

Frontier Capitalism in the Lao PDR Versus Patrimonial Oligarchy in Cambodia

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라오스의 변경 자본주의 대(대) 캄보디아의 세습 과두제

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Abstract : This paper builds on recent scholarly endeavours to establish a body of knowledge on Varieties of Asian Capitalism/Asian Business Systems. The forthcoming Oxford handbook of Asian business systems systematically compares institutional capitalist arrangements across Asia including Laos, yet there is no chapter on Cambodia. The objective of this paper is to compare the Lao and Cambodian varieties of Asian capitalism, with special reference to the role of the state and the economic geography of both countries. Accordingly, it seeks answers to the questions as to how territory has become a key arena for re-organising economic power and how the Lao and Cambodian state themselves are being transformed through state capitalism and the Beijing-Seoul-Tokyo Consensus. A comparative analysis reveals a difference between state-coordinated frontier capitalism in Laos versus patrimonial oligarchy in Cambodia. Interdependencies between the market and the state in Laos display the state as active and interventionist. In some provinces the central government leaves decision making to provincial elites contributing to the emergence of other distinctive regional varieties of capitalism. The rising spatially less selective oligarchs in Cambodia focus relatively more on markets, but are certainly not seeking free markets with equal entry opportunities. The findings offer interesting possibilities for further research on the spaces of Asian capitalism, both from an empirical and theoretical perspective. More work should be done to accommodate the role of small and medium enterprises and theories need to better integrate oligarchic, personal and familial capitalism. Finally, comparative corridor studies in Laos could lead to better insights into the nature of regional varieties of capitalism.

Key Words : Greater Mekong Subregion, BeST consensus, Inclusive development, Economic spaces, varieties of Asian capitalism

요약 : 이 논문은 최근의 학문적 성과들을 바탕으로 아시아 지역의 자본주의 다양성과 비즈니스 시스템에 대한 논의를 담고 있다. 본 논문의 목적은 참고 문헌들을 통해 국가의 역할과 경제 지리의 성격을 규명하여 라오스와 캄보디아의 자본주의적 다양성을 살펴보는 것이다. 따라서 영토가 경제 권력을 어떻게 재조직하는 요인으로 작용해왔는지에 대한 질문과 라오스와 캄보디아가 국가 자본주의와 베이징-서울-도쿄 합의에 의해 어떻게 변화하고 있는지에 대한 질문에

대답하고자 한다. 두 국가 간의 비교 분석은 라오스의 국가에 의해 조정되는 Frontier Capitalism과 캄보디아의 세습적 과두 체제 간의 차이를 규명한다. 라오스는 지역적으로 자본주의적 다양성이 발현된다. 공간적인 제약이 약한 캄보디아의 과두적 집권층은 상대적으로 시장의 기능에 주목하지만 기회의 균등이라는 면에서는 완전한 자유 시장을 지향하고 있지는 않다. 본 연구의 연구 결과들은 실증적, 이론적 두 가지 관점 모두에서 아시아의 자본주의에 대한 후속 연구의 가능성들을 제기한다. 향후의 연구는 중소 기업의 역할에 대해 고려해야 할 것이며 이론들은 과두제와 개인적, 가족적 자본주의를 통합하여야 한다.

주요어 : GMS, 베이징 서울 도쿄 합의, 포괄적 발전, 경제적 공간, 아시아 자본주의의 다양성

1. Introduction

Despite the resource boom in Lao People's Democratic Republic (hereafter simply referred to as Laos) and relatively strong the clothing industry and recent oil discoveries in Cambodia both countries are expected to remain in the group of least developed countries (LDCs) in the medium term and to form the margin of the Greater Mekong Subregion (Andriess forthcoming, Kerbo 2011: 90-157). This situation could be further exacerbated once recent trends in Burma continue and poverty starts to reduce substantially as happened in Vietnam. At present, Cambodia and Laos do not seem to be well prepared for the ASEAN Economic Community 2015. As Weatherbee (2010: 303), an eminent scholar on South East Asia, put it:

The less developed AEC members risk becoming market appendages of their stronger partners unless there is a fundamental reshaping of their domestic political economies. It cannot be expected that ASEAN's leading economies will wait for the laggards to catch up so that an integrated ASEAN economy can be achieved.

