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LAOS IN 1986 Into the Second Decade of National Reconstruction

Ng Shui Meng

In 1986 the Lao People's Democratic Republic (LPDR) entered its second decade of nation-building since its establishment on 2 December 1975 under the present government of the Lao People's Revolutionary Party (LPRP). In many respects, the first decade of post-war reconstruction has not been smooth or easy for the LPDR. Politically, the LPDR's close alignment with Vietnam and the Soviet Union has caused it to become more isolated from the non-socialist world. Socially and economically, after ten years of post-war reconstruction, it is still one of the poorest and least developed countries in the region.

In political terms, 1986 was a significant year as it marked the holding of the Fourth Party Congress and the launching of the country's Second Five-Year Plan.¹ Largely as a result of the relative lack of economic and social progress, the preparation for the Fourth Party Congress became an occasion for the Party to assess past policies and establish guidelines for its future development. Originally rumoured to be scheduled in April, the Congress was postponed several times before it was finally held from 13–15 November. This postponement was necessitated by the thoroughness with which the state bureaucracy had to be prepared for the event, and was indicative of the intensity of the debates which went on within the Party before a consensus was finally reached.

The Fourth Party Congress

The results of the Congress when they were finally published officially did not surprise in-country observers since many of the debates had already been made known throughout the year or earlier when they were openly discussed by people inside and outside the government. The formal discussions themselves took the form of local level (provincial and district) party congresses and ministerial and departmental level political seminars in which every party cadre and state bureaucrat had to participate. These meetings had two purposes: to inform party cadres and state employees of the new policy guidelines, and to provide opportunities for self-criticism, reassessment of past policies, and possibly reaction to the new changes. Although it was clear that the new policies were probably already decided, these sessions allowed for fine tuning based on reactions and responses gathered from the meetings.

Political Leadership

As expected, there were no major changes in the Politburo. All seven incumbent members (Kaysone Phomvihane, Nouhak Phoumsavan, Souphanouvong, Phoumi Vongvichit,

¹ Since its establishment in 1975, the LPDR has had two development plans. The first development plan was the 1978–80 Three-Year Interim Development Plan. This was followed by the First Five-Year Development Plan of 1981–85. The year 1986 therefore marks the beginning of the Second Five-Year Plan and third development plan.

Khamtay Siphandone, Phoune Sipaseuth, and Sisomphone Lovanxay) were re-elected. Kaysone Phomvihane was again re-elected as Party Secretary-General. While there were no major personnel shifts in the Politburo, there was a significant expansion of its size. Four new members were added to the formerly seven-member Politburo. As in the past, there were also two alternate members. The four additions to the Politburo are by no means political neophytes: in fact, Sisavat Keobounphanh, Maychantane Sengmany, Saly Vongkhamsao, and Samane Vignaket are known personalities in the corridors of power and have been groomed for leadership positions over a number of years. Saly Vongkhamsao, a reputed "rising star", was already a member of the Secretariat of the LPRP Central Committee, Vice-Chairman of the powerful Council of Ministers, and Chairman of the important State Planning Committee, before his promotion as full member of the Politburo. Known to be a "moderate" and an advocate of improved relations with other non-socialist countries, his promotion is in line with the Party's current policy orientation.

The other new full member of the Politburo, Sisavat Keobounphanh, is believed to be among the founding members of the Neo Lao Issara (subsequently renamed the Neo Lao Hak Sat), the front for the present LPRP (see MacAlister Brown & Joseph J. Zasloff, *Apprentice Revolutionaries: The Communist Movement in Laos, 1930–85* [Stanford: Hoover Institution, 1986], p. 333). And prior to his promotion to full Politburo membership, Sisavat Keobounphanh (like Saly Vongkhamsao) was also already a member of the Secretariat of the LPRP Central Committee, as well as Secretary of the Vientiane Party Committee. In addition he was the Minister of Interior. Similarly, Samane Vignaket and Maychantane Sengmany, the other two new Politburo members, held important party positions before their promotion. The expansion of the Politburo and the promotion of these four individuals is a clear indication that the ground for leadership transition in the LPDR is already being carefully laid.

Although the question of leadership transition is not as pressing in the LPRP as in neighbouring Vietnam, this issue will become of increasing concern to the LPRP's top leadership. The sudden illness of Souphanouvong, President of the Lao PDR and President of the Supreme People's Assembly, at the end of October 1986 was a case in point. It must have been a strong reminder of human mortality to the rest of the ageing leadership.

Souphanouvong's illness attracted a great deal of attention and speculation among foreign journalists and the diplomatic community. Reports that Souphanouvong was ousted were widespread both inside and outside the country. What spurred the rumour was the publication of two rather confusing statements in the News Bulletin, or *Khaosan Pathet Lao* (hereafter referred to as *KPL*), on consecutive days. On 31 October, *KPL* carried an item titled "Decree on Lao President" which stated that a joint session of the President, the People's Supreme Assembly, and the Council of Ministers of the LPDR had issued a decree on the nomination of a new president of the Republic. It then went on to state that Phoumi Vongvichit had been nominated as "acting President of the Lao PDR in place of President Souphanouvong for health reasons" (*KPL*, 31 October 1986, p. 2). Then on 1 November, the *KPL* carried another item titled "Decree on Lao Acting President", presumably as a correction to the previous report, in which it essentially reiterated the statement made previously with the important change of the phrase "a new President" to "an acting President" (*KPL*, 1 November 1986, p. 2). These cryptic statements prompted speculation that Souphanouvong had been deposed. It was not until he was publicly seen in a wheelchair at the opening session of the Fourth Party Congress that the rumour that he had suffered a stroke *en route* to the Eighth Non-Aligned Meeting in Harare in September was confirmed. It was not until reports confirming his position as the third highest-ranking member of the Politburo had appeared that speculation concerning his "political demise" was somewhat quelled. Souphanouvong, known to be a

very dynamic and forceful personality, is believed to have a great deal of political clout within the Party. However, given his age (77) and his present state of health, it is inevitable that he will be forced to take a back seat in the day-to-day political decisions of the Party and the state regardless of his retention of the office of President and his ranking within the Party hierarchy.

