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### **State-Business Relations and Industrial Policymaking: Case Study of Lao PDR**

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#### **Abstract**

With a gradual shift of development focus from industrial policymaking to state-business relations (SBRs), there is a growing urge for research community to deepen our understanding on the quality of development especially in the developing countries. Since 2000s, World Bank also argues for the need to go beyond Adam Smith or Keynesian model by introducing new growth theory that emphasizes roles of both states and markets in transformation of all economies. Lao PDR, as one of rapid developing economies with GDP annual growth rate reaching an average of over 10% since 2013 is the focus of this research. Beyond that, special attention will be paid to answer the two research questions of this study: what is the quality of relationship between government and business in Lao PDR; How did the SBRs influence industrial policymaking in Lao PDR?

Methodologically speaking, this research has conducted a series of in-depth interviews with both private companies and public agencies in two selected industrial sectors: IT and timber sectors in Laos in early 2017. The purpose of those interviews is to map out the historical interaction between corporate and state while tracking the involvement of business throughout the industrial policymaking process in Lao PDR. Besides the local business community in Laos, foreign investment actors in a developing country such as Laos has also been carefully examined in order to understand the dynamics between domestic and international actors to co-create growth. In sum, since researches on SBRs and industrial policymaking in Laos is scarce in the extent literature, this paper serves as one of the pioneering studies that explores the corporate-state interaction and its impact on industrial policymaking and overall development in such a developing country that receives limited scholarly attention.

**Keywords:** Lao PDR, corporate, policy change, science and technology policy, national innovation system, technology investment, developing country

In the literature of development studies (DS), industrial policy has been traditionally playing a pivotal role in realizing a developing country's comparative or competitive advantages (Cimoli et al 2009; Harrison and Rodríguez-Clare 2009; Micic 2012; Altenburg 2011; Lall and Morris 1998). Yet in the past decade, there is an increasing scholarly attention on the quality of state-business relations (SBRs) and how it promotes growth in developing economies such as in Asia (Cheng and Chu 2002; Choi and Kim 2015; Cali and Sen 2011) or in Africa (Seekings and Nattrass 2011; te Velde 2006; Sen and te Velde 2009; Rojid et al, 2010; Cammett 2007). Hausmann (2014) specifically argues that synergistic or effective state-business relations are considered a key determinant of inclusive growth and structural transformation in low income countries.

Following the above logics and emerging debates in SBRs, this paper aims to explore the relationship between government and business community in one of the Least Developed Countries (LDCs) in Southeast Asia - Lao PDR. Methodologically speaking, by conducting a series of in-depth interviews with Lao public and private organizations including international donors and development agencies during March to April 2017 and historical archival study, the research tries to map out the interaction between corporate and state in Laos whereas paying attention to the influence or reaction of business throughout the industrial policymaking process, in particular in the sector of IT and timber industry. Since studies on Laos is scarce in the extent literature, this paper will be a preliminary investigation of SBRs and one of the few pioneering studies that focuses in this particular Southeast Asia developing economy.

The paper is divided into five sections. Following this introduction, a review on debates of State-Business Relations is provided with an emphasis to explore its impact

on industrial policymaking. Section three introduces development background of the country case -Lao PDR before moving to the next part to analyze SBRs in two specific industrial sector: the IT and timber sector in Laos. The last section summarizes the analyses of the findings and provides future research and policy implications.

### **Role of State-Business Relations in Industrial Policymaking**

Since the 2008 global financial meltdown hit the champion of market liberalization - the US and Wall Street and the ever challenging climate change begun to create impact on both the life of human being and other beings, the long standing "false" dichotomy between government intervention and power of "invisible hand" has been criticized and reflected upon. World Bank is one of the leading agency to initiate such reflection on intellectual debates surrounding the "false" dichotomy and policy failures especially across the developing world. Former senior vice president of the World Bank commented in a Center for Strategic and International Studies event in 2012 that the economic performance problem in many countries is that the state is too weak, not too large or too small<sup>1</sup>. Back in early 2000s, World Bank also has statistically confirmed the positive relationship between rule of law and income level (Bourguignon and Pleskovic 2007: 14, Figure 2). Meanwhile, Justin Yifu Lin, former Senior Vice President of the World Bank from 2008 to 2012 argued for the need to go beyond Adam Smith's laissez-faire and Keynesian interventionism by introducing new growth , trade or economic theory that emphasizes the equally important roles of states and markets in transformation of all economies (te Velde 2010: 5). To make this call to rethink development into practical policy framework, Lin has been promoting

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<sup>1</sup> More in Center for International Private Enterprise (CIPE) website: <http://www.cipe.org/blog/2012/07/19/state-vs-market-a-false-dichotomy/#.WQad0hOGOUk> (accessed on May 1, 2017)

the construction of an optimal State-Business Relations (SBRs) model to maximize the potential of public and private actors (Lin, 2009; 2012). Therefore, based on the above developmental paradigm shift in recent years, the next question scholars and practitioners want to ask is what type of State-Business Relations is beneficial for economic development and is capable of engaging constructive industrial policymaking.

According to *State-Business Relations* guide published by Sen in 2015, relations between the public and private sectors can take the form of formal, regular co-ordination or informal ad hoc interactions in either the whole economy, specific sector or policy processes. That practical guide in particular advocates the characteristics of "effective" state-business relations to include information flows, reciprocity and close coordination or consultation between state and business community. Comparing the above positive view of Sen with the long standing negative perception of SRBs as either rent extraction oriented (Aoki et al, 1997; Shambayati, 1994; Yakovlev, 2006; Alt and Lassen 2003) or collusive (Haggard and Mo 2000; Kim 1997) in nature, a typology of SBRs can be depicted as Figure 1 below. Such depiction is based on the proposal of using a continuum, rather than dichotomous category to better capture the nature of SBRs in different countries and scenarios (Charles et al, 2016:4).

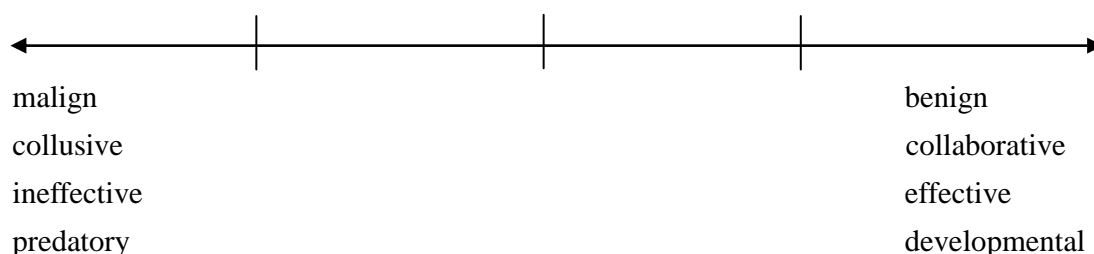


Figure 1: Continuum of SBRs

Source: Drawn by author, in reference to (Charles et al, 2016:4)

In the continuum above, whereas the classical works of Evens (1997) introduced the ideal of malign vs. benign<sup>2</sup> government and business relation in examining how states in newly industrializing countries (NICs) such as Brazil or India contribute to development, a list of juxtaposition of concepts describing SBRs are debated and evaluated: collusive vs collaborative (Hampwaye and Jeppesen 2014; Schneider & Maxfield 1997; Sen 2011); ineffective vs effective (Cali and Sen 2011; Qureshi and TeVelde 2013; Qureshi and te Veldeb 2007); predatory or developmental (Diale 2012; Charles et al, 2016; Leftwich, 2009).

