



# How One Becomes an Entrepreneur in a Transitional Economy? The Case of Manufacturers in Laos

Tachibana Towa

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**Towa TACHIBANA**

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Graduate School of International  
Cooperation Studies  
Kobe University

How One Becomes an Entrepreneur  
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The Case of Manufacturers in Laos

Towa Tachibana<sup>1</sup>

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<sup>1</sup>Graduate School of International Cooperation Studies, Kobe University, 2-1 Rokkodai, Nada, Kobe 657-8501, Japan; E-mail: ttachi@kobe-u.ac.jp. The author is indebted to Ms. Chintana Khouangvichit and Mr. Visansack Khampengvong for their excellent work as interpreters in the interviews.

**Summary.** — With the exhaustive life histories of 24 manufacturers in Laos, we address two issues concerning entrepreneurial supply in transitional economies: the impacts of open-economy policy and the “trigger” for entrepreneurial choice. We do not focus on the personal attributes of entrepreneurs but on their rational choice between the expected returns from entrepreneurial and traditional activities. We found that experiences in and with foreign institutions facilitate the entrepreneurial choice in modern manufacturing sectors; these experiences appear to reduce uncertainty in new business opportunities. Moreover, those entrepreneurs who rely on connections with government offices seem to choose relatively traditional products, e.g., furniture.

**Keywords:** entrepreneurial supply, transitional economies, foreign factor, connections with government offices, South-east Asia, The Lao PDR

## 1 Introduction

In market economies, entrepreneurs are a primary driving force of economic growth as they find and realize new businesses. In transitional and developing economies, entrepreneurs are much more important than those in industrialized economies because they not only realize new businesses but also introduce the market system itself to their countries (McMillan and Woodruff 2002).

Compared to its importance, entrepreneurial supply has not been a popular topic in mainstream economics (Kilby 1971). Baumol (1993, Ch. 1) points out that the basic nature of entrepreneurs, who are incapable of being in the status quo and always bring changes, makes its description in formal economic theory almost impossible. Except for several pioneering studies, such as Lazear (2005) and Vereshchagina and Hopenhayn (2009), entrepreneurial supply has been formalized as an exogenous factor to the economy. Most empirical studies have focused on the impacts of institutional problems, especially borrowing constraints, on entrepreneurship in developed economies (Hurst and Lusardi 2004 and the references therein). Recently, however, an exceptional research project has been completed on entrepreneurship in transitional and developing countries. Djankov et al. (2005, 2006b, 2008) conducted large-scale micro surveys on both entrepreneurs and non-entrepreneurs in Russia, China, and Brazil. Djankov et al. (2006a), for instance, find that social networks play an important role in both Russia and

China. But, Russia, China, and Brazil have large populations, and had accumulated substantial industrial infrastructure under strong governments before initiating their transitions to market economies. One may claim, therefore, that it is difficult to generalize the experiences of these three economies to the majority of transitional and developing economies.

This paper exploits the case of manufacturers in Laos to contribute to the knowledge about entrepreneurial supply. The author conducted detailed interviews with 24 manufacturers in Vientiane, the capital city of Laos, focusing on their personal histories up until they established their current manufacturing businesses. Small sample size and no control group of non-entrepreneurs mar a statistical analysis. Instead, the exhaustive life histories of the manufacturers in the sample enable us to investigate two important issues concerning entrepreneurial supply that previous studies with large data sets have not focused on.

The first issue is the effects of experiences in and with foreign institutions. There are two competing views about the impacts of international trade and foreign direct investment (FDI) on indigenous entrepreneurial supply in developing economies. Grossman (1984), for example, provides a general equilibrium model in which both international trade and FDI reduce the supply of local entrepreneurs. Hirschman (1958, pp. 38–39, 120–125), in contrast, stresses the positive role of imports and FDI for revealing potential markets to local entrepreneurs. Meticulous accounts on the source of entrepreneurs' business ideas may reveal the comprehensive impacts of foreign factors on the local entrepreneurial supply.

The second issue we tackle with the detailed life histories of entrepreneurs is the incidents that propel *potential* entrepreneurs toward a bold occupational choice: abandon a stable and often prestigious occupation such as employment at a state-owned enterprise for starting one's own factory. Since not all individuals with a similar social background become entrepreneurs, knowledge about the "trigger" for their occupational choice provides valuable information for designing policies to promote new enterprises. To gain a concrete image of such bold occupational choice, we use a rudimentary two-period model in which leaving the occupational ladder in traditional society is an irreversible decision.

Laos provides an interesting case for the study of entrepreneurial supply because it had virtually no period of private-enterprise economy before 1986, the year when market-oriented economic reform was initiated. A closed socialist economy after French colonialism and civil war resulted in a state-enterprise economy with few modern industries (Stuart-Fox 1997, p. 193). With the sample of Lao manufacturers, we can study the emergence of entrepreneurs in the genuine start of a market system. The case of Laos may find some similarity with the modernization of Japan after the Meiji Revolution in 1867 (Hirschmeier 1964) and the nation-building of Pakistan after partitioned independence in 1947 (Papanek 1967), with which we implement some comparisons.

There are three reasons why the study is limited to manufacturers. First, as noted above, manufacturing is virtually a new sector to Laos. Second, manufacture requires a relatively large amount of initial investment compared to trading and service businesses. Under severe economic conditions, many Laotians have been engaged in side-businesses, mainly in small trading. Focusing on manufacturing precludes such side businesses from our study. Lastly but most importantly, in many developing countries, manufacturing suffers from low levels of entrepreneurial activity so that its promotion has been a key policy issue. Kilby (1971) emphasizes that manufacture requires the intensive engagement of entrepreneurs for production planning, quality control, training of employees, etc., most of which are new concepts to transitional and developing economies. Lack of knowledge about such new concepts often retards entry into manufacturing more seriously than borrowing constraints.<sup>1</sup> Section 5 of this study describes the difficulties the Lao manufacturers faced in founding their firms, and how they overcame such difficulties.

This paper proceeds as follows. Section 2 briefly summarizes the historical background of Laos after the end of French colonialism. Section 3 defines the entrepreneurs in this study, then displays a guiding model on the emergence of entrepreneurs. The model does not focus on the

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<sup>1</sup>For example, Hirschmeier (1964, pp. 41–42) points out that in the case of Japan after the Meiji Revolution, most of the large wealthy merchants from the feudal period did not invest in industrial enterprises.

personal attributes of entrepreneurs but on *rational* choice: comparing expected returns from entrepreneurial and traditional business. The model is used to discuss the possible determinants of entrepreneurial supply. The first part of section 4 explains the research method of the paper. Then we discuss the general observations of our 24 respondents. In section 5, to obtain concrete images of Lao entrepreneurs, we study the personal histories of four representative respondents. The two main issues of the paper, the impacts of experiences in and with foreign institutions and the triggers for entrepreneurial choice, are described in detail. Great care is taken, however, not to reveal the respondents' identity. In section 6, using the framework of our guiding model, we search for common factors between the four respondents in section 5 and the other respondents.<sup>2</sup> We find that mainly through reducing uncertainties in expected difficulties in new businesses, and consequently in profit forecasts, experiences in and with foreign institutions seem to increase rational investment in *modern* manufacturing. For instance, joint ventures with foreign firms allow local businessmen to come in contact with the business practices of a market system, e.g., quality control. Local businessmen, thereby, gain knowledge about how to evaluate the difficulties they will need to deal with if they choose to be entrepreneurs. Section 7 concludes the paper. Our study suggests that promoting FDI and international trade is an effective policy for increasing the supply of *rational* entrepreneurs in transitional countries with small domestic markets. This is important because there are few options to affect the supply of true innovators such as Steven Paul Jobs.