Aside from Souphanouvong, the other two oldest members of the Politburo are Phoumi Vongvichit (77) and Nouhak Phoumsavanh (72). Phoumi's appointment as acting president (in addition to his position as fourth highest-ranking member of the Politburo and Vice-Chairman of the Council of Ministers, in charge of directing overall policies in the fields of health, education, and culture) has been interpreted by some as indication of his rising power and by others as preparation for retirement. It is not entirely inconceivable that Phoumi is preparing for retirement. And if it were necessary for him to step into Souphanouvong's shoes as President of the LPDR one day, his political stature as well as his amicable and urbane personality would undoubtedly be in his favour.

Nouhak Phoumsavan, the second highest-ranking member of the Politburo and First Vice-Chairman of the Council of Ministers, is often referred to as the economic "czar" of the country by the Western press. Though younger than Phoumi, Nouhak has reportedly not been in very good health in recent years and is not seen in public very often. This may be why he is no longer a member of the Secretariat, a position he had held previously. However, there has also been speculation that Nouhak has opposed the liberalization of economic policies, favoured by people like Kaysone and Saly Vongkhamsao.

Kaysone Phomvihan, believed to be in his mid-sixties, is still relatively young and his re-election as Secretary-General of the LPRP at the Fourth Party Congress is proof of his pre-eminent position within the party structure. Although there were rumours in the past year that he had come under severe criticism for the LPDR's lack of progress under his leadership, he is nonetheless still definitely at the helm. Given Kaysone's relative youth, and his apparent political skill at balancing contending forces within the Party, it may safely be assumed that he will still be holding the reins of power at the next party congress or even beyond. As for the older leaders, the expectation is that some of them will be replaced by the next party congress, if not sooner. In this regard, the incorporation of four new members into the Politburo has ensured that the process of leadership transition will be relatively smooth.

With the enlargement of the Politburo, the Party's Central Committee has likewise been expanded. It has grown from 49 full members and 6 alternate members to 51 full members and 9 alternate members. Comparing the present list of members with that elected in the 1982 Party Central Committee, new members comprise about one third of the present Central Committee, indicating that there has been a serious attempt to bring in "new blood" (see Appendix III). These new members are to replace those who have died, retired, or fallen from grace. Among the new members are some younger people whose background is not entirely clear, but it is believed that many have studied in the Soviet Union or other East European countries and are presumed to be better trained than many members of the old guard. As a result of the incorporation of younger people, the average age of the Central Committee has fallen slightly to 52 years, with the oldest member being 77 and the youngest 33.

Despite the Party's purported promotion of equality of the sexes, the Party Central Committee is still a predominantly male institution. Women have always comprised a very small minority of the membership. In the previous Central Committee there were four women members. In the present Central Committee female membership is increased only by one. Of the four former women members, Mrs Khampheng Boupha, the well-known president of the Lao Women's Union, has not been re-elected. Mrs Boupha, who

reportedly has needed frequent medical attention abroad in recent years, was presumably replaced for health reasons. Of the two new women members added, one was made a full member and the other an alternate member.

Political and Economic Direction

The political and economic direction of the Party was quite explicitly set out in the lengthy political report (132 pages long) which Kaysoné delivered at the Congress. The questions of the process of transition to socialism, and economic transformation and management, continued to perplex the Party stalwarts and were the issues forming the core of Kaysoné's address. Foreign policy options for the Party and government in the near future were also dealt with at some length.

The most important debate was that concerning the process and pace of socialist transformation, an issue which had surfaced time and again since the LPRP came to power. This debate intensified throughout 1985 as the "two-line struggle", a tussle between those favouring a more gradual pace of economic and social transformation and those endorsing a rapid transition to socialist modes of production. Those favouring the former have insisted that the existence of a mixed economy comprising a state-owned-cum-cooperative sector and a state-private-cum-private sector is not only inevitable but indispensable during the transition to socialism whereas those who opposed such arguments would like to see the acceleration of the extension of state control over all aspects of economic production and distribution and the elimination of private enterprises and trade (see Martin Stuart-Fox, "Laos in 1985: Time to Take Stock", *Southeast Asian Affairs 1986* [Singapore: Institute of Southeast Asian Studies, 1986], pp. 167–68). The latter proponents consider the various attempts to liberalize the economy as nothing more than ideological backsliding which can only retard the advent of socialism in Laos. The fact that this debate kept surfacing despite the failure of the earlier hardline policies in 1976–78, and the Party's repeated endorsement of the gradualist approach since 1980 is indicative of the fact that a consensus is yet to be reached on the matter.²

In Kaysoné's address during the Fourth Party Congress, this issue was again dealt with at length. Judging from Kaysoné's remarks, the issue has again been settled in favour of the pragmatists. In fact, the radical approach came in for harsh criticism.

² When the LPRP came to power in 1975, it immediately attempted to revolutionize the mode of economic production along Marxist-Leninist lines by means including the nationalization of major industries and banking, the elimination of private trade and enterprises, and the collectivization of agriculture. The Party was only successful to the extent of nationalizing a number of major industries and centralizing control over the country's banking sector. As for elimination of private trade and small enterprises and the collectivization of agriculture, the Party met with stiff opposition. Private traders, most of whom were ethnic Chinese and Vietnamese, responded by leaving the country as refugees or going underground. Farmers, most of whom were subsistent producers and were not dependent on the market economy, failed to see any advantages in joining co-operatives, especially in view of the fact that government input as incentives for co-operativization was minimal. When coerced, the farmers responded by leaving their land fallow, or slaughtering their animals or burning their crops. Many also became refugees. The outcome was disastrous. Urban areas, in particular, suffered from food shortages as production fell. Inflation soared to new heights as goods disappeared from the market. In the face of such strong opposition, the government had to reverse its policies. In December 1979, the Supreme People's Assembly passed the Seventh Resolution which essentially called for the slowing down of the process of socialist transformation. While not abandoning the concept of the "correctness" of agricultural co-operativization, the Party urged cadres to use persuasion rather than coercion. Similarly, while private trade was discouraged and was stringently regulated through taxation and import restrictions, it was tolerated. Small private enterprises were also allowed to continue operation and for medium-sized and large enterprises joint state/private ventures were promoted. By 1982, when the Party held its Third Party Congress, this line was re-endorsed as "eminently correct" given the LPDR's stage of economic development. (For details of LPDR economic policies during this period, see Martin Stuart-Fox, *Laos: Politics, Economics and Society*, [London: Frances Pinter, 1986], pp. 97–101; and McAlister Brown and Joseph J. Zasloff, *Apprentice Revolutionaries: The Communist Movement in Laos, 1930–85*, [Stanford: Hoover Institution Press, 1986], pp. 199–215.)