In light of this risk it is instructive to question

and delve more precisely into the nature of the market and the state and its repercussions for poverty reduction and inclusive development. In order to do so this paper builds on recent scholarly endeavours to establish a body of knowledge on Varieties of Asian Capitalism/Asian Business Systems. The forthcoming *Oxford handbook of Asian business systems* systematically compares institutional capitalist arrangements across Asia including Laos, yet there is no chapter on Cambodia (Witt and Redding forthcoming). The objective of this paper is to compare the Lao and Cambodian varieties of Asian capitalism, with special reference to the role of the state and the economic geography of both countries. Accordingly, it seeks answers to the questions as to how territory has become a key arena for reorganising economic power and how the Lao and Cambodian state themselves are being transformed through state capitalism and the Beijing-Seoul-Tokyo Consensus (Lee and Mathews 2010).

The next section introduces the emerging literature on varieties of Asian capitalism. This is followed by a comparative section linking capitalist institutions, the role of the state and geographical diversity in Cambodia and Laos. The concluding section discusses the implications of the comparison for further strengthening the linkages between the body of knowledge on varieties of Asian capital-

ism, poverty reduction and inclusive development. This will make this body of knowledge more suitable and relevant for the study of LDCs in Asia.

2. Varieties of Asian Capitalism

The last decade has seen a considerable interest in theoretical and empirical approaches that compare the various institutional arrangements in developed capitalist societies. Most spectacularly, the publication of Hall and Soskice's (2001), *Varieties of capitalism: The institutional foundations of comparative advantage*, has triggered many responses. Some authors have conducted empirical studies following the main theoretical arguments of Hall and Soskice, others disagree on certain domains of thought and have proposed more or less alternative perspectives. According to Hall and Thelen (2009) the approach

focuses on firms, as actors central to the process of economic adjustment with core competencies that depend on the quality of the relations that they develop with other actors, including producer groups, employees and other firms. Those relationships depend, in turn, on the institutional support provided for them in the political economy. Although the perspective acknowledges that these relationships can take on a wide range of forms, it emphasizes the distinction between liberal market economies [LMEs], where firms rely heavily on competitive markets to coordinate their endeavours, and coordinated markets economies [CMEs], where more endeavours are coordinated strategically.

The most important countries with liberal arrangements are the USA and UK; with coordinative arrangements Germany and Japan. Based on this distinction, Hall and Soskice further assert that the first group of countries offers more scope for radical innovation. Competition entails flexibility and short term goals suitable for economic activities directed at designing and marketing new products. Coordination, instead, generally means less flexible relationships, for instance regarding industrial relations, and longer term goals, making it more attractive for incremental innovation; in other words the enhancement of processes and existing products rather than totally new products. In sum, a particular set of complementary institutions is seen as conducive for particular types of economic activity. Among others, Schmidt (2003) has stressed that the dichotomy between competition and coordination is too rigid. Instead she has proposed the inclusion of a capitalist system based on state dominance. This particularly fits the traditional French capitalist model in the three decades or so after the Second World War. Increasingly, the varieties of capitalism approach is also being employed for non-Western countries. In 2009 the journal *Economy and Society* (volume 38, issue 1) published a special issue focusing on Latin America, entitled *Latin American Capitalism: Economic and Social Policy in Transition*. And in the same year *Asia Pacific Journal of Management* (volume 26, issue 3) published a special issue on varieties of Asian capitalism (volume 26, issue 3). The latter special issue emphasised the needs to scrutinise the coevolution of institutional arrangements and firm behaviour, the role of the state and the relationship between institutions and inclusive and sustainable development (Andriesse and Van Westen 2009;

Carney et al. 2009; Tipton 2009).

