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6 From battlefield into marketplace

The end of the Cold War in Indochina, 1985–1989

Balázs Szalontai

In 1988, recently appointed Thai Premier Chatichai Choonhavan declared his ambition to turn Indochina “from a battlefield into a marketplace.” A retired general with a formidable business acumen, Chatichai was a real personification of this principle. To achieve his aim, Chatichai re-examined his country’s Cold War allegiances with breathtaking pragmatism. The exiled Khmer Rouge guerrillas, who used to carry out raids into Cambodia from bases in Thailand, were among the first to be affected by Chatichai’s adaptability. In mid-1989, they launched new attacks on the armed forces of the Vietnamese-backed Cambodian Communist regime, only to encounter devastating artillery fire that hit their troops with surprising accuracy. This accuracy reflected not so much the marksmanship of the Cambodian artillerymen but rather the diplomatic flexibility of the Thai leadership. That is, the Thai military, having generously assisted the exiled Khmer Rouge forces for a decade, decided to make a volte-face, and secretly radioed the coordinates of the guerrillas’ positions to the Cambodian general staff.¹

This episode aptly illustrates the dramatic nature of the diplomatic changes which occurred in the three Indochinese countries (Vietnam, Cambodia and Laos) in the final years of the Cold War. Due to its proximity to China, this region constituted a major battlefield of superpower competition from 1950 to 1989, considerably influencing the dynamics of Sino–US and Sino–Soviet relations. Its strategic importance may be gauged from the fact that the successful resolution of the so-called “Cambodian question” was not so much a consequence but rather a precondition of Sino–Soviet and Soviet–US reconciliation.

For this reason, the diplomatic and military aspects of Soviet and Vietnamese disengagement from Indochina have received ample attention from historians and political scientists, including Ben Kiernan, Nayan Chanda, Grant Evans, Martin Stuart-Fox, Robert S. Ross, Gary Klintworth and others. Similarly, the post-1986 economic reforms implemented by the Indochinese governments have been carefully analyzed by economists, all the more so because the impressive achievements of Vietnam’s *doi moi* (renovation) stood in sharp contrast to the country’s previous misery.²





Nevertheless, the findings of the two research schools were only occasionally integrated into a synthesis. This chapter, therefore, seeks to link these two spheres of post-1985 Indochinese history; that is, to investigate the economic aspects of the diplomatic measures taken by the Southeast Asian Communist and non-Communist governments. Without going so far as to claim that economic factors played a paramount role in solving the Indochinese crisis, it intends to highlight the fact that economic issues were very frequently and extensively discussed during the post-1985 negotiations which the Soviet Union, the People's Republic of China (PRC) and the Association of Southeast Asian Nations (ASEAN) conducted with Indochinese Communist leaders and which led to a radical transformation of power relations in the region.

In Indochina, the post-1975 phase of the Cold War was not so much a Soviet–American confrontation but rather a Sino–Vietnamese/Sino–Soviet rivalry. After the Vietnam War, US military presence in the Southeast Asian mainland underwent a dramatic decline, but the Soviet Union was only partially able to fill the resulting power vacuum. By and large, Moscow had to rely on a single partner, the newly unified Socialist Republic of Vietnam (SRV), since in the Lao People's Democratic Republic (LPDR), the predominance of Vietnamese influence considerably limited Soviet contacts with the ruling Lao People's Revolutionary Party (LPRP), whereas the governments of Cambodia, Thailand and Burma were traditionally distrustful of Soviet intentions. Throughout the 1970s and 1980s, Chinese and Vietnamese Communist leaders competed intensely with each other for influence in the region. Both Hanoi and Beijing laid increasing emphasis on normalizing their relations with ASEAN, not least because neither side could afford a simultaneous conflict with its Communist rival and the local non-Communist governments. ASEAN initially maintained a position of equidistance from China and Vietnam, but when Vietnam, incensed by the border clashes provoked by the Khmer Rouge, invaded Cambodia and replaced Pol Pot's dictatorship with a pro-Hanoi regime, the ASEAN states – in alignment with China and the Western powers – refused to recognize the hastily proclaimed People's Republic of Kampuchea (PRK). During the 1980s, Vietnamese troops stationed in Cambodia waged a seemingly endless war against the exiled Khmer Rouge forces and other anti-PRK guerrillas who enjoyed the support of China and Thailand.

In the 1970s, the gradual deterioration of Sino–Vietnamese relations obviously pleased the Kremlin. In the Soviet strategy of containing and encircling China, special attention was paid to Vietnam and Mongolia, both of which had not only common borders but also disputes of their own with the PRC. After the Vietnam War, Soviet aid programs to these countries were motivated primarily by the diplomatic aim of making them capable of withstanding Chinese pressure and securing their loyalty to Moscow in the Sino–Soviet dispute. Due to the meager commercial potential of Vietnam and Mongolia, the Soviet Union's own economic interests

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1 rarely influenced Soviet decision-making to a great extent, and if they did,
2 the results were not necessarily in accordance with the priorities and
3 expectations of the aid-recipient countries.