Furthermore, regarding the role of effective SBRs in constructive industrial policymaking and implementing, the extant literature, in particular te Velde (2010), delineates three function of its role playing: 1) reduce policy uncertainty; 2) fix information and coordination related market failure ; 3) ease impact of government failure. Firstly, Dixit and Pindyck (1994) warn that policy uncertainty can cause business investment irreversible loss. Baker, Bloom and Davis (2012) also use uncertain economic policy as variable to examine its impact on delayed economic recovery. To reduce such policy uncertainty for business, organized state-business relations such as business association or Chamber of Commerce are advocated as means for businesses to better anticipate policy decisions (te Velde, 2013). Empirically speaking, evidences from African countries' 1000 firm experience who are a member of business association show a lower percentage of revenue pay to government, fewer water supply insufficiency problem and better usage of information and communication technology facilities (Qureshi and te Velde, 2012). Similar quantitative findings were confirmed in case study of Zambia where SBR was measured as specific service provided by business association membership such as lobbying government, provision of information on both international and domestic

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<sup>2</sup> Such benign view of government is echoed later by scholar such as Harriss (2006).

market or government regulations. In specific, their data analysis reveals a significant effect of business association membership on productivity of SMEs but not on large firms (Qureshi and te Velde, 2013: 78-79).

Secondly, developmental SBRs are argued to fix information and coordination related market failures. Vinish, Natarajan and Sen (2010) use India firm performance to demonstrate the positive effect on production growth under collaborative state-business relations. Lall (2001), by analyzing competitiveness cases in Asia and Africa, praises how effective SBRs is beneficial in terms of skill upgrade and long term capacity building development. Corporate Social Responsibility (CSR) related study conducted by Diale (2012) reveals the potential of corporate sector and state to collaborate in correcting problem of market failures such as poverty and widening income inequality, etc.

Lastly, negative impact of government failure, such as rent seeking behavior or weak state, is said to be able to be eased by an improved government and business relations. Not only a collaborative SBRs can provide check and balance function to closely monitor government policy and public spending (Bwalya et al, 2009). The problem of "weak" or "fragile" state in developing countries is another pervasive government failure problem that is in need of benign SBRs intervention. Gisselquist (2017) first defines "weak" or "fragile" state as states that lack legitimacy authority and capacity to fulfill basic functions and argues that this problem of weak state cannot be overlooked when practicing industrial policy in especially Africa region. In other words, this type of argument does not think "brining the state back in" (Evans et al, 1985) is sufficient to promote development. When state's capability is in question, such state is not qualified as the "developmental" state that fosters industrial transformation but probably "predatory" state as in Evans's analysis (1995:50). How such a weak state is connected with other social structure or "embedded autonomy"

(Evans 1995) becomes key to improve the state's competence. Gisselquist (2017) continues to pose questions on how strong the domestic private sector should be in the face of neopatrimonial state (Kohli 2004) who invites foreign actors as the primary investor of the developing economy such as Nigeria. UNIDO echoes such view by encouraging improvement of business-government collaboration, especially in the domestic setting (UNIDO 2013).

### Development Background and SBRs Overview in Lao PDR

According to updates in World Bank<sup>3</sup>, in spite of the fact that Lao PDR is the 13th fastest growing economy globally with annual growth of 8 percent in the past decade, Laos is currently a lower-middle income or the least developed countries (LDC) economy, wishing to graduate from LDC by 2020. The latest five-year National Socio-Economic Development Plan (NSED<sup>4</sup>) issued by Laos government in 2016 is to work on poverty alleviation and strengthening the economic capability of the country as a whole. In Laos, such capitalist market oriented development pattern can be traced back to the open-door policy adopted in the 1980s after the independence of 1975. In specific, the New Economic Mechanism or Chintanakanmai was initiated in 1986 and begun to promote the development of small and medium enterprises (SME) in the Lao economy.

According to Vixathep (2017), the following decade in the 1990s, Lao government, in order pave way for future development, promulgated a series of economic law and decrees, including 1994 Enterprise Law and Law on Promotion and Management of Foreign Investment and Business Law before joining ASEAN in

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<sup>3</sup> World Bank update in April 2017 on Lao PDR. <http://www.worldbank.org/en/country/lao/overview> (accessed on May 4, 2017)

<sup>4</sup> full NSED<sup>4</sup> plan can be found in UNDP's website [http://www.la.undp.org/content/lao\\_pdr/en/home/library/poverty/the-8th-five-year-national-socio-economic-development-plan--2016.html](http://www.la.undp.org/content/lao_pdr/en/home/library/poverty/the-8th-five-year-national-socio-economic-development-plan--2016.html) (accessed on May 4, 2017)

1997<sup>5</sup>, ASEAN Free Trade Area (AFTA)<sup>6</sup> in 1998 and eventually WTO in 2012. Further public support for SME was given through the establishment of Small and Medium Sized Enterprise Promotion and Development Office (SMEPDO)<sup>7</sup> under Ministry of Industry and Commerce or formerly known as Ministry of Industry and Handicraft. In 2005, the Small and Medium Sized Enterprise Promotion and Development Committee (SMEPDC) was introduced and serves as one of the initial official institutions to bring both government and private actors together in a common platform of 25 members. Soon after the installment of SMEPDC, Lao Business Forum (LBF) was additionally created in an agreement between the International Finance Corporation's Mekong Private Sector Development Facility (IFC-MPDF) with target to reduce poverty through sustainable private sector development and Lao government represented by the Committee for Planning and Investment (CPI) (Rouzies and Nguyen 2006). LBF since then continues to serve as the main information diffusion and communication channel to improve State-Business Relations. March 28, 2017 marked the 10th LBF<sup>8</sup> held in Vientiane to discuss progress in resolving issue facing both by the private and public sector in the course of improving business environment and implementing development strategy collectively. Below is a historical review of Laos' developmental milestone (Figure 2).