The diversity of capitalist systems in Asia is further investigated in Witt and Redding's (forthcoming) handbook entitled *The Oxford handbook of Asian business systems*. The countries' part in this handbook systematically compares the following institutional spheres: education and skills, employment relations, financial system, inter-firm relations, internal structure, ownership and governance, social capital and the role of the state as well as institutional complementarities: combinations of two or more institutional arrangements that steer firms, business associations and actors in the economy in a certain direction. It is important to note that these complementarities could either be detrimental or conducive to economic activity and performance. Based on thirteen countries Witt and Redding (2012) offer implications for further theorizing Asian capitalist/Asian business system diversity with respect to social capital, culture, informality and multiplexity. As culture is a very broad concept and overlaps considerably with social capital and informality it is not separately dealt with here.

First, social capital which is a combination of trust in organisations following formal institutions (institutionalised trust) and interpersonal trust. As institutionalised trust is relatively low in many Asian countries, it is no surprise that family business groups and conglomerates have emerged. This has enabled executives and owners of these organisations to navigate entrepreneurial and governmental waters through interpersonal networks and minimised risks associated with third parties. Second and related to social capital, Asian capitalism involves a substantial degree of informality. *De facto* informal ways of doing business have frequently

impacted economic activity and performance more than *de jure* formal laws, regulations, contracts and agreements. Actors in the private sector, but also farmers and even governmental authorities themselves find it more efficient and effective to circumvent formal arrangements by processes of defection and reinterpretation (Hall and Thelen 2009). Third, Witt and Redding (2012) observe the presence of multiplexity: the existence of multiple capitalist systems in one country. They particularly point out the simultaneous existence of state-owned and private sectors and argue that

the presence of multiplexity raises a series of important questions. One is what preconditions allow the coexistence of multiple business systems in the same institutional space... A second question pertains to the concept of institutional convergence... If we allow for multiple equilibriums within the same national context, then the question of institutional convergence at the national level becomes moot, as firms subject to convergence pressures may create their own equilibrium points.

In addition and important from an economic geographical point of view multiplexity could also have a distinctive spatial character (Yang 2007, Yeung 2007, Van Helvoirt 2009). Even in small countries such as Cambodia and Laos the variegated pattern of foreign direct investments might (have) create(d) different regional varieties of capitalism (Andriess 2011). Economists, business and management scholars usually employ the varieties of Asian capitalism approach for studying large countries, obviously most notably China and India, as well as countries with much innovative capacity such as Singapore, Hong Kong, South Korea and

Taiwan. However, integrating social capital, informality and multiplexity more explicitly in theories of capitalist diversity opens up new and promising avenues for

- social scientists such as human geographers, sociologists and anthropologists to contribute more firmly to this emerging body of knowledge,
- balancing the focus on large firms, governments and innovation by looking at other actors in the economy such as small and medium enterprises (SMEs), farmers and other dependent variables such as poverty reduction and inclusive development and
- studying capitalist arrangements in LDCs with relatively little innovative capacity.

Witt and Redding's (forthcoming) handbook provides a useful starting reference and this paper offers some suggestions as to how the approach could be employed for LDCs. The next section provides an overview of differences and similarities in institutional economic geographical arrangements in Laos and Cambodia.

3. Comparing capitalist varieties

An in-depth systematic comparative analysis is a huge task and is beyond the scope of this paper. Here a start is made using focusing predominantly on the role of the state and economic geography/multiplexity of capitalist arrangements. This section builds on Andriese (forthcoming) depicting the Lao variety of capitalism as a state coordinated frontier economy. A frontier economy here refers to a process whereby capitalist

institutional arrangements gradually take over from traditional livelihoods' systems. This occurs most visibly in rural areas, for instance with respect to transformation from swidden agriculture into plantations, but also in a somewhat indirect disguised manner in Vientiane where corporate actors set up firms with the aim to make quick profits using cheap labour, often migrants from rural areas. The institutional complementarities driving this process can be summarised as follows:

