

Regional Dynamics of Capitalism in the Greater Mekong Sub-region: The Case of the Rubber Industry in Laos

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Abstract : This article focuses on geo-institutional differentiation and a multi-scalar analysis of emerging capitalist development in Laos. It discusses the impact of the Greater Mekong Subregion on new institutional economic and economic geographical arrangements. It demonstrates the usefulness of the varieties of Asian capitalism approach. The rubber industry was chosen to unravel emerging but various sub-national institutional arrangements linked to higher scale levels. Rubber is a growing agribusiness industry throughout the country, led by the insatiable demand from China. Overall, this study shows that the capitalist development of the rubber industry features much geo-institutional differentiation, due to the different strategies of Chinese, Thai and Vietnamese investors. Since Laos is still in transition from a state-led economy to something else, it is impossible at this to identify the exact number capitalisms. Yet, the evidence on rubber clearly lays bare the presence of multiple institutional arrangements. Without more inclusiveness, however, the implications for regional development are worrying. Exclusive arrangements will most likely lead to more uneven regional development and higher regional inequality. To refine theories on sub-national varieties of capitalism in developing countries it is instructive to consider more explicitly the notion of regional personal capitalisms and the complex interplay between national and regional states and relationships between capital accumulation and livelihood analyses.

Key Words : geo-institutional differentiation, regional development, rubber, Laos, Greater Mekong Sub-region

요약 : 본 연구는 라오스 자본주의 발전의 지리제도적 분화와 다중스케일 분석에 주목한다. 또한 메콩유역권이 신제도주의 경제학과 경제지리학적 배열에 미친 영향을 논의하고 아시아 자본주의 다양성 접근법의 유용성을 제시한다. 본 연구는 상위 스케일에 연결되어 있는 다양한 국가 내 제도적 분포를 밝히기 위해 중국의 수요로 성장하고 있는 라오스의 고무산업을 사례로 선정하였다. 라오스 고무산업의 자본주의적 발전은 중국, 태국, 베트남 투자자들의 서로 다른 전략에 의한 지리제도적 분화를 보여준다. 이행기에 있는 라오스 자본주의의 분포를 정확하게 파악하는 것은 어렵지만, 고무산업에서 나타나는 증거는 다양한 제도적 분포가 존재함을 드러낸다. 그러나 포괄성의 부재는 지역발전 측면에서 우려되는 점이 있는데, 배타적 분포가 지역의 불균등한 발전과 불평등을 악화시킬 가능성이 높기 때문이다. 그리고 개발도상국 국가 내 자본주의의 다양성에 대한 이론을 정교화하기 위해 지역의 사적 자본주의 개념, 국가와 지역정부의 복합적 상호작용, 그리고 자본축적과 생계수단 분석 간의 관계를 분명히 고려하는 것이 필요하다.

주요어 : 지리제도적 분화, 지역발전, 고무, 라오스, 메콩유역권

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1. Introduction

Since the beginning of the 1990s Lao People's Democratic Republic (hereafter simply referred to as Laos) has been trying to transform itself from an impoverished land-locked country to a land-linked country; land-linked with neighbouring countries within the overall scheme of integration in the Greater Mekong Subregion (GMS) consisting of the Chinese provinces of Yunnan and Guangxi, Vietnam, Laos, Cambodia, Thailand and Myanmar (Burma) (Shrestha and Chongvilaivan, 2013). Laos aims to achieve middle income status by 2020. Howe (2014) observed that Laos achieved substantial progress in 2013 with respect to becoming a "land-linked" country, most notably the implementation of a road sector governance and maintenance and GMS East-West Economic Corridor Agriculture Infrastructure Project.

The current integration notwithstanding, it remains essential to scrutinize three characteristics of Asian capitalism. First, social capital needs to be reconsidered as a combination of institutionalised trust in organisations 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 over the course of history. 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. Third, there might be multiple capitalist systems in one country. Certain capitalist arrangements vary among industries, regions and between the state-owned sector (still considerably influential in Laos, Vietnam and China) and private owned sector.

This article explicitly focuses on this third aspect, geo-institutional differentiation and multi-scalar analyses, and investigates the capitalist agribusiness industry of

rubber in Laos. The novelty of this approach is that capitalism is studied not only from the traditional perspectives of state-business relations and state-society relations, but also from the perspective of firms-farmers relations in a rural agricultural setting. This is an under-researched topic except for studies concerning Africa (Dorward *et al.*, 2005; Poulton *et al.*, 2006 and Ochieng, 2008; see the next section). The research questions of this article are as follows:

- What is the impact of the GMS developments on the economic geography of the rubber industry of Laos?
- How are these developments shaping the rubber industry of Ban Somsanouk in central Laos?
- To what extent does Laos have multiple forms of capitalism?

This article begins with an overview of the comparative capitalisms approach in non-Western and developing countries. This is followed by a section introducing capitalist arrangements in Laos. The next section then addresses the rubber industry. It will specifically focus on Ban [village] Somsanouk, a community in central Laos where rubber is a newer phenomenon than in northern and southern Laos. The concluding section discusses the main findings and provides theoretical implications.

2. Comparative capitalisms in developing countries

The notion of varieties of capitalism was initiated by Hall and Soskice (2001). They argue that in order to develop and coordinate core competencies, firms must maintain relationships within five institutional spheres: industrial relations, vocational training and education, corporate governance, interfirm relations and coordination vis-à-vis their own employees. Thus, each firm oper-

ates in a complex environment with many institutional relationships, either formal or informal. Furthermore, the five spheres, or particular sets of institutional relationships, are closely interconnected. One type of relationship in one sphere calls for a corresponding arrangement in other spheres in order to be effective. The best known examples of particular sets of these arrangements can be found in coordinated market economies (Japan and Germany as leading countries), liberal market economies (UK and USA as leading countries) and state-led economies (France, China, Korea, Singapore, see Table 1 as well).