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<sup>5</sup> More in ASEAN website:

<http://investasean.asean.org/index.php/page/view/asean-member-states/view/709/newsid/792/lao-pdr.html> (accessed on May 4, 2017)

<sup>6</sup> More in AFTA Council website:

<http://asean.org/asean-economic-community/asean-free-trade-area-afta-council/> (accessed on May 4, 2017)

<sup>7</sup> More on SMEPDO website: <http://www.smepdo.org/?lang=en> (accessed on May 4, 2017)

<sup>8</sup> More on 10th LBF in Chamber of Commerce website:

[http://www.laocci.com/index.php?option=com\\_content&view=article&id=264%3Athe10th-lao-business-forum&catid=55%3Anews&lang=en](http://www.laocci.com/index.php?option=com_content&view=article&id=264%3Athe10th-lao-business-forum&catid=55%3Anews&lang=en) (accessed on May 4, 2017)



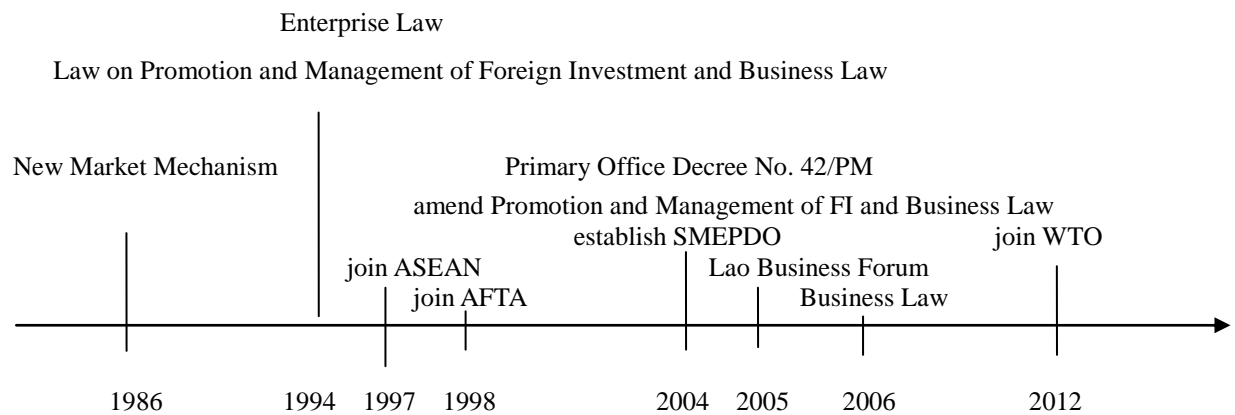


Figure 2: Laos Market Liberation Development  
 Source: compiled by author in reference to Vixathep 2017

As for the interaction between government and business community in terms of formal and informal channels, a nested web of SBRs can be summarized (Figure 3). Structurally speaking, the principle communication bridge between Lao government and domestic or foreign business is the Lao National Chamber of Commerce and Industry (LNCCI) founded in 1989 with around 2000 members by 2017 and 90% of business members are SME. Collaborating with LNCCI, there are currently 20 business associations<sup>9</sup> such as Lao Agro Processing Association, Lao Automotive Industry Association, Lao Coffee Association, Lao Young Entrepreneur Association or Lao National Construction Association. Among which by early 2017, there are three associations have their offices established inside the building of LNCCI - Lao Handicraft Association, Lao Furniture Association and Lao Electricity Installation and Construction Group. Our interviewees<sup>10</sup> in LNCCI informed us that they are in the process of inviting more associations to install an office inside their establishment to increase flow of information and communication.

<sup>9</sup> A complete list of business association in Laos, please go to LNCCI's website: [http://www.laocci.com/index.php?option=com\\_content&view=article&id=51&Itemid=57&lang=en](http://www.laocci.com/index.php?option=com_content&view=article&id=51&Itemid=57&lang=en) (accessed May 5, 2017)

<sup>10</sup> Face to face interview with staff of LNCCI was taken place on April 5, 2017.

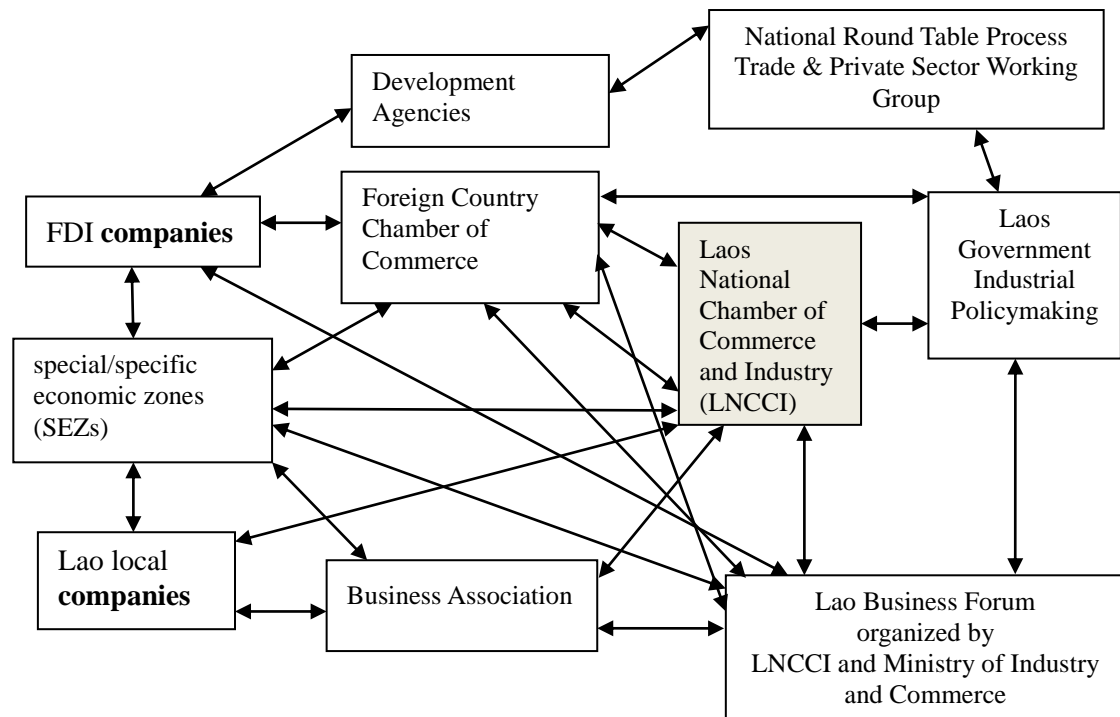


Figure 3: Nested Web of SBRs

Source: compiled by author

Other than the local Lao companies, foreign invested countries also have their Chamber of Commerce, such as Japanese Chamber of Commerce and Industry, Vientiane (JCCIV) with 81 Japanese business members by estimate of 2016<sup>11</sup>. Lao Chapter of the American Chamber of Commerce (AMCHAM) is a relatively new organization formed in 2012 who receives administrative and financial support and provide dual membership with AMCHAM Thailand to provide American companies invested in Laos also can have access to market in neighboring country of Thailand. AMCHAM also has liaise with US Embassy to better understand US Government policy and initiatives in Laos while closely working with other chambers<sup>12</sup>. Besides from these chambers of commerce, there are currently 13 Special or Specific Economic Zones (SEZs) with a total of 249 companies. Within which, 180 companies

<sup>11</sup> See more details in JCCIV website: <http://www.jcciv.org/profile.html>

<sup>12</sup> American Chamber of Commerce Lao PDR website: <http://amchamlao.com/about> (accessed on May 5, 2017)

are foreign investment, 48 are local companies and 21 are foreign and local joint venture. In terms of business sector, almost half is service sector whereas 34.6% is commercial, leaving industrial sector only 16%, creating a total of 15,000 jobs and less than half are local labors<sup>13</sup>.

