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Political settlements analysis and the study of pro-poor development: Laos and Rwanda compared

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A B S T R A C T

Political settlements analysis is a framework that helps us understand different development trajectories. While it has been used to study the politics of pro-poor growth, there has been little explicit engagement with the economic mechanisms that may alleviate or reproduce poverty. This article extends the political settlements approach to that effect and presents a new, integrated framework to account for pro-poor economic development by conceptualizing political conditions as well as key mechanisms – employment and social provision – linking growth and poverty. This framework is empirically applied to scrutinize two recent development 'success stories', those of Laos and Rwanda. Both countries have emerged from a violent past to record over two decades of fast economic growth. The paper assesses how they have done so and to what extent their development strategies have been pro-poor. We demonstrate that the combination of economic growth and of centralized and ideologically committed ruling coalitions has enabled large-scale investments in social service provision that have spearheaded significant reductions in multidimensional poverty in Laos and Rwanda. Moreover, key governance capabilities have enabled both countries to achieve a certain degree of structural change. Yet, this change has been misdirected to extractive industries and hydropower (Laos) and high-end services (Rwanda) with weak employment and limited forward and backward linkages, compounded by a relative lack of productivity growth in the historically more relevant agricultural and manufacturing sectors. This has intensified land pressures and vulnerability, leading to increased inequality in Laos and sustaining already high levels of inequality in Rwanda. Using the ambitious conception of pro-poor development that underpins our integrated framework, we problematize these growth trajectories and argue that neither of them has been pro-poor. We recommend that researchers advance political settlements analysis to examine and strengthen the possibilities for social justice-oriented and bottom-up pro-poor development strategies more systematically.

1. Introduction

Over the last two decades, 'political settlements' (PS) analysis has emerged as an influential framework to understand development trajectories (see Kelsall et al., 2022). Building on a critique of new institutional economics, the PS approach incorporates power and politics in the analysis of economic development, explains differences in institutional effectiveness across contexts and considers structural challenges of lower-income economies. Applications range from conflict studies (Cheng et al., 2018) to the analysis of social protection policies (Hickey et al., 2020). Yet, despite overlapping concerns, there has been relatively little direct or systematic engagement with the economics of pro-poor

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growth and development. This article addresses this gap.

Our contribution is both conceptual and empirical. On the conceptual level, we endeavor to answer the following question: how can the political conditions and key mechanisms linking growth and poverty be conceptualized to account for pro-poor economic development? To this effect, part I critically deploys the political settlements approach to the question of pro-poor growth using insights from heterodox economics – the result is a new, integrated framework. The benefits are twofold: while the pro-poor growth literature is helpful, it often fails to take into account underlying political conditions and cannot explain how some countries manage to overcome key structural challenges to growth while others do not. The PS approach offers useful insights on this issue by explicitly analyzing power and accounting for institutional effectiveness. Our framework therefore conceptualizes pro-poor growth from a PS perspective. This not only provides a theoretically grounded and policy-relevant avenue to explore development trajectories but represents a pragmatic advance on the impasse created by entrenched and often ideologically tinged debates about the 'right' development paradigm.

Part II applies this framework to two recent cases of 'miracle growth' (see K. Sen, 2015): the Lao PDR (hereafter Laos) and Rwanda. Both are instructive for the political settlements approach and for pro-poor growth analysis. First, Laos and Rwanda have recorded rapid and sustained economic growth over the last two decades or so (Fig. 1): between 1998 and 2022 annual GDP per capita growth averaged 4.74 % in Laos and 4.86 % in Rwanda (World Bank, 2024b).[3] There is thus a material basis, and therefore potential, for poverty reduction and structural transformation. Second, both countries have overcome violent civil wars and have achieved remarkable levels of security. As we shall see, the ensuing distributions of power are 'potentially developmental' and therefore warrant closer analysis. Third, and in addition to their violent past, Laos and Rwanda are landlocked 'least developed countries' (UNCTAD, 2022), making their growth success even more remarkable and policy-relevant.[4] Fourth, despite these key commonalities, both countries differ vastly, not least in their historical backgrounds, geographic and demographic characteristics, and ideological framings (centered around socialism in Laos, see Yamada, 2018, and a combination of neoliberalism and state-led developmentalism in Rwanda, see Ansoms et al., 2022, and Behuria, 2018). This begs the question to what extent they have similar governance capabilities and how these capabilities shape poverty and inequality in different contexts.

This is the first comparative study of the political economy of Laos and Rwanda and also the first time that political settlements analysis is used to study the distribution of power in Laos. We empirically apply the integrated framework developed in part I by employing qualitative and quantitative evidence to assess the nature of the political settlements and growth trajectories in the two countries – and how these trajectories relate to the evolution of poverty over the last two decades. On the empirical level, therefore, this paper shows how the integrated framework can be used to answer questions about the extent to which Laos and Rwanda have implemented pro-poor development strategies and how they have done so.

[3] After falling into recessions following the COVID-19 pandemic – the countries' first recessions since the 1998 Asian financial crisis and the 1994 genocide respectively (World Bank, 2021a, 2021b) – the economies of Laos and Rwanda have started recovering recently, although slower in Laos whose economy remains in a precarious state (World Bank, 2023a, 2023b).

[4] In economic geography, landlockedness has long been seen as a severe disadvantage to economic growth (Gallup et al., 1999) although this argument has been criticized as deterministic and lacking explanation for counterexamples like Switzerland (Peet, 2011) – or indeed Laos and Rwanda.