## **2 Historical and Economic Background**

After the three-decade long civil war against the Royal Lao Government (RLG), the communist party (at that time more broadly organized as *Pathet Lao*) took power in 1975, and established the Lao People's Democratic Republic (Lao PDR). The transition accompanied an exodus of most of the educated Lao population. By 1980, about 10% of Laos's population had fled the

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<sup>2</sup>The details of all the interviews are available from the author upon request.

country (Stuart-Fox 1997, p. 227; Evans 2002, p. 178). The new regime initially pursued radical reforms, e.g., collectivization of the agricultural sector, to construct a communist economy. These radical reforms failed, and the government made a first step toward market-oriented socialism as early as December 1979 by introducing greater use of market prices and lifting some restrictions on private enterprises (Evans 2002, p. 195). In 1986, the Lao government openly adopted the market-oriented economic policy known as the New Economic Mechanism (NEM), which consists of legal authorization of private-enterprise formation, price liberalization, operational freedom for state enterprises, etc. From 1988, the government began to encourage FDI in the country (Funck 1993).

Here, we need a note about terminology. The transition to the Lao PDR in 1975 was “a slow takeover” (Evans 2002, pp. 174-175) by the communist party entailing social and political turmoil. Noting the possibility of some misleading descriptions, this paper refers to this transition simply as “the 1975 revolution”.

### **3 Analytical Framework**

#### **3.1 Definition of Entrepreneur**

The definition of entrepreneur used in this study is neither the Schumpeterian nor the self-employment which is often adopted in empirical studies (e.g., Blanchflower and Oswald 1998; Hurst and Lusardi 2004; Yueh 2009). As emphasized by Kilby (1971), with a huge stock of foreign technologies, innovation in the Schumpeterian framework is not an integral function of entrepreneurs in transitional and developing economies.

Similarly, operating an independent business is not a satisfactory definition for entrepreneurs in developing economies. In fact, a main feature of developing economies is the informal sector filled with self-employed workers with little physical capital. A disparate phase of economic development is the large-scale transformation from such self-employment status to wage work.



Entrepreneurs in developing countries are those who give rise to this transformation of the working arrangement (Dias and McDermott 2006).

In simple terms, an entrepreneur is defined in this study as an individual who 1) has founded a manufacturing business and owns a factory or factories, and 2) in that manufacturing business, currently hires several workers other than family members.<sup>3</sup> The requirements for factory ownership and non-family member employees are in order to exclude artisans in the informal sector. More details will be provided and discussed along with the model.

### 3.2 A Guiding Model

What is the essential element of entrepreneurship in transitional and developing economies? In transitional and developing economies, to be an entrepreneur, one needs to break from traditional social values (Hirschmeier 1964, p. 290; Papanek 1967, Ch. 2; Harris 1969). More specifically, potential entrepreneurs often have to leave established occupations such as government officers, farmers, and traders in traditional sectors.<sup>4</sup> Thereafter they initiate new businesses which have been, in many cases, uncommon to their society. In transitional and developing economies, a challenging spirit seems to be the most important qualification of entrepreneurs. The existing literature on entrepreneurship, e.g., Vicente-Wiley (1979), Djankov et al. (2005), and Yueh (2009), has rightly tested aggressive and assertive personal traits as determinants of entrepreneurial supply.<sup>5</sup>

We should, however, note that the majority of entrepreneurs are *not* reckless adventurers. Seemingly bold choices by entrepreneurs often reflect their competence in precisely evaluating

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<sup>3</sup>Baumol (1993, p. 9) discusses that the first criteria, founding a business and managing it, is inappropriate for defining an entrepreneur, because “the establishment of new firms may entail little that is innovative”. Our definition of entrepreneurs is, however, not against the one given by Baumol (1993, p. 7): “any member of the economy whose activities are in some manner novel”. Private manufacturing business has been novel in Laos.

<sup>4</sup>This is especially the case for manufacturers because, as was pointed out above, manufacturing business requires the intensive engagement of managers in planning, quality control, etc. Consequently it is difficult to initiate manufacturing business as a sideline.

<sup>5</sup>In contrast, Vereshchagina and Hopenhayn (2009) provide a model explaining excessive entrepreneurial risk taking without assuming special personal traits. Their key assumption is reversible occupational choices, which give agents insurance against the failure of new business.

the expected difficulties and/or returns from new businesses. If the expected return from a new business is surely higher than that from traditional activities, *rational* agents choose to become an entrepreneur. Papanek (1967, pp. 34–36) provides a vivid example of this comparison of business returns in Pakistan in the 1950s.<sup>6</sup>

It is instructive to consider a simple two-period model of rational entrepreneurial choice. Suppose an individual in a transitional economy who lives for two periods. She currently holds a position in the traditional sector, say, in a state enterprise which pays her  $W$  for each period. She also finds an opportunity to start a new manufacturing business that brings her cash flow  $B$  in the first period with a set-up cost for a factory  $I$ . In the second period, however, the profit from this manufacturing business is uncertain, which is intrinsic in new businesses. The simplest specification of this uncertainty in the second period is a cash flow  $B + \sigma$  with a probability of  $1/2$  and a cash flow  $B - \sigma$  with a probability of  $1/2$ , where  $\sigma$  encapsulates the uncertainty in new businesses: the *expected* standard deviation in business profit.

The entrepreneurial choice for the agent is to leave her current position in a state enterprise and set up her own factory. The condition for a rational entrepreneurial choice is

$$U(B - I) + \frac{1}{2}\beta\{U(B + \sigma) + U(B - \sigma)\} > (1 + \beta)U(W), \quad (1)$$

where  $U(\cdot)$  is a concave and strictly increasing utility function, and  $\beta$  is her subjective discount factor. The left-hand side of condition (1) is the life-time utility from setting up a new factory in the first period, while the right hand is the life-time utility from staying in the traditional sector. A key assumption is the irreversibility of the entrepreneurial choice. In period 2, even if she finds a bad business climate, she cannot sell the factory to recover  $I$ . In addition, once she quits the state enterprise, she cannot return to that position. We assume rigidly irreversible costs to focus on the bold occupational choice of entrepreneurs. In many transitional and developing economies, entrepreneurial choices are at least partially irreversible.

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<sup>6</sup>Papanek's emphasis is, however, on the impacts of flagging traditional activities, not on the uncertainty in new businesses (Papanek 1967, p. 55).