In addition to the relationship between individual private companies and Lao government through chamber of commerce, a developing country like Lao PDR also receives various forms of aid from either international organizations or foreign governments. Asian Development Bank (ADB) since 1979 has been working closely with Lao government to construct the country's infrastructure and the One Road and One Urban Transport project is still ongoing<sup>14</sup>. World Bank, shown in the 2017 report<sup>15</sup>, invests and cooperates with Lao government in 18 projects to reach three goals: 1) increase Lao's competitiveness and connectivity; 2) sustainable natural resources management; 3) inclusive development. Foreign governments also engage in development activities with their distinguished programs and pace. For example, Japan actively helps Lao to develop its human resource through agencies such as Japan International Cooperation Agency (JICA)<sup>16</sup>. Korea has similar agency named KOICA with four focuses provided by our face to face interviewees on March 31, 2017: health, education, rural development and energy. Sweden uses Swedish International Development Cooperation Agency (SIDA) to assist Lao government to develop natural resource or medical health sector and since 1990 adds an additional focus in establishing rule of law system<sup>17</sup>.

To coordinate these international organization, foreign donors and aid agencies to

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<sup>13</sup> see more in 2016-2020 NSEDP report.

<sup>14</sup> ADB RRP Lao 47085 Sector Assessment: Transport.

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<http://pubdocs.worldbank.org/en/349701487151789412/LAO-PDR-PORTFOLIO-FACTSHEET-Jan2017.pdf> (accessed on May 5, 2017)

<sup>16</sup> In the face to face interview with JICA on April 3, 2017, the staff informed us four priorities of JICA in Laos: infrastructure, agriculture, education and healthcare.

<sup>17</sup> SIDA website: <http://www.sida.se/English/> (accessed on May 5, 2017)

align with Lao government's efforts and policymaking, Lao PDR has been participating the Round Table Process since 1983 with support from UNDP. After Lao government participated one global review of the process in 1999 through Round Table Meetings (RTMs) in Geneva, UNDP and international organizations agreed to turn the RTM into a continuous event held in Laos hereafter. Since 2000, Laos government already held six RTMs in every other three years. Moreover, since 2005, 10 Sector Working Groups (SWGs) were set up when Ministry of Foreign Affairs announced its plan to merge existing donors with government's working groups to serve as the key coordination platforms for each thematic sector discussed in Round Table Process. They are led by both the public and private sector's representatives, including donors and civil society. Outcome of such Round Table Process includes "Vientiane Partnership Declaration" endorsed by an array of representatives from both the public, private and development partners in the 12th High Level Round Table Meeting on the 27th November of 2015<sup>18</sup>. It is a commitment by joint effort of public and private sectors to boost taxes and to increase cooperation with developing countries while facilitating technology transfer and closer partnership with business and civil society.

### SBRs and Industrial Policymaking Case Study

Based on our interviews taken place during March and April, 2017, two particular sectors are selected to conduct further case study for understanding their SBRs, its influence on industrial policymaking and the general development of the selected sector. The first selected sector is the IT sector. It was voluntarily informed by the interviewees, in particular from National University of Laos (NUOL) Faculty of Engineering and the related IT business community, as the fastest emerging

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<sup>18</sup> News on High Level Round Table Meeting 2015  
<http://rtm.org.la/high-level-round-table-meeting-2015/>

industrial sector that has the most potential and abundant need to improve Laos' economic development whereas attracts many young talents, in particular more female, to enroll in the computer science department. The 8th NSEDP national plan of 2016-2020 also has a particular focus dedicated to the development ICT<sup>19</sup> as one of the country's development policy priority. Outcome target includes to establish a national data center for both the public and private sectors by 2018, increase the computer literacy rate to 30% and internet literacy rate to 40% of the population by 2020; establish two radio frequency management centers and promote the use of a Laos satellite, etc.

The second selected sector is the timber industry informed by our interviewees in JICA as the sudden policy change on ban of timber exports announced in May, 2016 becomes an issue of heated debate and negotiation between government and the timber or furniture business community. Whereas Laos' economy is disproportionately dependent on export of natural resource such as hydro power and wood<sup>20</sup>, issue of illegal logging has always been a great concern both for the Lao government and timber related private actors. In order to promote production based business with environmental protection to ensure the sustainability of forest source in Laos, the newly chosen Prime Minister Thongloun Sisoulith, in less than one month of assuming office, issued a moratorium to implement strict measures to control and inspect log business activities. Both the ICT and timber related policies not only create impact on the prosperity of the business sector and the country's short and long term development but also those policies are shaped and reshaped depending on nature of State-Business Relations. In the following two sections, both sectors' SBRs,

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<sup>19</sup> 8th NSEDP p. 151-152.

<sup>20</sup> Fifteen types of commercial timber trees are found in Laos. In late 1990s, timber occupies up to 40% of Laos's export earning. More details, please go to [http://factsanddetails.com/southeast-asia/Laos/sub5\\_3d/entry-2989.html](http://factsanddetails.com/southeast-asia/Laos/sub5_3d/entry-2989.html) (accessed on May 5, 2017)

its impact on industrial policymaking and the general economic performance of Laos are to be analyzed based on interviews and archival studies.

### SBRs in IT Sector

In Lao PDR, the principle regulating government body in IT sector is the Ministry of Post and Telecommunications (MPT). The Ministry's vision is to provide better connections to cover for 90 percent of the total villages in the country by 2020. Dr. Thansamay Kommasith, Minister of MPT added at the opening of Laos Broadband Forum 2016 that "broadband has a very important role to play in transforming Laos from a land-locked to a land-linked country through ICT<sup>21</sup>." To lay down the legal ground for ICT development, since the establishment of MPT in 2011, a number of ICT laws and regulations have been issued: E-transaction Law (2013); Radio Frequency Management Regulation (2013); Cybercrime Law (2014); Internet Resource Management Regulation (2014)<sup>22</sup>. Besides MPT, Ministry of Education and Sports (MOES) also plays a major role in preparing skilled IT talents and improve the population's overall computer literacy rate. During our visit to the national ICT Center founded by MOES in 2013<sup>23</sup>, Director of the ICT Center shared with us their current status and future planning: there are now 18 ICT Centers in the country, one for each province. In the near future, 34 new Centers are proposed to be built for teacher training and university or technical college capacity building.

As for the SBRs in Laos' IT sector, Figure 4 below offers a cursory view of business and government structural linkage. As in the core begins with government agencies and one state owned telecom company: Enterprise Telecommunication Lao

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<sup>21</sup> Dec. 2, 2016 news: Broadband forum to develop ICT in Laos  
[http://www.nationmultimedia.com/news/Startup\\_and\\_IT/30301275](http://www.nationmultimedia.com/news/Startup_and_IT/30301275) (May 6, 2017)

<sup>22</sup> See more in 15th Asia-Pacific Telecommunity APT Policy and Regulatory Forum (PRF-15) on 3-5 August 2015, Singapore.  
[http://www.apr.int/sites/default/files/2015/07/PRF-15-INP-12-Lao-Telecom-ICT-Policy\\_0.pdf](http://www.apr.int/sites/default/files/2015/07/PRF-15-INP-12-Lao-Telecom-ICT-Policy_0.pdf)  
(accessed on May 6, 2017)

<sup>23</sup> Our visit was taken place on April 3, 2017 in Vientiane, Laos.

