda and decisions of the politburo, with advice

from Vietnamese and Lao allies. The Politburo officially led the country, but it was effectively led by Kaysone almost alone and unchallenged (Abuza 2003, 174). No other individual since Kaysone has been able to wield as much power, but the ranks of the Politburo are still very small, and the power of its members very large.

According to Abuza, one of the main factors explaining the continuing importance of the “special relationship” with Vietnam is that most of the current highly influential members of the LPRP are former revolutionaries having had close ties with Vietnamese, they are partly ethnic Vietnamese, they have Vietnamese wives, or, if they are military, they have been trained in a Vietnamese military academy (Abuza 2003, 173-174). The reasons for their friendship with Vietnam are quite personal, but they manage to influence the foreign policy of the whole country because they are few in number and their personal biases have almost the strength of law.

The small size of the nation also increases their power because there is not a strong and effective bureaucracy to provide objective analysis of policy issues, so personal impressions and conceptions are much stronger (East 1975; Hey 2003; Sutton 1987; Vital 1967). The heavy presence of military in the Politburo makes it likely that the relationship with Vietnam will stay “special”, if only because they have all been trained there, and the army does business with its Vietnamese counterpart (largely for timber export). Abuza highlights the fact that the leadership in Laos stayed pretty much the same from 1976 until 1991. However, he now sees a wave of factionalism occurring at three levels: between generations of leaders, between regional loyalties of the leadership, and between economic reformists and conservatives (Abuza 2003, 176). But this factionalism will never show up outside of the LPRP, no matter how bad the fights. For example, in 2000 when former President Nouhak feared disintegration of the country, little really filtered out about the

exact debates going on (Far Eastern Economic Review 2000). The LPRP is highly secretive and does not like to show its internal dissidence to the world (Stuart-Fox 1998, 6).

What can be seen from the outside, though, is that some themes have attained consensus in the LPRP. The two overarching objectives widely shared are first of all that the LPRP should stay in power and not let go of any of its control on the Lao society. Second, that legitimacy of the regime is largely based on delivering solid economic growth (Abuza 2003; Stuart-Fox 2006; Winter 2002).

The debate within the LPRP is really a matter of opinion on how to best achieve these objectives, and with whose aid? Stay with the Vietnamese, or go with the Chinese? Nobody in the LPRP actually seems to believe that going with the unorganized popular tendency of rapprochement with Thailand, Japan and the West should be adopted. But economic forces and popular movement make it difficult to avoid, however, and China and/or Vietnam are seen as guarantees against too much dependence on Thailand, Japan and the West (Kurlantzik 2005).

How is policy made in Lao PDR? It is a pretty obscure process, which relies primarily on having one of the few influential men (because no women get as high as the Politburo) in Laos trying to push an option that favours him and his patronage network, and possibly Lao PDR as a whole. Then political bargains are made among factions and networks until the most powerful wins the day. The administration of justice provides good hints at how policy is decided.

There is now a constitution and laws voted by the national assembly. The national assembly is elected among candidates approved by the LPRP. Only one assembly member has been a non-party member since it came into existence in 1991 (Winter 2002, 11). This being said, the administration of justice is not only based on the constitution and the laws.

In fact, three elements come into play when a judge has to give a legal decision: legal statutes (the laws and the constitution), Party policy (which can bend the law), and pressure from those individual powerful enough to influence a legal outcome. According to Stuart-Fox, the most important criterion is the third one. As a result: “legal authorities may find themselves evaluating a case not on the basis of the law as it stands, but on which of two conflicting sets of phone calls and other private interventions represents the more powerful political interests. Failure to get this right has cost some justice officials their jobs” (Stuart-Fox 2006, 71). This gives an idea of how far contacts with the top leaders can lead you, whether you are a foreign investor or a Lao national. There is no reason to think that the same process is not going on regarding policy-making, with the result being dictated by who (the winner or the loser of an eventual policy) has the best access and relations (or can pay the most) to the top leadership of the Party.

Another result is widespread corruption. Interviews conducted with people from the NGO sector (A1 to A5), the business community (B1 to B3), and academics (E1 and E2) all mentioned the importance of corruption in the day-to-day functioning in Lao PDR. The evidence on this is summarized in Stuart-Fox’s recent article in the *Asian Studies Review* (2006). Transparency International, an international NGO focused on fighting corruption and producing statistics on the subject gives to Lao PDR, for 2005, a rating of 3.3 on a range between 10 (highly clean) and 0 (highly corrupt), thus reflecting the importance of the phenomenon in Laos (Transparency International 2006). The exact amount of corruption is not known, but what is obvious is that nobody denies that the phenomenon is widespread, except people in the Lao government (Interviews C1, C2).

All these elements, the long history of acting as a playground for its neighbours, the current system of relations still based on a client-state relationship with Vietnam and the

functioning of Lao politics are to be kept in mind while reading the next chapters on actual policy cases. This contextual information might help interpret these cases more meaningfully, but they also provide an alternative explanation to the factor of smallness.

CHAPTER 4: Lao PDR and subregional hydropower development

A general political analysis, both domestic politics and international relations, is important as a background to make sense of what happens in the case of Laos. However, this knowledge, at times, seems a bit disconnected from reality. The subregional hydropower dam-building projects examined in this chapter provide concrete bases to observe if the variable of smallness does indeed have an effect on the policy process or if other explanations are superior. The chapter starts with a short exploration of the hydro-political and technical background in which hydropower projects happen, and then proceeds to examine three cases of subregional dams. One of these cases provides hints regarding the effect of monopsony on the policy space of Laos, and how it may or may not relate to smallness. Another one shows how external power is important in making projects happen for a small state like Lao PDR. The last one shows how it is possible, due to lack of resources, for another state to influence domestic policies implemented in Lao PDR. These hints give an idea of the importance of smallness, and of other factors, in creating policy space for Laos.

4.1 Hydropower

Analysis of hydropower development would be heavily flawed without a basic understanding of the very specific nature of issues relating to water use. Electricity is also a commodity with technical features having many political and economic implications. First of all, we explore the realm of hydro-politics and how it might influence and modulate the ways in which any state, including a small state in this case, can and will act in its foreign relations.

4.1.1 *Hydropolitics and the Mekong basin*

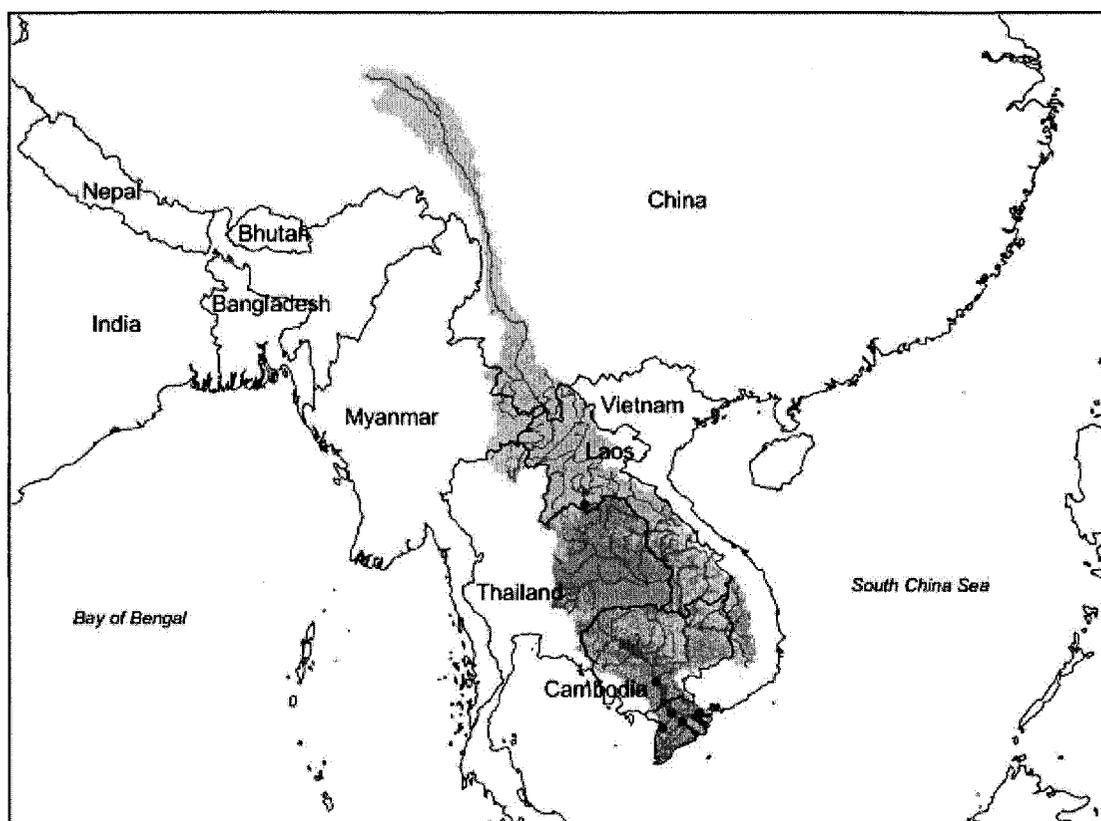
Hydropolitics is a relatively young pursuit as a specific field of inquiry. As is the case with many new disciplines, concepts still have to be agreed upon by the emerging academic community working on the topic (Turton and Henwood 2002, 13). In order to simplify and clarify the analysis, we will settle on a specific definition rather than trying to touch on everything that has been considered an issue in hydropolitics. Turton and Henwood summarize the object of hydropolitics; for them, it is about conflict and co-operation, involving states as the main actors, and taking place in shared international river basins (2002, 15). The findings of this field might help shed some light on regional hydropower projects in the GMS, which is the context in which Lao PDR makes policy choices.

The first important general observation about hydropolitics is that: “Water resources have rarely, if ever, been the sole source of violent conflict or war” (Gleick 1998). This means that even though water might be part of a complex situation (the example of the Israeli-Palestinian conflict is an example of this), it is not a *sufficient* cause for conflict. No definitive answers as to why this might be so have been provided. In any case, for the present work, it is not fundamental; it is sufficient to keep in mind that water sharing among nations is not that likely to lead to conflict. We now turn to the structure of the Mekong basin, its hydropolitical implications, and then an overview of the Mekong region’s hydropolitical analysis.

The geography of the basin offers some interesting insights. The Mekong is usually considered to be divided between an upper basin and a lower basin. Figure 1, below, clearly shows the extent of the Mekong basin. The Upper Mekong basin (where the river is usually called “Lancang Jiang” rather than “Mekong”) begins in the mountains of Tibet and goes through Yunnan, passes for a short distance through Burma, and then enters Lao PDR

where it is considered that the Lower Mekong basin starts (Elhance 1999). Only one-fourth of the flow of the Mekong originates in the Upper Basin; consequently, the climatology of this region does not markedly affect the hydrological regime of the Lower Mekong basin (Elhance 1999, 194).