Kaysone claimed it was one of the fundamental causes of the economic problems and lack of progress during the previous ten years. He was quoted as saying:

Our main shortcomings lie in subjectivism and haste, in our inclination to abolish the non-socialist economic sectors promptly. In industry, we rashly nationalised many factories, while the State still lacked sufficient management capacity, resulting in production decrease. Regarding trade, there have been rather widespread cases of hindering the free flow of commodities among localities, thus adversely affecting production and people's lives. In some areas, even authoritarian administrative measures have been used to abolish the private trade sector. In agriculture, there have been attempts to instantly accomplish co-operativization, thinking that by doing so socialism could be attained promptly. Instead of patient efforts to persuade and mobilize the people, pressure has been brought to bear on them to join co-operatives, regardless of their political awareness, of managerial capacities of cadres, and of the development level of the productive forces at given times and places. For these reasons, in some areas, although co-operatives have been formed, production has not developed and the people's living conditions not improved in the least. . . . With regard to the distribution of consumer goods, we did not rationally apply the principle of distribution according to work. We are bent on egalitarianism. Consequently we did not encourage good workers with high labour productivity. There was no relationship between responsibility, rights, obligations, and interests ("Political Report of the Central Committee by the Lao People's Revolutionary Party presented at its Fourth Party Congress by Comrade Kaysone Phomvihane, General Secretary", pp. 12-13 [Mimeographed English version. Hereafter referred to as "Political Report"].).

These were strong words indeed and it is quite obvious that attempts to apply a rigidly ideological approach to economic transformation have once more been fended off, at least for the time being.

However, it is also evident that this is an issue which is not likely to disappear despite the Congress' endorsement. In fact, Kaysone's sharp criticism of the hardline approach indicates that the relatively liberal policies pursued since 1980 are still under attack by the more ideological elements within the Party who can rightly point to the fact that they have not done very much to improve economic conditions in the LPDR except to postpone indefinitely the transition to socialism. These criticisms have therefore made it all the more necessary for the supporters of the current policies within the Party, including Kaysone, to defend them zealously.

That the "pragmatists" again seemed to have prevailed against the "hardliners" has to be seen in the context of the options available to the Party given the internal conditions of the LPDR and the external constraints it has to confront. Regardless of the ideological preference of the LPRP, the preconditions for a rapid socialist transformation of Lao society and economy do not exist. The geography of the LPDR and its history of development have resulted in the evolution of an economy which is essentially regionally fragmented and whose scope for centralist control is very limited. Subsistence agriculture, which is estimated to involve no less than 85 per cent of the country's work-force and accounts for more than 60 per cent of GDP output, forms the backbone of the country's economy. These individual owners and producers are essentially outside the market economy since the bulk of their production is for home consumption rather than for sale, thereby rendering little surplus for the purpose of capital accumulation, either by the individual or the state.

This pattern of economic production is reinforced by the very poor and inadequate transport and communication systems, which essentially discourage regional specialization and the development of regional trade. Rural communities, especially those in the interior and in mountainous districts, therefore tend to be very isolated. These geographical, social, and economic realities of the LPDR constitute serious impediments for the

rapid development of a centralized economy, regardless of the type of political system which prevails.³

This argument can be substantiated by examining the structure of the economy and the relative share of state control versus private control of the economy. In 1975, when the present government came to power, it was estimated that agriculture accounted for 60 per cent of GDP. Less than 5 per cent of GDP originated from manufacturing and mining and about 8 per cent from transport and trade. Ten years after the revolution, the economic structure has remained largely unchanged, despite the concentration of state investment in industry, transport, and state farms and co-operatives. In terms of the relative share of control between the state sector and the private sector, firm statistical data are lacking. According to the latest World Bank Report, in agriculture the share of the state sector (represented by about 50 state farms) is very small, and it is only if the co-operative sector is included with the state sector, that the combined share reaches about 23 per cent of total cropped land. The private sector's agricultural contribution to GDP is still estimated at 20 per cent. Although the expansion of the state sector was desired and consistently pursued, the lack of financial and human resources prevented it from growing sufficiently rapidly to replace the individual household farms. In the other sectors, the state's role is much more important. In industry, the public sector provides the greater part of industrial output due to its role in the electricity and mining sectors, but since industry's share in GDP is small (about 6 per cent), the public sector industry contribution to GDP is minor. The same can be said for all the other sectors (*The Lao People's Democratic Republic: A Country Economic Memorandum* [World Bank, 1986], pp. 4–5).

Given the structure of the economy and the relatively small size of the state sector, five economic organizational forms continue to exist side by side in the Lao PDR today:

1. the state sector which comprises the largest industrial firms, the banking sector, the state farms, the state construction, transport, and trading enterprises;
2. the collective economy which consists largely of co-operative "farms" (many of which are no more than co-operative work-teams). In 1984, the number of co-operatives totalled approximately 3,200, controlling about 180,000 hectares or 20 per cent of crop land. The number of agricultural co-operatives is actually very small when we consider that there are some 11,000 villages in Laos.
3. the individual economy of predominantly self-employed farmers, handicraft producers, and small traders;
4. the capitalist economy consisting of industrial, trading, and transport companies owned by private entrepreneurs, found only in the larger towns like Vientiane and Savannakhet; and
5. the state-private economy representing joint ventures between state and private capital.

That these five sectors are likely to co-exist for quite some time into the future is quite evident from Kaysone's speech, which conceded that

...in our country there are still nearly all the modes of production, from primitive to contemporary modes of production, mankind has gone through. All these sectors exert

³ In 1985, it was estimated that the LPDR had a total road network of 12,983km. (2,250km. asphalt, 3,953km. gravel, and 6,780km. earth) giving the entire country a road density of 0.055km. per sq. km., one of the lowest in Asia and the Pacific ("Report on the Economic and Social Situation, Development Strategy and Assistance Needs (1986–90)", Vol. 1: Principal Report prepared for the Second Round Table Conference of the least-developed Asian and Pacific countries, LPDR, April 1986, p. 24). The low road density is made worse by the fact that many of these roads become impassable during the rainy season. There are no railroads to make up for the lack of road transport. Air and water transport supplement the national road system, but these too have serious drawbacks. Parts of the Mekong are not navigable throughout the year and air transport is too costly to be a feasible alternative.

an inter-effect on one another, depend on one another and remain united in an economy still in the period of transition to socialism" ("Political Report", p. 25).