A strong role for the state, coupled with a frontier mentality in which large companies, especially those that are well connected to the [Communist] Party, can thrive, owing to 1. easy access to finance through state-owned banks and foreign companies, 2. exploitation of labour as a result of a hierarchical internal firm structure, absence of measures to guarantee fundamental labour rights (maximum working hours, job safety, collective bargaining), and insufficient commitment to skills formation, and 3. a lack of social capital through which civil society can address the practices of large companies towards labour and the natural environment. The Lao business and political elite benefit from this business system, whereas SMEs, labourers, smallholders, and villagers essentially need to fend for themselves.

How does this compare to Cambodia (as mentioned above unfortunately not covered in Witt and Redding forthcoming)? Based on recent publications on the political economy and economic geography of Cambodia, Table 1 gives a preliminary comparative overview. As can be expected there are several similarities, most notably related to human capital formation and social capital. Rasiah (2009), who compared the garment industries in

both countries, found that there is insufficient commitment towards human capital formation. This obviously stymies technological upgrading and the ability of Laos and Cambodia to benefit more from global garment value chains. Furthermore, foreign employers might decide to relocate their factories once relative cost advantages diminish. As in Laos many employers and public officials in Cambodia perceive employees as an input factor that can be exploited rather than as an asset that should be embraced and can contribute to the welfare and well-being of employers and the country at large. In this regard it is noteworthy to cite Slocomb (2011: 105-106) who wrote about the privatization of the rubber industry:

History suggests, however, that privatization will not prove to be a panacea for the stagnation that has

afflicted the industry for the past thirty years, and investors will soon discover that cheap labour, in itself, is not a cost advantage if productivity levels remain low. Working conditions for the tappers and their families employed on Cambodia's rubber plantations today are not fundamentally different from those under which the indentured Tonkinese laboured in the 1920s and 1930s

The category role of the state shows the general attitude of the state towards capital accumulation and the state could feature as well in the other, more specific categories. The available evidence suggests that the role of state is substantially stronger in Laos than Cambodia. The Lao state is involved in institutional arrangements in the spheres of finance, ownership, inter-firm relations and certain informal ways of doing business, whereas the pri-

Table 1. A comparison of capitalist varieties

	Laos	Cambodia
role of the state	interventionist/predatory	predatory but retreating
financial system	state-mediated	private
ownership	state	private
corporate governance	weak	weak
internal structure of firms	hierarchical	hierarchical
employment relations	exploitative	exploitative
educational attainment	low	low
skills formation	weak	weak/medium
inter-firm relations	state-mediated	weak/through <i>oknhas</i>
institutionalised trust	low	low
interpersonal trust	high (village based)	high
informality	medium if state mediated high without state mediation	high
multiplexity	large vs. SMEs geographical	large vs. SMEs

Sources: Andriess forthcoming, Kerbo 2011, Cock 2011, Un and Hughes 2011, Slocomb 2011, Ung and Hay 2010, Arnold and Shih 2010, Rasiah 2009, Un and So 2009, AFD 2009.

vate sector plays a larger role in Cambodia. The subsection below discusses these differences followed by a subsection on spatial variety.

1) Role of the state

Officially Laos embraces a Communist political ideology whereas Cambodia is constitutionally a democracy in which parties compete with each other during elections. According to Stuart-Fox (2008), the neo-patrimonial political cultures in both countries are surprisingly similar, despite two different formal political systems. However, a review of work conducted in one of the two countries reveals the need to nuance the similarities. Cambodian capitalist arrangements are sometimes referred to as cowboy capitalism (Crispin 2007, Kerbo 2011: 78; Walsh 2012), and Laos has been portrayed as a country with a considerable degree of frontier mentality (Andriessse forthcoming, Lagerqvist 2013, Barney 2009, Pinkaew 2012). Furthermore, the dynamics in the political culture and role of the state are not entirely similar.