Figure 1: Mekong Watershed



(World Resources Institute 2006)

Most of the water catchment happens in the Lower Mekong; about 80% of the water comes from the Mekong's left-bank tributaries in Laos, Cambodia and Vietnam (Radosevich 1996). Even though water is used all along the Mekong, the two most sensitive parts of the system are the Tonle Sap Lake in Cambodia and the Mekong delta in Vietnam. The Tonle Sap is unique in that the flow of the water reverses when the rainy season brings a bigger water flow to the Mekong delta. Thus, the Tonle Sap provides water to the Mekong for the dry season and gets water from the Mekong in the rainy season. It permits large scale rice agriculture in the region around the lake, and creates the right conditions for an enormous amount of fish breeding. The Mekong delta, the most important rice growing region in Vietnam, needs to have a flow of water above a minimum threshold to prevent the intrusion of sea water, and thus salting of the rice fields.

Burma and China are purely upstream countries, Thailand and Laos are midstream countries, and Cambodia and Vietnam are downstream countries. By definition, countries' decisions affect their downstream neighbours. The closer to the end of the river a country is, the larger the interest in water cooperation. Because in all river systems overuse in upstream countries reduces the possibility for downstream countries, Vietnam and Cambodia are especially vulnerable.

Only two main-stream dams have been built up to mid-2006, the 1,500 megawatt Manwan Dam finished in 1986 and the recently completed 2,850 megawatt Dachaoshan Dam on the Lancang Jiang, in Yunnan (Lanfranco 2005, 3). Apart from China, no other country has serious projects on the main-stream; rather they are concentrating on the tributaries.

Laos is a mid-stream country; it has two upstream neighbours (China and Burma), a midstream neighbour (Thailand), and two down-stream neighbours (Cambodia and

Vietnam). This means that Laos is able to affect its downstream neighbours through its use of water and can be affected by the upstream neighbours' use of water.

There are multiple current issues on water use in the Mekong basin. Regarding hydropower, most members of the MRC are a bit nervous about China's project to dam the main stream Lancang Jiang-Mekong. However, none of them is likely to actively pressure China to change its project simply because it is China, and power politics make it unlikely that any Southeast Asian country will risk displeasing China (Lintner, Crispin, and Cohen 2000, 22-24). What is huge, these days, is dam-building in Lao PDR to feed the growing demand for electricity in Thailand, and eventually Vietnam (Interviews D1, D2). It is important to note that "Unlike other cash-generating modes of resource exploitation in the region—most importantly logging and gem-mining—hydropower development almost always requires the involvement of foreign capital and expertise" (Bakker 1999, 211).

Apart from hydropower, the Mekong is also considered a potential source of water for agriculture (Thailand has a huge irrigation scheme in its Northeast), an activity which is likely to reduce the flow of water, as opposed to hydropower dams. Thailand also has a project to divert water from the Mekong into the Chao Phraya river basin, a project which faces enormous resistance from the other riparian states (Elhance 1999, 200). Navigation on the Mekong is also on the agenda, especially of China. The project of enlarging the Mekong to permit navigation of large vessels has been postponed partly because of Thai and Lao fears that an unhindered flow of the Mekong would possibly change the banks configuration, and thus their respective borders (Abuza 2003). A lot is going on in this high economic growth region.

4.1.2 *The “power” part of hydropower*

The dam cases to be looked at are much more meaningful with this understanding of the issues of hydropolitics, but before proceeding, it is necessary to have a short discussion of the “power” part of hydropower.

Electricity is not a form of energy with the same characteristics as fossil fuels (oil, coal, gas). In fact, whereas fossil fuels can be stored, electricity cannot. At any moment, the supply of and the demand for electricity in a network must be equal. If the supply of electricity does not coincide with the demand in a network, the whole network (or more likely subsets of the network) will fail (which means a blackout). Obviously, if a network loses one source of electricity, it can compensate by increasing the amount of electricity it draws from other sources. The larger the source of electricity, the more need to compensate for its loss. This means that if a country, let’s say Lao PDR, manages to produce a large enough proportion of the electricity of another country (let’s say Thailand), it could theoretically make the electrical network (or parts of it) of its client go through a blackout, if it decides without notice to stop the power stations. This is a source of control over the state which purchases the electricity from the producer state. However, if a producer state is small compared to the purchaser state, it also means that the stronger purchaser state cannot afford to let the producer state break its word on energy production and purchase deals. In a sense, the small state holds in its hand a high-security issue for the purchasing state but it cannot use this lever unless it is ready for a very serious conflict with the purchaser state. The pros and cons are well summarized in a document from the Department of Economics and Social Affairs of the United Nations. “[An] international power line can provide both political benefits, ranging from enhanced potential for international cooperation to increased democratization at home, and liabilities, ranging from

dependency on another country to internal squabbles over power line benefits” (Department of Economic and Social Affairs; Division for Sustainable Development 2005, 79).

4.1.3 Laos and hydropower

The relationship of Lao PDR with Thailand must be taken into consideration when in fact, more than being a more powerful state purchasing power from a small state, Thailand is, as of now, the only client of Lao PDR for its electricity. So Thailand has a position of monopsonist in its link to Lao PDR. Just like a monopolist can manipulate the price it charges to its client because it is the sole producer, a monopsonist can manipulate the price it pays for a product because the vendor has no choice but to sell it to the monopsonist (Dieu 1999, 212). The situation is difficult for Lao PDR because it has a negligible internal market for its own electricity, partly because electrification is not widespread, but also as a consequence of being a small state. Until Vietnam starts to buy Lao electricity (if it ever does so) Thailand will have a strong bargaining position with Lao PDR (Usher 1996, 134). Any policy decision by the GoL is influenced by this fact; if hydropower is pursued, it must be accepted that the only client will be a monopsonist, with all the disadvantages that it implies.

In fact, Thailand did use its extensive bargaining position in a concrete case of price negotiation as will be seen in the section on Nam Ngum dam. But it is also interesting to mention that in 1995, EGAT (Electricity Generating Authority of Thailand) demanded that the GoL allow the use of its territory for the transmission line from China’s Jinghong dam in Yunnan to Thailand. The GoL was reluctant to agree and requested a surcharge for the use of its territory to construct the transmission line. In mid-1996, EGAT forced the GoL to agree to this transmission line as a precondition for buying any more power from Lao

PDR (International Rivers Network 1999, 11). As a result, Thailand managed to improve its bargaining position with Lao PDR even more because it would now have access to Chinese electricity as well as Lao electricity, thus weakening the advantage of Lao PDR as one of a few major important foreign energy producers for Thailand. Why then would Lao PDR continue with costly and risky hydropower schemes, especially when its only market, Thailand, had extensive negotiating power, and the electricity demand was not growing as fast as expected (International Rivers Network 1999, 8-11).

One of the keys to understanding this choice is the interest of the international organizations in financing hydropower. Because Lao PDR is quite dependent on international organizations and ODA donors, they have a real possibility of influencing the government's policies if the push does not go against the Party's fundamental interests. These international actors are generally very favourable to hydropower development schemes. In fact, Lao PDR does not have the necessary human resources to evaluate these projects on a sound basis and has to rely on consultants paid by international organizations and ODA donors (International Rivers Network 1999, 12). This inability of the government machinery to provide quality information has been identified as a direct consequence of being a small developing state.

The government of Lao PDR has a clear interest in developing hydropower, even if it is not hugely profitable, because it helps it implement its relocation and resettlement policy (Daviau 2004; Phongsavath, Oukham, and Khognotha 2003), even if only locally in areas where dams will have a large environmental effect, and perhaps more significantly because hydropower is a way to transform a natural resource, a river providing fish and water for agriculture, into a taxable resource, an electricity-producing dam (Virtanen 2004). Considering the domestic political reality, the prevalent corruption in the country (discussed

in chapter 3) also means that considerable resources are likely to go into the hands of the members of the government easing the building of dams. According to many informants, both from the international NGO sector and the business sector, the value of the money to corrupt government officials is as high as 3% of the value of a dam (Interviews A4, A5, B2, E1). Even though this figure of the “3% kickback”, as they call it, comes up over and over again, it is nearly impossible to know if it is real or not. A social science researcher and an international NGO worker specialising in Lao PDR considered that this figure was way above what is usually expected in Laos regarding corruption (Interviews A1, E2). However, what matters is not the exact number, but the fact that all agree that a substantial amount of money is spent on corruption in this kind of project. These are many reasons why the Lao government welcomes most hydropower development schemes.

Like many developing country governments, the Lao government has a history of seeing dams (and more broadly all large infrastructure works) as a source of prestige. Dams are seen as objects of modernity and modernization (World Commission on Dams 2000, 21). Part of this dates back to the era of the first Mekong Committee, when the US and UN officials, in large part influenced by experiences such as the Tennessee Valley Authority in the US, were very keen to promote integrated river basin management and hydropower development as means of enormous wealth creation (Elhance 1999; International Rivers Network 1999, 4). After the victory of the communist faction in Laos, the enthusiasm for dams did not subside, since the new overlords, Vietnam and USSR, were also pro-dam (Osborne 2000, Interviews D1, E2). Dams were a source of revenue and a symbol of the modernity of Laos (Evans 2002); they even decided to represent dams on their banknotes.

Water and electricity are two commodities (if water can be reduced to a commodity) that share this particularity of being conducive to mixed incentives of cooperation and

conflict. They “admit levels of co-ordinated, cross-border activities and planning not readily achievable in other areas, especially industry, mining and agriculture which stand more often opposed to each other as national projects” (Swatuk 2000, 211).