2. Part I: Conceptualizing the linkages between growth and poverty

Part I develops a conceptual framework that aims to account for variations in poverty reduction across different growth trajectories in lower-income economies. We argue that this requires us to take a relational view of poverty, i.e. locating it in social relations and processes of structural change which may both reduce or increase poverty, while also exploring the political conditions underlying these growth–poverty trajectories. For this, we deploy the PS approach and enrich it with insights from the heterodox political economy literature on pro-poor development.[5]

2.1. The political settlements (PS) approach

There has been a burgeoning political settlements literature over the last decade with sometimes differing understandings of what a political settlement is or how it can be analyzed (for a recent overview see Kelsall et al., 2022). Gray (2019) distinguishes between scholars that understand a political settlement 'as action' and those that understand it 'as process': while the former focus on agreements among powerful groups to end social disorder, the latter highlight the planned or unplanned interactions among different groups and how these create *a priori* indeterminate outcomes. This paper closely follows the political settlement 'as process' interpretation of Mushtaq Khan (2010b, 2018a) because it is grounded in an analysis of growth-enhancing governance capabilities (see below), understands a political settlement as more than an elite bargain (in contrast to, for example, Di John & Putzel, 2009) and does not require an agreement among groups (in contrast to, for example, Kelsall et al., 2022).[6] Political settlements are thus defined 'as social orders characterized by distributions of organizational power that together with specific formal and informal institutions effectively achieve at least the minimum requirements of political and economic sustainability for that society' (Khan, 2018b, pp. 670–671). From this perspective, political settlements analysis aims to improve our understanding of the effectiveness of policies and institutions in particular contexts (Khan, 2018a).

Whereas new institutional economics and the developmental state literature both tend to approach political processes somewhat simplistically (Khan, 2019, and for a critique of the concept of 'embedded autonomy' see Ovadia & Wolf, 2018), the PS approach provides a deeper understanding by also attributing power to non-elite groups and by accounting for formal as well as informal rent systems (Gray, 2018). What matters is not so much the specific form of an institution or formal regime type but 'the *compatibility* of institutional structures with pre-existing political structures of political organization and patron–client structures that are part of the political settlement' (Khan, 2008, p. 146, italics in original). Most lower-income countries are characterized by clientelist political settlements where powerful groups may influence economic and political outcomes independently of formal rights, often through patron–client networks (Khan, 2010b). Two important variables accounting for the diversity among lower-income economies are

[5] Heterodox political economy and heterodox economics are understood here in contrast to neoclassical economics. The latter is based on methodological individualism and centered around optimization, efficiency and equilibrium (Fine, 2016; L. Fischer et al., 2017). The former cover a wider range of schools of thought (including Marxian, Keynesian and old institutionalist approaches), but they share an understanding of economic relations as inseparable from social relations, recognize the importance of systemic features and historical trajectories, and are more open to interdisciplinary as well as inductive reasoning (Deane & Van Waeyenberge, 2020; Fine, 2016; Milonakis & Fine, 2009).

[6] For a critique of Khan's interpretation, see Kelsall (2018) and Kelsall et al. (2022). Khan (2018b) provides a direct reply.

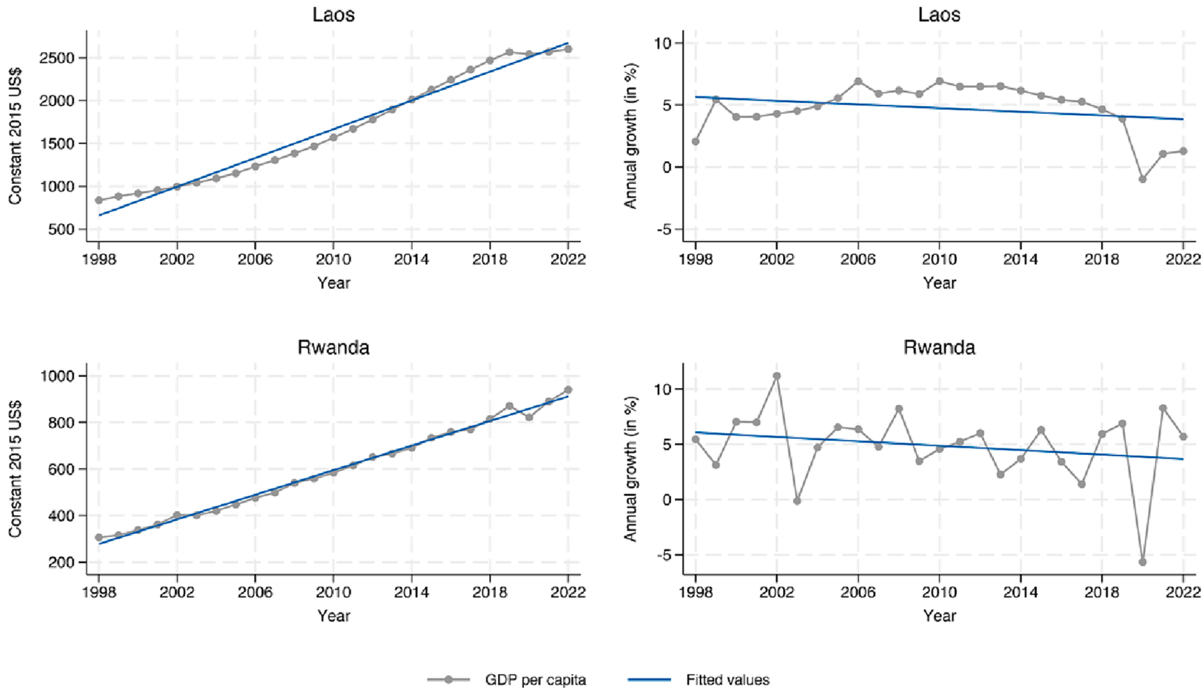

Fig. 1. GDP per capita growth in Laos and Rwanda: 1998–2022.
Source: World Bank (2024b).