4 From 1982–1983, however, Moscow became increasingly disinterested
5 in relying on Hanoi and Ulaanbaatar against Beijing. Worried by the
6 growing trilateral cooperation between the US, China and Japan, Soviet
7 leaders concluded that this strategic challenge necessitated a selective rap-
8 prochement with China, which, they hoped, might dissuade Beijing from
9 forming a long-term alliance with Washington. Emboldened by the signs
10 of occasional Sino–US friction over Taiwan, Brezhnev, and his successors,
11 made concentrated efforts to win over China, even if this required certain
12 diplomatic concessions.

13 The Chinese leaders, for their part, showed readiness to improve their
14 relations with the Kremlin, but only if the latter removed the so-called
15 “three obstacles” to normalization: the stationing of Soviet troops in Mon-
16 golia, Soviet support for the Vietnamese occupation of Cambodia, and the
17 Soviet occupation of Afghanistan. The Soviets, at first, refused to discuss
18 these issues, but Chinese persistence finally compelled them to re-examine
19 their standpoint.³

20 Moscow’s initiatives to reach a modus vivendi with Beijing understand-
21 ably aroused the suspicion of Vietnamese and Mongolian leaders, who
22 feared that such a reconciliation might be made at their expense, not just
23 in a diplomatic but also in an economic sense. In fact, they became aware
24 of the limits of the Kremlin’s financial commitment to their countries as
25 early as 1978–1981 when Sino–Soviet relations were still extremely tense.⁴
26 Thus, it was logical to assume that the more the Soviet Union improved its
27 relations with China, the less it would be interested in making economic
28 sacrifices for the sake of its Asian allies. As we will see, these anxieties were
29 not fully justified, but, ultimately, they were proven right.

30 Signs of Vietnamese and Mongolian resistance to Moscow’s new China
31 policy started to appear as soon as 1982–1983, prompting the Soviet Union
32 to put increasing pressure on its recalcitrant allies. In Mongolia, this con-
33 flict of interests culminated in the Soviet-engineered replacement of First
34 Secretary Yumjaagiin Tsendenbal with Jambyn Batmünkh, who, to the
35 chagrin of Hanoi, promptly made steps to reach a modus vivendi with
36 Beijing. In Indochina, however, the Soviets were unable to interfere in the
37 affairs of the local party leaderships as directly as they had in Mongolia,
38 and, thus, the coercive measures they could potentially use to enforce Viet-
39 namese compliance were mainly of an economic nature. After all, the
40 Kremlin had considerable economic leverage over Hanoi. In the 1980s,
41 the Soviet Union was Vietnam’s largest commercial partner, as the Soviet
42 share of Vietnamese exports of tea, coffee, natural rubber and timber
43 ranged between 52 and 100 percent. By the end of the decade, over 300
44 economic projects had been completed with Soviet assistance. In electric-
45 ity generation, cement production, coal mining and apatite production,





the share of Soviet-equipped enterprises stood between 47 and 100 percent.⁵

The extent to which the Soviets used this economic leverage for achieving specific diplomatic purposes is still somewhat unclear, since the decline of Soviet support may have been as much a symptom of the Soviet Union's own economic crisis and its general reluctance to finance costly and unprofitable projects in a region of decreasing strategic importance as a purposeful policy designed to overcome Vietnamese resistance. Since Soviet–Indochinese economic relations continued to deteriorate, rather than improve, after Hanoi finally fulfilled Moscow's requests, the coercive aspects of Soviet aid policy should not be overestimated. After all, the Soviets had genuine reasons for dissatisfaction with the wasteful and inefficient practices of the Vietnamese state-owned enterprises (SOEs) to which they provided technical and financial assistance. Still, one cannot exclude the second explanation, either, because in the previous decades, the Soviet Union had frequently subjected noncompliant Communist regimes (Yugoslavia, Albania, China, North Korea and Cuba) to economic pressure. But even if there was no politically motivated pressure, the mere fact that Hanoi's largest aid donor was no longer as ready to adapt to the preferences of the Vietnamese leaders as before proved ultimately sufficient to compel the latter to re-examine their domestic economic policies and look for alternative economic partners.

As early as the brief rule of Yuri Andropov (1982–1984), Moscow's overtures toward China occasionally coincided with manifestations of Soviet unwillingness to fulfill Hanoi's requests for aid. Following the third unsuccessful round of Sino–Soviet talks, in October 1983, Deputy Premier Gaidar Aliyev visited Vietnam, and managed to pressure his hosts to publish a joint communiqué in which the Vietnamese side, for the first time, grudgingly announced that it “fully supported the Soviet Union's principled line of normalizing relations with the PRC.”⁶ Worse still, Aliyev harshly criticized Vietnamese leaders for their inefficient use of Soviet aid, and bluntly refused to assist them in the planned construction of a nuclear power plant and a new hydroelectric power station. As he explained, these projects would be too costly and ambitious, and Soviet financial resources were not unlimited.⁷