4.2 Dams in Laos

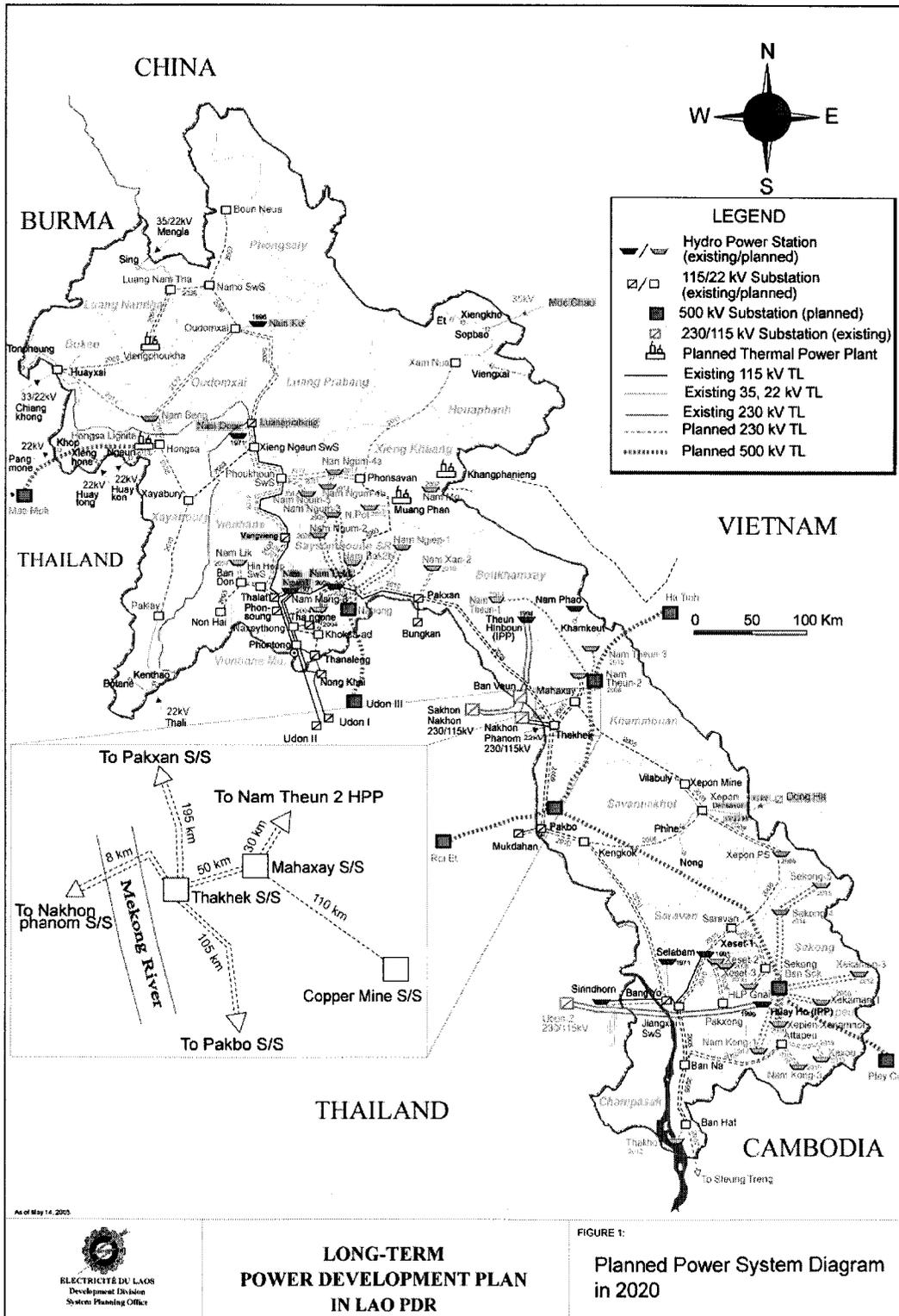
With this background in mind, we now proceed to analyse some actual cases of dam-building and how they reflect the condition of the small state of Laos and how it deals with hydropolitics and power trade projects.

Figure 2 is a reproduction of the master power plan development of Électricité du Laos (EDL), the public utility managing electricity in Lao PDR. Table 1 shows the wide diversity of hydropower projects going on in Lao PDR. The rhythm is hard to follow because projects get dropped or added to the list quite frequently depending on feasibility studies, and available funding (Interview B3, Vientiane Times 2001-2006). There are plenty of ideas on where to build dams that are floating around. Hydropower development in Laos is a big business.

The table also tells us that most of the large hydropower development schemes, e.g. all projects of capacity above 100 MW, are intended for export, most of them to Thailand, and some for Vietnam. It is also interesting to see the time horizon, now and in the near future for exports to Thailand, and in the future for exports to Vietnam.

What is of interest is also the predominance of the Build-Own-Operate-Transfer (BOOT) mode of financing for most large dams. This is a way to attract investors to build the dam, own and operate it to cover their cost and make a profit over a determined period of time (often 25 years), and then transfer the ownership to the government.

Figure 2: Long Term Power Development Plan in Lao PDR



(Électricité du Laos 2003)

Table 1: Summary of dams in Laos

Dam	Investors	Year of completion	Electricity market	Capacity (MW)	Progression	Note
Houay Ho	Daewoo, Loxley	1999	Thailand	150	Done	Now 80% owned by Tractebel-Suez, 20% by EDL
Huay Lamphang Gnai		2010 (expected)	Domestic	60	Initial study	Project with reasonable prospects of proceeding subject to additional studies
Nam Beng			Domestic	45	Pre-feasibility study done	Project with reasonable prospects of proceeding subject to additional studies
Nam Dong		1970		1	Done	GoL ownership
Nam Ko		1996		1,5	Done	GoL ownership
Nam Kong 1			Thailand	238	Feasibility study recommended.	BOOT financing
Nam Kong 3		2016 (expected)	Domestic	25	Initial study	
Nam Leuk	ADB and OECF loans to GoL	2000		60	Done	GMS project GoL ownership
<i>Nam Mang 3</i>	<i>China Export and Import Bank</i>	2005	<i>Domestic</i>	35	<i>Done</i>	<i>GoL ownership</i>
Nam Mo		2009 (expected)	Vietnam	100	Project currently stalled	Project with some certainty of proceeding
Nam Ngiep			Thailand	366	Environmental Impact Assessment completed, Feasibility Study ongoing	Project with some certainty of proceeding

Dam	Investors	Year of completion	Electricity market	Capacity (MW)	Progression	Note
<i>Nam Ngum</i>	<i>WB and ADB loans, western donors</i>	<i>1970</i>	<i>Thailand (90%) and domestic</i>	<i>1150</i>	<i>Done</i>	<i>GoL ownership</i>
Nam Ngum 2	Export and Import Bank of Thailand	2018 (expected)	Thailand	116	Re-optimization (and basin) study of this project in relation to other dams is recommended.	Project with reasonable prospects of proceeding subject to additional studies or further action by GoL and/or developer
Nam Ngum 3	GoL(23%), MDX (27%), Marubeni corporation, Japan (25%) and Ratchburi Electricity Generating Holding Company, Thailand (25%)	2020 (expected)	Thailand	580	Re-optimization (and basin) study of this project in relation to other dams is recommended.	Project with reasonable prospects of proceeding subject to additional studies or further action by GoL and/or developer
Nam Ngum 4		2019 (expected)	Domestic	56	Initial study	
Nam Ngum 5		2012 (expected)	Thailand	90	Pre-feasibility study done	Project with some certainty of proceeding
Nam Phao		1995		1,6	Done	

Dam	Investors	Year of completion	Electricity market	Capacity (MW)	Progression	Note
Nam Theun 1F			Thailand	400	Re-study of this project in relation to other dams is recommended.	Project with reasonable prospects of proceeding subject to additional studies or further action by GoL and/or developer
Nam Theun 2	ADB(loan), EDF, Italian-Thai, WB (guarantees), EGCO	2010 (expected)	Thailand (95%)	1088	Construction in progress	Project with some certainty of proceeding BOOT financing GMS project
Nam Theun 3			Vietnam	236		Project with uncertain prospects due to lack of studies, uncompetitive generating cost in the present market or major social/environmental impact
Nam Theun Hinboun	ADB (loan), NORAD (grant), Nordic Hydropower, MDX	1998	Thailand	210	Done	BOOT financing GMS project
Sekong 5		2017 (expected)	Vietnam	248	Memorandum of understanding	GMS project BOOT financing
Thak Ho		2013 (expected)	Domestic	35	Pre-feasibility study	Run of the river dam on the Mekong main stream Projects with reasonable prospects of proceeding subject to additional studies
Xe Kaman 1		2014 (expected)	Thailand or Vietnam	468	Concession agreement still under negotiation	

Dam	Investors	Year of completion	Electricity market	Capacity (MW)	Progression	Note
Xe Kaman 3		2011 (expected)		250	Construction underway	Project with reasonable prospects of proceeding subject to additional studies or further action by GoL and/or developer
Xe Pian - Xe Namnoi			Vietnam or Thailand	392	Resettlement by GoL commenced even though progress deadlocked	Project with some certainty of proceeding
Xekaman 1 (Sekhaman)			Vietnam or Thailand	468		Project with reasonable prospects of proceeding subject to additional studies or further action by GoL and/or developer
Xekaman 3 (Sekhaman)			Vietnam or Thailand	307		
Xekatom 1	Kansai Electric Power Co. of Japan			57	feasibility study	
Xepon	China Machine-Building International Corporation	2010 (expected)	Domestic gold and copper mines	70	preliminary economic estimates	
Xeset 1		1994	Thailand	45		
Xeset 2	China Export and Import Bank	2009 (expected)	Thailand	70	Deferment recommended.	Project with uncertain prospects due to lack of studies, uncompetitive generating cost in the present market or major social/environmental impact

Dam	Investors	Year of completion	Electricity market	Capacity (MW)	Progression	Note
Xeset 3		2014 (expected)	Domestic	16	Deferment recommended.	Project with uncertain prospects due to lack of studies, uncompetitive generating cost in the present market or major social/environmental impact

Sources:

(Lao PDR Ministry of Industry and Handicraft and Lao National Committee for Energy 2006)

(Vientiane Times Reporters 2001-2006, various issues)

(KPL Lao News Agency 2006, various issues)

(Krongkaew 2004)

(Lao P.D.R. 2003b)

(NORPLAN 2004a)

(Maunsell Limited and Lahmeyer GmbH 2004c)

However, this summary does not tell the story behind those dams. Three cases, italicized in table 1, will be examined more deeply, the Nam Ngum dam, the Nam Theun 2 dam and the Nam Mang 3 dam.

4.2.1 Nam Ngum dam

Nam Ngum dam is a good case to illustrate how the small size of the Lao economy exacerbates the condition of monopsony enjoyed by Thailand. It is also an example of how a drastic regime change and decaying relations with Thailand have not been able to free Laos from its contractual obligations with its powerful neighbour. Even though it does not directly touch upon decision-making, it is a good example of the high systemic constraints faced by a small state.

The oldest hydropower dam in Laos is the Nam Ngum dam, located in Vientiane province, near the capital. It is, with the exception of the small Nam Dong dam, the only dam built before the communist regime was victorious in 1975. This dam was under construction from 1968 until it reached its final shape in 1985. Under the management of the World Bank, eight western countries financed a small 30 MW dam and a transmission line to Thailand's power network. Thailand furnished cement for the construction phase, taking in repayment future delivery of electricity over the 1972-1977 period (Taillard 1989, 117-118). Phase 2 of the project was managed by the ADB and consisted of increasing the installed generation capacity to 110 MW as well as increasing the capacity of the transmission line to Thailand, all of this to be completed by 1979. In 1985, OPEC countries and the World Bank financed phase 3, which increased the capacity to 150 MW. The dam was wholly owned by the Lao government, no private partners were involved (Dieu 1999, 225). What is of interest is that even though the communists seized power in 1975, the power purchasing agreement with Thailand was respected. Even at the time of the border

war between Thailand and Lao PDR, in 1988 (Far Eastern Economic Review Staff 1988), deliveries of electricity were strictly respected even though the border was closed for all other purposes (Taillard 1989, 118). In fact, it can be said that the Nam Ngum dam served to establish a precedent of trust between the two countries regarding power trade. This history of reliability has served to ease the new projects in power trade between Lao PDR and Thailand. This dam partly explains how two regimes with radically different political systems and with a history of general distrust can today cooperate with each other on a sensitive issue such as large-scale power trade.

The question is, however, has this choice of being reliable been made because it was in the interest of both partners (Taillard 1989, 118), or because Lao PDR had no real choice of renegeing on the deal because of its vulnerability to Thailand? These two possibilities are not mutually exclusive; both can be true at the same time.