The 1986–90 Five-Year Plan

The 1986–90 Five-Year Plan, which was presented to the Fourth Party Congress by Nouhak Phoumsavanh, represented the LPDR's third development plan (but second five-year plan: see footnote 1) since its establishment in 1975. In many respects the 1986–90 Plan did not depart very much from the 1981–85 Plan, essentially following the guidelines set forth previously. The priorities and targets of the 1986–90 Plan for the various sectors are as follows.

For the agricultural sector, the plan is to continue to develop agriculture to meet the population's basic food needs and to expand the production of agricultural products for export and for the development of agricultural processing industries. The target is for agricultural production to increase by an average of 9.8 per cent per year. In terms of specific production targets, the objective is for food crops to increase to 2.0–2.2 tons, with paddy output constituting 1.7 to 1.8 tons of total food production by 1990. This would constitute an average per capita paddy output of about 430 kg. or a 10 per cent increase compared to 1985. In the area of cash crop production, the new plan calls for an increase of 70 per cent compared to 1985, with special concentration on producing coffee, mung beans, soya beans, peanuts, and tobacco. Animal production is also to be emphasized with the expected livestock production to be up 40 per cent compared to 1985. To ensure that agricultural production will meet these targets, planned expenditure for this sector is 20 per cent of the total investment budget, much of which is anticipated to be spent on developing small irrigation projects to support double cropping. Forestry is a valuable resource which has been relatively under-exploited thus far. To stimulate growth in this sector, the government will allocate 10 per cent of its investment expenditure to the development of forestry-related activities. Together, agriculture and forestry are projected to absorb about one-third of the total budgeted investment under the new plan which underlines the importance which the Lao Government has given to the development of these two key sectors. In terms of targets for the development of forestry, the plan calls for an increase in timber output to 500,000 cubic metres by 1990, much of which is to be processed as sawn timber, plywood, and flooring timber for both domestic use and export. Additionally, the exploitation of other forest products like rattan, cardamom, and medical herbs is also anticipated. Concurrently with the development of forestry, the government has also called for the restriction of slash and burn cultivation and the encouragement of reforestation and conservation ("Guidelines and Tasks of the Second Five-Year Plan (1986–90) for Economic and Social Development of the Lao People's Democratic Republic" presented by Nouhak Phoumsavan at the Fourth Party Congress, pp. 10–15 [Mimeographed, English version. Hereafter referred to as "Economic Report"].).

The performance of the industrial sector was the poorest, despite heavy government investment, during the last five-year plan. Under the last plan, the targeted growth for industry (including manufacturing, electricity, and mining) was 17 per cent annually. But in fact, output growth in this sector was negative, falling more than 10 per cent between 1980 and 1984 (World Bank 1986, p. 11). Much of this can be attributed to a decline in manufacturing, as most factories operated below capacity. In the 1986–90 Plan, there has been some downward revision of targets as well as a shift in emphasis. The projected increase for industrial production is 14 per cent per year over the next five years. In terms of investment, the government has allocated 15 per cent of total budgeted expenditure for the development of the industrial sector ("Economic Report", pp. 15–16). The new emphasis is to direct investment towards light industry to meet domestic demands for consumer goods and handicrafts rather than invest in capital-intensive

industries (except for electricity and mining). As the sale of electricity and minerals constitutes the major source of foreign exchange earnings, there will be continued expansion of these two industries under the new plan.

As the lack of physical infrastructure has been identified as one of the major impediments for economic and social development in Laos, the development of transport and communications continues to be a major priority in the 1986–90 Plan. An estimated 20 per cent of total government investment expenditure has been allocated to this sector, and will be concentrated on the rehabilitation and construction of some 1,500km. of road network, of which half is to be asphalted. According to the government, priority will be given to the rehabilitation and expansion of routes 8, 9, 10, and sections of route 13. Expansion of river transport, air transport, and the improvement of the postal and telecommunications systems are also part of the new plan (*ibid.*, pp. 17–18).

Trade is to absorb about 4 per cent of total projected expenditure. The focus in this sector is on developing and expanding internal trade by increasing the volume of merchandise in circulation. As for international trade, the plan calls for an increase in exports, especially by increasing cross-border trade (particularly with Vietnam and Kampuchea) and international trade (mainly with the Soviet Union and other socialist countries) (*ibid.*, p. 19). Although the government would like to promote trade as a means of earning more foreign exchange, the country's land-locked position, its economic structure, and poor communications system will continue to hamper development in this sphere.

As for social development, education and health are to be the priority areas. The past ten years have witnessed a concerted effort by the government to develop these two areas to fulfil its revolutionary promise to extend education and health care for all. This has resulted in an impressive expansion of education and primary health services down to the village level. However, because of the lack of material and personnel support, the quality of services remains poor. The government has acknowledged this shortcoming, and the new plan pays some attention to addressing this weakness. For educational development, the plan calls for upgrading of the educational level of cadres and workers through educational reform and expansion, especially at the levels of adult, vocational, and higher education. As for health, the stated objective is to improve and expand public health institutions down to the grass-roots by doubling the number of small hospitals and dispensaries and increasing the number of medical workers by 55 per cent. Together the two sectors of education and health have been allocated 13 per cent of total government expenditure, an increase of 4 per cent over the previous plan (*ibid.*, pp. 21–23).

Although the thrust of development priorities was generally viewed by observers (including analysts from the World Bank) as realistic and fairly appropriate to the needs of a poor country like Laos, the targets set may still be too ambitious given the country's lack of material and manpower resources. Past experience in Laos shows that actual achievement falls short of targets, except in agriculture which performed creditably in comparison with the other sectors.

The poor economic performance has been a main cause of domestic and foreign criticism of the Party and its leaders. How to stimulate the economy and improve living conditions was one of the key issues addressed throughout the Congress. Acknowledging its past failure, the Party has proclaimed that it will resolve this problem through various reforms, the most important of which is to be a reform in economic management. Henceforth, economic management is to be governed by the "new economic management mechanism".