In Cambodia there are certain signs that the strongman Prime Minister Hun Sen is increasingly worried about mass political activism and therefore needs more support from other politicians and *oknhas*: Cambodian influential business tycoons. Heder (2012) mentioned that he prepared to concede some popular demands in order to establish a good image for himself and his Cambodian People's Party (CPP) party. In an illuminating book chapter Cock (2011: 48) contends that Hun Sen's ability to control has peaked and Cambodia is shifting in the direction of a patrimonial oligarchy:

No business can prosper in the medium term in

Cambodia without cultivating connections to the state. But to the extent that an oligarchy has emerged, it is due to an increasing separation from the state, evidenced by a reduced direct role of the state apparatus as the conduit for rents: an increased reliance of state officials on business elites; an increased autonomy of business from the bureaucracy and perhaps from the regulatory environment; and a concentration of economic power.

Cock's (2011) analysis and terminology is perhaps somewhat more plausible than Springer's (2010) focus on neoliberalization. Although Springer obviously acknowledges the Cambodian characteristics with which capital accumulation takes place, Cock employs a stronger Asian approach. Until September 15 2008, when Lehman Brothers filed for bankruptcy protection, neoliberalization had been a suitable concept to describe the increasing role of the market and retreating states in the West. Nowadays, the world seems to have become more complex. The merits of the institutional economic arrangements of the West are not taken for granted anymore and might reduce the relevance of the concept of neoliberalization in Asia, Africa and Latin America. Even *The Economist* (2012) has noticed the emergence of state capitalism in emerging markets and devoted an entire special report on the topic. From an East Asian and Southeast Asian perspective it is relevant to take into account the Beijing-Seoul-Tokyo (BeST) Consensus. Lee and Mathews (2010) contend that many countries study the developmental trajectories of China, South Korea and Japan. And indeed, the three countries generally enjoy much respect in Southeast Asia with respect to the trends and patterns leading to increas-

ing living standards (Jomo 2003: 39). The major difference between the BeST and the neoliberal Washington Consensus is the role of the state. The Washington Consensus proposes a minimal role of the state and advocates privatization of state-owned enterprises and deregulation of goods, services and labour markets. President Reagan and Prime Minister Thatcher were the major protagonists of this consensus and the World Bank and the IMF often prescribed neoliberal policies in the 1980s and 1990s to developing countries. Alternatively, The BeST consensus allows for a much stronger and intervening role in the economy; especially in the earlier stages. It consist of the following major elements: targeting certain industries, guidance of firms in their acquisition of knowledge, export challenges and upgrading as well as creating an environment in which firms can enhance their capabilities, most notably investing in education and providing relatively easy access to finance for firms. Only after industries have matured and are able to independently compete overseas governments are expected to retreat and increase the role of markets in economic life. It is thus problematic to fit the BeST Consensus into the continuum from Hayekian (the free market as the sole 'regulator' of economic transactions) to Keynesian economic thinking (the idea that the state should spend more during recessions in order to reduce unemployment). Although states, mostly technocrats and civil servants, agree with East Asian countries that leaving markets to an invisible hand is not the solution, weak state capacities at national and local levels as well as a frequent lack of funds have prevented successful implementation of BEST Consensus type policies. In the 1980s for instance, Malaysia tried to emulate several Japanese

industrial policies and established international trading companies (Jomo 2003: 38-51). However, a serious impediment which can often be observed in developing countries is the predatory nature of bureaucracies and elites. The Cambodian shift to a patrimonial oligarchy is a case in point. Un and Hughes (2011: 199-218) point out the continuing if not expanding influence of *oknhas* and *khsae* (connections to powerful figures) and the lack of independent professional and effective governmental authorities that are supposed to regulate and oversee private property and private assets. In addition, from a long term historical perspective Cambodia seem to have a weaker state capacity in contrast to its neighbouring countries (Kerbo 2011: 171-188).