the organization of ruling coalitions and the characteristics of emerging economic actors.[7]

Ruling coalitions can be distinguished through two sets of criteria: the horizontal distribution of power (i.e. the strength of excluded political factions) and the vertical distribution of power (i.e. the strength of lower-level political factions within the ruling coalition). Strongly centralized coalitions where the power of excluded as well as lower-level factions is weak are described as 'potential development coalitions' (Khan, 2010b, p. 65). Khan argues that this is the most favorable combination as it gives the ruling coalition both a long time horizon and effective implementation capabilities (although it does not guarantee developmental outcomes). While many of these coalitions, including Laos and Rwanda, are highly elite-centered, broad-based bottom-up social movements may also be possible in this kind of political settlement and would be desirable (see Saad-Filho, 2022, on economic democracy and the necessity of democratic states as a tool for collective action, and Selwyn, 2016, on labor-centered development).

The characteristics of emerging economic actors are another important dimension that can help explain variation in outcomes (Khan, 2010b). To this end, clientelist political settlements can be categorized according to the technological-entrepreneurial capabilities of economic actors and their holding power vis-à-vis the ruling coalition. The first refers to the extent to which investors can drive technology acquisition or are restricted to the use of simple technologies, and the second to the extent to which they are easy to discipline or not. Successful developmental coalitions, e.g. South Korea between the 1960s and 1980s, have often had productive investors with high capabilities but insufficient holding power – which makes them easy to discipline and allows the implementation of an effective industrial policy (Khan, 2010b).

A further crucial component of Khan's political settlements framework is the concept of growth-enhancing governance, understood as the capabilities needed to overcome three structural challenges to economic development in lower-income countries: 'maintaining political stability in a context of rapid social transformation'; 'achieving market and non-market transfers of assets and resources to more productive sectors'; and 'managing incentives and compulsions for achieving rapid technology acquisition and productivity enhancement' (Khan, 2007, p. 4). The first of these challenges underlines the importance of patron–client networks in light of the absence of a transparent and impersonal rule of law (Khan, 2008). The second is equally demanding and concerns the restructuring of property rights. To sustain economic growth, property rights have to protect returns to investors (so that they have extended time horizons), enable efficient asset transfers and create incentives and compulsions for productivity growth in line with the third structural challenge (Khan, 2009). In order to fulfill these functions, some pre-existing property rights that are unclear or protect low-productivity asset holders may need to be weakened or destroyed (ibid.). Such property rights reallocations can, however, have devastating social consequences, particularly if resources are not used productively or do not adequately benefit those who are harmed the most in this process (more on that below). The last structural challenge focuses on learning to acquire the tacit knowledge and organizational capabilities that are necessary to use modern technologies competitively (Khan, 2010a). The main difficulty here lies in creating appropriate institutional compulsions that ensure high levels of effort in learning-by-doing, especially during early stages when it takes time for firms to become profitable and the outcome is uncertain (ibid.). Khan contrasts these growth-enhancing governance capabilities with market-enhancing governance capabilities that aim to increase market efficiency by lowering transaction costs and are associated with good governance reforms (Khan, 2008). He shows that good governance and increased market efficiency are not a necessary precondition for sustained economic development – but more likely the result of it.

PS analysis is relevant for the study of pro-poor growth for two main reasons. First, it can account for growth-enhancing governance capabilities and how they have been implemented. In this regard, there has been particularly insightful work on the economics of structural change and industrial policies by Gray (2018) and Whitfield et al. (2015).

[7] Khan (2010b, p. 70) refers to the latter as 'emerging capitalists'. We prefer the term 'economic actors' because 'there are many economic actors that are not necessarily capitalist as they don't solely depend on the market for their reproduction' (Behuria et al., 2017, p. 513).

Second, it can shed light on how the benefits and costs of increased growth have been distributed across society, taking note of the distribution of power (the distributional regime, see Lavers, 2019).

Despite these important advances, the PS approach has its own limitations. Much like the developmental state literature, and despite the importance given to lower-level factions, it maintains a top-down perspective that downplays the possibility of democratic development (see Selwyn, 2016, for a general critique of elite-centered development theories and van de Walle, 2016, who argues that the PS literature has erroneously contributed to 'democracy fatigue') and is based on a national unit of analysis (Goodhand & Meehan, 2018). Second, it cannot be assumed that coalitions based on strong vertical and horizontal power are necessarily growth-oriented, nor that competitive clientelism performs automatically poorly (K. Sen, 2015). Third, and most important for our analysis here, PS scholarship has not sufficiently addressed the economics of relational poverty in analytical and empirical terms. Recently, scholars rightfully started paying attention to the inclusiveness of growth and development (see for example Chinsinga et al., 2022; Hickey et al., 2015b; Kelsall et al., 2022; Rocha Menocal, 2017). Their focus has been on the role of ideology, discourse, elite commitment, power configurations and other *political* processes as explanatory factors, and they have produced insightful work on the design and implementation of social protection programs (e.g. Lavers, 2019). However, these contributions do not typically explore the *economics* of pro-poor growth in depth.[8] The nature of the growth process itself and especially the channels – first and foremost employment – through which it alleviates *and* creates poverty and inequality are not adequately problematized. As a result, the question of what *economic* mechanisms may foster or hamper broad-based development of the kind demanded by the pro-poor growth literature, and how they do so, has received scant attention. In contrast to the predictive approach taken by Chinsinga et al. (2022) and Kelsall et al. (2022), we agree with Gray (2019, p. 11) that 'the consequences of economic transformation for poverty reduction and inequality cannot simply be read off from the structure of political institutions, or the extent of inclusion of groups in policy processes, but depend on a more complex set of economic dynamics that shape wage growth and employment opportunities as well as access and ownership of resources'. While the degree of elite commitment to inclusive development is certainly important (and is influenced by the 'social foundation' dimension proposed by Chinsinga et al., 2022, and Kelsall et al., 2022), it does not tell us much about how growth is achieved to finance poverty reduction in the first place. Such an analysis, however, is indispensable as 'achieving better employment conditions and providing adequate social protection fundamentally rely on the success of structural change in expanding productive employment' (Oya et al., 2013, p. 7). In addition, the degree of elite commitment does not have much to say either, *a priori*, about the mechanisms through which it will affect poverty. In short, the PS approach provides an analysis of the distribution of power in a society and helps explain the implementation (or lack therefore) of certain governance capabilities and other institutions but rarely specifies how economic processes may alleviate or reproduce poverty. We therefore argue that the study of political settlements must be extended by an explicit analysis of the economic mechanisms linking growth and poverty. This is what we turn to now.