The New Economic Management System

The so-called new economic management mechanism or system has been the buzz-word circulating inside and outside the government throughout 1986 and long before its

TABLE 1
Allocation of Government Investment Expenditure
(Percentages)

Sector	Planned Expenditure ^a (1986–90)	Estimated Expenditure ^b (1981–85)
Agriculture	20.0	16.9
Forestry	10.0	3.1
Industry	15.0	16.3
Construction	5.0	6.4
Transport & Communication	20.0	28.6
Trade	4.0	2.8
Education	8.0	3.7
Health	5.0	5.2
Other Social Services	8.0	11.1
Other	5.0	5.9
TOTAL	100.0	100.0

^a “Economic Report”, p. 10.

^b World Bank, 1986, p. 8.

official endorsement by the Congress in November. Theoretically, this new management system allows for greater autonomy and accountability at the local (district and provincial) level as well as at the level of the enterprise or firm. According to Kaysone, the new economic management system is intended to correct what the Party sees as the severe shortcomings of the previous economic management system.

At present, our mechanism of economic management is fraught with bureaucratic centralism and based on state subsidies. The essence of this mechanism is that the State must provide the capital, equipment and all materials needed for running business and the enterprise must hand in its products to the State. The enterprise’s economic accounting is merely perfunctory, as a result the enterprise’s profit is inaccurately determined. As a matter of fact, the enterprise is not fully responsible for its operation. If the business is assessed more accurately most of the State-owned enterprises have come up with a loss.

Hence, in order “to put an end to economic operations which are based on wishful thinking and administrative orders from top levels” the Party recommends the abolition of the old management system and “switching over to the mechanism of socialist economic accounting”. What Kaysone refers to as “socialist economic accounting” involves holding economic enterprises responsible for their own operations based on concrete economic factors like capital availability, production capacity, labour productivity, and profitability.

The enterprise must ensure, on its own, the recoupment of capital outlay, be self-financed and make profits thus linking directly the revenues of the enterprise to its operational efficiency. Socialist economic accounting requires enterprises and economic organisations to make accurate calculations of their production costs and to obtain profits for enlarged re-production (“Political Report”, p. 68).

Furthermore, in the words of Nouhak, the Minister who oversees all policies related to the economy,

the new economic mechanism is an instrument to enhance the initiative and creativeness of the localities and grass-roots, to tap all potentials aiming at the

complete fulfilment of assigned tasks. In the conditions where we are facing difficulties in communications between the centre and localities, the guaranteeing of the right to autonomy of the localities and grass-roots in application of this new economic management mechanism is of almost [utmost] importance (“Economic Report”, p. 24).

Quite clearly what this new economic management system implies is substantial decentralization of administrative controls upon pricing, production targets, and wages. Under the new system these are to be decisions left to local economic units and to the management of business enterprises. While this may be considered a bold departure from past practices it is in reality not entirely novel. It should be noted that this system of management has actually been quietly implemented in stages on a trial basis by the larger state enterprises since 1983; state control over larger and more successful state enterprises has been gradually relaxed and some management decisions have been made by management, though in consultation with the national planning authorities. In particular, specified enterprises which fulfil certain criteria with regard to profitability, production, and use of capital have been allowed to keep 40 per cent of their profits for the purpose of reinvestment, expansion of production, creation of welfare funds, and payment of bonuses. According to some people in government it is largely because the experiment has achieved some positive results that the Party has been bold enough to apply the system to all enterprises and is willing to grant an even greater degree of autonomy than before.

The Party’s open endorsement of the new economic management system and the forthright attack on the fundamental socialist practice of centralist economic management is nonetheless an interesting development which has attracted much attention and comment, both domestically and internationally. The change in policy is the result of both internal pressures and external encouragement. The failure of past strategies must have convinced some of the leaders to opt for new methods, many of which, as they are no doubt aware, are being enthusiastically pursued by their fraternal comrades in Moscow as well as in Hanoi.⁴ Encouragement for a much more liberal approach to economic management, too, has long since come from Laos’ Western aid donors, including the World Bank and the International Monetary Fund. As Laos is dependent on outside aid to the tune of US\$80–100 million a year, such advice cannot be totally ignored. Hence when the new management system received the Congress’s full endorsement, it was openly commended by aid agencies and members of the international community in the country. Many express optimism that this new management system could effectively bring about significant improvement in the Lao economy and society.

That the government seems fairly serious in correcting the defects of the management system is indisputable. Evidence is provided by the continuing process of the reassignment of personnel which is taking place in every ministry and at all levels of the Party and state bureaucracy. The current reshuffle apparently goes beyond the usual personnel shifts or staff transfers. Months before the opening of the Party Congress, it was reported that old and incompetent cadres and officials were being pushed aside in favour of younger and more technically competent people. Since then, there have been rumours of more extensive reorganization within the civil service and local party chapters.

While there is cause to believe that some improvements can be expected from the reforms, it would be unwise to think that the pace of change will be rapid. This is because very serious impediments to the application of the new management system can be fore-

⁴ Kayson was reported to have been in Moscow just one month before the opening of the Congress (*KPL*, 16 October 1986, p. 9). The visit was probably to brief the Soviets on the substance of the Party Congress and to seek general endorsement for its domestic and foreign policies.

seen. For a start, the successful application of the new management system requires that those who are in charge of local economic units and business enterprises should have certain managerial skills and basic knowledge of economic principles. Few currently in those positions have such training. Even if the present process of personnel restructuring is earnestly pursued, it is doubtful whether it can quickly fill the serious manpower gap. In Laos, trained manpower of any kind is very scarce, let alone people with managerial and economic skills.

Moreover, it is also questionable whether the attempt to get rid of the "dead wood" within the system will be comprehensive enough. First, it is unlikely that those whose position is threatened will accept being ousted without challenge. Second, would the Party be willing to risk antagonizing many of these cadres who had helped it win the revolution, in favour of the younger technocrats? This is an issue not to be dismissed lightly.