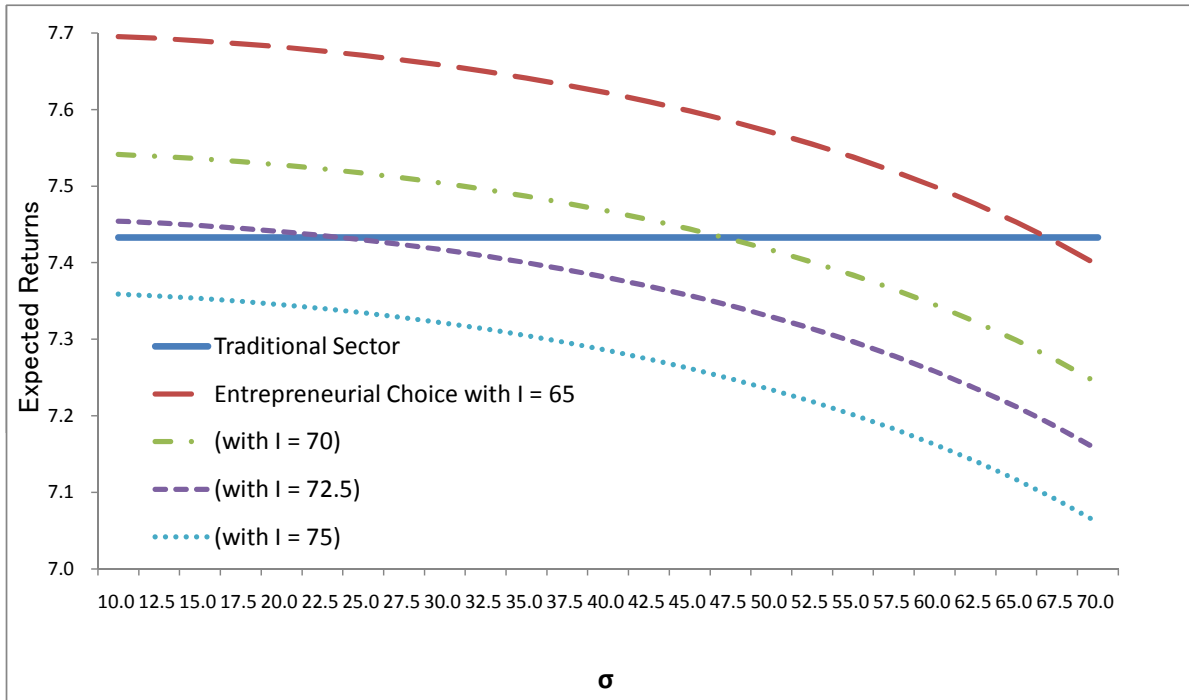


Figure 1: Returns in the Traditional Sector and Entrepreneurial Choice

Figure 1 shows numerical examples of condition (1) using a log utility function with  $B = 100$ ,  $W = 50$ , and  $\beta = 0.9$ . We can see the sizable impact of  $\sigma$  for several values of  $I$ .

### 3.3 Possible Determinants of Entrepreneurial Choice

A cursory examination of condition (1) reveals that a lower  $W$  and a higher  $B$  will improve the entrepreneurial supply. In other words, in this very simple framework, factors that improve social status in general do not have clear impacts on entrepreneurial supply. This is because high social status is likely to improve both  $W$  and  $B$ . Those who are assured of a successful career in a state enterprise may not venture into a new business even though it has a high expected profit. In contrast, factors reducing the uncertainty of new businesses,  $\sigma$ , clearly enhance the entrepreneurial supply given that all agents are risk averse.

In order to focus on the two main issues, the impacts of foreign factors and triggers for entrepreneurial choice, in the following sections, here we briefly discuss the possible impacts of

three alleged determinants of entrepreneurial supply in Lao society. They are a higher education, family background, and work experience.

A higher education can enhance the ability to find profitable new businesses ( $B$ ). In Laos, however, a higher education also improves the prospect of success in some traditional sectors, especially in state enterprises and government offices. The same argument is applicable to family connections with the authorities. In the case of Laos, the authorities are central and local governments, and the army. Family connections with the authorities may facilitate entrepreneurial choice through implicit support from government offices: a lower  $I$  or  $\sigma$ . Strong family connections with the government, however, also give one a competitive edge when working for the government: a higher  $W$ . In short, in condition (1), the net impact of a high education and family connections with the authorities are not clear.

There are two competing views concerning whether a member of a rich family is at an advantage in becoming an entrepreneur (refer to, for example, Whyte 1996). In economies without well-developed financial markets, a rich family can 1) lessen liquidity constraints on capital requirements for starting new businesses, and 2) provide group insurance against the failure of business. Both are likely to facilitate entrepreneurial choice. The rich family background, however, may dampen risk-taking spirit. In tackling the triggers of the Industrial Revolution, Doepke and Zilibotti (2008) construct a model of endogenous preference formation. One of the main predictions of their model is that, even in an economy where financial markets are mostly absent, capitalists initially rise from the middle class which faces a steeper life-time income profile. This is because under a flat age-earnings profile, both the rich landowner class and the poor farmer class develop less patience and a greater preference for leisure. Consequently they have no patience to wait for the return on capital. In our simple model, the first view is reflected by lower  $I$  and  $\sigma$  through implicit collateral and insurance provided by family wealth. The second view works through the value of the subjective discount rate. Which impact dominates is an empirical question.

Work experience in government offices is likely to facilitate entrepreneurial choice. Per-

sonal connections in the authorities, which have been built up while working in the government or the army, usually lower  $\sigma$  or  $I$  by eliciting implicit support from the old outfit. For example, companies set up by retired officials often obtain orders from government offices, or are required to complete less paper work when obtaining business licenses. In addition, the various information available at government offices may reveal niches for new businesses. We should note the difference between family connections with the authorities and personal connections in the authorities. The latter is based on work experience, and realized only for those who have left the offices of the authorities. By definition, personal connections in the authorities do not provide an advantage in staying in traditional sectors.

Our major interest is in the effects of work experience in and with foreign institutions and a long-term stay in foreign countries. Such experience can provide individuals with a good perspective of potential new business to their economy: consequently a lower  $\sigma$  in condition (1). This is simply because they have directly observed that business in other countries, or have engaged in that business. Hirschmeier (1964, Ch. 7) describes that several entrepreneurs in Meiji Japan, who had visited abroad, stubbornly continued to invest in modern technologies at the time, such as spinning machines, railroad, and steam-engine ships. This firm belief in the success of modern technologies can be interpreted as a lower  $\sigma$  in new businesses for these Japanese entrepreneurs. They had observed societies where industries with such modern technologies were common.

## **4 Empirical Method and General Results**

### **4.1 Interviews**

The research methodology of this study is different from the representative existing studies that employ large data sets (Blanchflower and Oswald 1998; Djankov et al. 2005, 2006b; Lazear 2005). The author conducted detailed interviews with 24 entrepreneurs in the manufacturing

sector in Vientiane, the capital city of Laos. Most of the entrepreneurs were identified by factory buildings observed as the author drove through the streets of Vientiane and its outskirts.<sup>7</sup> The interviews were held in 2005 without using a questionnaire. Except for the number of current employees, no questions on accounting numbers, such as profit, sales, and debt, were raised. This was to avoid creating unnecessary caution by respondents. The interviews instead focused on the personal histories of the respondents up until they established their current manufacturing businesses. There were also questions on family background, grades in school, source of start-up funds, positions of siblings, etc.

A detailed unstructured interview is appropriate for exploring 1) how the respondents obtained the idea for their manufacturing business, 2) the incidents that triggered the entrepreneurial choice of the respondents, and 3) what kind of difficulties they faced at the time of startup. These three issues are our main interest.

Three caveats are in order here. First, as was discussed above, an important element of family background is whether the respondent had an affluent childhood. This is, however, largely a subjective issue. In this study, respondents who went to secondary school and above without financial support from relatives or scholarship are associated with wealthy families. For the past several decades, this has been a reasonable definition of “wealthy family” in Laos considering its poor educational infrastructure. For those respondents who did not go to secondary school, the wealthy family was defined based on respondent’s recall and occupations of parents.