In 1985–1986, the Soviet leadership, headed now by Gorbachev, temporarily changed tack, and sought to combine its détente-oriented actions with a more generous attitude toward Moscow's aid-dependent Indochinese allies. In Gorbachev's global strategy, special attention was paid to the Asia-Pacific region whose growing economic importance he quickly realized. His original objective was to counter America's Far Eastern policies – which, in his opinion, were aimed at encircling the Soviet Union – by reaching reconciliation with China and ASEAN and, simultaneously, reinforcing Soviet influence in Indochina and North Korea. At first, he appeared ready to make additional financial sacrifices in order to achieve

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1 this goal. For instance, the Kremlin considerably increased its economic
2 assistance to Indochina. The total value of the aid and credit which the
3 Soviet Union intended to give to Vietnam and Laos during the latter's
4 next five-year plans (1986–1990) was planned to be 100 and 50 percent
5 higher, respectively, than the amount provided during the previous FYs.⁸

6 Gorbachev's new Far Eastern policy yielded only limited results as far as
7 Indochina was concerned. In June 1985, Le Duan visited Moscow, after
8 which the Vietnamese press toned down its attacks on the PRC, and Hanoi
9 proposed to start secret talks to normalize Sino–Vietnamese relations. In
10 Laos, the LPRP leaders finally took two steps for which the Soviets had
11 been waiting quite impatiently for a substantial time: they concluded an
12 agreement on the construction of a new Soviet embassy compound, and in
13 October, they held the first congress of the Laotian-Soviet Friendship
14 Society. These gestures must have been, at least partly, inspired by Mos-
15 cow's new aid practices.⁹

16 At the same time, there were various phenomena which indicated that
17 the VCP leaders, unnerved by Gorbachev's attempts at rapprochement
18 with Beijing, decided to reinforce their grip over Indochina, even at the
19 expense of their Soviet donors. In 1985, their diplomatic efforts were still
20 focused at isolating China, for which purpose they even made overtures
21 toward the US. As Foreign Minister Nguyen Co Thach pointedly remarked,
22 Hanoi, unlike the Soviet Bloc, regarded China, rather than America, as its
23 main enemy.¹⁰ In May–June, Truong Chinh, Vietnam's head of state, paid
24 his first official visits to Laos and Cambodia, during which decisions were
25 made to intensify economic cooperation between the three Indochinese
26 countries. Laos drastically cut its imports from Thailand, and sought to
27 further redirect its foreign trade toward the Vietnamese ports of Da Nang
28 and Ho Chi Minh City.¹¹ At the end of the year, the Laotian government,
29 without any plausible explanation and, most probably, due to Vietnamese
30 pressure, asked the Kremlin to withdraw all Soviet civilian advisers from
31 the LPDR, whereas the number of Vietnamese advisers underwent a simul-
32 taneous increase.¹² On 27 December, Thach and his Cambodian counter-
33 part, Hun Sen, signed an agreement about the Vietnamese-Cambodian
34 land border that settled the long-standing Vietnamese-Cambodian territo-
35 rial dispute wholly in Hanoi's favor.¹³

36 Hanoi's inflexible Cambodia policy was actually detrimental to Viet-
37 nam's own economic interests. As a Hungarian diplomat reported in
38 January 1986,

39
40 It has become obvious that in [Southeast Asia], only Vietnam, and the
41 Indochinese region in general, has failed to show any substantial eco-
42 nomic achievement..., though its aspiration to actively influence the
43 conditions in SEA cannot be effective without economic might. At
44 present, Vietnam's Cambodia policy prevents it from concentrating its
45 full strength on the development of its economy.¹⁴





Similar views were expressed by a Cambodian diplomat, who stated that the leaders of the ruling Kampuchean People's Revolutionary Party (KPRP) wanted to find an internationally acceptable solution for the political crisis, in the shortest possible time, because only under peaceful conditions could the Cambodian economy recover from its long stagnation.¹⁵

In 1986, Gorbachev still refrained from directly pressuring Vietnam to resolve the Cambodian question, but the increased aid he promised to Hanoi was not to be provided without strings. The Soviet Union suspended its assistance to certain unprofitable projects in heavy and chemical industry, and urged Vietnam to improve its export performance on the grounds that Soviet–Vietnamese economic relations should serve mutual interests, rather than solely Vietnamese ones.¹⁶ By 1987, the Kremlin became increasingly unwilling to fulfill Hanoi's abrupt requests for emergency aid, and started to impose stricter conditions on the supply of technology. If the Vietnamese failed to construct the infrastructure needed for the Soviet-assisted projects, they could not expect any Soviet deliveries.¹⁷

On the other hand, the Indochinese governments also had reasons to complain about the practices of their Soviet aid donors. For instance, in January 1986, the planning delegations of the Soviet Union and Czechoslovakia, trying to prod Laos to use foreign aid more efficiently, informed their negotiating partners about their intention to impose interest rates on the loans to be granted to Indochinese countries. The Laotians, however, promptly remarked that the World Bank and the Asian Development Bank provided them with interest-free loans, and, eventually, persuaded Gorbachev to shelve the idea.¹⁸ Both Laotian and Cambodian officials urged their COMECON partners to switch from ruble-based deals to dollar-based ones, because they knew very well that rubles, non-convertible as they were, could not be used in transactions with the non-Communist countries from which they wanted to obtain the goods that the Soviet Bloc was unable to provide. Such proposals, however, elicited very negative reactions from the Soviet side.¹⁹