In the last decade non-Western, developing countries have increasingly been included in the varieties of capitalism literature. Most research focuses on Latin America, notably on the relationship between capitalism and social policies, and East Asia, focusing on the successes of pre-1990 Japan, China and the Asian Tigers. Nevertheless, increasingly academics have focused on Southeast Asia and Africa as well. For instance, Pedersen and McCormick (1999) discussed Africa's business systems, Dorward *et al.* (2005) and Poulton *et al.* (2006) connected Africa's agricultural opportunities to institutional complementarities and Ochieng (2008) in general favoured coordinated market economies over liberal types as it has a strong focus on stakeholders rather than firm shareholders. An important development is the search for more varieties and a continuum rather than a dichotomy of liberal market economies and coordinated market economies. The emerging literature points out that the role of the state is an essential element in many varieties (Tipton, 2009; Martínez *et al.*, 2009; Becker, 2012; Witt and Redding, 2013) and as will be elaborated below also regional (sub-national) states for the analysis of regional varieties, as opposed to earlier approaches putting the firm as the heart of empirical scrutiny and stressing its centrality in any capitalist variety. It now frequently appears that the state occupies a crucial role in economic activity, either in a positive enabling or negative disabling

way. Indeed, the successes of large countries (Brazil and China), smaller countries (such as Malaysia, Chile and Uruguay), failures in state capacity across the global South and the resurgence of left-wing governments in Latin America since 2000 necessitates a detailed examination of state-business, state-society and local-central relations. Although several authors have concluded that the Washington Consensus era ended with the collapse of Lehman Brothers in 2008, one can begin to wonder whether civil servants, politicians and policymakers have ever considered this consensus in the first place in China, the Republic of Korea, Russia, Brazil and others (The Economist 2012a). In the case of East Asia analysts have written on the successes of the Beijing-Seoul-Tokyo (BeST) Consensus and the Beijing Consensus: a political economic model in which a visible hand not only facilitates but steers and where necessary intervenes in markets in order to create global competitiveness, export success and a vibrant urban middle class (Lee and Mathews, 2010; Ramo, 2004). Although several Asian countries have tried to follow this consensus to a certain extent state actors in poorer countries are frequently involved in neo-patrimonial, predatory, personal and familial deals lowering institutionalized trust and increasing the scope for disabling informal institutional arrangements (Evans, 2005; Carney and Andriessse, 2001; Andriessse and Van-Westen, 2009; Witt and Redding, 2013; Natrass, 2013; Zhang and Whitley, 2013).

The explicit inclusion of the role of state in comparing capitalist diversity has generated various varieties. In a study on welfare regimes Martínez Franzoni (2008) identified three types using a cluster analysis: 1. a state-targeted (Argentina and Chile), 2. state-stratified (Costa-Rica, Brazil, Mexico, Panama and Uruguay) and 3. Informal familialist (twelve other Latin American countries). She argues that "with a few exceptions, such as Ecuador and Venezuela, countries of the informal-familialist regime type were late industrializers and adjusted their economies radically. They were highly stratified at that

time, and they continue to be so today. As one of the consequences, the proportion of spouses with paid work reflects family strategies that are deployed to compensate for low wages and weak or non-existent public policy.” This is a more fruitful exercise than capturing the Latin American experience in its entirety into the singular variety of “hierarchical market economy”, based on the notion that many diversified business groups internalise business transactions (Schneider and Soskice, 2009). Witt and Redding (2013) also carried out a cluster analysis based on the following indicators: education and skills formation, employment relations, financial system, inter-firm networks, internal dynamics of the firm, ownership and corporate governance, social capital and the role of the state. Five clusters of business systems are detected: (post-) socialist economies, advanced city economies, emerging Southeast Asian economies, advanced Northeast Asian economies and Japan (fitting into the coordinated market economy group). It is problematic to allocate these five clusters in any continuum. Rather, they represent distinct varieties with unique institutional

formal and informal arrangements (Table 1).

In sum, the study of capitalist institutional arrangements and its evolution in developing countries requires a reconsideration of the *modi operandi* of the “orthodox” varieties of capitalism school. Four issues stand out that have so far received little attention in the human geographical literature. First, economic growth has been accompanied with rising socio-economic inequality. Inequality is the highest in Latin American countries, and the ADB, is also starting to worry more about the threats of excessive social, economic and spatial inequality (Martínez *et al.*, 2009; ADB 2012). While shared growth prevailed in the high performing Asian economies during the 1970s and 1980s, as pointed out in World Bank (1993), inequality has markedly risen in the last two decades and the Kuznets curve is starting to lose its validity. The relationship between income and inequality is now sometimes considered to follow a *N* or *U* trajectory rather than an *inverted-U* trajectory (Perrons, 2011: 60; The Economist 2012b). In general, there is now an increasing recognition that social and spatial inequalities should

Table 1. Varieties in Asian capitalism

Cluster	Country	Capitalist variety
(Post-) socialist countries	China	Authoritarian capitalism
	India	From failed developmental state to hybrid market capitalism
	Vietnam	Post-state capitalism
	Laos	Frontier capitalism
Advanced city economies	Hong Kong	Hybrid capitalism as catalyst
	Singapore	Open-led state capitalism
Remaining Southeast Asian countries	Indonesia	Oligarchic capitalism
	Malaysia	Personal capitalism
	Philippines	Inequality-trapped capitalism
	Thailand	Post-developmental capitalism
Advanced Northeast Asian countries	Republic of Korea	State-led capitalism
	Taiwan	SME-oriented capitalism in transition
	Japan	Coordinated capitalism between institutional change and structural inertia