Second, family connections with the authorities mean that at least one parent, sibling, or relative is a high ranked bureaucrat, politician or military personnel.

Lastly, an integral part of our interviews are questions on personal information. In this paper, some of the personal information is concealed to avoid revealing the identities of the respondents. For example, if a respondent worked for a foreign firm from Australia or Canada, this experience is expressed as “worked in a foreign firm from a Western country”.

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<sup>7</sup>A few entrepreneurs were sampled based on the telephone book. Firms listed in the telephone book, however, often did not exist at the listed location.

## 4.2 General Observations

Table 1 summarizes the manufacturing businesses of our respondents. Twenty-four respondents are sorted by the size of the manufacturing firms they manage, where firm size is measured by the number of employees. Among the firms, there are four garment factories, four wood processing factories such as furniture manufacturers, and three drinking water factories. Since the early 1990s, the garment industry has grown rapidly in Laos thanks to privileged market access to EU countries under the Multi Fibre Arrangement (UNIDO 2002). Timber has been a main export good of Laos, and the expansion of this industry has led to deforestation problems (World Bank 2007). Under stricter regulations on forest resource extraction, our respondents often utilized connections with government offices to procure their materials. The drinking water industry is relatively easy to enter. Our respondents in this industry have water factories with careful quality control.

Table 2 shows the family background of the respondents. Eight respondents have parents or a parent who came from a neighboring country (columns (1) and (2)). This is not a salient feature because a significant portion of the population of the Lao area has consisted of individuals with Vietnamese and Chinese backgrounds since the French colony era (Evans 2002, p. 71). Concerning family wealth, half of the respondents come from wealthy households (column (3) of table 2). Note, however, that wealthy here means households who can send their children to secondary schools and above. Only three respondents come from significantly rich families, with industrialists or managers of state enterprises as their parents.

Finally, table 3 shows the age and sex of our respondents as well as their experiences and education. On average, our respondents are not young. Nineteen out of 24 respondents are older than 40. This means that they experienced the transition to the communist regime in or after their teens. The high average age of respondents may simply reflect the fact that one usually needs some work experience and social trust to initiate a manufacturing business that requires a relatively large investment in production facilities. This could be indicated by the fact that

Table 1: Type of Business and the Size: 24 Respondents

(1)	(2)	(3)	(4)	(5)
Main Product	Number of Employees	Relatives among Employees	Number of Other Companies <sup>a)</sup>	Maintain Business in Traditional Sector <sup>b)</sup>
1 Mineral Water	NI (Many)	>1	3	Y
2 Mattress	NI (Many)	> but not many	2	Y
3 Garment	530	> <sup>c)</sup>	2	N
4 Garment	500	>	1	N
5 Garment	450	>	0	N
6 Cement	150	NI	0	N
7 Wood Products, Furniture	140	>	1	N
8 Steel Roofing	125	>	4	Y
9 Lumber	70	> but not many	0	N
10 Wood Products	65	NI	2	Y
11 Remodeling of Imported Used Cars	60	0	1	Y
12 Garment	60	>	0	N
13 Food Processing	55	NI	2	N
14 Remodeling of Imported Used Cars	34	> 3	0	N
15 Printing	33	5	0	N
16 Medical Equipment	NI	NI	> 5	Y
17 Notebook	25	> 2	1 <sup>d)</sup>	Y
18 Plastic Bottle	25	NI	1	Y
19 Automobile Parts	25	0	0	N
20 Concrete Poles	18	1	3	N
21 Furniture	16	0	0	Y
22 Purified Water	15	5	0	N
23 Purified Water	10	6	1	Y
24 Ceiling Decoration Board	5	3	0	N
Number of Y (%)				10 (42%)

a) Simply count the firms a respondent manages. If a respondent manages another company producing the same good as in column (1), we count 1 in this column.

b) Includes trading, retail shops, guest houses, and positions in state enterprises.

c) Indicates that there are relatives working in the company under our investigation, but the exact number is unknown.

d) Excludes the state enterprise which respondent 17 has been managing.



Table 2: Family Background of 24 Respondents

	(1) Parents' Original Nationality <sup>a)</sup>	(2) (If different between Father and Mother)	(3) Wealthy Family	(4) Parents' Job	(5) (If different between Father and Mother)	(6) Family Connections with the Authorities
1	Laos	Neighboring C. <sup>b)</sup>	Y	Retail store		Y
2	Laos		Y	Farmer		Y
3	Neighboring C.		Y	Trader	Trader	N
4	Laos		N	Farmer		N
5	Laos		Y	Government officer	Private company	Y
6	Laos		N	Farmer		N
7	Laos	Neighboring C.	Y	State company		Y
8	Neighboring C.		N	Farmer		N
9	Laos		N	Officer of RLG <sup>c)</sup>		N
10	Neighboring C.		Y	Trader		N
11	Laos		Y	Store Owner		N
12	Laos		Y	Housekeeper		N
13	Laos		N	Local government officer		Y
14	Laos		N	Farmer		N
15	Laos		N	Farmer		N
16	Laos	Neighboring C.	Y	Industrialist		Y
17	Laos		N	Farmer		N
18	Laos		N	Farmer		N
19	Laos		Y	Manager of state enterprises	Manager of state enterprises	Y
20	Laos		N	Farmer		N
21	Lao		Y	Farmer		N
22	Laos		N	Farmer		N
23	Neighboring C.		Y	Tailor	Trader	N
24	Neighboring C.		N	Barber		N
Number of Y (%)			12 (50%)			7 (29%)

a) There is a large Vietnamese and Chinese ethnic population in Laos. Except for the case of one respondent, nationality and ethnicity match for our cases.

b) Indicates one of the three neighboring countries: Vietnam, China, or Thailand.

c) The Royal Lao Government, which was replaced by the current communist government in 1975.

Table 3: Experiences and Education of 24 Respondents

(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Age as of		Experiences before the Manufacturing Business			
Sex	Interview	First Business	Stay Abroad <sup>a)</sup>	Worked in (or with) Foreign Institutions	Government Offices <sup>b)</sup>	If any, College Education and Up
1	F	50–54	35–39	Y	Y	N
2	F	40–44	25–29	Y	N	Y
						Business administration
3	M	40–44	20–24	N	N	N
4	M	50–54	30–34	Y	Y	Y
5	M	25–29	20–24	N	N	N
6	M	40–44	30–34	Y	Y	Y
7	F	35–39	20–24	N	N	N
8	M	45–49	15–19	N	Y	N
9	F	40–44	25–29	N	N	Y
10	M	45–49	30–34	Y	N	Y
						Engineering
11	M	45–49	25–29	Y	Y	N
12	F	20–24	20–24	N	N	N
13	M	60–64	50–54	Y	Y	Y
						Economics Science
14	M	40–44	30–34	Y	Y	N
						Engineering
15	M	40–44	25–29	Y	N	Y
						Engineering
16	M	55–59	25–29	Y	Y	N
						Science
17	M	60–64	40–44	Y	N	N
						Engineering
18	M	55–59	30–34	N	N	N
19	F	25–29	25–29	Y	N	N
						Business administration
20	M	55–59	35–39	N	N	Y
21	M	65–69	50–54	N	N	Y
22	M	60–64	35–39	N	N	N
23	M	30–34	30–34	N	N	N
24	F	45–49	30–34	N	N	N
Number of Y (%)			12 (50%)	8 (33%)	9 (38%)	

a) A stay of more than 2 months.

b) Includes service in the army, but not work experience in state enterprises.