[8] A notable exception are the case studies in Atela and Mustapha (2022), starting from the observation that 'none of the existing [political settlements] studies involves a detailed focus on the employment outcomes of agrarian transformation' (Mustapha et al., 2022, p. 3).

2.2. Pro-poor growth and development

Sustained economic growth remains a key driver of poverty reduction in the Global South.[9] The mechanisms underlying this link and explaining the large range of variations across time and space are, however, hotly debated (see for example Kanbur et al., 2019, for recent contributions regarding growth in Africa) – as are the contradictory effects of economic growth and the potential for reinforcing pro-poor outcomes (see for example Shaffer et al., 2019). In fact, the frequent failure of economic growth to trickle down to the poorer segments of the population has led to renewed formulations of the links between growth and poverty (see Saad-Filho, 2011, for an overview). Our understanding of pro-poor development builds on Saad-Filho's (2007, 2016) conception of a 'pro-poor development strategy' (PPDS). This framework is particularly useful here for three reasons: it is ambitious in terms of social justice; it is analytically powerful as it understands growth and poverty as relational and socially embedded; and it offers clear economic implications. As a result, it not only outlines what we understand by pro-poor development but also provides a framing for specifying the economic mechanisms connecting growth and poverty. A PPDS is characterized by five core principles (Saad-Filho, 2016). First, it identifies mass poverty as the greatest problem facing lower-income countries. Importantly, in this perspective, growth is seen to alleviate as well as to create poverty, and so the focus is on reducing poverty rather than on maximizing growth. The purpose of economic growth is therefore strictly instrumental: to increase the resources of the state (for investment, social service provision, and redistribution) as well as of communities and individuals (to increase their capabilities). Second, the PPDS approach defines pro-poor growth in relative terms, i.e. 'pro-poor growth must benefit the poor more than the rich; growth is pro-poor when it reduces relative as well as absolute poverty' (Saad-Filho, 2007, p. 516). Third, under a PPDS, growth should focus on sectors with the greatest direct benefits to the poor. This underlines the need for public sector intervention, notably industrial policy. Fourth, redistributive measures and advances in social welfare should be broad-based under a PPDS and pursued directly. Social safety nets and conditional transfers are regarded as insufficient. Finally, the PPDS approach believes that any efforts to reduce poverty must be accompanied by measures to foster equality.

The following two sections draw on heterodox political economy to specify the role of structural change and associated governance capabilities as well as the nature of the interlinkages between growth and poverty that shape pro-poor development.

2.2.1. Structural change and governance capabilities

Structural change, defined as a shift from economic activities with lower productivity to activities with higher productivity, is crucial for long-term poverty reduction in lower-income countries (Cramer et al., 2020; Ocampo et al., 2009) and thus a necessary ingredient of a PPDS. This implies that there are limits to how much growth can be sustained without increasing productivity, i.e. by adding more inputs and increasing the volume of production. When poor countries are competitive based on low production costs alone, growth is often based on low wages and relative poverty (Whitfield, 2012). Where structural change takes place across sectors, it usually refers to the rise in manufacturing and associated industrialization, and the concomitant decline of the share of agriculture in GDP and employment (Timmer, 2014). However, some academics have criticized the traditional emphasis on manufacturing. For example, Newfarmer et al. (2018) highlight the potential contribution of the service sector to structural change, advocating that countries leapfrog from manufacturing to a

[9] Although there is no need for especially high growth rates, as moderate growth is often sufficient for successful development outcomes (Ranis & Stewart, 2012).

service-driven form of development. Yet services that have the potential to act as productivity escalators require high skills and institutional capabilities that may not yet exist in many lower-income economies (Rodrik, 2018) and low-productivity services may lead to a race to the bottom in precarious informal jobs (Meagher, 2020). A second criticism of the focus on manufacturing emphasizes the underappreciated role of agriculture. Cramer et al. (2022) question the somewhat artificial distinction between agriculture and manufacturing, arguing that agriculture (especially high-value 'fresh' goods) may actually acquire high-productivity characteristics that are traditionally associated with manufacturing. Agriculture is also especially important for poverty reduction (Irz et al., 2001; Ivanic & Martin, 2018) and the provision of resources for structural change – we therefore pay particular attention to land and rural employment issues in part II. Nonetheless, there are limits to structural change when manufacturing does not expand, and recent evidence confirms the importance of manufacturing as an engine of growth in lower-income countries (Haraguchi et al., 2017, see also Hauge & Chang, 2019).