In an interview with a veteran Lao government official, it was made clear that the Lao government has always known that “Thailand was more powerful than us [Lao PDR] and that even though Laos could count on its Vietnamese and Soviet brothers, if we had given them [Thailand] good reasons to invade us, they would happily have done so. Nam Ngum was a very tricky issue to deal with, because they really need our electricity. Remember, their name is Thailand, the land of all Thai. And they consider that we [Lao] are Thai.” (Interview C1) Newer dams are much less influenced by this security problem, however, because the Cold War is over, tensions in the greater Mekong region are less prevalent, and membership of ASEAN acts as a partial guarantee on security issues.

The “mutual interest of both partners” explanation also provides an interesting perspective on the 1987-1988 border crisis in relation to Nam Ngum (see chapter 3, section 3.2.2). It captures the idea often mentioned in the small states literature of the asymmetric

importance of trade for a small state partnering with a larger state. This electricity was important for Thailand, but at the same time, it was a critical source of foreign exchange for the Lao government. Lao PDR needed foreign exchange to conduct any trade with countries from the convertible currency area, otherwise, it would be stuck trading only with non-convertible currency countries. However, the relationship is asymmetric; Thailand has a dominant position regarding Nam Ngum.

On numerous occasions, Lao PDR has been forced to comply with unacceptable prices and conditions or face the prospect of losing its only buyer of power. In 1979, then Thai Prime Minister Kriangsak Chamanan, on a visit to Vientiane, agreed to raise the power price for Nam Ngum from 40 satang (less than 2 cents/KWh) to 80 satang. EGAT, unhappy with the price increase, reacted by stopping the import of Nam Ngum electricity at the Thai border province of Nong Khai. A day later, Lao PDR had to comply with EGAT and accept the previous price.

(International Rivers Network 1999, 11)

There is no reason to expect any other dam to be different. Thailand has monopsony power and can use it to its full advantage. A larger and richer state would probably avoid part of this problem by having the possibility of using the electricity it produces for its internal market rather than selling it at cheap price, but Lao PDR does not have this option. Whether it is because of its state of poverty or smallness is up for debate. Poverty leads to a low consumption of electricity per capita and an underdeveloped electrical network so that even if its citizen would consume more electricity, they would be unable to. Smallness means that a small absolute population size creates small demand, even if people consumed at the same level as industrialised societies, and a low population density makes it very expensive to invest in a comprehensive electric grid reaching everybody.

4.2.2 Nam Theun 2 dam

This dam case highlights, again, the implication of small size in terms of exacerbating the monopsony power of Thailand, but it also raises the issue of having to use a third party, in this case China, in order to bring a policy decision in the management of domestic natural resources out of the foreign actors' community and into the GoL hands.

The Nam Theun 2 (NT2) dam is possibly the best known dam project in Lao PDR because it has been heavily criticized on all fronts, economic, social, environmental, political, since it first came under serious consideration in 1988, after having been studied since the 1970s. The involvement of the World Bank in the project added to its notoriety, partly because the World Bank has transparency obligations and hence more information is known on the project. Since then, it has been announced as either on the verge of beginning or being abandoned countless times. According to the latest progress report of the consortium managing the project, preliminary construction activities began in mid 2004, and finalization of financial arrangements of the project allowed moving into full scale construction activities. The dam is under construction and should be finished by 2010 (Nam Theun 2 Power Company 2006).

The NT2 is a good example of political interplay around a technical project. For a country like Laos, with a GDP of around US\$2,523 billion in 2005 (Central Intelligence Agency 2006), the investment of about US\$1.4 billion in order to build this dam is a major event. Many simply consider that Laos, a poor, underdeveloped, landlocked country just cannot say no to such a project (Osborne 2005; Interviews A1, D2, E2). Many have predicted the rise of the "Kuwait of Asia" because of the large hydropower potential of Laos (Economist 1993; Osborne 2005). NT2 could be the first step towards this economic boon.

What does this huge dam project (for a small country like Lao PDR) highlight in terms of small states policy space? First, and it is clear when looking at Table 1, like many dams in the Lao PDR, this project is aimed not at domestic consumption, but rather at export market. This may not sound like a very restrictive feature, but the fact of having a non-existent internal market for electricity directly constrains policy choices: you have to find a market. If you have only one market, as mentioned before, you face a client with monopsony power. Again this time, the only market which can absorb that much electricity is Thailand, and even this is doubtful. Before the 1997 Asian financial crisis, Thailand was considered an insatiable market for electricity, but now it is no longer considered an automatic buyer of whatever amount of electricity Lao PDR could produce (Interview D2, D3). In fact, prior to the crisis, Thailand actively encouraged the development of hydroelectric power in Laos to help meet its own energy requirements (Park et al. 2003, 272). Now the demand is lower, and many are speaking of the possibility for Thailand to buy cheaper electricity elsewhere (Economist 2005; Permpongsacharoen 2005). It also means that the purchase price for NT2 electricity is likely to be low since the demand in the monopsonist market of Thailand is low. Second is the fact that financing is through a BOOT scheme, thus not all of the profits earned will go to the Lao treasury.

What also comes out of observation of the NT2 regarding Laos as a small state is the use that has been made of the so-called China factor. In order to understand the meaning of the China factor, it is essential to look at the controversy which plagued the NT2 projects since it first came under scrutiny. It is interesting to note among whom the debate about the desirability of NT2 occurred. It was not between Lao PDR and donors, Lao PDR and its own civil society (which is pretty much powerless), or Lao PDR and investors; it is between international advocacy NGOs, and the multilateral development

banks, mostly the World Bank and ADB, as well as the private investors (Osborne 2005). The government of Lao PDR, (GoL) is not really part of the debate. It was only waiting for the final decision to come as to whether the project would be financed by the ADB and if the World Bank would offer guarantees to the investors. Investors, NGOs, international organizations and other involved actors just seem to assume that the GoL will say yes to any project if a consensus was reached among the other players. The important thing here is not whether the GoL desires the construction of NT2, or if it thinks it is in its interest, but rather that this variable is very minor in the decision of whether or not to build the project.

At some point, Électricité de France (EDF), a major investment and construction partner in NT2, was unable to sign the power purchasing agreement because of “internal issues” (Vongsay 2002). The specific reason behind EDF’s move does not matter. What matters is that when EDF disclosed the information that it might quit the project, the *Vientiane Times* published an article in which staff of the Nam Theun 2 Power Company made mention of: “[...] three power producers interested in the project: one producer was Norwegian and other two were Chinese companies.”(Vongsay 2003a) Shortly thereafter, EDF decided to stay in the project (Vongsay 2003b) and everything started to move a bit more quickly on the World Bank side. The official reason that the World Bank and ADB wanted to be part of the project and decided to go is because they thought it was a good project, with good profitability prospect, a well done environmental and social impact mitigation plan, a well developed framework to use the revenue for poverty reduction in Laos, an interesting and innovative approach to finance conservation efforts (part of the revenue will be used to protect the area around the flooded valley) and, very importantly, the presence of ADB and the World Bank guarantees that international standards will be respected in construction, fund management and impact mitigation (International Advisory

Group 2001; World Bank 2005; Interviews D2, D3). According to Stuart-Fox: “The [World] Bank is well aware that the reforms may not be implemented, but if it had not provided guarantees it could well have goaded the Lao government into asking China to build the dam” and then the likelihood that strict environmental and social standards would be respected in NT2 would be very low (Stuart-Fox 2006, 73).

The China factor is the fear that if the World Bank, the ADB or other western donors refuse to finance a particular project, China is likely to come and finance it if the project is financially or politically profitable. According to Stuart-Fox, “There is tacit recognition, therefore, that Western and Japanese aid should continue at levels that make it unlikely that Laos would turn to China” (Stuart-Fox 2006, 73). The China factor is also a fear that the status of organizations such as the World Bank might suffer in Laos if they are not participating on major projects such as NT2. Bad relations with the GoL would mean less influence to promote economic reforms and reduce corruption. This, however, is not of central concern for the understanding of small states. It only illustrates how being a resource provider might be a way of gaining influence.

What is fundamental to note about the China factor is that it took the possibility of Chinese involvement to make things move. Some research participants in the NGO sector believe that the Chinese involvement was largely a marketing operation by the GoL to make things happen, and that interest from Chinese companies to participate in NT2 project was so embryonic that it would not have prompted such a wide response if it had not been publicized by GoL (Interviews A1, A3). No matter how “real” the interest of Chinese companies was, whether or not people believed it, the China factor was present in the mind of all the project’s actors (Interviews D4, E3, B2). If the whole thing was actually a GoL marketing strategy, it is a clear example of how a small state can use a more powerful state

to provide incentives for international actors to proceed for some of its policy objectives to be attained.

4.2.3 *Nam Mang 3 dam*

This dam is a clear example of how a policy, the building of Nam Mang 3, has been implemented even though it was not in the plan of EDL to do so. Laos is so small that it cannot manage a US\$20 million in cost overrun easily.

Deemed as a low priority project by the government, considered economically non-viable by both the World Bank and the Asian Development Bank⁵, large predicted environmental impact, large number of people who would be displaced, only 35 MW of capacity, this dam had reasons not to be built. Rather than being postponed or cancelled, this dam was built in a rush from 2001 to 2005. The urge to build was so intense that a group of Hmong farmers actually took sticks and firearms and went to the management of the construction of the dam, on 22 November 2002, to obtain information regarding eventual displacement because of the flooding or effects on the downstream river. No resettlement study had been done, so the information they wanted was simply non-existent. The construction stopped for 5 days before the Lao government dealt with the issue, largely by sending military intervention to the protesting village to end the protests (International Rivers Network 2003, 3-4). After that, very little echo of what happened at the Nam Mang 3 building site filtered out. Two months later, the press in Laos mentioned that: "Villagers from Ban Phou Khao Khuay and Ban Phoukhaokeo [the areas to be flooded] agreed to

⁵ Actually they evaluated that a 20% cost reduction would be needed in order for the dam to generate profit, if market conditions were to stay constant (Wong 2003; confirmed in interview D1).

support the construction of the dam after discussions with a government team” (KPL: Lao News Agency 2003).

Why would such a poor project, according to all observers, be approved and executed that rapidly? The answer lies partly in the name of the executing agency: the China International Water and Electric Corporation (CWE). This company was involved in the construction of the Nam Leuk dam, right before the Nam Mang 3 project. Interestingly, the work of CWE on the Nam Leuk dam had not been considered good by an ADB evaluation. The ADB, in an audit report, notes that: “The civil works contractor [CWE] was responsive in prequalification and tendering procedures, and submitted a well-prepared tender. But its performance in management, quality of work, and scheduling was extremely poor” (Suzuki, Edwards, and Hettige 2004, iv). With a more incisive view, a report from the NGO International Rivers Network (IRN) specifies in which ways CWE was a poor contractor for Nam Leuk dam.