More important than the above factors, however, is the prevailing atmosphere of inertia which pervades all levels of the Party and state bureaucracy. Ten years of institutionalized top-down patterns of decision-making have rendered most party cadres and state functionaries accustomed to waiting for orders from above even for the most routine decision. There are few who want or dare to take initiatives especially when most people in government are still unsure whether the reforms emanating from the Congress are to be taken seriously. Past experience has taught them that the Party often reverses its pronouncements; substantial risks are involved for those who implement a new "line" hastily. Given the lingering atmosphere of distrust and fear, it is not surprising that most cadres and government officials are generally very circumspect with respect to all party policies and pronouncements. Yet such circumspection could jeopardize the reforms and "shortcircuit" them prematurely. Unless the new management system brings about marked improvements in the economy fairly quickly, one can expect the position of those who oppose its application from the beginning to be considerably strengthened. Hence, given all these uncertainties regarding the new reforms, and the general way of doing things in Laos, one should not be overly optimistic that rapid improvements will be seen in the short term.

Social Direction

While the economic spin-offs of the new management system may only be realized rather slowly, certain social effects are already apparent. The first effect of the new system is the dismantling of most existing government subsidies under the ration system. The ration system, intended to assist public employees to subsist despite their low wages, has undergone several reforms over the years largely because it operated in a cumbersome and generally unsatisfactory manner. The system essentially depends on the ability of the respective branches of government to procure goods cheaply enough to be sold to state employees at very low prices. However, since the government lacks the administrative infrastructure and financial capacity to establish an efficient procurement and distribution system, the availability of goods in the respective ministries' state shops has been very limited. The scarcity of goods is further exacerbated by the state pricing system whereby prices are fixed so low that producers are discouraged from increasing production for sale to the state. Hence, the actual benefits which workers are supposed to enjoy under the ration system are largely discounted, since they seldom obtain all the goods they are entitled to each month. The exception is rice, the supply of which since 1983 has apparently been fairly regular.

Given that the system was fraught with administrative and economic defects, the ration system together with the salary structure for public employees was revised. The revision comprised a gradual withdrawal of subsidies except for the most essential items like rice, together with upward adjustments of public employees' salaries. As a result most goods

sold under the state ration system were brought closer to the “parallel” or free market prices and the average basic wage was increased by 200 to 400 per cent by the end of 1985. Salary scales were also widened to reflect different employment grades. Wage scales now range between 2,000 and 10,000 kip, of which only 10 per cent is paid in cash, with the remainder in the form of cash vouchers for purchasing goods from state stores. Hence, instead of the ration system in which employees were allocated a fixed quantity of goods (for example, 20 kg. of rice, 2 kg. of sugar, or 3 litres of cooking oil, per person) regardless of needs, the new system allows employees to choose from a much wider range of goods. Since the price revisions, the availability and range of goods in the state stores have improved considerably. While most workers welcome this, as well as the greater flexibility of the system, they nonetheless complain bitterly about the price increases which far exceeded the salary increases. It has been estimated that while salaries have increased by 200 to 400 per cent, price increases have ranged from 150 to 2,400 per cent between April 1985 and March 1986 (*ibid.*, World Bank, 1986). Many state employees expect that the remaining subsidies⁵ will be dismantled under the new economic management system, giving rise to another round of price increases. Unless salaries are increased to match inflation, fixed wage earners like civil servants are likely to feel the pinch more than others. In other words, things may get worse for them before they get better.

However, certain segments of the population will benefit under the new system. In particular, production workers who are eligible for bonus payments and other types of incentives welcome the change, as do farmers and agricultural workers. Since the end of 1984, the procurement prices of farm products have increased markedly. Nevertheless, farmers still say that prices are generally too low or that the government does not supply sample inputs like fertilizers, insecticides, and agricultural implements at an attractive enough price in exchange for their produce. They therefore look forward to further price improvements.

So in many ways one can say that the past year did see a degree of relaxation of economic and social regulations, and that this has had an impact on the daily life of individuals. In general, as economic and social controls have been relaxed the social atmosphere (especially in the major cities) has become progressively livelier. Weekend parties with live bands playing a variety of Lao and rock music accompanied by dancing are regular fare in cities like Vientiane. These events are mainly sponsored by the local communities’ youth organizations or district women’s union or pagoda (*wat*) committees, to raise funds for school construction, pagoda repair and maintenance, and so on. As a result of such festivities and other private or semi-private nightspots, a modicum of night life has returned, much to the delight of the fun-loving Lao.

It appears that the Lao authorities over the past ten years have shifted successively from a position of strict prohibition of such manifestly “decadent bourgeois” functions, to tacit tolerance, to the current position of even granting official sponsorship to many of these events. During the month of November, the municipality of Vientiane sponsored a large fair in the immediate vicinity of That Luang, the most well-known pagoda in the capital, to celebrate the opening of the Party Congress, the Lao PDR National Day on 2 December, and the annual That Luang festival. The fair, which consisted of a large number of stalls exhibiting and selling numerous varieties of locally-produced goods as well as three or four musical bands, was set up by private, co-operative, and state enterprises. It drew large crowds each night and was so popular that the original two-week schedule was extended to over a month. Encouraged by official endorsement,

⁵ It has been estimated that government subsidies for civil servants as a percentage of wages fell from 243 per cent in December 1984 to 110 per cent in September 1985 (World Bank, 1986, p. 17). Since then the subsidies have been reduced even further.

smaller-scale activities have mushroomed throughout different districts of Vientiane and elsewhere.

More importantly, there has also been considerable easing of the movement of goods and people, although travel papers are still required. This has brought about not only free travel for people within the country, but it has also facilitated travel by Lao, especially older people and children, to and from foreign countries, particularly the United States or France for the purpose of visiting relatives. Such relaxation of social controls may be interpreted as simultaneously a reflection of the present socialist government's growing confidence in a general policy of liberalization, as well as the regime coming to terms with the cultural and social realities of Laos.

Foreign Relations

The most important development in the area of foreign relations in 1986 was the gradual but distinct improvement of relations with Thailand. A less obvious, but nonetheless evident trend, has been the lessening of tension with the People's Republic of China. Regarding the United States, the relationship has not progressed very much beyond both parties expressing the desire for better ties and the resolution of issues of mutual interest.