While most economists agree on the centrality of (labor) productivity growth for lower-income economies – Thirlwall and Pacheco-López (2017, p. 60) call it the 'sine qua non of development' – explanations (and resulting policy implications) of productivity growth remain contested: mainstream analyses stress the importance of liberalizing trade and of correcting market failures to deliver productivity growth (World Bank, 2020b). They therefore focus on supply-side measures (Cramer et al., 2020) and market-enhancing governance capabilities. In contrast, heterodox analyses stress systemic processes and structural features of an economy (Ocampo et al., 2009), as well as the importance of increasing returns to scale, imperfect competition, and the management of rents (Whitfield, 2012). Thus, the focus is on demand-side measures (Ocampo et al., 2009) and growth-enhancing governance capabilities as, in this view, structural change does not occur automatically (Khan, 2008). An analysis of pro-poor development should include an assessment of growth-enhancing governance capabilities as it helps to situate public sector intervention and to account for successes or failures in achieving productivity growth: a necessary but insufficient condition for large-scale poverty reduction in lower-income economies. The extent to which Laos and Rwanda have overcome the three structural challenges noted above will be discussed in part II.

2.2.2. *From growth to poverty*

Having underlined the importance of productivity growth for economic development, this section specifies how it can be linked to poverty.

Our starting point is the observation that growth is socially embedded and inseparable from its distributional outcomes (Saad-Filho, 2011): growth does not exist in the abstract but is always historically located in uneven and conflictual processes of economic development. Therefore, we should conceptualize poverty not in residual terms, i.e. by assuming linear trickle-down effects, but in relational terms, i.e. by investigating 'the causes of rural poverty in terms of *social relations* of production and reproduction, of property and power, that characterize certain kinds of development, and especially those associated with the spread and growth of capitalism' (Bernstein, 1992, p. 24, italics in original). A relational approach also acknowledges the contradictory effects of growth – when growth creates poverty and increases vulnerability through, for instance, environmental destruction (Harriss-White, 2006) or growing precarity (Breman & van der Linden, 2014). In short, the link between productivity and poverty is not automatic but depends on a large number of factors, not least production patterns (Wuyts, 2011) and the political power of labor (Selwyn, 2019).

The relational approach to poverty highlights the need to interrogate the terms of inclusion in the growth process (Oya et al., 2013) and makes use of concepts such as adverse incorporation (Hickey & du Toit, 2013), poverty chains (Selwyn, 2019) or immiserizing growth (Shaffer et al., 2019). As a result, pro-poor development is not only about supporting those who are disproportionately exploited by the growth process: it is also about changing the growth process itself, by making its contradictions visible and devising policies to alter growth trajectories.

By embedding growth and poverty in social power relations, the interlinkages between growth and poverty can be made explicit. While a state's main ways of increasing its resources are through foreign exchange earnings, taxation, and development assistance, at the household or individual level two channels can be identified through which increased resources reduce poverty directly (Osmani, 2004): the social provisioning channel (services to the poor) and the personal income channel (higher incomes to the poor), both of which can be utilized to enhance the capabilities of poorer segments of the population. Productivity growth (ensuring the accumulation of necessary resources) and equity concerns (ensuring that the poor benefit disproportionally) are essential for both channels. A key variable determining the social provisioning channel is social policy. The personal income channel on the other hand is about directly increasing the purchasing power of the poor. Two intermediating variables stand out, both intimately tied to the relations of production: first, the price and availability of goods and services that are most meaningful to poor households. That is, a PPDS would focus on the non-inflationary supply of, ideally domestically produced, basic consumer goods (see Cramer et al., 2020). The second, and arguably even more important variable, is the quantity and quality of (self-) employment, i.e. the extent of unemployment/underemployment and the returns to labor. This is at the core of what Osmani (2004) terms the 'employment nexus' between growth and poverty and is central to understanding the terms of inclusion into the growth process from a relational perspective. An employment focus should, however, not detract from the need to safeguard the existing assets of the poor, most notably land and common resources, that may not only be valued more highly but provide a minimum of security as a fallback option. This is especially important given the job-deficient character of many growth experiences and the precarious nature of much employment across the Global South (Li, 2011). The imperative to protect household assets and common or shared resources may, however, clash with the transfer of resources to more productive uses and the primitive accumulation inherent in capitalist transformations (Khan, 2005). This highlights the conflictual and contradictory nature of growth-oriented, capitalist development, involving both progress and suffering, accumulation and dispossession (Cramer, 2006; Harrison, 2017).

This section has outlined key mechanisms of pro-poor development based on insights from heterodox political economy. However, while this discussion provides a useful analytical perspective to capture and problematize growth–poverty interlinkages in lower-income economies, it, on its own, does not adequately explore the political conditions under which these processes occur and how growth-enhancing governance capabilities can be successfully implemented. We argue that the PS approach, introduced above, can be effectively deployed to overcome these limitations. The next section presents a new conceptual framework that utilizes political settlements analysis to account for pro-poor economic development in lower-income economies.