Compared to Cambodia the political culture and role of the state in Laos appear to be more stable. As can be seen in Table 1 the Lao state intervenes heavily in the economy. In Laos the Communist Party is responsible for all major political appointments at all government layers inside and outside Vientiane: 'the government is merely the executive arm of the Party' and 'there is no distinction between the Party and the judiciary' (Stuart-Fox 2006: 65, 70). For example, the financial system is state mediated; the two firms listed on the stock exchange are both state-owned, the Lao Holding State Enterprise is becoming a major investor in Lao hydropower and state-owned banks are instrumental in providing finance to state-owned firms, large firms and ignoring SMEs. This has led to an interesting institutional mismatch between the Asian Development (ADB) and the Lao government. Despite a lack of capacity for effective implementation, particularly at the local and several industry levels, the Lao government favours the BeST Consensus, notably the way "Beijing" handles the economy, rather than

the Washington Consensus usually followed by the ADB. The ADB aims to transform Laos from a landlocked into a land linked corridor, a free market space in the heart of the Greater Mekong Sub-region, yet Lao elites have different ideas on the actual implementation on the ground (Andriessse and Phommalath 2012, Romyen 2010; Oehlers 2006). They seek to prioritise profitable frontier industries, maintain (partial) ownership of several key companies, engage in various forms of elite capture, do not consider all planned corridors as equally necessary for the development of the country and feel the need to balance Chinese, Vietnamese and Thai political and economic interests. They do not see the space economy of the Greater Mekong Sub-region as a level playing field. Nevertheless, in the medium term the role of the Party could decrease to some extent. If the centrality of the Party reduces its pervasiveness two trends are likely to strengthen. First, the role of families could become stronger, perhaps following the Cambodian route to a patrimonial oligarchy (Andriessse forthcoming, Stuart-Fox 2006). Second, multiplexity in the variety of Lao capitalism is expected to rise due to its fragmented physical, economic and social geography (Andriessse 2011, Rehbein 2007).

2) Economic geography/multiplexity

What forms of multiplexity can be observed; what are the spatial patterns and trends of capitalist varieties in Laos and Cambodia and 'how do territory and population become key arenas for re-organising political [and economic] power?' In a keynote address the eminent geographer Jonathan Rigg (2012) argued that actual development trajectories are essentially unplanned, both at the in-

ternational macro scale and individual micro scale. History, geography and personal circumstances affect living standards more than development plans. Therefore, it is important to recognise that further integration into the wider GMS could somewhere lead to accumulation by dispossession (e.g. Kenny-Lazar 2012), but elsewhere to successful increases in living standards. For instance, certain female migrant groups from Cambodia, Burma and Laos have been able to improve their lives in term of material well-being, self-esteem and social standing by migrating to Thailand (Kusakabe 2004, Resurrection and Sajor 2010). As Laos is geographically a rather fragmented country and as it has influential neighbouring countries, it is possible to identify several blends of frontier capitalism. In southern Laos Thai and Vietnamese corporate actors, chambers of commerce and governmental authorities are actively investing in large scale plantation, contract farming, mining and trading activities. According to Pinkaew (2012) the central government in Vientiane plays a relatively minor role in some of the new provincial arrangements:

This provincial administration has direct bilateral relations and Memoranda of Understanding with 16 individual provinces in Vietnam, mostly in the field of agricultural production, but also education and tourism. Several senior members of the provincial staff can communicate in Vietnamese and Champasak is keen to foster relations with Vietnamese investors. Thus, many of the early negotiations between companies and Champasak province were underpinned by a series of diplomatic arrangements between provinces. It should be noted that land concessions at the provincial level sometimes did not follow Laos's Land Law.