Lao-Thai Relations

Despite Laos' and Thailand's cultural and linguistic commonalities, relations between these two countries were often marked by severe strains and tension after 1975. Such strains often resulted in conflict involving exchanges of fire followed by border closures. The relations of the two countries entered a new phase of tension in the middle of 1984 after a period of relative calm, when border confrontation broke out over three small border villages (Ban Mai, Ban Klang, and Ban Sawang) in the province of Sayaboury. Between the middle of 1984 and early 1986, relations between Lao and Thailand remained tense as several rounds of negotiation failed to settle the issue (for details of the conflict, see MacAlister Brown and Joseph J. Zasloff, "Laos: Gearing Up for National Development", *Southeast Asian Affairs 1985* [Singapore: ISEAS, 1986], pp. 198–200. For views on the issue from the Lao and the Thai perspectives, see Ngaosyvathn, Pheuiphanh "Thai-Lao Relations: A Lao View", *Asian Survey* 25 [1985]: 1242–1259; and Sarasin Viraphol, "Reflections on Thai-Lao Relations", *Asian Survey*, *ibid.*, pp. 1260–1278).

However, by the middle of 1986, there were signs of an easing of tension as both sides made some effort to moderate the barrage of mutual criticism in local media and at international forums, and to downplay minor border incidents. A clear illustration was provided by an incident in July 1986 involving the killing of a number of Lao ethnic minority refugees in Thailand. The Thai alleged that Laotian government troops had attacked a refugee settlement near the village of Ban Huay Pong, in Chiang Kham district of Thailand's Phayao Province on 14 July, killing some thirty-five Lao refugees, most of whom were believed to be from ethnic minorities (*Bangkok Post*, 15 July 1986). The Lao authorities strongly denied this as utter fabrication on the part of the Thai (*KPL*, 31 July 1986). Past experience showed that less significant border incidents than this could develop into major issues of contention between the two countries. When, after a few days of vociferous accusations in the local media on both sides, the whole affair died down, it was clear that neither government was interested in blowing the issue out of proportion.

The first concrete step towards an improvement in Lao-Thai relations, however, came after the thirteenth meeting of the three Indochina countries' Foreign Ministers held in Hanoi from 17 to 18 August. In a joint communiqué issued after the meeting, the three Indochinese countries reaffirmed their support for Kaysone Phomvihane's statement saying that the Lao Government is ready "to do its utmost at the national level as well as regional level to foster mutual understanding and confidence with the Kingdom of Thailand in order to normalize their mutual relations in all fields" (*KPL*, 19 August 1986,

p. 6). In response, Thailand's Foreign Minister, Siddhi Savetsila, was quoted as saying that Thailand welcomed this statement by Kayson and likewise expressed its desire to resolve outstanding differences between the two countries (*The Nation*, 23 August 1986).

This laid the ground for further improvements as the year progressed. Thus, while the two countries took their normal positions during the debate on the Kampuchean issue at the United Nations General Assembly Meeting in New York in September, this did not prevent Siddhi Savetsila and the Lao Deputy Foreign Minister, Soubanh Sarithirath, from meeting to discuss issues of mutual interest, especially the question of improving trade and normalizing relations between the two countries (*Bangkok Post*, 27 September 1986). As a demonstration of increasingly cordial relations, the Thai and the Lao agreed to celebrate jointly the annual boat race festival on the Mekong in October, much to the delight of both the Thai and Lao.⁶ This event was given much publicity in the daily newspapers and was telecast over Lao and Thai television.

Lao-Thai relations took one more step forward when Thailand accepted the Lao Government's invitation to send a high-level technical team to Vientiane for discussions. The twenty-three-member Thai delegation led by Arun Panupong, foreign affairs adviser to Prem Tinsulanond and formerly Deputy Foreign Minister of Thailand, arrived in Vientiane on 26 November and was received by Laos' Deputy Foreign Minister, Soubanh Sarithirath, and other high-level Lao officials (*KPL*, 27 November 1986). This was the largest Thai delegation ever to visit Laos since the deterioration of relations between the two countries in 1979. According to sources inside the Lao Government, the talks were very cordial and concentrated mainly on areas of co-operation. As for more thorny issues, it was agreed that these should be left for future discussion by the appropriate ministries. The immediate issue which concerned the Lao Government most was the Thai ban on the export to Laos of 273 items of supposedly "strategic" goods from Thailand. As Laos is land-locked and dependent on a very significant proportion of its imports coming through Thailand, the Thai embargo was a major irritant, especially when the embargoed items included such basic goods as asphalt, bicycles, medicines, barbed wire, and certain heavy machinery. One of the aims of the negotiations was to remove the ban on trade in these goods. The Thais apparently agreed to reduce the list of embargoed goods to about sixty items. Other related issues included the opening of more river crossings for trade (currently the number of cross-border trading posts is limited to two — one near Vientiane across from Nong Khai and the other in the south near Savannakhet) and the control of smuggling.

Lao-Chinese Relations

Less obvious, but nonetheless perceptible, was the Lao Government's attempt at some kind of *rapprochement* with China throughout 1986. This was perhaps in tacit response to the continued calm along the Lao-Chinese border and the absence of any incident since 1983. Also, largely unpublicized, there had been much freer movement of goods and people across the Lao-Chinese border since 1985. Chinese consumer goods were reported to be widely available in the northern provinces of Laos (Martin Stuart-Fox, *Laos: Politics, Economics and Society* [London: Frances Pinter, 1986], pp. 189–90). However, despite these developments, throughout 1985 Laos continued to accuse China of hegemonic intentions and of collusion with "Thai ultra-rightist reactionary forces and US imperialists" to undermine peace in Southeast Asia. But during 1986 there was a noticeable reduction

⁶ Even in previous years, the Thai and the Lao had not stopped sending their respective teams to compete with each other in boat races during the festival. It was usually done with the tacit approval of the local authorities and without much fanfare. The difference this year was that the joint competition received widespread coverage and publicity on both sides.

in the frequency of such verbal attacks. Instead, official statements often called for the normalization of relations between the two countries.