Source: Witt and Redding, 2013 (clustering based on their statistical analysis)

be dealt with, even during periods of economic growth (Tomaney *et al.*, 2011: 624–628). In developing countries such as the Philippines growth of the gross domestic product does not sufficiently translate into reductions in unemployment, underemployment and the percentage of people below the poverty line. Moreover, since the collapse of the Lehman Brothers in 2008, inequality has received more political attention in the developed world. Politicians have felt the need to respond to the grievances of middle classes in the USA and Europe who have been dealing with the consequences of economic hardships such as higher levels of unemployment (Stiglitz, 2013: ix–34). Therefore, choosing economic growth as a dependent variable is too narrow (Turok, 2011). Opting for inclusive development appears to be more instructive and valuable. That would make the varieties of capitalism approach analytically more relevant for developing countries and expand the comparative tools for institutional inquiry (Kanbur and Rauniar, 2010)

Second, in the “global South” the informal sector has played an essential and influential role in economic life. For instance in India, generally seen as an emerging economic powerhouse and a potential competitor of China given its more favourable demographics in the long run, only 7% of the total labour worked in the formal registered sector around 2000 including access to the formal social security system and provisions under the labour law (Harriss-White, 2010). Furthermore, she contends that the informal sector has created relatively more jobs since the early 1990s when India started to liberalise and deregulate. The presence of the informal economy has led to the introduction of a new variety of capitalism: “informally dominated market economies”. Using Mozambique as a case study Dibben and Williams (2012) analysed institutional arrangements in the sphere of employment relations. Trade unionization, collective bargaining, skills training and social security are much weaker and looser in the informal sector, but one should not ignore the organizational capabilities within this sec-

tor.

Third, Witt’s and Redding’s (2013) observation that informality and social capital need to be further explored should be deepened by paying more attention to influential families and a national and regional level. Extended families obviously form a source of social security in informally dominated market economies with relatively undeveloped formal welfare regimes and long lasting political dynasties and competition between dynasties influence institutional arrangements (e.g. Iqbal, 2012 on Pakistan; Mendoza *et al.*, 2012 and BBC, 2012 on the Philippines). In an insightful study on the dynastic politics and the composition of the 15th Congress in the Philippines, Mendoza *et al.* (2012) wrote that “about 70% of the 15th Philippine Congress is dynastic. On average, political dynasties are spread across the different age and gender groups of legislators. So there appears to be little, if any, bias against the young or against women. But political dynasties tend to dominate the major political parties and, on average, are located in areas with relatively higher poverty levels and inequalities, and relatively lower average incomes.” They propose more research to reveal the causal direction and links between dynastic politics and poverty, but their analysis is consistent with Balisacan (2003) who demonstrated that one of the significant variables explaining provincial poverty is local dynasties. They are not conducive to regional economic growth and restrict the access of the poor to basic services. Furthermore, many business groups are well connected to the state/certain national politicians (Gomez, 2009; Zhang and Whitley, 2013), and perhaps most importantly, the boundaries between business and politics are often very difficult to locate in case millionaires turn politicians.

Fourth, it needs to be explained why well-known traditional economic geographical concepts such as industrial districts, clusters and regional innovation systems have not been employed here. The main reason is that these concepts have had an empirical focus on successful

regions in middle income and high income countries in which firms form the backbone of the economy. In the case of low income countries where many people still reside in rural villages and work on the farm and in the informal sector such concepts are less suitable. For instance, inter-firm relations and innovation, especially product

innovation, are much less dominant and influential in rural settings. Henceforth, a more holistic approach is warranted and the varieties of capitalism approach provides methodological space for studying farmers.

The next three sections zoom in on Laos, a country in transition where capitalist institutions just started to