18 respondents started their first business, such as trading, before the age of 35 (column (3)). As for foreign experience, column (4) of table 3 demonstrates that 12 of the respondents had lived in a foreign country for more than two months before they established their manufacturing business. Ten of them studied abroad. Four of these 10 respondents, however, obtained a higher education in the East block countries at the time. Such experiences in non-market economies generally do not fit our argument in equation (1). But, those who studied in the former East-block countries have been the elites of Lao society, and enjoyed various opportunities. One of these four respondents, for example, later obtained a job in a Western company. Column (5) of table 3 shows that eight respondents have work experience in foreign firms, foreign aid agencies in Laos, or companies located abroad. Thirteen respondents have at least a college education (column (7)). The education level of our respondents is quite high by the criteria of Laos. As is consistent with the findings of Vicente-Wiley (1979) in the Philippines, there are no law majors in our 24 respondents.

The following section shows the detailed personal histories of four typical respondents. All four cases happen to be of male entrepreneurs, although seven of our 24 respondents are female (column (1) of table 3).

## **5 Four Typical Cases**

### **5.1 Privatization of a Public Factory: Respondent 4**

Respondent 4, in his early 50's, manages a large garment factory that he purchased from a local government. Before the purchase, Respondent 4 had managed this factory as a local-government officer. By his early 30's, he had various work experiences both in trading and government offices. In this regard, Respondent 4 may be a good illustration of the jack-of-all-trade model by Lazear (2005).

Respondent 4 was born in the early 1950s in a farm household in a province near Vientiane.

As an ordinary rural household in Laos, his parents could only produce enough to feed their family. After completing elementary school, Respondent 4 became a monk of the village temple to get more education. In Laos, poor families have often resorted to Buddhist temples for better educational services (Evans 2002, p. 203). One day, a high-ranked Buddhist monk in Vientiane visited the temple. Respondent 4 found an opportunity to talk directly to this monk and requested an introduction to famous temples in Vientiane. With the introduction, Respondent 4 managed to get a transfer to a large temple in Vientiane, and studied there for two years.

In the mid-1960s, Respondent 4 won a lottery held in the temple for studying in a religious training course in Thailand. During his five-year stay in a Thai temple, Respondent 4 received an ordinary high school education in addition to his Buddhism studies. His favorite school activity was a speech class. A flair for delivering speeches helped Respondent 4 on several occasions during his career.

On completion of religious training in Thailand, Respondent 4 came back to Vientiane. It was the early 1970s, and he was in his early 20's. Respondent 4 immediately left the temple, and began to work as a daily worker in various jobs. About a year later, he passed the English exam for a job training program provided by the United States Agency for International Development (USAID), the main organization promoting US foreign policy in Laos (Stuart-Fox 1997, pp. 153–154). The training course was designed for business-related clerical jobs. After the program, he obtained a clerk position in an office of a Western donor agency. In the 1975 revolution, Respondent 4 became one of the leaders of the Lao workers who eventually occupied the USAID offices. His main role was to make speeches to encourage the demonstrators. Partially as a reward, after the revolution, Respondent 4 was appointed as a government officer working for foreign experts from the USSR and Vietnam.

At the end of the 1970s, Respondent 4 asked the office to permit his resignation in order to study engineering in a college. He wanted to study more to develop his career. After graduating, Respondent 4 was assigned to a state construction company. In the mid 1980s, however,

he resigned from this state company because of its low salary. Respondent 4 then became a gold-silver trader in a market in Vientiane. Within a year, an acquaintance from his time at the USAID training program recruited Respondent 4 as an officer of the Vientiane-capital government. Respondent 4 worked for the section of foreign cooperation for industrial planning. He also successfully led a youth organization in the office. Interested in his leadership in the youth group, the division director appointed Respondent 4 as a manager of a city-owned garment factory that was in heavy debt.

As the factory manager, Respondent 4 achieved high profit through some adroit trading with government offices, and succeeded in clearing the debt. Two years later, in the late 1980s, a Thai businessman visited him, and proposed a joint business in the factory.<sup>8</sup> With new machines and guidance from this Thai businessman, Respondent 4 expanded the profit of the factory. Respondent 4 recalled that job reassignment in tune with new machines was the most effective way to improve productivity. In the mid 1990s, complying with a request from the Vientiane-capital government, Respondent 4 and his main staff purchased the factory as part of the privatization program.<sup>9</sup> In return for taking on the company's new debt incurred in an investment, Respondent 4 paid little for the purchase.

In addition to his talent in leading organizations, through the joint-venture with a Thai businessman, Respondent 4 experienced the management of a garment business in the market economy: lower  $\sigma$  in equation (1). The trigger for Respondent 4's entrepreneurial choice was the privatization program that started in 1988.

## **5.2 Import Agent: Respondent 8**

Respondent 8, in his late 40's, manages a steel-roofing factory along with four other businesses including a gold shop. He exemplifies the case where an import agent ventures into manufacturing in an associated line of business.

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<sup>8</sup>This proposal reflected the new policy of the Lao government from March 1988, which conferred operational freedoms to major state enterprises (Funck 1993).

<sup>9</sup>Refer to Evans (2002, pp. 218–219), for a description of privatization in Laos.

Respondent 8's parents migrated from Vietnam to a southern town of Laos, where they were engaged in farming and livestock raising. In the year when the Respondent 8 completed his primary education, the civil war came to the area. The parents sent Respondent 8 to Vientiane, where people were generally free from the civil war, to be an apprentice of a tailor. In the 1975 revolution, Respondent 8 joined the communist side as a singer to encourage the participants of demonstrations. After the revolution, complying with the request of the new government, he went back to his home village and became a leader of a youth organization. Respondent 8, however, could not make a living from political activity. At the end of 1976, he left his home village and found a job in a tailor shop in a southern town. Since then, he has had little contact with government offices.

Respondent 8 worked in the tailor shop for only six months. In the town, he observed that Chinese and Vietnamese traders were making good profits.<sup>10</sup> This observation stimulated his ambition. With his savings and a small amount of money from his parents as initial capital, Respondent 8 tried at least six trading activities: exchanging consumer products with Vietnamese traders for gold, and selling the gold in Vientiane, etc. In these trading businesses, Respondent 8 utilized the Vietnamese traders' network in southern Laos. His trading business, however, experienced several ups and downs. Once he had to give up trading, and opened his own tailor shop in his wife's home town in southern Laos. Partly thanks to the fabrics left by a friend who had fled the country, Respondent 8 reentered into gold trading with Vietnamese merchants. In 1981, he opened a gold shop in his wife's hometown. In the mid 1980s, seeking larger business opportunities, he moved to Vientiane. His gold shop was relocated to the main market of Vientiane, and all businesses in southern Laos, including the tailor shop, were closed.