Dissatisfied with COMECON's aid performance and pressured by the process of Sino–Soviet rapprochement, the Indochinese countries became increasingly interested in normalizing their relations with their neighbors. Among VCP leaders, a group headed by Nguyen Co Thach stressed, as early as 1986–1987, that Vietnam's economic crisis could not be solved without reaching a modus vivendi with China and the West. Nonetheless, they still wanted to settle the Cambodian question from a position of strength, that is, by withdrawing their troops without making any political concession to the anti-PRK guerrillas in general and to the Khmer Rouge in particular.²⁰

This attitude led to further disagreements with Moscow, because the Kremlin, anxious to placate the Chinese leaders, who doggedly supported the Khmer Rouge, started to prod Hanoi to adopt a more flexible stance. During a visit to Vietnam in March 1987, Soviet Foreign Minister Eduard

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1 Shevardnadze, having stressed the urgency of solving the Afghan and
2 Cambodian questions, declared that the “masses of the Khmer Rouge,”
3 except Pol Pot and his high-ranking accomplices, should be involved in
4 the peace process. He also encouraged the Cambodian leaders to learn
5 from the example of the “national reconciliation” policy pursued by the
6 Soviet-controlled Afghan Communist regime. Thereupon, the Vietnamese
7 pointed out that the Afghan “counter-revolutionaries” were not genocid-
8 dists like the Khmer Rouge, and the Soviet Union did not negotiate with
9 them anyway.²¹

10 The KPRP leaders, on their part, were more interested in drawing
11 lessons from the Laotian model of national reconciliation. In June 1987,
12 Premier Hun Sen discussed this issue with Kaysone Phomvihane, the
13 supreme leader of the LPDR, and concluded that “reconciliation” should
14 mean bringing a few individual opposition leaders into the state appar-
15 atus, rather than sharing power with their organizations.²²

16 Hun Sen’s interest in Vientiane’s experiences was quite natural, since
17 détente arrived in Laos somewhat earlier than in other Indochinese coun-
18 tries. In fact, the LPDR never suffered from such extensive diplomatic iso-
19 lation as Vietnam and Cambodia, and, thus, it found it easier to initiate a
20 dialog with its external opponents. Those Western governments which
21 refused to recognize the PRK had no objections against maintaining offi-
22 cial relations with Vientiane. In the mid-1980s, when Vietnam faced an
23 international embargo, the LPDR continued to receive aid from Sweden,
24 the Netherlands, Australia and Japan. Alone among the Indochinese
25 states, Laos even hosted a US embassy. Only Thailand constituted a partial
26 exception, since Thai rulers, who traditionally aspired to extend their
27 influence to neighboring Laos, were more willing to use coercive measures
28 in order to enforce Lao compliance than any other power.²³

29 On the other hand, Laos, a landlocked, extremely underdeveloped and
30 militarily weak country, sharing long common borders with Thailand and
31 China, could ill afford a long-term conflict with Bangkok and Beijing,
32 because if Lao–Thai and Sino–Lao trade was disrupted by political tension,
33 neither Vietnam nor the European Communist countries would be able to
34 fully fill the gap. In 1985, Thailand was still the LPDR’s largest single com-
35 mercial partner, with the volume of Lao–Thai trade constituting no less
36 than 30 percent of Laotian external trade. In the northern provinces of
37 Laos, border trade with China proved essential for providing local tribes
38 with much-needed consumer goods. In fact, neither Bangkok nor Beijing
39 hesitated to use its economic leverage for achieving diplomatic aims. The
40 Thai authorities repeatedly imposed transport restrictions on Lao–Thai
41 trade whenever they disagreed with LPRP policies, and Sino–Laotian
42 border trade also underwent a marked decline after the Sino–Vietnamese
43 war. In 1983–1984, Beijing changed tack, and offered to resuscitate border
44 trade in exchange for a more cooperative Lao attitude. The Laotian
45 leaders, at first, rejected these suggestions, but in October–November





1986, they decided to take the initiative. Anxious to broaden their country's external economic relations, they concluded agreements on aid and credit with a delegation from the European Economic Community (EEC), and proposed to start negotiations with Thailand and China.²⁴

Nonetheless, the LPDR's unique situation could as much hinder as facilitate Vientiane's efforts to reach reconciliation with its neighbors, because the VCP leaders distrusted the idea of a bilateral Sino–Laotian rapprochement that would not be accompanied by a Cambodian settlement acceptable to Hanoi. They were of the opinion that China considered Laos the “weakest link” in the trilateral alliance of Indochinese countries, and its overtures toward Vientiane, combined as they were with an inflexible stance toward Hanoi, served only as a divide-and-rule policy. Vietnam's distrustful attitude created serious obstacles for the LPDR. In December 1986, the first high-level Sino–Laotian talks yielded few results, because the LPRP leaders, though their own principal objective was to revitalize Sino–Laotian trade, tried to act in accordance with Vietnam's preferences, and refused to discuss China's economic proposals unless Beijing ceased to assist the Khmer Rouge guerrillas.²⁵