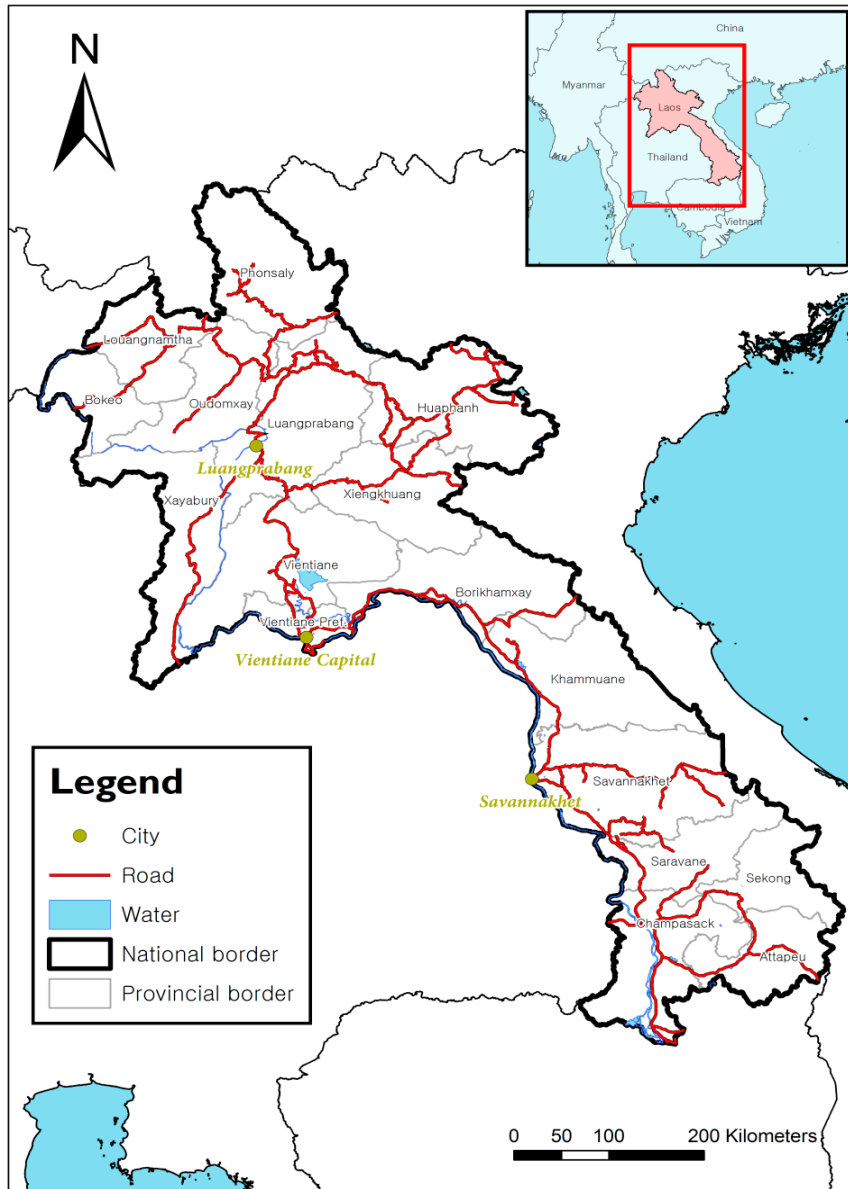


Figure 1. Laos

emerge during the late 1980s. Due to major institutional changes and rapid responses of Lao and neighbouring actors in the last two decades, Laos provides a good example for regional diversity in a developing country. It could also serve as an illustration of what might happen in Burma/Myanmar in the coming decades. The opening up of this country, with China, India and Thailand keen to invest could trigger similar process of geo-institutional differentiation.

3. Geo-institutional differentiation in Laos

Laos's population of 6.5 million is small in the South-east Asian context, as is the economy; moreover, around 70 percent of the labour force works in agriculture. In the latest UNDP Human Development Report, Laos is ranked 138 in the human development index (HDI), with a value of 0.543. Cambodia has exactly the same ranking while Timor-Leste is ranked above Laos (134) and Burma/Myanmar below (149) (UNDP, 2013:146-147). Net official development assistance received accounts for 6.2 percent of the gross national income. This is 6.9 percent in Cambodia, but only 2.9 percent in Vietnam (UNDP, 2013: 184). Garments, wood products, and processed foods have a high potential for export and thus are useful from an inclusive development perspective (generating employment and limiting environmental pollution, if managed well), but in the contemporary Lao political economy, the booming industries are copper and gold-mining and hydropower; industries that generate little employment and degrade the natural environment (UNDP, 2006).

Table 2 connects capitalism in Laos to three geographical scales: the international scale of the (GMS), the national scale and the regional (sub-national) scale, albeit connected to and having an interdependent relationship

with the national and international scale (Storper, 1997). Laos is geographically a rather fragmented country and as it has influential neighbouring countries, it is possible to identify several blends of frontier capitalism. Interestingly for a Communist country, the Party in Vientiane appears not to be all-powerful. Other actors such as provincial governments increasingly mingle in economic affairs. Furthermore, Kosaikanont (2010) demonstrated how complex land dealings are in contemporary Savan-nakhet. In a paper on the sugarcane business in Savan-nakhet, she showed that large Thai firms have heavily invested in plantations since the mid-1990s. Nevertheless, increasing economic openness does not mean that deals are made in a 'free' land market. Instead, negotiations on long-term land concessions are politicized and involve Thai sugarcane business executives, the Thai government, the Lao government, chambers of commerce, brokers and lobbyists. Moreover, she contends that the Thai side is in a more favourable position to benefit from the emerging corridors in Laos, as Thai firms have much more capital available and experience with the rules of the game entrenched in current geo-institutional settings in the GMS. Meanwhile, in northern Laos the Chinese have secured interests in an array of economic activities including casinos and rubber plantations. The government of Laos, even the Lao military and Chinese firms backed by Chinese governmental authorities perceive large scale rubber plantations as the civilising way forward for the upland populations (Cohen, 2009). As will be demonstrated more fully in the next section the increasing integration between the regional scale and the GMS scale results in complex frontier economy dynamics in which not only Lao, Vietnamese, Thai and Chinese firms and provincial governmental authorities are involved, but rather unexpectedly also weaker parts in society such as ethnic minorities and rubber smallholders. As such there is a need to recognise the potential emergence of pockets of spontaneous inclusive development

Besides geographical variation in the power and influ-

Table 2. Multi-scalar analysis of capitalism in Laos

<i>Greater Mekong Subregion: international scale</i>	
Financial system, ownership and corporate governance	Important role of foreign direct investors from Vietnam, China and Thailand
Inter-firm relations	Foreign firms establish links with Lao private firms and state-owned enterprises
Labour mobility	More than 200000 persons (irregularly) work in Thailand
Multilateral organisations	Belief in efficacy of market integration
	Belief in efficacy of connectivity
<i>Laos as a "nation state": national scale</i>	
Role of the national state	Intervenes in many industries, encourages frontier mentality
	Insufficient attention paid to inclusive development, notably SMEs, employees, farmers and displaced citizens
	Lao Holding State Enterprise steers hydropower industry
	Nation-building in progress: for instance use of Lao Kip encouraged
	Balancing political-economic interests of Vietnam, China and Thailand
Social capital	Low institutionalised trust
Education and skills formation	Secondary education needs to be improved
	Gender inequality
	Little on the job training
Employment relations	Labour as input factor rather than human capital
<i>The "regional world" of Laos</i>	
Role of the provincial state	Accountable to Vientiane, but increasingly active as interventionist in the economy, especially in frontier industries
Social capital	High village based interpersonal trust
Ethnicity	Complex relations between Lao people and the many ethnic minorities
Inter-firm relations	Increasing number of deals with Vietnamese, Chinese and Thai firms, depending on geographic location