In the mid 1990s, in a tennis school in Vientiane, he got to know a businessman of a Western steel-roofing manufacturer. The businessman was based in Bangkok, and was looking for an import agent in Laos. In 1997, Respondent 8 became the import agent for this steel-roofing

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<sup>10</sup>In Laos, trading activities, even internal trading, have been dominated by Chinese and Vietnamese traders (Evans 2002, p. 97).

manufacturer. They enjoyed good sales, but Respondent 8 suffered from the high import tax of Laos. At the end of the 1990s, to avoid the import tax, he asked the parent company to build a factory in Vientiane. The company, however, declined his request suggesting the relatively small market in Laos. Based on good sales in the past, Respondent 8 decided to set up a factory by himself. With his gold shop in the main market in Vientiane, Respondent 8 could borrow the setup funds from a commercial bank. From the start of the factory, Respondent 8 has been making profit. In the mid-2000s, he set up two additional steel-roofing factories.

In Respondent 8's case, the major catalyst for entering business activities was the Vietnamese trading network in Laos. A similar case is Respondent 3 who was born in a Vietnamese family and succeeded in wholesale business at the beginning of his career. Based on experiences with trading activities, Respondents 8 and 3 responded to business opportunities in the industrial sector. Their cases mirror Papanek (1967, Ch. 2) who emphasizes traders, a social group accustomed to market-oriented activities, as the supply of industrial entrepreneurs. For Respondent 8, the trigger to become an industrial entrepreneur was the parent company's rejection of the proposal to make a FDI in Laos. Through transactions as an import agent, Respondent 8 learned about the high profit from steel roofing: lower  $\sigma$  in equation (1).

### **5.3 Spin out from FDI: Respondent 14**

Respondent 14 is in his early 40's. His sole business is a second-hand car dealership that undertakes necessary remodeling in his factory. His main line is mini-trucks, which are imported from Thailand. He illustrates the case where new local entrepreneurs spin out from FDI.

Respondent 14 was born in a farm household in a province near Vientiane. Similar to the family of Respondent 4, his parents could produce only enough to feed their family. With support from a relative, however, they sent Respondent 14 to a primary school in a large town. This may be partly because Respondent 14 was the sole male among their children at that time. Academic achievement is an important factor in the success of Respondent 14. In secondary

school, he always stood in the top 10 grade ranking. Thanks to his good grades, he was offered a government scholarship for undergraduate study. In a university in Vientiane, he majored in mechanical engineering. He likes machines, and moreover he wanted to acquire skills for a future career.

At the beginning of the 1990s, Respondent 14 completed university. Before graduation, Respondent 14 looked for a job in a state enterprise. Without family connections, however, it was too difficult to obtain such a position. He then began to apply to private companies. Respondent 14 recalled that he wanted to have a job in a “big” company. From the successful job interviews, he chose a Western automobile company that had just set up a branch office in Vientiane. The first task for Respondent 14 was to attend a two-month long training course on automotive repair in Bangkok. After the training, he was assigned to the repair section of the Vientiane office. He soon became a head of the section, leading about 20 mechanics.

One year later, Respondent 14 married. The office had suffered from low sales, and could not offer him a raise in pay. Instead, the office hired his wife who was also an engineer. The following year, Respondent 14 had his first baby, and his wife left her job to take care of the baby. Then Respondent 14 faced difficulty supporting his family with his limited salary. He knew that the office could not raise his pay with its stagnating automobile sales. Respondent 14 quit the office and began his first business: a garage. In the three years at the branch office, he had established a good reputation as an automobile mechanic. Respondent 14 expected that some customers would follow him to his new business. He built the garage on the estate of his wife’s family, and purchased necessary tools with his own savings.

The first independent business of Respondent 14 lasted only six months. There were few customers. It was the mid 1990s, and there were not many automobiles in Vientiane. Before falling into debt, Respondent 14 closed the garage, and asked his old outfit, the branch office of the Western company, to hire him again. The office agreed and reemployed him and his wife. Within a month, however, Respondent 14 and his wife noticed that they could not take care of their child well. Then the same story followed as before. His wife had to quit the job and



Respondent 14 could not support the family well.

Three months later, Respondent 14 made a decision to restart his garage and left the office. Respondent 14 sold his motorcycle for 500,000 Kip, equal to about 620 USD then.<sup>11</sup> With these funds, Respondent 14 and his wife expanded the garage and hired two workers. This time, in addition to cars, Respondent 14 accommodated the repair work of motorcycles and *tuk-tuk*, three wheel cars for public transportation. Respondent 14 got the idea for this new repair service from his last garage business, where he had had several requests for repairing motorcycles and *tuk-tuk*. Thanks to this new service, the number of customers drastically increased compared to the last garage business.

About one year later, he happened to buy a broken motorcycle from a customer, and resold it after repairs. The good profit from this transaction gave Respondent 14 an idea for a new business. He began to buy used *tuk-tuk*, motorcycles, and cars from his customers, and resell them after the necessary repairs. At the end of the 1990s, demand for used automobiles, in particular for mini trucks, soared. Respondent 14 made a contract with an import trader to procure used trucks from Thailand. In the early 2000s, his garage obtained a license for importing used cars, and began direct procurement of used trucks in Thailand. At this time, his garage became a company employing about 10 workers, which grew to the current one with more than 30 workers.

Respondent 14 acquired the skill for his current business from his four years of service at a Western automobile company. Moreover, the training in the company introduced him to the common use of automobiles in Thailand. His attitude in his job search, looking for large companies, suggests that he is not a typical risk taker. His confidence in the coming shift to common automobile use was likely to reduce subjective uncertainty for the used car business: lower  $\sigma$  in equation (1). In the case of Respondent 14, the trigger for entrepreneurial choice was the low salary in a foreign company.

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<sup>11</sup>Kip is the domestic currency of Laos. The exchange rates and inflation rates mentioned in the following text are from IMF (various issues).

## 5.4 Personal Connections in the Army: Respondent 21

Respondent 21, in his mid 60's, is a retired military officer with a fairly high rank. He manages a wood-product factory that produces table sets, door panels, etc. Respondent 21 exemplifies the case where connections with the authorities generate an entrepreneur.

Respondent 21 was born in a relatively wealthy farm household in a southern province of Laos. His parents sent him to a relative's house in a large town to study in a secondary school there. When Respondent 21 graduated from the secondary school, he got drafted into the army of the Royal Lao Government (RLG). It was the mid 1950s. During the power-shift to regional military commanders, the troop he served seems to have moved to the *Pathet Lao* (PL) side. From the mid 1960s, Respondent 21 often served in a northern province that the PL controlled. After the 1975 revolution, he began his military service in Vientiane. In the army, Respondent 21 had mainly served as a secretary for top commanders, including those who later became presidents of the country. One of the tasks of a secretary was to construct army offices. In this work, Respondent 21 learned that construction companies could make large profits.

In the early 1990s, when a colleague got promoted, Respondent 21 gave up higher ranks and resigned from the army. With some of his subordinates from the army, Respondent 21 set up a construction company in Vientiane. All of the expenses for company establishment, mainly the purchase of raw materials, were borrowed from a local savings group. The funds amounted to nearly one hundred thousand USD at the time. Before he resigned from the army, however, Respondent 21 secured one large order from the army that was worth more than the funds he had borrowed. With continuing orders from government offices and the army, the construction company made good profits. But in 1997, the high inflation caused by the Asian Currency Crisis wiped out the profits of his construction company.<sup>12</sup> Respondent 21 closed the company before falling into debt. With the remaining funds, he initiated a trading company for materials for parquet. Respondent 21 had observed a high profit in wood-product trading

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<sup>12</sup>From 1996 to 1998, inflation rate jumped up from 5.3% to 28.1%.

when he was in the construction business. At the beginning of the 21st century, Respondent 21 added furniture making to his business, and gradually expanded it. This is because the export of parquet became less profitable due to increasing competition. Although the main customers of furniture are individuals, Respondent 21 has been getting orders from the army.