Probably, this is why the effective normalization of Lao–Chinese relations began only in November 1987, that is, the same month in which the VCP Politburo finally resolved to withdraw its troops from Cambodia. In contrast with the coercive measures China used against Vietnam, Sino–Laotian rapprochement was based on the principle of mutual concessions: Beijing ceased to support the Lao exiles residing in southern China, whereas the Laotian media discontinued its anti-Chinese propaganda. Reassured that China no longer posed a threat to the Laotian regime, in January–March 1988 Hanoi withdrew the bulk of its troops from the LPDR, after which ambassadorial-level relations were restored between Beijing and Vientiane, and the two countries signed a trade agreement for 1989–1990.²⁶

Reconciliation with Thailand was soon to follow, albeit after a bumpy start. In November–December 1987, the Thai side – which may have wanted to force the LPRP leaders to the negotiating table by warning them that they should not try to make a deal with Beijing at the expense of Bangkok – provoked armed clashes in a disputed border area. The fighting continued until February 1988 when Laotian Chief of Staff Sisavat Keobounphan and Thai Commander-in-Chief Chaovalit Yongchaiyut signed a ceasefire agreement. During the subsequent negotiations, the Thai military officers, remarkably enough, showed far more interest in promoting economic cooperation than in discussing the border problem. Thanks to Chaovalit's extensive connections, in March a delegation of influential Thai businessmen visited Vientiane, and pledged to invest one billion baht in various projects related to tourism, forestry, agriculture and livestock farming. Characteristically, the first Thai firm to make a major deal with Laos was a military-affiliated company that undertook to supply





1 much-needed consumer goods in exchange for timber. Anxious to stimu-
2 late the development of the local manufacturing sector, the Laotian gov-
3 ernment sought to encourage Thai entrepreneurs to establish joint
4 ventures with Lao SOEs in the textile industry and wood processing.²⁷

5 While Laos, understandably, focused its efforts on reaching reconcilia-
6 tion with its two powerful neighbors, China and Thailand, Vietnam's
7 search for alternative diplomatic and economic partners was, at first,
8 directed toward Indonesia, whose government considered China, rather
9 than Vietnam, the most serious potential threat to Southeast Asia, and,
10 hence, it was far more inclined to agree with Hanoi's anti-Chinese stand-
11 point than any other ASEAN country.²⁸ As early as 1982–1983, the VCP
12 leaders sought to divide ASEAN and isolate Thailand by making overtures
13 toward Indonesia, but such tactics yielded few practical results until they
14 decided to withdraw their troops from Cambodia. Once they had taken
15 that step, Indonesia was also ready to shift from expressions of sympathy to
16 concrete assistance. In November 1987, a Vietnamese economic delega-
17 tion traveled to Indonesia, and, having received ample practical advice
18 from President Suharto himself, gained useful experience for Hanoi's eco-
19 nomic reform program. Moreover, numerous Indonesian companies
20 expressed interest in importing various agricultural products and handi-
21 crafts from Vietnam, and investing in oil exploration.²⁹ In February 1988,
22 Indonesian Foreign Minister Mochtar Kusumaatmadja went so far as to
23 promise that once the Cambodian problem was solved, an international
24 consortium would be established to provide economic assistance to Hanoi.
25 As he put it, "Indonesia will not allow [others] to corner Vietnam."³⁰

26 The spectacular progress of Vietnamese–Indonesian rapprochement
27 hardly pleased the Thai leaders, who, unlike Indonesia, sought to rely on
28 Beijing against Hanoi. This divergence of interests generated considerable
29 tension between Bangkok and Jakarta. For instance, in February 1989,
30 when the participants of the so-called Second Jakarta Informal Meeting
31 failed to reach a satisfactory agreement on the Cambodian question, the
32 Thai foreign ministry promptly blamed the Indonesian hosts – who, in
33 Bangkok's opinion, made inappropriate concessions to Hanoi – for the
34 fiasco.³¹ Still, the gradual withdrawal of Vietnamese troops from Laos and
35 Cambodia brought about a rapprochement in Thai–Vietnamese relations,
36 too. As early as 1987, Thai entrepreneurs started to urge their government
37 to relax its economic pressure on Hanoi, for they noticed that despite the,
38 still unsolved, status of the Cambodian question, Japanese–Vietnamese
39 and Vietnamese–Singaporean trade was already developing at a rapid
40 pace. Premier Chatichai Choonhavan, appointed in July 1988, was more
41 than ready to represent their interests. Following his talks with Thach in
42 August, Thai companies were no longer prevented from establishing joint
43 ventures with Vietnamese SOEs. Chatichai's "Golden Peninsula" plan,
44 aimed at fostering multilateral economic cooperation between Thailand,
45 Indochina and Burma, was considered attractive by VCP leaders, who were





eager to learn from the experiences of Thailand's economic modernization. Since Vietnam's foreign investment law, passed in late 1987 and confirmed in September 1988, was one of the most attractive in Southeast Asia, Hanoi expected Thai firms to make substantial investments in tourism and food processing.³²