(ETL). Beyond that, public and private collaboration or communication is pervasive. It starts with 3 joint-venture telecoms, including Lao Telecommunication Company (LTC, 51% government share), Star Telecom (Unitel, 51% government share) and Vimpelcom (Beeline, 22% government share). Furthermore, multinational corporation such as Microsoft<sup>24</sup> or Huawei<sup>25</sup> has reached out Lao government to become strategic partner to leverage technology for either educational or commercial purpose. On December 2, 2016, Huawei even went further to present the Lao National ICT Development Plan 2016-2020 Paper to the Lao government<sup>26</sup>. Prime Minister of Lao PDR then paid a visit to Huawei in Beijing to discuss future partnership for ICT development on December 16, 2016<sup>27</sup>.

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<sup>24</sup> Microsoft Asia has expanded its commitment to support IT education in Laos since 2015. More to read Microsoft Asia News Center <https://news.microsoft.com/apac/2015/12/15/microsoft-partners-laos-government-to-develop-holistic-plan-for-education-to-leverage-technology/> (accessed on May 6, 2017)

<sup>25</sup> Huawei launched their Seeds for the Future Programme in Vientiane attended by Minister of MOES on November 24, 2016. <https://www.laotiantimes.com/2016/11/24/huaweis-seeds-future-programme-launches-laos/> (accessed on May 6, 2017)

<sup>26</sup> Dec. 2, 2017 news [http://www.nationmultimedia.com/news/Startup\\_and\\_IT/30301275](http://www.nationmultimedia.com/news/Startup_and_IT/30301275) (accessed on May 6, 2017)

<sup>27</sup> PM Thongloun Visits Huawei in Beijing, Discusses Partnership for ICT Development. <https://www.laotiantimes.com/2016/12/16/pm-thongloun-visits-huawei-beijing-discusses-partnership-ict-development/> (accessed on May 6, 2017)

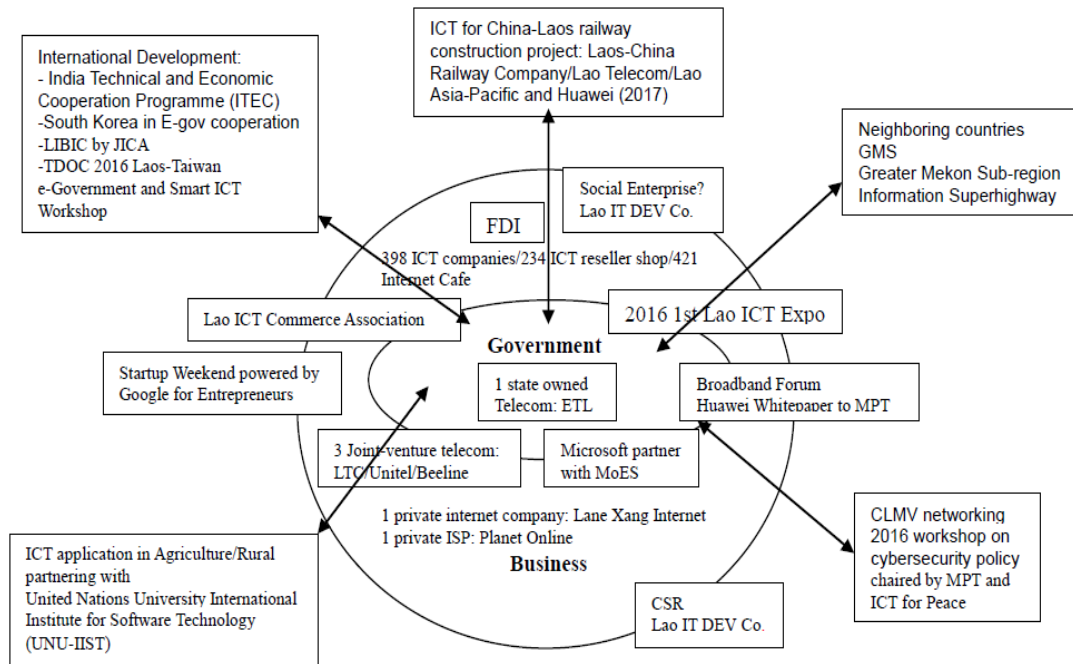


Figure 4: Structural View of SBRs in Laos' IT Sector

Source: drawn by author

For the domestic IT sector development, number of local Lao IT business operators is rising, according to our IT business interviewees. They assemble as Lao ICT Commerce Association and uses the association to receive updated government regulation or collectively voice their demand and needs in the annual Lao Business Forum or through the indirect communication channel of LNCCI. Up to 2015, there are more than 421 internet cafes throughout Laos and closer to 400 ICT companies (see Table 1). The public-private collaboration of the first Lao ICT Expo<sup>28</sup> was also successfully held in December 14-18, 2016 hosted by MPT at Lao National Convention Center where more than 150 IT related exhibitors collectively present their ICT projects and services to the wider public and business seekers.

<sup>28</sup> Expo website: <http://www.laoictexpo.la/> (accessed on May 6, 2017)



Table 1: Number of Lao ICT related Private Actors

Company	2015
Telecom Operator	5
ISP	2
Internet Café	421
ICT Company	398
•Digital Content	•4
•ICT Consulting	•3
•ICT Education	•3
•ICT security	•1
•ICT factory	•1
•Software development	•17
•ICT reseller shop	•234
•ICT Installation	•99

Source: Presentation delivered by Director General of E-Government Center, Ministry of Posts and Telecommunications on 23-29 October, 2016 in Conference on IT Utilization to Strengthen Economic and Special Infrastructure taken place in Tokyo, Japan.

What is more interesting is the will of a few domestic Lao IT companies who wish to use ICT tool for contributing either their corporate social responsibility or even transforming their companies into a social enterprise. One of our interviewees, Lao IT Dev Co, is a good example when sharing with us how their business model begins with a social business prototype. Their company policy such as hiring only the Laos engineers or staff, rather than foreign talents, in spite of the serious lack of IT human resource in the country or their CSR program: e-learning for the deaf<sup>29</sup> have shown their willingness and action to be a partner of government in solving social problems or to offer solution to ease government or market failure. Meanwhile, Lao IT Dev company is also engaging with members from a startup community powered by Google for entrepreneurs. However, they also worried and complained throughout our interview about how Laos has not yet social business law to encourage more private actors to make profit while producing public goods.

<sup>29</sup> Face to face interview taken place on April 4, 2017.

Other than the individual private business, international organization or development agency are also important actors in the SBRs. Together with Lao government, they pave the ground for more international or domestic Laos business to grow and engage in their joint projects, such as Greater Mekong Subregion Information Superhighway project with Asian Development Bank funding<sup>30</sup> and China-Laos railway ICT project<sup>31</sup> supported by the Chinese government. More human resource development training opportunities are also provided through those international collaboration platform, including United Nations University International Institute for Software Technology (UNU-IIST)<sup>32</sup>, 2016 Laos-Taiwan e-Government and Smart ICT workshop as part of Taiwan's new southbound policy initiative<sup>33</sup> and Workshop on International Cyber Security Policy and Diplomacy for CLMV (Cambodia, Laos, Myanmar and Vietnam)<sup>34</sup> held in October 2016. The Lao IT Business Incubation Center (LIBIC) supported by Japan International Cooperation Agency (JICA) further cooperated with Lao ICT Commerce Association (LICA) since 2012 to incubate at least four IT companies in Laos: Laosangfanh Co., Ltd, LaoDiGi Co., Ltd., AMZ CRESCERE Co., Ltd and Campapa International Trade eCommerce Co., Ltd<sup>35</sup>.