[CWE] used very poor standards for road and infrastructure construction which resulted in excessive sedimentation in the Nam Leuk river. CWE is largely responsible for a \$15-20 million cost overrun which will affect the economic viability of the project. The government may be forced to sell a part of the project to a private power company. In July 1997 the ADB, in an unprecedented move, suspended work on the dam due to the substandard construction work by contractors CWE (International Rivers Network 1999, 23).

Obviously, the fact that CWE was such a bad contractor on Nam Leuk does not explain why it should have been chosen for the construction of Nam Mang 3 and why this latter project should proceed so quickly.

In fact, the key explanatory factor in this weakness of the work of CWE on Nam Leuk is the cost overrun. In 1999, two ways to solve the cost overrun problem were considered. The first was that the GoL would sell nine percent of their 60 percent equity

interest in the Theun Hinboun Power Company, thereby maintaining a majority stake in the company but let go of a part of an asset earning foreign currency. However, the ADB stated that it was “highly unlikely” the Government would agree to this option. The other option involved selling part of the Nam Leuk project, along with part of Nam Ngum hydropower project, to Sithe Pacific Holdings (International Rivers Network 1999, 25). According to informants in the NGO sector, as well as one Lao citizen from the business community, another option was chosen to solve the problem; a loan from the China Export and Import Bank for the construction of Nam Mang 3, with the prerequisite that CWE would be the contractor for this project and would serve to finance the cost overrun of Nam Leuk (Interviews A2, A3, B1). Officials at the Chinese embassy, in CWE or EDL were unable, or unwilling, to provide information on the subject. It has been impossible to confirm that the Nam Mang 3 dam was effectively built under these exact circumstances. What is certain though is that the China Export and Import Bank financed it and CWE built it.

Considering the Lao political system and the various pieces of information gathered through interviews, it is credible to believe that the Lao government decided to please the “Chinese brother” by taking a loan to pay for Nam Mang 3 rather than sell ownership of Lao dams to pay for cost overruns of Nam Leuk. It is quite striking because it means that a cost overrun of US\$20 million can lead to the implementation of a bad policy, in this case the construction of a dam that had been labelled by the Lao government as a non-priority project because of its large social and environmental effect and very small expected productivity.

These examples give an idea of ways in which smallness can affect policy regarding dam building. A more formal analysis is made in chapter 6. The next chapter examines the same kind of cases, but regarding transportation, and involving not one but two neighbours.

CHAPTER 5: Lao PDR and subregional road network development

This chapter deals with another case of subregional projects: road development. It will be useful because it can be compared to hydropower projects. Subregional road projects have in common with hydropower projects the multinational aspect, but they are not subject to hydropolitics issues and to the technical constraints of power trade. The chapter starts with a review of the developmental effect of road building, so as to be able to see the interest of Lao PDR to be in road development projects. Then, the meaning of landlockedness is explored. Two road projects - road 3, the only missing part of a road that will stretch from Beijing to Singapore, and road 9, which will link Thailand and Vietnam through the province of Savannakhet in Lao PDR - are examined to see if and how the variable of smallness can be considered to have influenced the policy choices available to the GoL, autonomously from other variables affecting Laos such as landlockedness, in these particular cases.

5.1 Importance of roads: in the theory

Intuitively most people consider that road infrastructure improvement (or creation if building from scratch) should be a good thing for development. Intuitively obvious impacts of an improved road system include, but are not limited to, better access to markets to sell products (at the local as well as international level), possibility to buy consumer goods, opportunities for off-farm employment, greater access to government services, among which are health and education. The need for paved road is even more salient in tropical countries because otherwise, dirt roads become mud roads in the rainy season, and they are often impassable. It is important, though, to go beyond these intuitive impressions and try to learn from the literature on the subject. Apart from the domestic aspect of roads,

the international aspect is important: where will these roads go? In fact, as a landlocked country, Laos' roads have to lead to another country; they cannot lead to a domestic seaport. This is the major way in which landlockedness affects a country.

5.1.1 Developmental impact of roads

The first caveat to the importance of road-building for economic development is the fact that even though roads are usually a *necessary* condition for development, they are not a *sufficient* condition (Cook et al. 2005, 195-196). Regarding the poverty reduction effect of roads, especially in developing countries like Lao PDR, the World Bank asserts that transport investment, mostly roads, will have the greatest impact on the economy and on the poor when other sector interventions, such as provision of public services or market friendly policies, are also in place (Cook et al. 2005; Gannon et al. 2002). A complementary service to paved roads that increases their developmental effect is the provision of intermediate means (IMT) of transport to actually connect the rural people from walking to the “modern” motorized transport network. These IMTs usually consist of roads or paths accessible by wheelbarrows, bicycles, animal-drawn carts, mopeds, and so on (Cook et al. 2005, 10). Another strategy to maximize the development impact of road building is to choose a labour-intensive method of construction and to employ locally hired workers. If this approach is taken in a rural setting, the effect of expenditure on road building is increased through a multiplier effect (Cook et al. 2005, 11).

Studies have also been undertaken in the specific context of Lao PDR regarding the impact of road-building. The road 17B, in Luang Namtha province through which road 3 also goes, has been studied from an ethnographic perspective in order to understand the impact on health of the surrounding populations. The main finding has been that increased contact of immobile or semi-mobile populations around the road with mobile users

(truckers, itinerant workers, travellers, etc.) increases the risk of HIV/AIDS spread in Lao PDR, but that some other health problems such as malaria were reduced by a better access to governmental health services (Lyttleton et al. 2004).

From a more statistical standpoint, Peter Warr conducted a study by regression analysis to assess the incidence of improved road access alone on rural poverty in Lao PDR for the period 1997-2003. He found out that improved road access had been responsible for 13% of the rural poverty reduction in Lao PDR for the period. He concludes that improving road access is an effective of reducing rural poverty (Warr 2005, 17-18).

These studies inform us about the desirability of roads in Lao PDR, and on how road projects could be set up so as to maximize benefits.

5.1.2 Landlocked countries

Why be concerned with the fact that Lao PDR is a landlocked country? Simply because its landlockedness has an influence on its foreign policy and its relations with its neighbours. Even if it were a “large country” (as opposed to a small state), with a large population and so on, its landlockedness would create certain incentives and behaviours. In the case of Lao PDR, landlockedness merges with smallness to influence policy outcomes. It is important to understand this factor to try to isolate its effect from smallness.

Laos is, and has been for all its history as opposed to other states that had a sea access and lost at one point in history, a landlocked country. At first glance, being a landlocked country might not seem such a major hindrance. Some landlocked countries, chiefly Switzerland and Austria seem to be coping quite well with their lack of sea access. However, statistical analysis tends to demonstrate that being landlocked effectively constrains economic growth. An estimate given by regression analysis is that being landlocked can reduce annual GDP growth by 1% (Gallup, Sachs, and Mellinger 1999, 202).

The authors mostly attribute this to higher transport costs (Gallup, Sachs, and Mellinger 1999). Cárcamo-Díaz, in a study for UN/ECLAC, identifies the problems faced by landlocked countries as a problem of uncertainty not basically about current transport costs, but rather about future transport costs because its trade must transit through another country, on which the exporting landlocked country has no leverage and which could change the cost structure or even close its border. The inclusion of this exogenously determined factor to transportation costs raise uncertainty, thus creating a disincentive to invest in the tradable goods sector of such an economy, as well as raising the price of exports and imports (Cárcamo-Díaz 2004, 13-14). This is a credible possibility in the case of Laos because, during the 1980s, Thailand has used its border as an economic weapon against Laos (Jerndal and Rigg 2002, 49-50).

To circumvent the problem of landlockedness, the official position of the GoL is to promote the development of Lao PDR as an “essential landlink” between its neighbours, thus creating not a landlocked country but rather a landlinked country (Embassy of the Lao People's Democratic Republic 1999; Vientiane Times 2002a). According to an informant in the Lao government, this strategy is based not only on the need for better links with neighbouring countries but also on the idea that if Laos becomes an essential transit route for many countries, it will be more difficult for Thailand to use the border-closing threat (Interview C2). In fact, most provinces have long been better connected with the markets of neighbours than to the Lao domestic market, but usually only to one border (Taillard 1989, 61). All provinces (except the Xaysomboun special zone) have an international border, and Bolikhamsai, Savannakhet and Khammouan provinces have two. The current situation, though, is difficult to assess because of a lack of reliable provincial-level trade data.

Landlockedness constrains Lao policy choices autonomously from the factor of smallness. A landlocked country ideally has to secure its sea access to trade through its neighbours or increase trade with its neighbours rather than through them (ESCAP 2003, 4). Hopefully, examining concrete projects of roads supposed to improve the status of Lao PDR as a landlink will give some hints about how much of the policy decision of the GoL is dictated by smallness, how much by lack of resources to autonomously develop its road network, and how much by landlockedness.

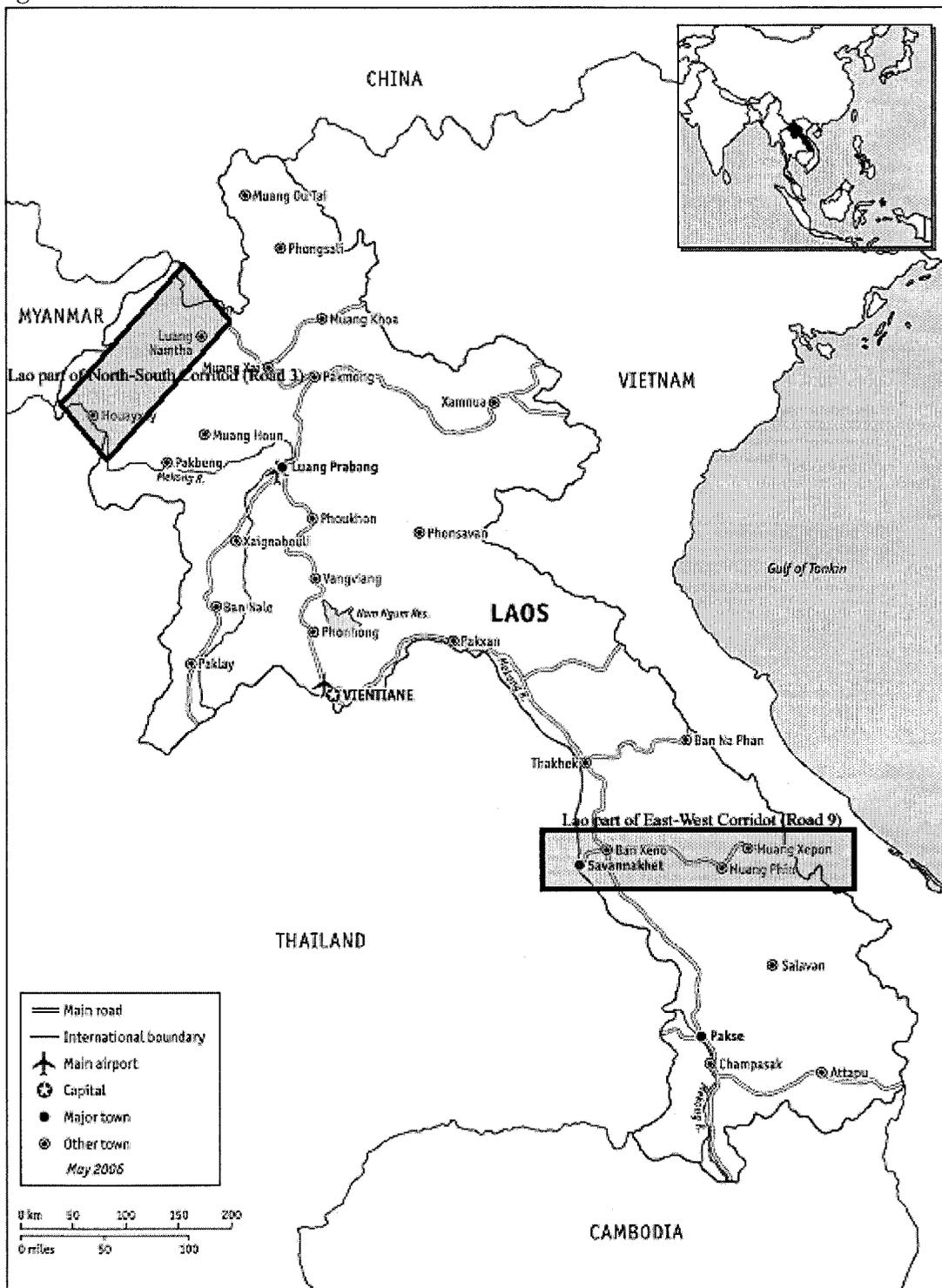
5.2 Subregional road projects in Lao PDR