Chatichai paid similar attention to the two other Indochinese countries, too. In November 1988, he traveled to Laos, and concluded agreements with the LPRP leadership on technical cooperation in agricultural production, energy generation, and road construction. In their joint communiqué, the two governments expressed their intention to play a constructive role in solving the Cambodian crisis. In January 1989, Chaovalit also visited Vientiane, during which he sent an invitation to Hun Sen for a visit to Bangkok.³³

By that time, the Cambodian authorities, motivated by the necessity of obtaining additional economic assistance, had mostly overcome their distrust of the various international aid organizations. In the spring of 1989, the total number of aid officials already exceeded the combined number of all non-Soviet Communist diplomats. Moreover, the representatives of these organizations were allowed to visit even those areas from which the Soviet Bloc diplomats were barred "on security grounds." While the activity of the "fraternal" diplomats remained confined to Phnom Penh, the aid officials managed to establish contacts with the provincial and district authorities as well.³⁴

Having realized that the withdrawal of Vietnamese troops from Cambodia was likely to stimulate Japanese, US, French and Chinese investments in the PRK, Chatichai concluded that he should act quickly if Thailand wanted to gain a substantial share of the Cambodian market. In fact, Singapore had already become Cambodia's largest non-Communist commercial partner, though its official diplomatic stance toward the PRK was more inflexible than that of the other ASEAN states. To overtake his competitors, the Thai premier decided to establish a "special relationship" with Hun Sen and earn his favors, even if this required certain unusual moves. As described before, in the summer of 1989 the Thai military went so far as to provide the Cambodian general staff with information about the operations of the Khmer Rouge guerrillas. By September, not only were the offices of the two premiers linked via direct satellite communication but their wives also forged a close personal relationship, not the least because the spouse of Hun Sen, nicknamed the "Iron Lady" of Cambodia's ethnic Chinese community, was deeply involved in the rapidly growing legal and illegal trade between Cambodia and Thailand.³⁵

Anxious to isolate the Khmer Rouge and find new economic partners, Hun Sen was ready to cooperate with Thailand in general and Chatichai in particular, whereas his conservative rival, General Secretary Heng Samrin, still preferred to rely on Vietnam.³⁶ The conflict between the two KPRP factions became so embittered that in August 1989 two high-ranking

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1 pro-Heng Samrin military officers, who had attempted to stamp out the
2 corruption fueled by the massive smuggling activity between Thailand,
3 Cambodia and Vietnam, were assassinated on the orders of persons
4 belonging to Hun Sen's inner circle whose financial interests seem to have
5 been threatened by the officers' investigation.³⁷

6 The Soviet Bloc also became involved in the competition between the
7 two Cambodian factions. Soviet dislike for the Vietnamese-backed Heng
8 Samrin clearly manifested itself during his visit to Moscow in 1989 when he
9 repeatedly, but unsuccessfully, asked for a meeting with Gorbachev. Heng
10 was received only by Anatoly Lukyanov, a candidate member of the CPSU
11 Politburo, who concluded that his views sharply differed from the ones
12 which Hun Sen expressed during his meeting with Shevardnadze.³⁸ Those
13 Cambodian cadres who sought to restructure the economy along market-
14 oriented lines often cited Hungary's recent economic reforms as a preced-
15 ent. The inspiration of Hungarian models was clearly perceptible in the
16 measures they took to attract FDI, encourage private entrepreneurship,
17 increase the autonomy of SOEs, and decentralize the banking sector.³⁹

18 Even after the introduction of a multiparty system in Poland and
19 Hungary, Cambodian reformers continued to show great interest in these
20 countries.⁴⁰ Their attitude stood in marked contrast to that of Vietnamese
21 leaders, whose sympathy for the "Hungarian model" was confined to the
22 economic sphere. At the 7th plenum of the VCP CC (August 1989),
23 General Secretary Nguyen Van Linh sharply condemned the process of
24 East European democratization.⁴¹ In Phnom Penh, many cadres were of
25 the opinion that Linh's critical comments had been partly motivated by
26 the desire to discourage the Cambodian government from implementing
27 any "excessively" radical reforms.⁴²

28 The political changes in Eastern Europe in 1989 had a negative effect
29 on Soviet-Vietnamese relations, too. Following the 7th plenum, the VCP
30 leadership prohibited high-ranking party cadres from undergoing ideo-
31 logical education in the Soviet Union, and sent a number of Soviet-trained
32 generals into forced retirement. At the same time, however, Hanoi contin-
33 ued to request Soviet assistance with various massive projects, such as the
34 construction of power transmission lines between Vietnam, Laos, Thailand
35 and China. These pleas fell on deaf ears, because the Kremlin decided to
36 "freeze" its economic cooperation with Vietnam until the two sides
37 managed to find ways to make the Soviet-financed projects more profit-
38 able.⁴³ In fact, Soviet commitment to Indochina had been steadily decreas-
39 ing since Gorbachev's Krasnoyarsk speech (September 1988). The number
40 of Soviet civilian and military advisers in Vietnam – 10,000 and 15,000,
41 respectively, in early 1989 – was to be halved by the end of that year, and
42 then reduced to 10 percent within two years.⁴⁴ Similarly, in January 1989
43 there were only 600 Soviet civilian and military advisers in Cambodia (half
44 as many as a few years before), and nearly all military advisers (about 80
45 persons) were to be recalled by the end of that year.⁴⁵