2.3. *An integrated framework to conceptualize pro-poor growth trajectories in lower-income economies*

Fig. 2 outlines our integrated framework conceptualizing the political conditions and key mechanisms linking growth and poverty in order to account for pro-poor economic development. The structure of the ruling coalition and the political power of emerging economic actors shape the distribution of power, which together with the institutional structure constitutes a political settlement. The compatibility of these two elements in a political settlement shapes the creation, implementation, and effectiveness of institutions, i.e. the extent to which growth-enhancing governance capabilities emerge that can overcome key structural constraints in lower-income economies. This process confers costs and benefits to particular groups. The extent to which

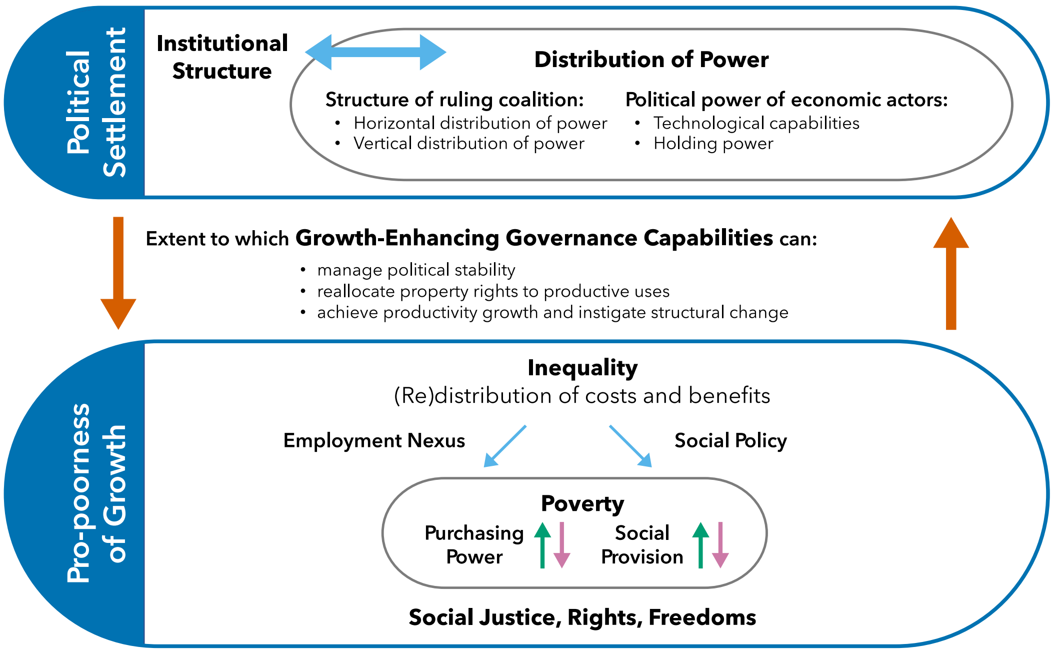

Fig. 2. An integrated framework to conceptualize pro-poor growth trajectories in lower-income economies. Elaborated and adapted from Khan (2008, 2010b) and sources cited in the text.

purchasing power (through the employment nexus but also e.g. through changes in consumer prices) and social provision (through social policy but also e.g. through changes in access rights) increase or decrease as a result determines changes in poverty levels. Crucially, the (re)distributive outcomes feed back and affect the institutional structure and distribution of power in the political settlement through, for example, social movements or changing alliances in patron–client networks. Moreover, development outcomes are also indispensable for sustaining economic growth itself (Ranis & Stewart, 2005). Finally, for truly pro-poor development, the political settlement would be as inclusive as possible in terms of both process and outcomes (Rocha Menocal, 2020), pursue social justice (A. M. Fischer, 2018) and expand the rights and freedoms that people can realize in their own right (A. Sen, 1999).

3. Part II: Growth trajectories in Laos and Rwanda

Part II applies our conceptual framework to a comparative case study of Laos and Rwanda and assesses the extent to which the two countries have implemented pro-poor development strategies and how they have done so. The empirical application follows the structure of the integrated framework presented in Fig. 2. Key concepts are operationalized as laid out in Table 1. Often, indicators used for empirical assessment rely on aggregated official (mostly government) data, the problems of which have been well-documented (Jerven & Johnston, 2015). Therefore, we will make wide use of additional empirical material by independent researchers drawing on field-based qualitative and quantitative research.[10] This will provide a more nuanced picture and highlight contradictory assessments, especially in the case of Rwanda where scholarship on the nature of post-genocide recovery remains sharply divided (Hintjens, 2015).

High and sustained economic growth rates over the past two decades indicate that Laos and Rwanda have overcome some of the structural limitations affecting lower-income economies, although explanations for this success, the extent to which the respective trajectories have been sustainable (economically and socially – not to mention environmentally), and the degree to which they have increased material well-being are under

Table 1
Operationalization of key concepts for empirical analysis (sources in text).

Concept	Operationalization	Empirical assessment/ indicators*
Political settlement	Structure of ruling coalition (horizontal and vertical distribution of power)	Historical and political analysis; comparative datasets
	Political power of emerging economic actors (technological capabilities and holding power)	Historical and political analysis; comparative datasets
Growth-enhancing governance capabilities	Political stability	State-building processes; absence of large-scale violent conflicts
	Reallocation of property rights	Extent and effects of non-market transfers, particularly related to land
	Technology acquisition and productivity growth	Analysis of economic reforms and growth trajectory; sectoral composition
Pro-poorness of growth	Employment nexus	Provision of decent and productive employment
	Social policy	Provision of basic services, notably health and education
	Inequality and poverty	Changes in monetary (e.g. consumption or income) and non-monetary (e.g. multidimensional) poverty; Gini index and Palma ratio; growth incidence curves; inequality in land access and access to basic services (see social policy)

* This column shows how concepts are captured through the qualitative and quantitative evidence used in this article. Due to limited space, each concept can only be briefly assessed based on selected indicators. We refer interested readers to the references contained in the text for more exhaustive empirical discussions.