Meanwhile, in northern Laos the Chinese have secured interest in an array of economic activities including casinos. In the case of large rubber plantations and promoting smallholder activity it is fair to conclude that the BeST Consensus, in this case obviously “Beijing”, is at work. The government of Laos, even the Lao military and Chinese companies backed by Chinese authorities perceive large scale rubber plantations as the civilising way forward for the upland populations (Wasana 2010, Cohen 2009). The result is neither a level playing field as proposed by the ADB, nor accumulation by unidirectional overwhelming dispossession, but rather a mosaic of socioeconomic outcomes in which some benefit and others face decline, intra-province and intra-village inequality (Andriess and Phommalth 2012, Rigg 2012, Epprecht et al. 2008: 15-30).

Compared to Laos the Cambodian capitalist space is somewhat more homogenous and foreign investors deal less directly with the government. Instead, Cambodian oligarchs increasingly take the lead in land concessions, agribusiness, factories, shopping centres, hotels and resorts. Some of these entrepreneurs are Sino-Khmer *oknhas* with excellent personal and business connections with mainland China (Sullivan 2011: 62). Furthermore, Phnom Penh is a much more central node in transport and logistical networks than Vientiane, making it a centre of command of the Cambodian space-economy. Nevertheless, it is possible to observe geographical diversity. Northeastern Cambodia is an ethnically heterogeneous region where Khmer people buy land and set up plantations (Padwe 2011: 110-135) and the effects of (remaining) political competition between the CPP and the opposition, party patronage and patrimonial oligarchy obviously are uneven. Hughes et al.(2011:

245-265) compared the political economies of three small areas in Cambodia: a resource frontier in the northeast with some influence of the opposition (A), an area adjacent to the Tonle Sap lake (B) and a relatively prosperous area located in the rice growing central plains which has received much support from the CPP (C). They conclude that “the patronage available to Commune C is in large part the profits of the economic transformation affecting A and B, in a system of national patronage operated by the party...While patronage has indeed provided infrastructure and welfare in a manner which benefits the poor across Cambodia, it also renders them dependent and constrained”. Overall, the available evidence suggests that the oligarchs’ increasing grip on society generally has a negative impact on the urban and rural poor in Cambodia. Compared to Laos accumulation by dispossession through land grabbing and forced evictions appear to be deeper entrenched in Cambodia’s political and economic geography and display cowboy characteristics of capitalist institutions. Authorities have engaged in forced evictions in Phnom Penh to make way for new urban development projects such as hotels, resorts and shopping centres. Kerbo (2011: 115-135) even compares slum clearance to “Khmer rouge style” practices. These trends have increased landlessness and prevented poverty reduction in both urban and rural areas. In sum, although elite groups in Cambodia and Laos perceive territory and population as assets to be used for capital accumulation (Gainsborough 2012), the government of Laos seems to employ a geographically differentiated strategy. This is partly due to the goal to transform upland population into sedentary and “civilised” citizens and partly due to the balancing act of simultaneously accommodating Chinese,

Vietnamese and Thai interests. Eventually, the Lao space economy could transform into distinctive regional varieties of capitalism whereas this is unlikely to happen in Cambodia.

Before concluding it is worth noting one clear similarity between the Cambodian and Lao variety of capitalism: the neglect of SMEs. Both governments proactively support the establishment and expansion of big business, whereas the owners and managers of SMEs find it extremely hard to find access to capital and are supported in terms of corporate governance, skills formation and inter-firm relations. This is very problematic with respect to poverty reduction and inclusive development as SMEs tend to be labour intensive whereas large firms, especially in Laos, are capital intensive (mining, hydropower). A missing middle exists. There are dominant large firms, many micro enterprises (both formal and informal), but too few SMEs. In addition, SMEs are underrepresented in the manufacturing sector, insufficiently linked to large firms and act little as suppliers for large firms (Andriese forthcoming, Ung and Hay 2010). For instance, garment factories source their inputs usually from abroad. This means a profound dichotomy between SMEs and large firms and is a good example of multiplexity of institutional economic arrangements in one country (Witt and Redding forthcoming, Table 1). The inadequate attention paid to SMEs seems to be a structural weakness of the BeST Consensus. In Japan and South Korea big business and the state are still closely connected which has led to huge conglomerates, inertia, locked-in institutional arrangements from which it is difficult to break out.