Sources: Rigg, 2009; Cohen, 2009; Laungaramsri, 2012; Andriesse, 2014

ence of the Party, things in Vientiane are also changing. In the medium run, informality, notably the role of important families, will increase amidst continuing low institutionalised trust (Table 2), difficulty to do formal business and capability to enforce contracts. Laos ranks 163 in the World Bank's (2013: 3) ease of doing business list. This compares unfavourably to the other (post-) socialist countries as classified by Witt and Redding (2013) (Table 1): China 91, Vietnam 99 and India 132. And

Cambodia, together with Laos the other small country located between Vietnam and Thailand, is doing better as well with a rank of 133. It is therefore no surprise that informality and families are essential for doing business. After 1975 senior Party members increasingly engaged in traditional Lao forms of social capital, giving jobs to extended relatives and loyal retainers. As Laos state capacity has been relatively low (compared to the neighbouring countries except Cambodia), competition between net-

works of influence and patronage cohering around senior Party officials became a part of political life (Stuart-Fox, 2006).

For the majority of the population, nevertheless, the Party is something rather abstract and the people need to cultivate interpersonalised trust in their communities. Informal arrangements based on kinship, friendship, ethnicity, and village origin play very important roles. Such social identities often 'regulate' job-seeking in the clothing industry in Vientiane, initiating (irregular) migration to Thailand and many other forms of economic survival. In the communist era of 1975-1986, hierarchy, reciprocity, and village patronage structured social life, but nowadays many find it difficult to cope with the capitalist features of urban individualism and competition. Migrants arriving in Vientiane without connections in the city have considerably higher chances of becoming beggars, prostitutes, criminals, or drug-addicts (Rehbein, 2007), while urban Lao people look down upon ethnic minorities. In sum, it cannot be expected that nationwide more neutral forms of social capital will emerge anytime soon. The findings on regional varieties of capitalism in Laos complicate the idea that policymakers can transform the GMS into a level playing field, wherein formal institutions and more roads bring about smooth integration and connectivity (Table 2). Instead, regional actors, be they firms, provincial governments or rubber smallholders, reinterpret and even defect from national institutions. This process is informed by social identities such as ethnicity and linguistic familiarity and generates a mosaic of formal and informal institutions at the regional level. The next two sections develop this analysis through a study of the rubber industry taking into account the issues described above. The rubber industry which is situated in "semi-peripheries" along emerging GMS transportation corridors and "peripheries," oriented toward neighbouring countries.

4. Rubber in Laos, regional capitalism and the Greater Mekong Subregion

Natural rubber is a quintessentially Southeast Asian cash crop. The three big global players in the upstream rubber industry are Thailand, Indonesia and Malaysia; but, in the last decade, rubber production in the GMS has grown dramatically (Wall Street Journal 2015). Vietnam has become a serious competitor of Indonesia and Thailand. Malaysia is transforming into a processing hub. It imports enormous amounts of rubber from Southern Thailand, the dominant rubber growing area of Thailand, and is now the largest rubber importer in the world. It hosts many glove factories and has even developed into a global research and development centre. This, together with the relatively high wages in Malaysia and its current focus on oil palm plantations, will likely lead to a gradual decline of Malaysia's own rubber production. In other words, Malaysia is moving from upstream to midstream and downstream activities. A striking feature of natural rubber production is its reliance on smallholders. Fox and Castella (2013) argue that "in the largest rubber producing countries, the smallholder sector dominates production; smallholders produce 93 percent of rubber in Malaysia, 90 percent in Thailand, 89 percent in India and 85 percent in Indonesia. Rubber as a farm crop presents an interesting opportunity for smallholders as it can be intercropped on a short rotation making it more attractive than other plantation crops with longer gestation periods." The prospect of intercropping is also relevant to the reduction of financial economic risks. The price of natural rubber is closely linked to the rubber futures markets of Singapore, Tokyo, and the trends at the Qingdao International Rubber Exchange Market in China. The Qingdao seaport is the leading logistical centre for Chinese rubber imports and many car tire factories are located in the vicinity. The importance of demand and price trends in China, currently the second

largest importer of natural rubber, is one of the fundamental changes in the geography of the global rubber chain. It is a good example of shifting end markets as a result of economic uncertainty in the USA and Europe after the collapse of Lehman Brothers in 2008 and the growing influence of the BRICs and other emerging markets (Cattaneo *et al.*, 2010; Gereffi, 2013). National politicians in Cambodia and Laos have seen the successes of the big three natural producers and are currently keen on taking advantage of the rubber demand in China as well as economic geographical opportunities arising from integration in the GMS. Unfortunately, the political economies of both countries favour the establishment of big agro-industrial plantations rather than intercropping plantations with the support of foreign investors from GMS partners (Andriesse, 2014; Keating, 2012; Slocomb 2011).