[10] This includes insights from our own mixed methods investigation of agrarian change in Laos and Rwanda based on extensive fieldwork and comparative household surveys (see Illien, 2024, and Illien et al., 2022a, 2022b, for details).

hot debate (see for example Alston, 2019, Rigg, 2016, and Sims, 2018, on Laos and Ansoms et al., 2017, Hintjens, 2015, and Okito, 2019, on Rwanda). Laos and Rwanda thus offer powerful case studies to apply our integrated framework. To this end, the following sections will examine (a) the political settlements in Laos and Rwanda, (b) to what extent they have similar governance capabilities to overcome critical structural challenges (despite contrasting discursive framings), and (c) to what degree the resulting growth trajectories are pro-poor.

3.1. Political settlements

3.1.1. Structure of the ruling coalitions

Drawing on quantitative datasets as well as qualitative and historical scholarship, this section argues that the current regimes in Laos and Rwanda can be characterized as potential developmental coalitions based on the respective horizontal and vertical distributions of power. Both are authoritarian one-party states, with little effective contestation from excluded or lower-level factions, where power is highly centralized.

For a direct snapshot comparison of the structure of ruling coalitions in Laos and Rwanda, we refer to the Varieties of Democracy (V-Dem) dataset (Coppedge et al., 2023; Pemstein et al., 2023). For lack of better alternatives, Sen (2019) uses the variable measuring power distributed by social group as a proxy for the horizontal distribution of power. For both countries, it shows that political power is not subject to frequent change and is monopolized by social groups that constitute a minority of the population, suggesting that excluded factions are politically weak. The same dataset also shows that there are no autonomous opposition parties in either country and that civil society organizations are substantially repressed. Similarly, qualitative analysis confirms the surveillance, suppression and resulting weak power, if not absence, of political opposition and the co-optation of large parts of civil society in both Laos (see Alston, 2019; Punya, 2019; Stuart-Fox, 2005) and Rwanda (see Longman, 2011; Purdeková, 2011; Reyntjens, 2013).[11] Laos in particular 'is considered amongst the world's most restrictive countries with respect to civil society' (Kunze, 2018, p. 204) and the few effective local non-profit associations that exist focus on service provision in line with government goals but rarely on advocacy or activism (ibid.). Instead, state–society relations are mediated by party-led mass organizations (see below). In Rwanda, local NGOs and cooperatives proliferate and space for criticism has slightly increased recently (Ansoms, 2019, see also Gready, 2011) but their activities remain similarly tied to the state apparatus (Huggins, 2017a). A key difference between our case studies is, however, found in leadership structure: Laos features more collective leadership through the Politburo of the ruling party (Croissant & Lorenz, 2018), whereas Kagame's rule in Rwanda is more personalized (see e.g. Waldorf, 2017).

Assessing the vertical distribution of power is more difficult, not least due to decentralization efforts over the past two decades in both countries. Sen (2019) proposes the V-Dem variable on power distributed by socioeconomic position as a proxy for the vertical distribution of power. According to data for 2022, in both Laos and Rwanda the wealthy enjoy a very strong hold on political power, whereas poorer sections of the population have some degree of influence but only on matters of less interest to the wealthy.

Qualitative historical and political analysis is arguably better placed than a quantitative indicator to characterize the power of lower-level factions. Historically, the territories of modern Laos and Rwanda have been marked by regional variations and autonomy (Croissant & Lorenz, 2018; D. Newbury & Newbury, 2000). Regional differences remain important today but are overshadowed by the consolidation and centralization of political power through colonial and postcolonial state-building projects. In Laos, the dual structure of party and state, and the resulting dense network of party organizations at all administrative levels, enables the elite to exercise political power nationwide despite a highly decentralized structure, relatively weak state institutions and a certain degree of autonomy at the local level (Croissant & Lorenz, 2018). According to Stuart-Fox (Stuart-Fox, 2005, p. 23), decentralization can be understood as an important tool for local patronage and is 'seen by the Party as a means of increasing, not reducing, its power at the local level' – a finding reconfirmed by more recent research (Punya, 2019). Nevertheless, consolidated political power does not directly result in effective implementation capacity but co-exists with low technical capacity, a fragile administrative foundation and bureaucratic incoherence (Creak & Barney, 2018). This can be seen particularly well in Laos's multi-scalar and complex land governance: first, the implementation of the 'Turning Land into Capital' policy (aiming to generate economic value from land commodification, see Kenney-Lazar, 2021) has been uneven and marked by power struggles between central and local government bodies (Kenney-Lazar et al., 2023). Second, with the government facing mounting internal and external criticism of the ensuing land grab and fearing a loss of legitimacy, rural communities have regained some power over their land – albeit to a limited extent and only in the plantation sector (ibid.).

Another key connection between higher-level and lower-level factions in the ruling coalition of Laos are party-based mass organizations such as the Lao Women's Union and the Lao People's Revolutionary Youth Union. These groups have strong outreach structures and are quite effective in undertaking public information campaigns as well as delivering some services in line with party goals (Kunze, 2018). They thus indirectly increase state control and extend the power base of the ruling coalition.