Shocked by the successive dismantling of East European Communist regimes, the VCP leaders initially thought that the main error to be avoided was adopting a too “soft” position. In December, however, the unexpected downfall and execution of Romanian leader Nicolae Ceau escu, the Warsaw Pact’s most repressive dictator, revealed that excessively hard-line policies might lead to even worse consequences. In the light of the Romanian events, the Vietnamese leaders started to approve the peaceful and smooth nature of Hungary’s transition, but remained committed to the preservation of one-party rule. As they put it, the introduction of a multiparty system would create a situation in which “we might be able to retain a hold over the North but the southern part of the country would be lost within two or three months.”⁴⁶

Facing the East European wave of democratization, the Laotian regime adopted a position that was neither as flexible as Cambodia’s approach nor as hostile as Vietnam’s. At the 8th plenum of the LPRP CC (November 1989), the leadership concluded that the East European model of transition was not applicable to Laos. Enumerating the errors which cadres were to avoid, the plenum focused its criticism on such “negative phenomena” as “unrestrained freedom and democracy.” Remarkably, the condemnation of bureaucratic and dictatorial methods was only the very last item on the list. Nonetheless, Lao leaders refrained from castigating Eastern Europe’s transition in any explicit way.⁴⁷

The growing rift between Indochina and the disintegrating Soviet Bloc was paralleled by the cracks which appeared in the trilateral Vietnamese–Laotian–Cambodian alliance. Once Vietnamese troops were withdrawn from Laos and Cambodia, there were insufficient grounds to justify either the continued presence of the ubiquitous Vietnamese advisers or Hanoi’s economic domination over its satellites. Actually, conflicts over economic issues had constituted a major element of post-1979 Vietnamese–Cambodian and Lao–Vietnamese disputes.

For example, in 1985 a Cambodian diplomat told a Hungarian colleague that the new currency exchange rates, set by a recent Vietnamese monetary reform, were disadvantageous to both Cambodia and Laos. Unfortunately, he lamented, “it is more difficult to raise such problems to one’s closest friend than to the more distant ones.”⁴⁸ The Vietnamese government, anxious to partly recover the massive expenses of stationing troops in the PRK, obtained Cambodia’s valuable raw materials at below-market prices, and re-exported them with a substantial profit. Such transactions deprived Cambodia of a revenue of \$50 million per annum – half as much as Hanoi spent on occupying its small neighbor.⁴⁹ The Cambodian cadres resented that their Vietnamese advisers tried to prevent the PRK from establishing direct commercial relations with Thailand, Singapore and Hong Kong, and often retaliated by intentionally misinforming the advisers or simply refusing to carry out their instructions.⁵⁰

Thanks to the end of the Cold War, Hanoi’s satellites gradually increased their room for maneuver. For instance, in late 1987 – that is,





1 when Vietnam decided to withdraw its troops from Cambodia – the Viet-
2 name and Laotian governments finally resolved a problem that had irrit-
3 ated the LPRP regime ever since it came to power in 1975. Due to the
4 recurrent Lao–Thai disputes, COMECON aid shipments to Laos were
5 usually transported via Da Nang, which enabled Vietnamese authorities to
6 misappropriate a substantial part of the goods. For a long time, the Lao
7 cadres received little more than evasive replies to their complaints, but
8 now, under the changed circumstances, they managed to persuade Hanoi
9 to assume responsibility for the transport of goods to the Laotian border.⁵¹
10 As an additional guarantee, they sought to find alternative economic part-
11 ners. In June 1989, a Lao diplomat told a Hungarian colleague that LPRP
12 leaders, anxious to lessen their dependence on Hanoi, decided to pursue
13 a policy of equidistance between their three powerful neighbors: Vietnam,
14 China and Thailand.⁵²

15 In fact, the decline of Soviet–Vietnamese cooperation and the weaken-
16 ing of Vietnamese control over Laos and Cambodia were closely interre-
17 lated. On the one hand, the reduction of Soviet support undermined
18 Hanoi’s capacity to act as a regional hegemon; on the other hand, the dis-
19 solution of the IndoChinese Bloc lessened Vietnam’s interest in collabo-
20 rating with Moscow. After all, the Soviet–Vietnamese alliance had been
21 based not only on cooperation against China but also on the Kremlin’s
22 acquiescence in Vietnam’s dominance over Laos and Cambodia. As early
23 as during the Cambodian civil war (1970–1975), the Soviets made it clear
24 that they did not intend to compete with Hanoi in Indochina. When the
25 Cambodian guerrillas asked the Communist powers to provide them with
26 direct assistance, Moscow insisted on sending its aid shipments through
27 North Vietnam, whereas Beijing had no compunctions about bypassing
28 Hanoi.⁵³