Institutional arrangements in the rubber industry of Laos feature two distinct characteristics. First, there is substantial regional variety in terms of international involvement, smallholder-firm relations, industrial plantations versus smallholders, and management of land, labour and capital. Second, there appear to be diverging interests between the central and provincial governments. There is no coherence of policies for the rubber industry. Despite lower rubber prices in recent years, the industry remains dynamic, primarily due to continuing strong demand from the Chinese and increasingly Indian car tyre industries. As many rubber trees are too young to be productive at present, Laos is expected to become a significant exporter by 2020.

Because the Lao rubber industry is rather immature, the government has relied on knowledge and investments from governments and firms from China, Vietnam and Thailand (Cohen 2009; Kenny-Lazar 2012; Laungaramsri 2012). Many concessions have been given to establish large plantations in southern and northern Laos. Foreign investors have received concessions to grow rubber on 280,000 hectares. Contract farming now is

a popular arrangement as well, involving contracts between foreign investors and farmers. According to Fox and Castella (2013, 163-164), “inputs and profits are supposed to be shared as determined by negotiations among investors, district authorities, and village representatives”. The state is not a single entity in the regulation of frontier industries including rubber. Local-central dynamics are complex and occasionally conflicting. 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 the provincial governments have taken the lead. Here 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 Laungaramsri (2012), the central government in Vientiane plays a relatively minor role in some of the new provincial arrangements in Champasak in southern Laos. This reveals the geographically uneven impact of the state in a constitutionally Communist country in which Vientiane is usually believed to pull the strings.

In northern Laos, meanwhile, Chinese governmental agencies and firms have secured interests in an array of economic activities including casinos. The government of Laos, even the Lao military and Chinese firms backed by Chinese authorities perceive large scale rubber plantations as a means of “civilising” upland populations (Cohen 2009). The result is neither a level playing field as proposed by the ADB until the collapse of Lehman Brothers in 2008 marked end of the Washington Consensus, nor accumulation by overwhelming unidirectional dispossession (Kenny-Lazar 2012; Laungaramsri 2012), but rather a mosaic of socioeconomic outcomes in which some benefit and others do not, resulting in significant intra-province and intra-village inequality (Andriesse and Phommalath 2012). Sturgeon (2013) and Lagerqvist (2013), for instance, point out that pockets of local entrepreneurship in the rubber industry among

ethnic minorities at the Lao-Chinese border have been meaningful, sustainable in a socioeconomic sense, and relatively independent from policies. La-Orngplew (2012, 269) distinguishes between the transnational Chinese state, supporting plantations in northern Laos, and the Lao national and local state. Based on fieldwork in four villages in Luangnamtha she claims that

... the essential role of the Lao state was not only a matter of approving investors' rubber development projects but also facilitating investors' rubber plantations plans. Among the four study communities, there was only one rubber initiative - in Houay Lang Mai village - that was occurring without the state's direct intervention. Rubber could not have expanded rapidly in the other three study villages without the state's involvement from a national to a local level.

The involvement of national ministries at the national level, provincial governments and even the army at the provincial level invokes the notion of a patrimonial system, extracting rents from a lucrative industry. The patrimonial administrative nature is reinforced by the fact that investors rely on the state for permission and concessions, while the position of farmers and smallholders generally remains weak. The next section zooms in on one village in central Laos. It provides a sketch of multi-scalar capitalist relationships, influenced by Chinese demand of rubber.

5. Ban Somsanouk in central Laos

1) Research Methodology

Ban Somsanouk is located in Hinheup district, approximately 30 kilometres south of Vang Vieng, a tourist hotspot for backpackers, and 120 kilometres north of Vientiane. This village was chosen for the following three

reasons: its location along the main road between Vientiane and Vang Vieng, to control for the adverse impact of location (Manivong and Cramb, 2008), the presence of smallholders who are already tapping and selling latex, and the easy accessibility of smallholders. They all live in Ban Somsanouk. Other locations of smallholder activity in the Vientiane Capital area and Vientiane Province were also visited, yet in many cases, the owners did not live close to their land and were hard to reach. Driving through Hinheup district, one can easily identify the young and mature rubber trees. Ban Somsanouk hosts several ethnic groups. The village has 1051 inhabitants. The village hosts 610 Lao Soung (originally highlanders), 433 Lao Loum (lowlanders) and 8 other persons. The village is split into the two main groups, with the Lao Loum houses immediately adjacent to the main road and the Lao Soung houses a little uphill. This dual composition is a legacy of the leper colony, which was ethnically neutral. This village is thus unique in its ethnic composition. In Laos, in general, it is estimated that between 50% and 60% of the population are non-Lao Loum. A survey was conducted in July 2013 among 19 Lao Soung, mostly ethnic Hmong, 20 Lao Loum and 1 other (Tai Deng) smallholders and discussions were held with the village chief (Lao Loum) and deputy village chief (Lao Soung). The aim was to create a balance between the two parts of the village. There are about 25 to 30 Lao Loum rubber smallholders, but the number of Lao Soung smallholders is unknown. Neither of the village chiefs had a reliable estimate. Out of 40 smallholders, 9 are female. The survey was carried out with the assistance of an interpreter and the Lao Loum village chief. The latter voluntarily offered to help and did not ask for any compensation for his efforts. He was also interested in the rubber situation in his village. This chief was also able to translate answers from the ethnic Hmong community to the interpreter. Although the presence of the village chief during the survey was potentially sensitive for the smallholders, there was no indication whatsoever of cautious or diplomatic

answers, not even regarding government-related matters. The only possible influence is the 100% response rate. None of the villagers declined to be surveyed. Twenty-one smallholders are tapping latex, whereas the other 19 have invested in rubber trees and are waiting for the trees to mature and become productive, usually a period of approximately seven years. The surveys had an average length of 45 minutes and covered the following topics: basic information, smallholder-(investment) firm relations, access to finance, social capital, and standard of living. Below the role of the provincial state is also included.