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<sup>30</sup> More to see in Asian Development Bank website:<https://www.adb.org/sites/default/files/publication/42581/gms-rif-pipeline-potential-projects-2013-2022-june2014.pdf> (accessed on May 8, 2017)

<sup>31</sup> China-Laos railway is the first overseas route connecting China and Laos using Chinese technology and investment. [http://news.xinhuanet.com/english/2017-01/11/c\\_135971222.htm](http://news.xinhuanet.com/english/2017-01/11/c_135971222.htm) (accessed on May 8, 2017)

<sup>32</sup> Read more in UNU website: <https://unu.edu/events/archive/conference/poverty-reduction-using-ict-education-the-case-of-laos.html#overview> (accessed on May 8, 2017).

<sup>33</sup> More to see Taiwan Digital Opportunity Center project description: <http://nsppe.mofa.gov.tw/nsppe/print.php?post=104415&unit=381> (accessed on May 8, 2017)

<sup>34</sup> More about this workshop, please see: <http://www.asianews.network/content/clmv-countries-consult-cybersecurity-policy-31777> (accessed on May 8, 2017)

<sup>35</sup> see Lao IT Service Market 2012 report, p. 20, prepared by JICA project on Human Resource Development in the IT Service Industry at the NOUL. [https://www.jica.go.jp/project/laos/0800211/news/general/ku57pq00001u8f77-att/market\\_2012.pdf](https://www.jica.go.jp/project/laos/0800211/news/general/ku57pq00001u8f77-att/market_2012.pdf) (accessed on May 8, 2017)

Overall, the government business relationship in Laos' IT sector, at least from the structural perspective of the analysis above, is more collaborative or developmental (see Figure 5) with multiple channels for the public and private actors to exchange information, opinions and make adjustment for future improvement.

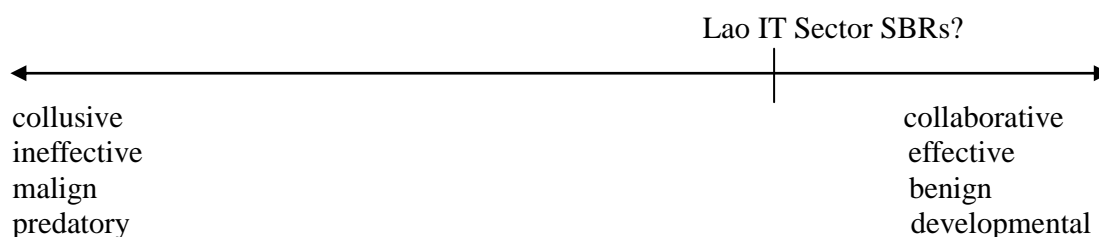


Figure 5: Lao IT Sector SBRs Type

#### SBRs in Timber Sector

Contrary to the IT sector in Laos, even though timber trade is like ICT a rising business and has made contribution to the Lao economy, government and business have less trust or effective effort to avoid rent-seeking behavior, corruption or other predatory SBRs effect. In other words, government and market failure in timber sector have created rampant problems for Laos and the timber market as a whole. Ministry of Agriculture and Forestry reported a more than 20% of forest cover loss from 64% in 1960 to less than 40% in 2000s<sup>36</sup>. The drivers for fast deforestation is the growing need of natural resource from economic growth plans, including new construction of hydropower dam, industrial plantation or others (Lang 2001).

In addition, what sets its major negative difference from the IT sector is the growing amount of timber trade being illegal with foreign military involvement. According to a report released by Environmental Investigation Agency, logs continue to pour from Laos border into Vietnam market to support its booming furniture

<sup>36</sup> More to see in Report on the National Program Assessment on Forest of Lao PDR <http://lad.nafri.org.la/fulltext/2187-0.pdf> (accessed on May 8, 2017)

industry, in spite of an export ban on unprocessed timber from Laos<sup>37</sup>. Their export clients are mainly from the European Union, United States, Japan, China or Middle East. In specific, logging companies such as COECCO has close connection with Vietnamese military who also involves in various level of corruption and collusion with government in Laos. As a result, the newly inaugurated Prime Minister of Lao PDR issued a sudden moratorium decree to suspend all timber export trade in May 2016. Statistic shows a drastic lowering of the Lao raw logs traveling east from Laos to Vietnam with just 36,000 cubic metres in 2016 comparing to 321,000 in 2015. Similar data drop was recorded for sawn wood, reducing from 383,000 cubic metres in 2015 to less than 100, 000 cubic metres in 2016<sup>38</sup>. Such "popular" export ban, according to Keith Barney, is a policy design to boost the domestic wood production industry. Internationally, G7 members agreed in 2005 Gleneagles summit to halt the booming market for illegal timber. Yet since then, all members have issued strict penalty for importing illicit timber, except Japan who only placed restriction in public wood procurement which only occupies less than 5 percent of the market<sup>39</sup>. Figure 6 below depicts the logging trade problematics.

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<http://www.redd-monitor.org/2011/08/03/new-report-exposes-illegal-timber-trade-from-laos-to-vietnam/> (accessed on May 8, 2017)

<sup>38</sup> Report shows Laos's different timber tactics:

<http://www.phnompenhpost.com/national/report-shows-laoss-different-timber-tactics> (accessed on May 8, 2017)

<sup>39</sup> More to read in "G7 host Japan poised to pass a new law that would undermine the group's efforts to combat the global illegal timber trade" press release on April 21, 2016.

<https://www.globalwitness.org/en/press-releases/g7-host-japan-poised-pass-new-law-would-undermine-groups-efforts-combat-global-illegal-timber-trade/> (accessed on May 9, 2017)