Lao PDR is at the heart of the GMS Economic Corridors projects. Figure 3 makes it quite clear that it must be involved for two of the corridors to be functional. Figure 4 shows, however, that the corridors passing through Lao PDR are really aimed at subregional optimum road networking, not at maximizing the efficiency of the Lao road network. This is especially true for Road 3, in the North-South Economic Corridor. This is not surprising because the main promoter and financier of the GMS program, the ADB, aims for a subregional rational integration of infrastructures (Asian Development Bank 1997). It has other funding for specifically national development projects. Lao PDR is in the middle of the area, it might: “[...] become a trucking stop, a transit country between more powerful economic players, in particular Thailand and China.” (Jerndal and Rigg 2002, 56)

Through analysis of the two economic corridors passing through Lao PDR, we hope to get a better sense of whether or not it has been constrained in this position by its smallness, landlockedness, and/or poverty, and also what are the policy choices available to it in this regard. The difficulty inherent in trying to analyse road building is that because it

does not trigger controversies in the international NGO community, as opposed to large scale hydropower scheme projects, information on the unofficial aspects of these projects is much harder to find. It will thus be necessary to read between the lines of the official discourse of the governments and fund providers (whether private or public). The reliability of the case study is therefore lower than in the case of dam building.

Figure 3: Details of Economic Corridors' Paths into Lao PDR



Based on blank map from: (Wikimedia Commons 2006)

5.2.1 Road 9: Myanmar-Vietnam via Thailand and Laos

This road building project is an example of how smallness affects the policy options available to profit from transportation infrastructure. Road 9 illustrates how small states face economic challenge due to their geographical and demographic features.

Road 9 is situated in the most populous province of Lao PDR, Savannakhet. With a population of 766 000 people, it accounts for 15% of the total population (Embassy of the Lao People's Democratic Republic 2003). It is a landlink (or rather it will be when the bridge over the Mekong is finished) between the Northeast of Thailand, for which a direct connection to Vietnam would mean a shorter export route than through Bangkok, and seaports in Vietnam. It is one of the sections of the East-West Economic Corridor (EWEC) component of the GMS program. It encompasses a road link about 1,450 km long. When the undeveloped or missing sections are in place, it will be the only direct, continuous land route between the Indian Ocean (Andaman Sea) and the South China Sea. According to ADB, the completion of the Corridor will provide the basis for accelerating east-west economic cooperation and development. The corridor will link Mawlamyine in Myanmar (Burma) to the Vietnamese seaport of Da Nang, passing through Thailand and Laos (Asian Development Bank 2005).

In Lao PDR, the East-West Economic Corridors consist mainly of two major construction projects: a bridge over the Mekong and the paving of the road to the Vietnamese border. Detailed design of the 1600-meter bridge and about 5 km of approach roads was completed in 2000, after which JBIC concluded a loan agreement with the GoL and the Government of Thailand to finance the whole operation of US\$ 100 million. The loan has been divided equally among Laos and Thailand (Asian Development Bank 2006b). The construction of the bridge over the Mekong, linking Mukdahanh in Thailand and

Savannakhet in Lao PDR, began in December 2003 and it is planned to be finished by December 2006 (The Nation 2006). The 1.6-km bridge is expected to be open 24 hours a day and it is estimated that nearly 700 vehicles per day will be using the bridge by 2007. That number is expected to rise to 5,600 vehicles by 2027 (Economist Intelligence Unit 2006a, 22).

The road within Lao PDR was completed in late 2004 (KPL: Lao News Agency 2006b). 130-km road section has been funded by grant financing (to the order of US\$ 65 million) from the Government of Japan (Asian Development Bank 2006d). The rest of Road 9 rehabilitation and paving has been financed by ADB for an amount of US\$ 40 million (Asian Development Bank 2006c).

As opposed to Road 3, this part of the Lao road system has been among the projects of the GoL for a long time (at least from the 1990s) (Ministry of Economy Planning and Finance of Laos 1990, 1995). This can be due to the higher concentration of population in the surrounding region (as mentioned before Savannakhet is the most populous province in Laos) and thus high per capita benefit of road building and possible industry development. However, this can also be due to the fact that most of the old guard of the LPRP come from Southern Lao PDR (Abuza 2003). The important fact here is that it has been a priority project for the GoL, whether the reasons are economic or political. Because the GoL was generally happy with the construction of this road, just like the Burmese, Thai and Vietnamese partners, as well as ADB and JBIC collaborators, policy choices for Lao PDR in this case cannot be analyzed as whether or not it could go against the will of other actors.

However, this does not mean that perfect consensus existed in Lao PDR regarding the upgrade of Road 9 and the building of a second bridge across the Mekong. The Thai

newspaper *Bangkok Phuchatkan* reported, in 1999, that some Lao officials termed the Road 8 and 9: “[...] as only a facility for transporting transit goods between Thailand and Vietnam while Laos itself will have to shoulder the burden of containing contraband smuggling and the entry of illegal immigrants.” (Bangkok Phuchatkan 1999) This suggests that not everybody was feeling positive about the project in Lao PDR. Adding to that, Bounna Hansingsai, head of the trade service of Khammouane Province in Laos said: “[...] the countries that stand to gain the most from such cooperation are Thailand and Vietnam. This route [Road 9] is a main transport route for transit goods between Thailand and Vietnam” (Bangkok Phuchatkan 1999).

What is of note in these comments is that they reflect a feeling, no matter if it is justified or not, that road projects are not tailored to Lao needs, but rather to the needs of Thai and Vietnamese.

The issue of immigrant control is probably not a serious issue, because illegal immigration usually works the other way around, from Laos to Thailand, not the opposite (Humantrafficking.org 2006). Smuggling is already widespread with Thailand, partly because of the porosity of the border (the Mekong river for most of it) and because of extensive family contact between Lao and Thai, since many extended Lao families have members living in Northeast Thailand (Stuart-Fox 2006, 61). In fact, smuggling at the Lao-Thai border probably lies beyond the control of either government (Rigg 1998, 168). The extent to which the Mukdahanh-Savannakhet Bridge is likely to increase smuggling is unclear. The other concern about the Road 9 being merely a transition route through Lao PDR, bringing very few economic opportunities for Lao people, is much more difficult to overlook. It is in maximizing the economic benefit possibly derived from the passage of a transition road like this that we can see how Lao policy is affected by smallness.

The issue is as follows: why would the fact that trucks transit through Lao PDR bring economic advantages, especially considering that driving from Mukdahanh to the Vietnamese seaport of Da Nang can be done in half a day considering the current road conditions? A telling illustration of how likely it is that Savannakhet will get a major economic impact from the construction of the presence of the Mukdahanh-Savannakhet Bridge and Road 9 is found in a presentation of the Japan Overseas Development Corporation (JODC) in Bangkok regarding cross-border trade facilitation in Mekong region under AMEICC⁶. The main point made by the study is that Road 9 and the Mukdahanh-Savannakhet Bridge might permit a reduction in costs and transport time between the industrial clusters of Bangkok and Hanoi, especially because it might reduce the need for transshipment. This distribution route would take 3 days rather than the 8-10 days required for ocean transport (Japan Overseas Development Corporation 2006). One of the key elements here is the issue of transshipment. If it is possible to avoid transshipment, then the need for the development of logistical infrastructure in Savannakhet, and thus economic growth, is likely to be quite low. This fact is a direct consequence of the geographical smallness of Laos: it takes only half a day to go from the Thai border to the Vietnamese border.

What therefore are the policy choices available to Lao PDR in order to maximize economic benefits from the new transport axis passing through its territory? The possibility of imposing tariffs on transiting goods is not available because of the various treaties which

⁶ AMEICC is standing for AEM-METI Economic and Industrial Cooperation Committee, AEM standing for ASEAN Economic Ministers, and METI standing for Minister of Economy, Trade and Industry of Japan

Lao PDR has ratified, including the *GMS Cross-Border Transport Agreement*⁷ and, more importantly in the longer run, the *ASEAN Free Trade Area* (AFTA) agreement. The GMS Agreement is a comprehensive multilateral instrument, which covers aspects of cross-border transport facilitation such as: single-stop/single-window customs inspection, cross-border movement of persons (visas for persons engaged in transport operations), transit traffic regimes, including exemptions from physical customs inspection, bond deposit, escort, and phytosanitary and veterinary inspection, requirements that road vehicles will have to meet to be eligible for cross-border traffic, exchange of commercial traffic rights, infrastructure, including road and bridge design standards, road signs and signals (Asian Development Bank 2006e). The AFTA, and the associated Common Effective Preferential Tariff (CEPT) Scheme, will force Lao PDR to reduce tariffs on imports to between 0-5% by 2008, as well as make sure that it does not collect tariffs on goods not for consumption within Lao PDR (Lao-Araya 2002). These two legal agreements are an advantage to Lao PDR in the sense that they insure a relative freedom of access to its neighbours' markets. However, they also make it impossible for Lao PDR to get major economic benefit through taxing goods on transit. This is the cost for Lao PDR to pay for the privilege of securing market access. The main driving force behind adhesion to these agreements is probably the state of landlockedness of Lao PDR, not only its smallness. As a landlocked country, Lao PDR had probably no choice but to accept to be party to these agreements, or else it would have had to rely only on its old patron-state, Vietnam, which could probably have decided to force Lao PDR to let subregional trade pass through its territory.