For Respondent 21, the trigger for his entrepreneurial choice was discontent about promotion in the army. His life story suggests that he has attained a lower  $\sigma$  in equation (1) through his personal network in his old outfit. For example, in his first business, Respondent 21 secured several large orders through his own personal network in the army.

## 6 Discussion

Although the life histories of four manufacturers given above are associated with several interesting topics in entrepreneurial supply (e.g., access to funds), this section focuses on the two key issues of the paper: the impacts of experiences in and with foreign institutions and the “trigger” for entrepreneurial choice. Table 4 summarizes the triggers that prompted the 24 respondents to initiate their first businesses, and, if different, the triggers that caused them to initiate their current manufacturing businesses.

### 6.1 Impacts of Experiences in and with Foreign Institutions

Between the four respondents in section 5 and the remaining 20 respondents, we at first explore similar experiences in and with foreign institutions. We then evaluate the impacts of these experiences on entrepreneurial supply.

The life history of Respondent 4 contains three major experiences that are associated with a foreign factor: education in a foreign country, a job-training program provided by a donor agency, and joint-business with a foreign company. Among our respondents, Respondent 8 is the sole case of conversion from an import agent to a manufacturer.<sup>13</sup> Work experience in a

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<sup>13</sup>In addition to Respondent 8, however, three respondents obtained an idea for a new business from imported

Table 4: Trigger to Entrepreneurial Choice: 24 Respondents

(1) Trigger to Initiate First Business	(2) Become a Manufacturer (if different from the left)
1 Came back to Laos from exile to visit a relative	Information on business opportunity provided by the government of Laos
2 In the child-rearing years, obtained free time thanks to the help of family members	Free use of a factory offered as a payment for debt
3 Born in a big trader family	Share of a factory offered as a payment for debt
4 Low salary in a state enterprise	Privatization policy of state enterprises
5 An offer from a South Asian engineer to do a joint business	NA
6 Suggestion from a shop in Thailand	Information on cement sales obtained from customers in the previous trading business
7 Obtained a business idea when she faced expensive imported wooden furnishings	NA
8 Saw high profits of Vietnamese traders	A Western company, for which he worked as an import agent, rejected his request to set up a factory in Laos Husband got a job in a construction company and found that furniture sells well
9 To complement family income	NA
10 Low salary in a government office	Privatization policy of state enterprises
11 Flagging sales of a state-owned company he worked	NA
12 Idea of the husband who is a foreign engineer	NA
13 Cannot expect promotion in government offices	NA
14 Cannot expect raise in salary in a FDI company	NA
15 Not satisfied with the work in a government office	Discerned the profit in printing while doing typewriting business
16 Attend a business of his father	Offer of a joint venture from a Western company
17 Low salary in a government office	NA
18 Low salary in a state enterprise	The information on business opportunity in plastic bottles through the conversation with a business man
19 Parents' suggestion	NA
20 Complied with the request of a government office he served	A state enterprise rejected the sales of the material he needed, so he decided to produce it by himself
21 Discontent in promotion in the army	Found business opportunity while running a construction company
22 Not satisfied with the income as an employee	NA
23 Father's suggestion	Felt the necessity to diversify the business when he faced ups and downs in his artisan work
24 Maintain the factory that her husband left	NA

foreign company provided Respondent 14 with the skills required for a manufacturing business. Finally, the last respondent in section 5, Respondent 21, does not have any experiences in and with foreign institutions. The following examines these experiences in turn, except for the case of an import agent.

### *Education Obtained Abroad*

In section 3.3, using our guiding model, we have discussed that a higher education is not likely to have a clear impact on entrepreneurial supply in Laos. Here the issue is whether receiving an education abroad had impacts strong enough to induce our respondents to begin their current manufacturing businesses. The overall answer is negative.

As was discussed in section 4, ten of our respondents obtained some of their education in foreign countries.<sup>14</sup> Two of them, including Respondent 4, attended a high school abroad. Seven respondents have college education and up. The remaining one is Respondent 11 who was born in Thailand, and had all of his education, including a three-year course in a technical school on automotive repairs, in Thailand. Respondent 11 currently manages the same type of business as Respondent 14: a factory that undertakes remodeling of imported used cars.

Except for Respondent 11, none of the respondents who studied abroad has established a manufacturing business directly based on the subject he/she had studied in a foreign college or an idea obtained in class rooms. For instance, Respondent 15 majored in telecommunication, but established a printing factory. The poor relationship between the subjects studied abroad and the choice of manufacturing products may simply reflect the fact that the manufacturing sector in Laos is in the stage of imitating relatively simple foreign technologies. Currently, manufacturers in Laos do not have to understand advanced technologies or novel business models, but need to discern the products that potentially have large markets, and have the competence to set up a private production facility. For example, one needs to have a network in order to find a

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goods. Refer to, for example, Respondent 7 in column (1) of table 4.

<sup>14</sup>They are Respondents 2, 4, 6, 10, 11, 13, 15, 16, 17, and 19.

technician for production. General education, even in a foreign country, may not provide such competence.

#### *Job-training Program Provided by a Donor Agency*

For Respondent 4, the job training program for business-related clerical work happened to bring him connections with the government. It does not, however, relate directly to his current garment business. A similar pattern applies to Respondent 18. He learned how to repair air-conditioning machines in a two-year-long vocational training course that was provided by the same US project that Respondent 4 utilized. The training program led Respondent 18 to his first business, a repair business for air conditioners, but not directly to his current business of manufacturing plastic bottles. Respondent 18 found the business opportunity of plastic-bottle manufacturing through his search for new businesses (column (2) of table 4).

#### *Joint Venture*

As a local government officer, Respondent 4 experienced business practices in a market economy through a joint-venture with a Thai company. For two respondents, developing a joint business with a foreign company was equal to making their entrepreneurial choice.

Respondent 3 jumped into manufacturing by joining the management of a garment factory established by a Thai businessman. As was referred to in the case of Respondent 8 in section 5, Respondent 3 had already succeeded in his wholesale business of cotton in his 20's. In the late 1980s, one of the Thai customers could not pay for the cotton on time, and instead offered Respondent 3 a 50 percent share of his garment factory in Vientiane. Expecting a higher profit, Respondent 3 closed his wholesale shop and jumped into the garment industry. With the retirement of his Thai partner, Respondent 3 became the owner cum manager of the factory. Similar to Respondent 3, Respondent 2 obtained a mattress factory from a customer of her money-lending business. The mattress factory was a joint business with a Western company, which induced her to accept the factory as a payment for the debt.

There are also two cases where a foreign engineer took initiative in establishing a manufacturing business. Respondent 5 jointly started a garment factory with his friend, a garment engineer who came from a South Asian country. Initially, the South Asian engineer virtually managed the business. After the sudden leave of the engineer from Laos, Respondent 5 persevered with the factory. The hard work of Respondent 5, along with a family network, turned a foreigner-leading enterprise into a local independent business. Respondent 12 provides a comparable case. She established a garment factory with her husband, who is a garment engineer from a South Asian country. She assumes a director position partly to avoid the paper work on foreign companies. Foreign engineers usually bring *modern* manufacturing to the host economy.<sup>15</sup> Among our respondents, it was the garment industry.