Worth noting was the unusually friendly greeting sent to the People's Republic of China on the occasion of its National Day on 1 October by Souphanouvong and Kaysone Phomvihane. Aside from the normal congratulations and good wishes sent to the people and Government of China, the statement went on to say that the founding of the PRC thirty-seven years ago "was an event of great historical significance" for it represented "a long struggle against feudalism, colonialism and imperialism. Since then the Chinese people have concentrated their energy and efforts on overcoming difficulties in national construction and obtained great achievements in many fields." It then went on to state that "the Lao people are always grateful to the Chinese people for their important help and support in the struggle against imperialist aggressions" and "we hope that the relations of friendship between the Lao PDR and the PRC will be consolidated and developed on the basis of sincerity and peaceful coexistence, in the interests of the two peoples and of peace and security in Asia and of the world."

A more substantive sign of improving relations was to come in late December 1986 when a Chinese delegation led by Deputy Foreign Minister Liu Shuqing visited Vientiane. This was the largest as well as the highest-level Chinese delegation to visit Laos since 1978. The express purpose was to explore ways of normalizing relations between the two countries. Although nothing very concrete came out of the discussions, it was reported that Liu Shuqing had extended an invitation to his host, First Deputy Foreign Minister Khamphay Boupha, to make a return visit to China for further talks on normalization. The invitation was accepted, with the dates of the return visit to be decided through diplomatic channels (*KPL*, 26 December 1986). The change in Laos' attitude towards China could very well reflect subtle pressure from Moscow, which is interested in encouraging a thaw in relations between China and the Indochinese countries.

Lao-U.S. Relations

Relations with the United States remain focused on the missing-in-action (MIA) issue. As a result of Laos' willingness to co-operate in the search for MIA remains, the United States Congress had officially removed the ten-year-old ban on direct U.S. aid to Laos, as of December 1985. Although the removal of the ban has not led to a resumption of aid, both sides have started tentative exploration of areas of possible co-operation.

However, after a start in the direction of improving relations between the two countries in 1985, no further progress was made in 1986. Apart from a token grant of US\$225,000 made by the United States to UNHCR for its programme to assist returning refugees, no other initiative or assistance from the United States materialized, much to the chagrin of the Lao Government. Although there was talk at the beginning of the year about the possibility of the United States providing some assistance to the Lao Government to help it clear the large quantities of unexploded ordnance left buried in the ground as a result of the U.S. bombing in Laos during the war, this remained at an exploratory stage. Some technical assistance of this kind would probably be welcomed by the Lao Government as an indication of goodwill, especially as the problem of unexploded bombs is very serious, particularly in the north. However, given the fact that Laos is such a low priority country for the United States and that the Administration is currently busy trying to resolve its domestic crisis and other more pressing external concerns in the Middle East and Latin America, a significant policy shift on the part of the United States in relation to Laos seems unlikely during the Reagan presidency.

APPENDIX I

Lao People's Revolutionary Party (LPRP) Politburo Members (Elected at the Fourth Party Congress, November 1986)

Full Members

1. Kaysone Phomvihane
2. Nouhak Phoumsavan
3. Souphanavong
4. Phoumi Vongvichit
5. Khamtay Siphandone
6. Phone Sipaseuth
7. Sisomphone Lovanxay
8. Sisavat Keobounphanh*
9. Saly Vongkhamsao*
10. Maychantane Sengmany*
11. Samane Vignaket*

Alternate Members

1. Oudom Khatigna*
2. Choumaly Saignasone*

* New Members.

APPENDIX II

Secretariat of the LPRP Central Committee (Elected at the Fourth Party Congress, November 1986)

1. Kaysone Phomvihane
2. Khamtay Siphandone
3. Sisavat Keobounphanh
4. Saly Vongkhamsao
5. Maychantane Sengmany
6. Samane Vignaket
7. Oudom Khatigna*
8. Choumali Saignasone*
9. Somlat Chanthamath*

* New Members.

APPENDIX III

LPRP Central Committee Members (Elected at the Fourth Party Congress, November 1986).

Full Members

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. Kaysone Phomvihane 2. Nouhak Phoumsavan 3. Souphanavong 4. Phoumi Vongvichit 5. Khamtay Siphandone 6. Phoune Sipaseuth 7. Sisomphone Lovanxay 8. Sisavat Keobounphanh 9. Saly Vongkhamsao 10. Maychantane Sengmany 11. Samane Vignaket 12. Oudom Khatigna 13. Choumaly Saignasone 14. Somlat Chanthamath 15. Bounngang Vorachit | <ol style="list-style-type: none"> 16. Inkong Mahavong 17. Asang Laoly 18. Yao Phonvantha 19. Maysouk Xayasompheng 20. Boualang Boualapha 21. Southone Thep Asa 22. Siphone Phalikhanh 23. Khambou Sounixay 24. Thongsavath Khaykhamphithoune 25. Thongvinh Phomvihane (Mdm) 26. Khamphay Boupha 27. Phetsamone Ratsasima 28. Vongkhet Xaykeuyachongtua 29. Sompheng Keobounhouan 30. Lun (Mdm) |
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- | | |
|--------------------------------|--------------------------------|
| 31. Bogneun Levietmouang | 42. Ay Souliyaseng* |
| 32. Khamphay Chaleun Phommixay | 43. Siengsom Kounlavong* |
| 33. Nakorn Sisanon | 44. Khayavong* |
| 34. Osakan Thammatheva | 45. One Chanh Thamavong (Mdm)* |
| 35. Khambane Chanthasone | 46. Khamphoui Keoboulapha* |
| 36. Phao Bounaaphon | 47. Thongloun Sisoulith* |
| 37. Khamsing Thamavong* | 48. Phimmasone* |
| 38. Soy Sombathdouang* | 49. Bouathong* |
| 39. Khamphou Boundakham | 50. Khampane Philasong* |
| 40. Thongmany Thippommachanh | 51. Ounla Sayasane* |
| 41. Thonglay Kommasith* | |

Alternate Members

- | | |
|----------------------------|-------------------------------|
| 52. Khamsay Souphanouvong* | 57. Bouheuang Douangphachanh* |
| 53. Sone Khamvanevongsa* | 58. Phimpha Thepkhamheuang* |
| 54. Pany (Mdm)* | 59. Khammanh Sounvileuth* |
| 55. Chaleun Yiapaohou* | 60. Khamphong Phanvongsa* |
| 56. Somphan Phengkhammy* | |

** New Members*

SOURCE: "Report of the Result of the Election to the Supreme Governing Bodies of the 10th Congress of the LPDR" (English Version, November 1986).

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