⁷ Formally: *The Agreement between and among the Governments of the Kingdom of Cambodia, the People's Republic of China, the Lao People's Democratic Republic, the Union of Myanmar, the Kingdom of Thailand, and the Socialist Republic of Viet Nam for Facilitation of Cross-Border Transport of Goods and People.*

One of the possibilities left to Lao PDR is to develop an industrial base in the Road 9 region, with an easy access to a solid road network for international distribution, either directly to Thai and Vietnamese markets, or through them to other countries. This is actually the policy pursued by the GoL. The Savan-Seno Special Economic Zone (SSEZ) has been established to promote industrial development through fiscal incentives (Inthavong 2005, 19-22). SSEZ will be an export processing zone, a free trade zone, and a free service and logistic centre. The goal of the policy is to attract labour-intensive agro-industries and activities (Business Information Services Network 2006; Lao PDR 2003a, 17; Interview C2).

However, many factors raise doubts about this strategy. One of these is the issue of population and labour. Savannakhet is the most populated province of Lao PDR, with a population density next only to the Vientiane Municipality area (Embassy of the Lao People's Democratic Republic 2003). Labour costs in Lao PDR are lower than in neighbouring Thailand and Vietnam (International Labor Organization 2006; Interview C2). This should be a good way to seduce international investors. The problem is that, according to a Lao official involved with the Savan-Seno Special Economic Zone Authority (SEZA) substantial amount of labour in the Savannakhet province, especially the high population density zone along the Mekong and in high proportion the skilled-labour, is illegally working in Thailand right across the Mekong (Interview C2). They are working in Thailand because of the better wages and perceived reliability of wages in Thai Baht rather than in Lao Kip (Interview C2). It is hard to put a number on the actual size of the phenomenon. The challenge is to bring these workers back in Lao PDR to have them work at a lower wage, since it is the only advantage of Lao PDR over Thailand where the business environment is generally perceived as better for international investors. Apparently, the

small population of Lao PDR, as well as the porosity of the border, makes it difficult for it to develop a policy to effectively take advantage of an improved road network. However, in this case, not only small demographic size, but also poverty is in cause. We cannot assume that this problem stems only from smallness.

5.2.2 Road 3: The Singapore-Beijing Trans-Asia highway via Laos

The case of Road 3 highlights how unable to decide anything regarding a road passing through its national territory Laos has been, largely because of the combined pressure and financing of the road by China and Thailand.

Road 3 in the northern Lao provinces of Luang Namtha and Bokeo is the remaining piece of road needed to complete one of the major axis of the so-called “Trans-Asia highway.” When complete, it will be technically possible to drive uninterrupted from Singapore to Beijing. Right now, the entire road network exists, except for a 228 km long section in Lao PDR (minus what has been built since the beginning of the project in 2003) and a bridge over the Mekong. The Lao section starts at Boten at the border of China and finishes at Houaysay, on the bank of the Mekong, across which is Thailand. This stretch of road is a major component of the Sino-Thai Mekong strategy (Masviriyakul 2004). Intuitively, one would assume that having China and Thailand wanting to complete this piece of the road would mean that it would be impossible for Lao PDR to say no. One of the likely drivers of the process are Chinese exporters who appear to be targeting northeast Thailand (Lintner 1995a, 19).

This road building project has been labelled as a priority project since the 1994 Hanoi meeting of the Transport Ministers of the GMS (Greater Mekong Subregion Ministerial Conferences 1994). Before the actual Hanoi meeting, the development of the Road 3 axis was not considered a priority by the GoL. An indication of this is the fact that

the 1991-1995 Public Investment Program did not allocate any fund to this section of the Lao transportation network, but rather emphasizes heavily the importance of road 13 (North-South), as well as the need for improvement and maintenance of roads 7,8 and 9 (Ministry of Economy Planning and Finance of Laos 1990). We can hypothesize that the post-Hanoi GMS meeting emphasis on road 3 in Lao PDR was created by outside pressure. There is however no conclusive evidence regarding that. For the 1994-2000 period, the GoL tried to build this road with a Lao-Thai joint venture, the Economic Quadrangle Joint Development Cooperation Corporation. The plan was to develop a toll road as well as commercial development of 5600 hectares of surrounding state land. However, no real progress was achieved (Asian Development Bank 2001; Vientiane Times 2002c). According to the Vientiane Times, progress were prevented by “[...] funding and licensing discrepancies” (Mongkhon Vongsam-ang 2001). In 2000, at the request of the GoL, the ADB provided technical assistance to assess the value of the existing concession and suggested options to transfer the full ownership of this joint venture to the Government in order to get the project moving again. A settlement agreement between the Economic Quadrangle Joint Development Cooperation Corporation and the GoL was signed in November 2001. Under this agreement, the GoL agreed to buy shares from the Thai private sector company for 175 million baht (around \$US 4.6 million). The settlement and construction was to be financed by a loan from Thailand to the Lao Government (Vientiane Times 2002c).

Road 3 is now being built. The first stretch of 70 km uses Chinese funds, the second stretch of 74 km is funded by a loan from the Asian Development Bank to the GoL, and Thailand finances the third stretch of 85 km with a loan to GoL. The total cost of the project is about US\$ 96 million. The Yunnan Highway and Bridge Company of China

(YHBC) is responsible for the building of the first section whereas the Nawarat Patanakarn Company of Thailand is responsible for the other two sections (Vientiane Times 2002c). The road is expected to be finished by 2007. According to the *Vientiane Times*, this is the first example where two members of the GMS partnership have collaborated with ADB to invest in a project in a third country to promote regional cooperation (Vientiane Times 2002b).

Regarding this road building, the policy option of increasing the likely beneficial impact of expenditures on road building through the maximization of local labour use seems not to have been available to the GoL in the case of Road 3. Whether on the section of the road built by the YHBC and financed by the Chinese government, or the sections built by Nawarat Patanakarn and financed by the ADB and the Thai government, the use of labour-intensive techniques is quite low. In fact, both enterprises use capital-intensive techniques. Regarding labour, Thai and Chinese operate the machinery, whereas Lao unskilled-labour does some stonework. In terms of extensive use of local labour and of capacity building, these two projects go against the best developmental practices. This goes against the current discourse on the importance of economic growth and poverty reduction which is prevalent in Lao PDR (Lao PDR 2004). We can assume that the possibility of using a more development friendly technique of road building was not available to Lao PDR otherwise it probably would have taken it. This is, however, an assumption based only on hints, not on solid evidence. Thai Foreign Minister Surakiart Sathirathai was reported saying that he released the loan to Lao Government because of the needs for it to be finished quickly (Vientiane Times 2002c). This reality, as well as the fact that the Chinese government made a grant of 50 million Yuan (US\$6 million) and 199 million (US\$24 million) in interest-free loans for about one third of the road length to make sure the road

will be finished as soon as possible (People's Daily 2003), makes it quite improbable that the GoL would be picky regarding road construction techniques.

As made clear in Figures 3 and 4, the path of the North-South corridor barely enters the Lao territory. In fact, it enters at a peripheral point, goes for a little bit more than 200 km inside Lao PDR, and then exits at a peripheral point. It does not service a highly populated area or a very productive region which could profit from export opportunities opened by the new road.

An aspect which deserves scrutiny is the fact that as long as Lao PDR was acting alone on the building of the road, it was unable to achieve anything, largely because of a lack of resources for the Road 3 project. However, when China and Thailand decided that it was time for them to have a road linking Yunnan and Thailand, things started to move again.

In fact, the GoL had not labelled Road 3 a major national priority. A bridge on the Mekong linking Houaysay (Lao PDR) and Chiang Khong (Thailand), and eventually Road 3 to the Thai transport network, was an higher priority for the GoL (Ministry of Economy Planning and Finance of Laos 1995). In 1998, the bridge project was still under consideration (Greater Mekong Subregional Transport Forum 1998). In August 2004, at the Eighth Meeting of the Subregional Transport Forum, it was reiterated that this bridge was a key component of the North-South Economic Corridor, and, as such, is a priority project for immediate implementation (Greater Mekong Subregional Transport Forum 2004). Even though the GoL placed a higher priority on the bridge than on the road, the sequence of building (the road first, and eventually the bridge) was decided against the wishes of Lao PDR, by the release of resources by Chinese, Thai and ADB in favour of the road. The national priorities of Lao PDR were not listened to by fund providers. This, however, is

difficult to attribute to Lao PDR's smallness. Obviously, it is partly due to a lack of resources, but a large country can be as poor as Laos is. It is also partly due to the need of Lao PDR to have good relations with China and Thailand, but not only a small country can make compromises to please their neighbours, even though it is probably more likely to do so.

The next chapter brings together the various cases observed and assesses, through the theoretical framework exposed in chapter 2, the usefulness of the factor of smallness against the general background explanation.

CHAPTER 6: Using state small size as an explanatory factor of policy choice

This chapter is an analytical synthesis of the information contained in the previous chapters. More than a summary, it is a systematic assessment of the information gleaned from the policy case studies along the line of the theoretical framework described in chapter 2. Whereas chapters 3 to 5 gave a broad portrait of a process, the present chapter is a critical weighing of the validity of the explanatory power of variable of smallness in the cases examined.

6.1 Smallness and History

The aim is to assess whether the factor of smallness brings a real improvement in the understanding that we have of specific policy choices. The historical data and general political information presented in chapter 3 are moderately supportive of the hypothesis that smallness is a good explanatory factor of how Laos conducts policy and manages to create policy space for itself. The element of systemic constraint is clear from the analyses that Laos has always needed to balance the influence of neighbouring countries with another neighbour, thus needing to rely on external sources of power. The constant search for either a like-minded patron (or the forced patronage by a much stronger political country) is also illustrative of the fact that Laos needed to use external power for regime survival, even though the regime could survive at times only by behaving as a docile vassal country. This reliance on external power because internal power is absent is an expected feature of a small state's policy behaviour. Looking at the history of Laos, nicknamed the "Land in Between" by Evans (2002), suggest that effectively, its smallness explains how it dealt, and possibly how it is now dealing, with other states.

However, historical analysis is easy to get wrong. Depending on the facts depicted, the impression an analyst might get can be mixed. Another view on the history of Laos is, though, that it is a non-country with artificial borders having been created through the process of colonialism. According to this view of Lao history, Laos has never really been a state, it has always been a periphery of something else, nothing by itself (Jerndal and Rigg 1998; Neher and Marlay 1995; Nguyen 1996). Rather than being the “Land in Between”, Laos would be the piece of Thailand that was not integrated into Thailand because of the French colonialism in the region. This interpretation also explains the historical pathway of Laos, as a peripheral part of a “nation”, it was an easy prey for competing “nations”, and at the same time, it was difficult to control for everybody, since it was peripheral to every “nation”. This reading of Lao history is obviously simplistic and reductionist, but, flawed as it might be, it still creates a serious doubt that smallness was that important an explanatory factor in the history of Laos. Based only on history, a malleable material to work with, the usefulness and importance of smallness is very difficult to defend because other historical models can be as convincing, or convincing enough to shake our confidence in the variable of smallness as a variable that has some exclusive explanatory power. Obviously, something militating against history as the ultimate benchmark is the well-known fact that history does not determine today’s reality. History can shed some light on current events, but it does not explain everything. Hence, having an historical argument a little shaky because it only mildly supports the test of a counter-explanation does not prove that the variable of smallness is irrelevant. It is necessary also to look at more current analysis of variables, such as domestic politics.