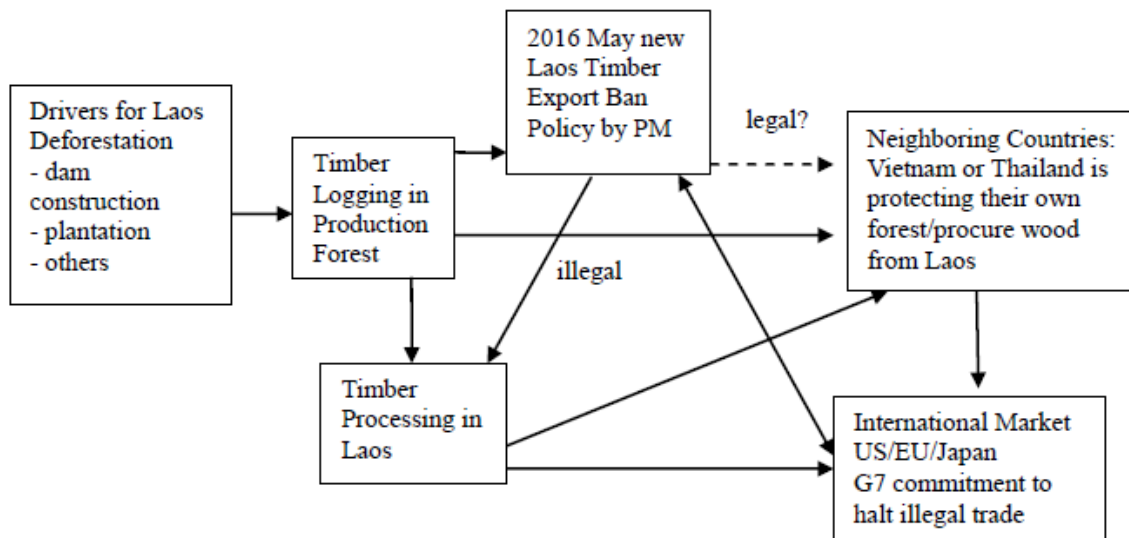


Figure 6: Timber Trade Mapping

Source: compiled by author

As for the SBRs in Laos's timber sector, structurally speaking, engaging government actors include Ministry of Agriculture and Forestry (MAF) to regulate forest resource and Ministry of Industry and Commerce (MOIC) to provide trade related policy and regulation. In terms of private actor, domestic timber process and production companies are collectively represented by Lao Wood Processing Industry Association who is also member of an international timber industry discussion and networking platform named the Global Timber Forum (GTF)<sup>40</sup>. International representatives who are relevant to the 2016 timber export ban for instance include JICA assisting Japanese companies to present proof of legal logging permission<sup>41</sup> or International Tropical Timber Organization (ITTO) who relaunched the FLEGT (EU's Forest Law Enforcement Governance and Trade) Independent Market Monitoring (IMM) programme effective from April 1, 2017. This IMM programme has multiple

<sup>40</sup> Global Timber Forum website: <http://www.gtf-info.com/knowledgebase/lao-wood-processing-industry-association/> (May 9, 2017)

<sup>41</sup> Face to face interview with JICA on April 3, 2017

partners especially with the European Union to conduct timber trade monitoring researches and promotes the export of FLEGT-licensed wood products to the EU<sup>42</sup>. World Wide Fund (WWF) also had signed a Memorandum of Understanding with Lao Department of Forest Inspection (DoFI) to enhance government's capacity to monitor domestic and transboundary timber flows compliant with European Union's Timber Regulation<sup>43</sup>. Figure 7 describes the structural relationship between government and business in Laos's timber sector.

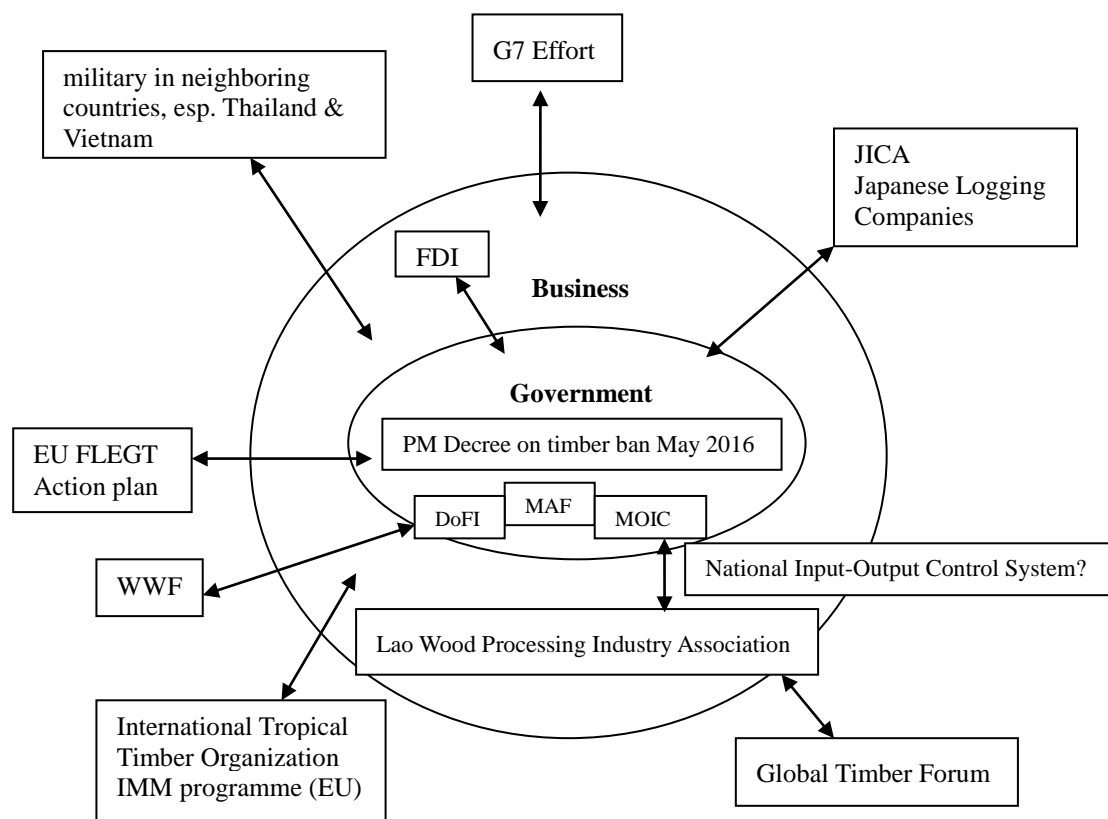


Figure 7: Laos Public-Private Linage and Interaction in Timber Sector  
Source: compiled by author

Complications caused by illicit timber logging is not only the rapid deforestation but also lowering price of Lao timber by 25-30% compared to the world market price,

<sup>42</sup> More on FLEGT Independent Market Monitoring moves forward news released on April 18, 2017. <http://www.gtf-info.com/news/flegt-independent-market-monitoring-moves-forward/> (access on May 9, 2017)

<sup>43</sup> WWF news on "Timber trade legality receives boost in Laos" on September 24, 2015. <http://wwf.panda.org/?255411/Timber-Trade-Legality-Receives-Boost-in-Laos> (accessed on May 10, 2017)

commented by Mr. Thongsavanh Soulinamat, President of Lao Wood Processing Industry Association in June, 2016<sup>44</sup>. On the one hand, the illegal activities in timber trade have made domestic Lao companies uncompetitive with accompanying missing opportunities to develop skills and efficient production and make Lao government lose income in the form of tax and royalties<sup>45</sup>. On the other hand, whereas Lao government has been trying various measures to fix the illegal logging problem, the government also questioned local Lao companies' ability or effort to proactively exporting finished wood products to raise their value and profit.

Furthermore, President of Lao Wood Processing Industry Association listed a few challenges facing by local timber process and production companies: absence of standard factories; lack of technology, international market experience, management, skillful labor; logistic challenges in a landlocked country with insufficient infrastructure. The association then proposed some initiatives to tackle the above difficulties, including to promote the establishment of a Chain of Custody (CoC) system, support for corporate social responsibility and develop innovative products through Lesser Known Timber Species (LKTS), etc. The chamber also voiced their willingness to cooperate with Ministry of Industry and Commerce (MOIC) to establish National Input-Output Control System to collaboratively combat illegal timber trade issue<sup>46</sup>.