4. Conclusions

Both Cambodia and Laos find themselves situated in the margins of the Greater Mekong Subregion. Yet, this paper argues that differences between the Lao and Cambodian variety of capitalism and economic geography are worth studying and offer salient implications for inclusive development and the way economic spaces in the Greater Mekong Subregion are transformed. A preliminary comparative analysis based on state-of-the-art publications on the two countries reveals a difference between state-coordinated frontier capitalism in Laos versus patrimonial oligarchy in Cambodia. There are few signs that the Communist Party in Laos is losing control over crucial sections of the political economy. Where “Vientiane” plays a relatively minor role such as in Champasak (Pinkaw 2012), it is not a result of inability or weakness, but of permission (Andriese and Phommalath 2012). In Cambodia another dynamic can be observed. The perception of Prime Minister Hun Sen as a traditional strongman is diminishing. *Okhnas*, influential business tycoons, are increasing their grip on Cambodia’s economic activity (Heder 2012, Cock 2011).

Furthermore, this paper has sought to address the role of the state in fostering economic development using the notion of the Beijing-Seoul-Tokyo (BeST) Consensus (Lee and Mathews 2010); the philosophy that a *visible* hand is needed to foster economic growth and guide specific industries to maturity. Interdependencies between the market and the state in Laos display the state as interventionist and influential in markets. Rising oligarchs in Cambodia focus relatively less on the state, but

are certainly not seeking free markets with equal entry opportunities. They wish to build long lasting relationships with the state in order to secure rent seeking, access to economic resources and expanding markets. This is a similar economic logic to post-war conglomerate building in South Korea and Japan. However, the predatory nature of the state in Cambodia and Laos implies a lack of commitment towards human capital formation, poverty reduction and inclusive development. Alternatively, the state in Thailand proactively supports SMEs with the development of their supply chains, financing capabilities and marketing strategies. And in several Vietnamese provinces land reform has not led to land grabbing, but to what Sikor (2012) calls a politics of possession:

People's expectations that the state would bring about legal and economic rights intimately tied possession to the state. In other words, even after the demise of the planned economy, people recognized the state through the provision of economic entitlements. People no longer expected the state to bring about economic entitlements through bureaucratic allocation but by other means, primarily economic growth and poverty reduction.

In the long term identifying what pockets of institutional efficiency from other countries could be integrated in poverty reduction strategies and prospects for inclusive development might be brighter in Cambodia as it is uncertain to what extent the oligarchs can sustain control. Cambodia has a much larger population than Laos, a somewhat stronger civil society and the press is relatively free compared to other Southeast Asian countries (Gainsborough 2012, Reporters without borders

2012). Furthermore, political and economic competition among the *okhnas* could eventually spur institutional defection and lead to reform. The fragmented nature of the Lao social geography impedes organised resistance and the blossoming of civil society. Therefore, the government of Laos is able to pursue a frontier mentality in provinces it deems necessary for national development. With the support of the Chinese the northern Lao territory and upland population is called in to secure, maintain and expand state coordination of frontier opportunities. In some other provinces the central government is less active contributing to the emergence of distinctive regional varieties of capitalism. The oligarchs in Cambodia are less spatially selective in their quest for profits and therefore multiplexity is a stronger phenomenon in Laos than in Cambodia. The findings discussed above offer interesting possibilities for further research on the spaces of Asian capitalism, both from an empirical and theoretical perspective. More work should be done to accommodate the role of SMEs in capitalist institutions, particularly as SMEs are engines of employment generation and inclusive development. Furthermore, in addition to the role of markets, states and coordinative arrangements, theories need to better integrate oligarchic, personal and familial capitalism. Finally, comparative corridor studies in Laos could lead to better insights into the nature of regional varieties of capitalism.

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