6.2 Smallness and Political regime

Examination of the Lao domestic political regime, as was been done in section 3.3 of chapter 3, clearly established the fact that personalism is a very strong feature of Laos. Incidentally, it is one of the characteristics identified as typical of the small states in the work of Hey (2003). We cannot assume that the aspect of personalism in Lao politics is caused by smallness, but the fact that Hey's prediction that a small country with low level of economic development should exhibit a large personalism aspect provides a hint that mechanisms common to other small states might be at work in the case of Laos (Hey 2003, 193-194). However, because we cannot say that personalism is caused by smallness we cannot use the presence of personalism as a strong indicator of the significance of the variable of smallness whenever we observe personalism, unless we can prove that this personalism is due to a small bureaucratic machinery caused by the smallness of the overall population and lack of resources. Incidentally, there is very little evidence in the policy cases studied that personalism did play an extensive role in policy decisions. A consequence of the culture of secrecy or a hint that personalism is not that prevalent? Very difficult to say.

The fact that Lao PDR is a communist regime, or to describe it a bit differently a nationalist authoritarian one-party regime, also affects policies. For Laos, this political regime makes it easier to deal with China and Vietnam, countries with a similar political regime, than with Thailand. Pleasing a communist brother can be a motivation, even though history tells us that a brother can be a brother enemy at times, for example when Laos had to choose between its friendship with Vietnam or China in the era of the invasion of Cambodia by Vietnam. It also creates some policy space where another regime would not find any. The Nam Mang 3 dam is an example of that, in the sense that due to the

authoritarian nature of the regime, it was possible to adopt a policy without regards to the country populations. Displacing people for the construction of the dam was a source of policy space that permitted the avoidance of an alternative means of financing a cost overrun of US\$ 20 million, the sale of shares of sources of revenue for the government. Political regime is thus an important variable that must be compared to explanations based on smallness. If an alternative explanation, either better or equivalent, based on political regime is found, it undermines the hypothesis that smallness does have an effect.

6.3 Smallness and Hydropower

The hydropower scheme cases provide some hints about the significance of smallness. One of the things which comes clearly out of observation of the dam cases in Chapter 4 is the importance of monopsony in shaping relations with Thailand. Whereas facing a monopsony cannot be considered only a small state's reality, the fact is that in the case of Laos, the monopsony of Thailand is heavily reinforced by the absence of domestic demand for electricity. The lack of domestic demand is due to two factors: low level of GDP, and small population base. Industries could compensate for this low demand and create a high demand for electricity, but this is more likely to be the case in countries where the GDP is higher than in a country with barely existing industrial sector like Laos. Monopsony as such is not the problematic issue faced by Laos, the problem is that exporting electricity is one of the few available options. Monopsony is hence part of a larger problem of economic dependency of Laos. Trade with Thailand, the monopsonist, is very important for Laos, whereas the opposite is much less true for Thailand. The policy choices of Laos are affected by this systemic constraint, it has no real choices but to develop its hydropower potential to sell to the monopsonist Thailand. A caveat is, though,

that we cannot assume that a similar case, but without the factor of smallness, would not be constrained the same way by monopsony power.

Cooperation in hydropower might be considered impossible to avoid for Laos because of the interest of Thailand and its need to export something to get foreign currency and to deliver the economic growth that is perceived at the source of the regime legitimacy. This would be an example of constraints on a small state which does not have an external source of power to relax these constraints. However, it can also significantly be seen as a result of a quasi-functionalist outcome: Laos has hydro potential, Thailand has power demand, then why would Laos not produce hydropower and sell it to Thailand? In fact, hydro politics and the technical reality of electricity transmission are two sectors conducive to cooperation, possibly because they are both so vital and basic. The risk in terms of regime security is thus pretty low to engage in cooperation in these sectors. Again, the alternative explanation creates strong doubts about the significance of the only variable of smallness. Another alternative explanation provided by the cases studied is that even though it might seem a bad deal for the country, thus looking like imposed policy, the decision-makers, especially in a widespread corruption environment, can have made the rational decision for them individually, not for the country collectively. Rationality of other policies of the government, for example resettlement or enlargement of taxable basis through all possible means, can also explain this seeming acceptance of bad policy choices. There is no need for smallness to be included in the explaining variables.

6.4 Smallness and Transportation

The transportation projects examined in this thesis strongly suggest that policy space is quite drastically reduced by systemic constraints. The two cases studied are

examples where Laos simply acts as a transit territory for a road to link two larger and more powerful neighbours. From these, we get a clear sense that Laos just cannot say no to the projects proposed. Not that it would, since it has so few resources that any road, even not a road it considers a priority, is in its interest. But in fact, another explanation of why it might so much desire these roads and that it cannot say no is the landlockedness of Laos. Since it is landlocked, any landlink to a seaport that is likely not to be cut for political reasons is a very valuable thing for a landlocked country dependent on the goodwill of its neighbours for its commerce. Landlockedness alone could explain the policy choices of Laos regarding roads, smallness is not necessary to explain that. However, where smallness shows up is when the roads comes from one neighbour and goes to another one. Thus, Laos can use an external source of power to secure its road access. Cutting road 9 or road 3 also means cutting the flow of goods from a powerful country, not only from Laos. Laos has had its trade disrupted many times with Thailand. By closing border with Laos, it is possible that Thailand would hurt its producers using Vietnamese seaports for exports and selling on Vietnamese market, as well as Vietnamese exporters to Thailand. Consequently, border closing is less likely.

The demographic consequence of smallness, a small population, means that maximizing benefits from roads is more difficult. This is an internal factor that is a source of weakness constraining policy choice. But is it necessary to have the variable of a small state? Probably not. All areas with a low density of population face similar challenges to maximizing economic benefits of infrastructure, no matter if it is a small state or a superpower. But since “small state” can include small population, it can be considered that this variable is relevant to explain this example.

On the whole, is smallness a significant explanatory variable for the policies regarding subregional transport projects? In fact, it is possibly a better explanation than for hydropower development schemes. But it still lacks the strength to be considered a fully significant variable by itself.

6.5 Smallness as a variable

Is the confirmation possible that the variable of smallness has an effect on policy, that some phenomena are better understood with this variable than they would be without? The answer is no. The variable of smallness seems to interact highly with other variables. In a single case study like this one, it is very difficult to isolate effects of variables.

Even though Lao PDR is by no mean an easy case to study, it is also possible that the variable of small size is simply a bad variable with which to work. One of the lessons of this thesis is that the way smallness is defined (and the choice of definition made for this thesis might be one of the worst for that) has made the variable difficult to measure in a consistent way. In fact, the problem with the case of Laos is that it does not permit us to go much farther than previous analysis of the phenomenon; we can observe some features and guess that they are due to smallness, but we cannot really confirm the hypothesis.

Within the variable, there seems to be many things which do not necessarily influence state behaviour in the same direction. The “small state” variable appears more as a package of variables lumped together artificially than a consistent one. It might be more useful to try to break smallness down to sub-pieces rather than continuing on analyzing it as a whole. Keeping the variable as it is now makes it possible to attribute too many effects to it by looking at facts in a certain way. But if you have to twist the facts to make a variable meaningful, it might be that this variable is not a good one to work with.

CONCLUSION

One of the hazards of research is that sometimes, it is possible to pick a perfectly sensible research topic, and then decide to conduct extensive research, including field trips, only to discover that the whole process has led to inconclusive results.

In order to strongly confirm that smallness is actually a meaningful variable, we would have needed at least one case where either systemic constraints

In summary, this is what this paper faces: the impossibility to conclude either the negative or the positive. The case of Laos is illustrative of this. Hints can be gathered along an historical and political case study as to whether the variable of smallness has an explanatory significance. Some striking examples are there of how it exacerbates the monopsony power of Thailand in the power market, that a road will not really be profitable to Laos because of its small population and geographic features, that it historically had to navigate among stronger players, balancing them against each other or accepting the patronage of one of them, or that it cannot really say no to projects which are sometimes of low interest for Laos.

But in the end, it cannot be confirmed in intellectual honesty that the significance of the variable of smallness is proved. It is just not the case. Alternative explanations still look too convincing, caveats are too numerous, and so on. The policy cases examined in this thesis did not provide the necessary information to decide if smallness, as a variable or explaining factor, was sufficient or necessary, to explain any of the cases scrutinized. It gives the impression that Sutton was right in stating that: "The factor of size offers some insight, but yields little in the way of explanation" (Sutton 1987, 23).

Still the impression that small states have something in common, apart from being small, calls for the continuation of research on the topic. The case of Laos might not be the

easiest to work with. Many other factors interact with smallness, preventing the observation of the effect of smallness only. Even worse, process-tracing of any policy is very difficult in Laos because of the culture of secrecy of the current regime. Another possible explanation of the inconclusiveness of the present study might be the cases chosen for deeper analysis. They were selected largely on the availability of information for practical reasons rather than on more theoretical reasons. Possibly other aspects of Lao policy could bring more information and provide a better sense of how smallness affects the policy space of this country.

What does it imply for research on small states? Obviously, one case study concluding on a failure of the body of literature to accurately describe and explain policy cases cannot invalidate the whole body of theory. The findings of this thesis are not that studying small states is useless. It is rather that at least in one instance, Lao PDR and some projects of subregional infrastructure development, the body of theory fails to pass the test of determinacy. The next step is to try to understand if this is so because the case chosen is an outlier or if there is something to be changed in the way we analyze the phenomenon. In the case of Lao PDR, at least in the specific policies scrutinized, smallness does not seem to be relevant. We are however reluctant to condemn this variable as useless because it might as well be that it is highly issue-specific and that the issue chosen for this paper was simply not affected by smallness.

One of the productive outcomes of this thesis is that it suggests some of the variables that could interact with smallness in the case of Lao PDR, and thus a list to be used for future comparative studies. To understand the Lao case regarding this precise variable, it would be necessary to construct a sampling taking into account smallness, political regime, economic regime, landlockedness to name a few. This study would include

countries like Cuba (small, political communist, planned economy, non-landlocked but island), North Korea (non-small, political communist, planned economy, non-landlocked), Vietnam (non-small, political communist, market socialism, non-landlocked), Nepal (small, non-communist, landlocked), China (non-small, political communist, market socialism, non-landlocked).

Until we increase and improve our knowledge of the consequences of smallness on the policy space of the states, policy recommendations, either to the small state trying to enlarge its policy space, or to the state trying to constrain a small state's policy to serve its national interest, must consider smallness as only one of many variables to be examined. No general recommendations can be made without a context-specific analysis.

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Interviews

Conducted in Lao PDR from 10 January 2006 to 10 May 2006

- A1 to A5: Interviews with people in the NGO sector
- B1 to B3: Interviews with people in the Business sector
- C1 & C2: Interviews with people in the GoL
- D1 to D3: Interviews with people in International Organizations
- E1 & E2: Interviews with Academics/Researchers