#### *Work Experience in and with a Foreign Institution*

Respondent 14 established a factory based on work experiences in a Western automobile company. Column (5) of table 3 indicates that before initiating manufacturing businesses, eight respondents have work experience in or with a foreign company or an institution. For example, Respondent 11 has nine years of experience working in an auto-repair garage in Bangkok. Another example is Respondent 13. As a government officer, Respondent 13 worked for a poverty-reduction project, including an introduction of organic agriculture, jointly implemented with a Western NGO. These work experiences directly led them to their current manufacturing businesses.

#### *Entrepreneurs with No Foreign Factor*

According to table 3, eleven respondents have neither work experience in and with foreign institutions nor experience living abroad. They are Respondents 3, 5, 7, 9, 12, 18, 20, 21, 22, 23 and 24. Among them, we have already discussed that Respondents 3, 5, 12 and 18 had other types of experiences with foreign institutions such as joint businesses. On the remaining seven

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<sup>15</sup>Hirschmeier (1964, pp. 40–41) summarizes similar cases in Meiji Japan.

Table 5: Seven Respondents without Foreign Factor

(1)	(2)	(3)	(4)	(5)
Main Product	Number of Employees	Work Experience in the Government Offices	Wealthy Family	Family Connections with the Authorities
7 Wood Products, Furniture	140	N	Y	Y
9 Lumber	70	Y	N	N
20 Concrete Poles	18	Y	N	N
21 Furniture	16	Y	Y	N
22 Purified Water	15	N	N	N
23 Purified Water	10	N	Y	N
24 Ceiling Decoration Board	5	N	N	N

respondents, table 5 extracts the relevant information for discussion from tables 1 to 3.

As their ID number implies, five of these seven respondents operate small factories with less than 20 workers. More importantly, except for Respondent 20, their main products are not those of typical modern industries. The exception, Respondent 20, produces concrete poles for electric power lines. Respondent 20, in fact, shares a foreign factor. Before and after the 1975 revolution, Respondent 20 had served state power plants for 20 years. In the power plants, Respondent 20 worked together with engineers from Western countries and India. This personal network of foreign engineers later facilitated the business development of Respondent 20. In the early 2000s, for example, Respondent 20 started a new factory producing automobile parts. This business was a joint venture with a Western company that had dispatched engineers to power plants in Laos.

### *Summary*

The cases above indicate that work experience in and with foreign-managed or foreign-involved businesses enhances the local entrepreneurial supply, while the impacts of studying abroad are not discernible. Our guiding model suggests that work experience in and with foreign institu-



tions improves entrepreneurial investment by reducing the uncertainty in new business opportunities: lower  $\sigma$  in equation (1). The case of Respondent 21 shows that another factor that can reduce the uncertainty of a new business is connections with the authorities. Respondent 4, who has been mainly referred to in association with his experience of a joint business, also has made advantage of connections with the local government in his business. The difference in the main product between Respondent 4 (garment) and Respondent 21 (wood product) suggests that connections with the authorities alone cannot bring about a large enough reduction of uncertainty in *modern* manufacturing business. In the manufacturing of modern products, the cost to obtain new knowledge for production, e.g., systematic labor management and quality control, may eclipse the lower subjective risk resulting from connections with the authorities.

## **6.2 Trigger for Entrepreneurial Decision**

Column (1) of table 4 shows that nine respondents left their previous offices due to discontent over low salaries or lack of promotions. Most of them were, in a sense, not winners in traditional sectors: low  $W$  in the right-hand side of equation (1). An interesting observation in Laos is that winning in the traditional sector sometimes forms a trigger for an independent business. After the introduction of the New Economic Mechanism (NEM), the ministries of the government of Laos were under pressure to reduce their staffs. The ministries requested some of their officers to leave and start their own businesses. Among our interviewees, Respondents 6 and 20 had such requests. The case of Respondent 4, who was requested by the local government to manage a state enterprise, is similar, too. The ministries extended facilities, such as business licenses, to stimulate their businesses. For instance, Respondent 20 succeeded in his first business, electric wiring, under the support of his old outfit.

Instead of summarizing table 4, we briefly show the case of Respondent 13. He obtained a Ph.D. in a field of science from a university of a Western country. In Laos, graduate education usually improves both sides of equation (1). In the case of Respondent 13, however, it became

a trigger for the establishment of a food-processing factory with a Western NGO, with which he had implemented a government project. In the ministry controlled by the graduates of the former East bloc universities, a graduate education in a Western country became a disadvantage. With little hope of promotion, Respondent 13 chose to leave the government office.

## **7 Conclusion**

With the detailed life histories of 24 manufactures in Laos, we have examined the impacts of foreign factors on entrepreneurial choice. From their life stories, we can gather that work experience in and with foreign-managed or foreign-involved businesses improves the local entrepreneurial supply.

There have been two competing views about the effects of open-economy policy on the supply of local entrepreneurs in developing economies. Grossman (1984) provides a general equilibrium model in which both international trade and FDI reduce the supply of local entrepreneurs. This result is mainly derived from two basic assumptions. The first assumption is the definition of an entrepreneur. In Grossman (1984), entrepreneurs are those who assume idiosyncratic risk in their production. The second assumption is a lack of risk-sharing markets in the host economy. In this setting, lower prices resulting from imports or a supply of risk-bearers through FDI causes a contraction in the local entrepreneur class of the host economy.

In transitional and developing economies, however, the supply of entrepreneurs might be more severely constrained by a lack of knowledge on business practices in a market system than by a lack of financial or risk sharing mechanisms. To manufacture modern products, for example, garments and steel roofing, one needs to follow practices such as quality control, systematic labor management, production planning to keep the date of delivery, etc., that are not common in businesses in the traditional sector. The life histories of manufacturers in section 5 show what and how potential local entrepreneurs have learned in their businesses in and with foreign companies. The clearest example is Respondent 8 who discerned the market demand

for steel roofing through his work as an import agent. This is exactly as Hirschman (1958, pp. 120–125) discussed.

The life stories of 24 manufacturers in Laos therefore suggest that promoting FDI and international trade can be an effective policy for improving the supply of domestic manufacturers, in particular, in a small economy such as Laos. In a small economy, the low incentive for foreign companies to expand their businesses may result in a niche for potential local entrepreneurs. Rather than being afraid of dominance by FDI, the authorities of small economies may need to work hard to attract FDI, not only for its immediate impact on the economy, but also for improving the supply of local entrepreneurs in the long run.

With respect to the trigger for entrepreneurial choice, nine out of 24 respondents listed discontent concerning pay or promotion in previous offices. Naturally, as Laos is a socialist economy, half of our respondents once worked for the government or a state enterprise.<sup>16</sup> In many transitional and developing economies, a reduction of government officers is one of the inevitable reforms in the transition to a market economy. Cautious design in reduction may serve as a tool to stimulate the emergence of local entrepreneurs.

The results of interviews also disclosed the excessive simplification in our analytical framework: dichotomous choice between a position in the traditional sector and initiating a new business. Column (5) of table 1 shows that 10 respondents kept their traditional businesses, such as a gold shop, after the initiation of their manufacturing businesses. In future work, we may need to consider the expansion of business activities, not only a dichotomous choice.

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<sup>16</sup>Nine respondents worked for government offices (column (6) of table 3), while three respondents worked for state enterprises.

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