29 This link between Soviet–Vietnamese cooperation and Moscow’s acqui-
30 escence in Hanoi’s regional ambitions also meant, however, that any
31 Soviet attempt to criticize Vietnam’s Indochina policy was bound to alien-
32 ate the VCP leadership. Even at the zenith of Soviet–Vietnamese coopera-
33 tion, Hanoi jealously guarded its Laotian and Cambodian fiefdoms against
34 any unwanted Soviet interference, to the extent that a substantial part of
35 the brand-new Soviet military equipment shipped to the Cambodian army
36 failed to arrive, because the Vietnamese intercepted it, and sent used arms
37 and vehicles instead.⁵⁴ As a consequence, Gorbachev’s efforts to persuade
38 (or force) Hanoi to withdraw its troops from Cambodia, coupled as they
39 were with the reduction of Soviet economic aid, resulted in a rapid deteri-
40 oration of Soviet–Vietnamese relations, and induced the VCP leaders to
41 seek new economic and political partners.

42 The decrease of COMECON assistance compelled the Indochinese
43 Communist regimes to improve their economic performance by introduc-
44 ing various market-oriented reforms, such as Vietnam’s famous *doi moi* and
45 the LPDR’s New Economic Mechanism. These reforms, however, could





not eliminate the long-standing aid-dependency of those countries overnight.⁵⁵ Continued access to external financial resources remained a vital necessity, and since neither aid nor FDI could be obtained without substantial diplomatic and economic adjustment to the expectations of the potential new partners (ASEAN, Japan, Western Europe and the US), the latter gained substantial leverage over the policies of the Indochinese regimes. Such adjustment was greatly facilitated by the fact that Vietnam did not regard the ASEAN countries, with the partial exception of Thailand, as a strategic threat. On the contrary, ASEAN, and particularly Indonesia, appeared to be a potential and much-needed counterweight to China. Moreover, Indochinese Communist leaders, impressed by the spectacular economic boom of the Newly Industrialized Countries (NIC) and anxious to find a formula that would enable them to develop their economies without dismantling their dictatorial political systems, concluded that the “NIC model,” in which rapid modernization had been achieved under authoritarian or, at best, semi-democratic regimes, was certainly applicable to their own conditions.⁵⁶

Fortunately for the Indochinese countries, their non-Communist neighbors were as much interested in economic cooperation as the leaders in Hanoi, Vientiane and Phnom Penh, and, thus, the latter’s requests to gain accession to ASEAN did not fall on deaf ears. In fact, the idea of joining ASEAN in the future was discussed by the Vietnamese leaders as early as June 1978.⁵⁷ Nevertheless, these early initiatives were made in the context of Hanoi’s anti-Chinese strategy, and ASEAN, unwilling to get involved in the Sino–Vietnamese conflict, was not yet ready for such a step. After the end of the Cold War, however, the withdrawal of Vietnamese troops from Cambodia and the normalization of Sino–Vietnamese relations opened new avenues for Vietnam, Laos and Cambodia, which eventually joined ASEAN in 1995, 1997 and 1999, respectively.⁵⁸

All in all, economic factors seem to have played a major role in reshaping the balance of power in Indochina and enabling the local Communist leaders to overcome the legacy of the Cold War. This importance of the economic dimension was rooted partly in the extremely aid-dependent nature of the Indochinese economies – which made their governments quite susceptible to the pressures or inducements of their actual and potential aid donors – and partly in the attractive economic performance of their non-Communist neighbors.

To be sure, the role of economic factors was not equally decisive in every political change in Indochina. For instance, the gradual normalization of Sino–Vietnamese relations was hardly, if at all, motivated by economic considerations. While the resuscitation of border trade, initiated by the VCP Politburo in November 1988, did constitute an integral element of the reconciliation process, in the early 1990s the prospect of large-scale Chinese investments was still regarded in Vietnam as neither likely nor particularly desirable.⁵⁹ Nor could the rapid development of post-1988

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1 Thai–Indochinese economic cooperation overcome the political obstacles
 2 created by China’s commitment to the Khmer Rouge. As Ben Kiernan
 3 points out, the intervention of Washington and Beijing ultimately over-
 4 ruled regional initiatives to exclude the Khmer Rouge from the Cambod-
 5 ian peace settlement, for Thailand found it advisable to adapt to the
 6 preferences of its Chinese and US allies.⁶⁰

7 Still, the economic aspects of Indochina’s post-Cold War realignment
 8 should not be underestimated. The attractive prospects of mutually benefi-
 9 cial economic cooperation with ASEAN – a practice largely absent in the
 10 relationship between Indochina and the Soviet Bloc – greatly sweetened
 11 the pill which the VCP leaders had to swallow in 1987–1989, and served as
 12 a much-needed lubricant in the process of Thai–Vietnamese, Vietnamese–
 13 Indonesian, Lao–Thai, Sino–Laotian and Thai–Cambodian rapproche-
 14 ment. Committed to the ideas of economic cooperation and political
 15 non-interference ever since its establishment, ASEAN constituted a favor-
 16 able external environment for the economic reforms launched by Indo-
 17 chinese Communist leaders, to whom the end of the Cold War was by no
 18 means a victory, but it was not an utter defeat, either.

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