2) Results

The survey revealed a varied pattern in the emerging rubber trade and the influx of capitalist arrangements. Some smallholders started rubber farming by investing their own capital; others were supported by Lao or Chinese investment firms. The Lao Soung community in Ban Somsanouk started to plant rubber trees earlier than the Lao Loum; between 5-10 years ago versus less than 5 years ago, respectively. The reason for this difference is their traditional engagement with shifting cultivation practices. Out of the 21 smallholders who are already tapping and selling latex, 15 smallholders are Lao Soung. Thus, rather counter intuitively, the Lao Soung, who are usually seen as lagging in their adaptation to “modern” economic times, made the transition towards cash crops and “the market” earlier than the Lao Loum. Investment firms provide rubber seedlings and fertilizers while the smallholders cultivate their own land and usually tap the latex by themselves. It is different from the usual 2+3 contract arrangement: the farmers responsible for labour and land; the investors for capital, knowledge and technology, and marketing. Surprisingly and unlike the situation in northern Laos, some investors do not buy the latex. Smallholders sell to firms and traders in a cooperative way. Every 15 days the farmers collectively sell the latex to one buyer who offers the highest price, brokered

by a middleman. The smallholders are therefore responsible for land, labour and marketing; half of them also for technology as the investment firm did not provide any knowledge as to how to cultivate rubber trees. At present most smallholders in Ban Somsanouk perceive growing rubber trees as a viable strategy that is improving their livelihoods and socio-economic security.

From a geographical and GMS perspective (second research question), it is interesting to see that although Ban Somsanouk is much closer to Thailand, Thai rubber investors have not (yet) penetrated the village, whereas Chinese have. This could be due to the general pattern that Thai investors in Laos often prefer to have more control over labour and land. The Chinese have a mixed strategy depending on feasibility: both large scale corporate plantations and various contract farming arrangements whereby smallholders remain landowners. This suggests that geo-institutional differentiation of capitalist systems in Laos should be studied within a framework of dynamic and variegated patterns of foreign direct investments in the GMS.

The investment firms provide information and training (Table 3). Eighteen smallholders have learned how to cultivate rubber from these firms. Nevertheless, few firms provide capital to the smallholders. Out of the 40 respondents, eighteen use their own capital, twelve use a Lao investment firm and ten use a Chinese firm. This further confirms the absence of a clear village-wide 2+3 arrangement. Smallholders in Ban Somsanouk are not totally dependent on Lao and Chinese firms, which is a positive situation. On the other hand, not a single smallholder identified a bank or micro-finance agency as a provider of capital. The financing options are thus limited at present, possibly hampering the expansion and intensification of future agricultural and other activities. The advantage of this is that there is little indebtedness. Only 6 of the 40 respondents are indebted. The disadvantage is the lack of an opportunity to invest in and expand agricultural activities and to further increase living standards. The

Table 3. Multi-scalar analysis of rubber in Ban Somsanouk

<i>Greater Mekong Subregion: international scale</i>	
Financial system	Important role of foreign direct investors from China. Thailand surprisingly absent
Inter-firm relations	Foreign firms establish links Lao middlemen from both ethnicities
Labour mobility	Village based. No evidence of labour migration to Thailand
<i>Laos as a "nation state": national scale</i>	
Role of the national state	Facilitates, intervenes and co-owns large scale plantation throughout the country; encourages rubber frontier mentality
	Insufficient attention paid to inclusive development, notably rubber smallholders
Education and skills formation	Rubber farmers have enjoyed little formal education
	Moderate on the farm training. Investors are the main actors
Employment relations	Labour as input factor rather than human capital
<i>The "regional world" of Ban Somsanouk</i>	
Role of the provincial state	No evidence of support from provincial state to farmers. Farmers do not mention state officials as instrumental
Financial system	Virtually no access to finance for rubber farmers
Social capital	Moderate interpersonal trust. Collective selling of rubber, yet limited cooperation in other fields
Ethnicity	Ban Somsanouk is ethnically split in two groups: Lao Loum and Lao Soung
Firms-farmers relations	Increasing number of deals between Chinese firms and local farmers, although not following the traditional 2+3 arrangement

Sources: Fieldwork in Ban Somsanouk

survey also contained a question "Who is supporting your rubber smallholding activity?" A surprising 28 respondents answered "no one". Also, there are no joint efforts to tackle the destruction of young rubber trees by animals and no signs that villagers are pooling labour or borrowing money from other smallholders. Except for the village-wide selling process, their livelihoods appear to be independently structured, possibly due to the physical split of the village into a Lao Loum section and a Lao Soung section. Thus neither social capital at the village level, financial agencies, nor provincial governmental agencies are considered to be instrumental to and supportive of promoting rubber smallholdings in Ban Somsanouk (Table 3). This differs from the available evidence on southern Laos, where the provincial government has

been quite active in promoting rubber, but as mentioned in section 3 it is clear that the government of Laos is more interested in large scale plantations. The results of this case study also point out the challenging relationships between social capital and ethnicity. The general observation of high interpersonal trust at village level could be seriously hampered by the ethnic structure. The final section below provides a more general discussion and implications and answers the third research question.