In sum, the state-business relationship in Laos's timber sector, though in the past decades might be malign or predatory enough that fails to fix government or market

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<sup>44</sup> Presentation delivered by President of Lao Wood Processing Industry Association [https://www.illegal-logging.info/sites/files/chlogging/Day%20\\_Session%207\\_Thongsavanh%20Soulinamat.pdf](https://www.illegal-logging.info/sites/files/chlogging/Day%20_Session%207_Thongsavanh%20Soulinamat.pdf)

<sup>45</sup> In 2014, Lao government was only able to collect 36.5% of projected tax revenue. More financial loss news in "Laos launches plan to stem illegal logging after revenue drop" reported on July 28, 2014. <http://www.rfa.org/english/news/laos/logging-07282014192020.html> (accessed on May 9, 2017).

<sup>46</sup> More about Chain of Custody (CoC) please see document prepared by President of Lao Wood Processing Industry Association on Dec. 15, 2015: <http://flegtlaos.com/wp-content/uploads/2015/10/2015-12-15-PP-2.05-FLEGT-LKS-small-diameter-Pilot-Project-EN.pdf> (accessed on May 10, 2017)

failure problems, is making minor improvement since 2015. With a common public and private goal of "Made in Laos" or "Lao Forest, Global Market"<sup>47</sup>, through the leadership of Lao Wood Processing Industry Association, Lao timber trade related companies expressed their willingness to collaborate with government to tackle illicit timber logging issue. Meanwhile, international organizations and development agencies are investing their effort in assisting Lao government to ensure better transparency and accountability in monitoring timber trade activities. Figure 8 below indicates this potential improvement trend in Lao's timber sector SBRs.

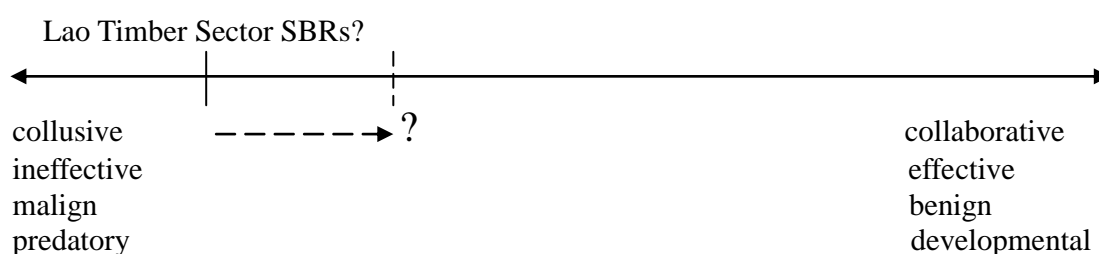


Figure 8: Lao Timber Sector SBRs Type

In the reality, however, according to a report funded by the UK Department for International Development (DFID/UKAID), there is mounting pressure to modify the 2016 export ban since there is an existing stockpile of 100,000-150,000 m<sup>3</sup> of logs and sawnwood harvested prior to the Prime Minister's ban decree (To et al, 2017). Owners of those logs, such as Chinese or Vietnamese traders continue to find alternative ways to transport this huge stockpile. Domestically, local Lao companies have not yet sufficient capacity to process large pile of logs into finished products before exporting. Although there is anecdotal evidence of Chinese investor begin to acquiring sawmills on the Lao side of the border with China by processing timber, the amount of processed log is still limited and the source of log is unclear.

<sup>47</sup> A market vision proposed by President of Lao Wood Processing Industry Association, see more in <http://flegtlaos.com/wp-content/uploads/2015/10/2015-12-15-PP-2.05-FLEGT-LKS-small-diameter-Pilot-Project-EN.pdf> (accessed on May 10, 2017)



## **Concluding Discussion**

This study begins with choosing an alternative view to approach issue of development in a selected developing country case - Lao PDR. Although industrial policy has been regarded as a pivotal strategy to boost developmental level, this research, echoing with advocates of State-Business Relations either in the academic arena or in the practical field such as World Bank, emphasizes that the quality of public and private interaction has significant impact on not only the implementing process of industrial policy but also the result of development outcome. In other words, whether the nature of SBRs in a developing countries is collusive or collaborative can directly or indirectly negate the efforts of a carefully crafted industrial policy or exponentially increase the efficiency of such policymaking.

The paper argues that whereas the first phase of development for Laos as a lower-middle income country in the 1980s with closed economy system and practically no middle class is to promote open-door policy initiated and guided by a singular actor - government of Laos, the second phase of development shall follow the recommendations of international agencies and scholars to engage more private actors into decision making and policy implementing process with a benign and developmental SBRs. Base on interview and archival data collected in this study, empirical evidence shows that Laos is moving toward the path of increasing interaction, both formal and informal, between government and the business community. On October 16, 2015, Secretary General of the Lao PDR Chamber of Commerce and Industry, Mr. Sengdavone Bangonesendet, commented "This is first time the business community has been fully consulted in the planning process...Business want to be a core partner in economic development and this

consultation gives us a chance to share our ideas with government<sup>48</sup>" at a preparatory consultation between 20 Laotian business leaders and the government in preparing the next five-year national development plan. At the 10th Lao Business Forum held on March 28, 2017, Lao Prime Minister continued to emphasize the relevance of transparency and rule of law for a conducive business environment with a wish to improve Lao's current ranking of 139th of 190 countries in Ease of Doing Business Index published by World Bank Group<sup>49</sup>.

In order to better understand the relationship between government and business in Laos and their corresponding roles in policymaking, this study selected two specific industrial sectors to investigate: IT and timber sector. While the former is a newly emerging industry with more new incoming actors, both in the public and private sphere, the latter is a relatively traditional natural resource based sector where economy of Laos historically depends on. The empirical analyses show that structurally there are more public-private communication mechanism or collaboration platform in place in the IT sector than in timber industry such as the 2016 first Lao ICT Expo or 2016 Broadband Forum, although held in cooperation with a foreign company, Huawei, instead of a local Lao ICT company.

In terms of quality of government and business relation, both sectors are at the initial stage of making improvement by promoting information exchange between public and private actors, increasing collaboration opportunities or creating new accountability monitoring mechanism. Moreover, the business association in both sectors, parallel to the prediction in literature (te Velde, 2013; Qureshi and te Velde, 2013), is playing an important role as not only a bridge between companies and public agencies to reduce policy uncertainty and facilitate regulation implementation, the

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<sup>48</sup> <http://rtm.org.la/a-bigger-role-for-business-in-development/> (accessed on May 10, 2017)

<sup>49</sup> <https://eccil.org/uncategorized/10th-lao-business-forum/> (accessed on May 10, 2017)

business associations in both sector have shown potential to take a proactive role in proposing new public-private partnership programs or policy change such as National Input-Output Control System proposed by Lao Wood Processing Industry Association. Although there is not yet quantitative evaluation on whether private companies affiliated with business association in Laos perform better nor empirical measurement of SBRs in Laos, this study can be regarded as one of the pioneer case study research to raise the scholarly awareness in the contribution of SBRs in developmental scheme. More future empirical researches are needed to delineate further impact of government and business relation on productivity and the overall industrial sector's performance.

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