6. Conclusions

This article has demonstrated that a multi-scalar ap-

proach towards varieties of capitalism in Laos Asia generates a better understanding of processes of capitalist modernisation, given the persistence of regional diversity. Institutional complementarities might be enabling for certain business communities and general economic growth, yet prevent inclusive development and result in socioeconomic and spatial inequalities due to social identities, various interactions between national and regional institutions, vested interests and distributive conflicts. In other words, the way various institutions interact might not be beneficial for all involved actors in the economic sphere. The case of Laos revealed that the weak position of employees, insufficient levels of social capital, and the government's approval of exploiting natural resources promote an economic environment in which business thrives at the expense of weaker sections of society. Given rising inequality in Asia there is a need to connect regional varieties of capitalism stronger to the concept of inclusive development (ADB 2012). Without improvements in education and skills formation the Lao people can be expected to benefit little from the GMS and the transformation from a poor land-locked country to a land-linked middle income country.

The case study of rubber in Ban Somsanouk reveals three multi scalar dimensions of capitalist development in Laos. First, it is important to recognise that local and regional development is clearly influenced by the GMS project. Without the GMS neither the Chinese in northern and central Laos; nor the Thai and Vietnamese in southern Laos would have been so active. The rubber boom in Ban Somsanouk is linked to Chinese investments within the framework of increasing cross border flows of goods, finance, people and ideas in Mainland Southeast Asia. Second, a central feature of capitalism, access to finance, varies greatly depending on the scale. Whereas there are more and more cross border corporate financial flows, access to finance at the local and regional scale level remains highly challenging. There was no evidence of micro-financing options in Ban Somsanouk.

This means that the big players are becoming more dominant in their capitalist undertakings. The Lao government should come up with more effective policies for smallholders and small firms to provide micro finance, while avoiding excessive levels of indebtedness. As such the national scale level could function as a bridge and mediator between the regional and international scale. Third, the case of Ban Somsanouk also points out the necessity to further study the issue of informality, in combination with social capital and ethnicity at various scale levels. To some extent the entrance of Chinese investment firms (international scale) has eroded the scope for fostering social capital at the village level, because many smallholders are looking more towards these firms in case of problems. Again, the government of Laos together with NGOs could play the role of mediator, especially in cases of complex ethnic relations.

Overall, section four showed that the capitalist development of the rubber industry features much geo-institutional differentiation, due to the different strategies of foreign investors. Since Laos is still in transition from a state-led economy to something else, perhaps a patrimonial model similar to Cambodia, it is impossible at this stage to identify the exact number of capitalisms. Yet, the evidence on rubber clearly lays bare the presence of multiple institutional arrangements. Further studies could scrutinise other agribusinesses. In this respect Souvannavong (2013: 45) concluded that the agricultural sectors should not be neglected: "Agribusiness and 'smart' agriculture need to be promoted to develop and link rural agricultural production with retail food and agricultural markets and industries in Vietnam, Thailand and other countries." In sum, a simultaneous effort of inclusive capitalist arrangements and economic geographical integration within the GMS is necessary in order to bring Laos closer to the middle-income category. This is easier said than done since the leading GMS countries and areas, Thailand, Vietnam and increasingly Yunnan, have their own agendas and are at times competitors, for

example in agricultural products such as rice and fruits. Without more inclusiveness, however, the implications for regional development are worrying. Exclusive arrangements will most likely lead to more uneven regional development and higher regional inequality. Regions in the core and some in the semi-periphery on GMS corridors, will reap the benefits while people in the periphery will have huge difficulties if they do not migrate to more prosperous areas. In general, capitalist development whereby rural communities can remain landowners have more chances of success (Ban Somsanouk) than processes of increasing landlessness which can be found in southern Laos. Furthermore, intra-regional inequality is also a cause for concern, particularly in areas with multiple ethnic, religious and linguistic communities such as Laos, Yunnan province in China, northern Vietnam and Burma/Myanmar. The current influx of investments from GMS countries and India to Burma provides many challenges for creating *balanced* rather than *uneven* regional development.

To refine theories on sub-national varieties of capitalism in developing countries it is instructive to consider more explicitly the notion of regional personal capitalisms (Zhang and Whitley 2013, Carney and Andriess 2014). Despite all the decentralisation schemes in which transparency, accountability and the virtues of good governance are promoted, familism, personalism and overlapping economic and political interests continues to thrive in regional capitalist varieties. These features have so far not been adequately dealt with in regional theoretical inquiry. Another phenomenon that deserves more attention is the complex interplay between national and regional states. Not only firms, but also regional civil servants and politicians are increasingly well-positioned to reinterpret or defect from national institutions creating more complex multi-scalar dynamics. This is also the case in countries in which the Communist Party controls political life (Cheung, 2012).

This paper has shown that besides inter-firm relations

firms-farmers relations could be analysed using a multi-scalar lens. Given the continuing importance of agribusiness as mentioned above, promoting food security amidst threats of global warming theories on comparative capitalisms should embrace rural settings. Also, economic geographers interested in relatively less successful regions in low and middle income countries could fuse concepts such as clustering, industrial districts and regional innovation systems with the theoretical foundations of the varieties of capitalism approach as well as economic anthropological insights (Carrier, 2012). One line of research is the presence of different mind sets between investors and farms, both from an economic and geographical dimension. Another one would be a focus on *rural* innovation systems: How can agricultural innovation, especially process innovation, be analysed theoretically and empirically when farmers are the main actors?

Finally, the results of the case study clearly show that economic growth is not a sufficient condition for reducing poverty. Theories on capitalist diversity and further empirical research should contribute to a better understanding of the relationships between emerging capitalist arrangements and the improvement of urban and rural livelihoods. One possible fruitful area of research is combining theories of capitalist accumulation and livelihoods analyses.

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