Since 2000, political, administrative and financial decentralization has also been implemented in Rwanda, though maybe not to the same degree as in Laos. Still, qualitative research similarly confirms that it has increased central control over lower and local levels (Chemouni, 2014; Purdeková, 2011), leading Ingelaere (2011) to argue that instead of the political leadership being accountable to the citizenry, it is the households and local communities that are accountable to political leaders. One mechanism through which this is achieved is the performance-based contract system known as *imihigo*. *Imihigo* contracts, detailing targets and measurable indicators, are concluded between each government body and the above administrative level – reaching from the village head to the president (Hasselskog, 2016). Crucially, *imihigo* contracts are also concluded between households and local authorities. The *imihigo* system is intended to promote effective implementation of development targets and increase accountability at all government levels (NISR, 2023). Social pressure is a key driving force as results are made public, according prestige and sometimes rewards to top performers and public shame to some of the worst performers (Hasselskog, 2016). The effects are contradictory: at the public sector level, performance-based targets have strengthened service delivery and accountability but also created perverse effects as officials face immense pressures to report positive results, possibly leading to inflated statistics and/or actions that undercut other (possibly long-term) goals or service quality in order to fulfill some (often short-term) measurable targets (Ansoms et al., 2017, 2018; Heinen, 2022; Williams, 2017). At the household level, the *imihigo* system has facilitated the implementation of some developmental targets but at the same time increased governmental and social control and restricted the agency of households (Hasselskog, 2016). Rather than allowing participatory bottom-up planning, *imihigo* serves to realize government policies (Chemouni, 2014; Hasselskog, 2016; Ingelaere, 2011; Purdeková, 2011). The *imihigo* system is thus integral to managing the vertical distribution of power in Rwanda and to strengthening the ruling coalition's implementation capabilities.

In sum, lower-level factions are relatively weak in both states, although they seem to be more powerful in Laos than in Rwanda. This

[11] Laos and Rwanda are both ranked as 'not free' based on people's access to political rights and civil liberties (Freedom House, 2023).

political power confers comparatively strong implementation capacities to both governments; however, this link is not as unproblematic as is implied by the PS approach. In fact, administrative capacity and bureaucratic coordination remain especially limited in Laos's 'fragmented sovereignty' (Lu & Schönweger, 2019, p. 65). In Rwanda, on the other hand, a successful public sector reform created a more capable and less corrupt bureaucracy where pockets of effectiveness have emerged (Chemouni, 2017, 2023). Yet, this bureaucracy is highly dependent on the political elites (and therefore party cadre and President Kagame himself) which generates some detrimental outcomes as civil servants are limited in the way they can use their technical expertise to guide policy design and implementation (Chemouni & Dye, 2020).

Following this assessment of the horizontal and vertical distributions of power, both regimes can be characterized as potential developmental coalitions.[12] Indeed, the satisfaction of social and economic needs through government-prescribed developmentalist goals and economic growth is a crucial pillar of the legitimation of the political settlements in both countries and has enabled greater control (Cole & Ingalls, 2020; Croissant & Lorenz, 2018; Kenney-Lazar et al., 2023, for Laos; Chemouni, 2018; Huggins, 2017b; Mann & Berry, 2016, for Rwanda). In Laos, this performance-based legitimization is combined with nationalist-oriented/historical as well as ideological claims of legitimate rule (Creak & Barney, 2022; Croissant & Lorenz, 2018). While the Lao People's Revolutionary Party held considerable legitimacy after the Second Indochina War, the government has recognized that its legitimacy is receding and started implementing some measures to counter perceived threats such as corruption and land conflicts (Kenney-Lazar et al., 2023). In contrast, the Tutsi-dominated Rwandan Patriotic Front's (RPF) authority was fragile after the genocide as it ruled over a Hutu-dominated population and the ruling coalition continues to perceive itself as vulnerable – it is this vulnerability that drives the government to pursue political legitimacy through socio-economic progress and impartial rule (Behuria, 2015; Chemouni, 2017; Mann & Berry, 2016).

In pursuit of their goals, both regimes combine a wide range of disciplinary technologies (at the individual level) and governmental forms of power (at the population level) in the Foucauldian sense (Huggins, 2017b). Achieving ideals of modernity includes attempts at social engineering, especially with regards to rural smallholders and their practices, which are frequently deemed undesirable: Huggins (2017b) documents attempts to construct 'modern farmers' in Rwanda, centered around ideals of entrepreneurship, commercialization, and strict adherence to state policies, whereas Cole and Ingalls (2020) outline continuous government attempts to eradicate shifting cultivation, a practice seen as destructive and backward, in the Lao uplands. Such policy measures are often resisted but, given strong government repression, resistance is articulated in complex ways: in Laos, Kenney-Lazar et al. (2018) show how rural people often resist within state spaces whereas Thomson (2013) documents more covert acts of everyday resistance in Rwanda.

3.1.2. Political power of emerging economic actors

Assessing the power of economic actors in Laos and Rwanda is more difficult than identifying the structure of the ruling coalition. Quantitative measures proposed in the literature on state–business relations, such as the presence of private sector umbrella organizations or the frequency of institutionalized public–private dialogues (K. Sen & Velde, 2009), do not capture the holding power and technological-entrepreneurial capabilities that are of interest here. Informal relations, power imbalances, and insider knowledge evade simple quantification and require in-depth case studies instead. Unfortunately, these are rare in Laos. As substantial Lao-owned businesses remain reliant on their connections to the ruling party (Stuart-Fox, 2005), we may, however, presume that this acts as a disciplining mechanism of the party-state and signals little holding power on the part of domestic businesses. Importantly, Laos is not simply a corrupt rentier state but state–business relations are typically embedded within a logic of state-led development centered around a socialist ideology (Creak & Barney, 2022). Even though state-owned enterprises have become less important, the state retains a direct role in many parts of the economy, notably through public–private partnerships (ibid.). However, 'a full analysis of the Lao political economy and its connections to the party-state system remains to be written' (Creak & Barney, 2018, p. 700). Meanwhile, an overall lack of industrial upgrading (see below and ADB, 2017) suggests limited technological capabilities of emerging domestic entrepreneurs, although there has been technological upgrading in individual sub-sectors such as garment production (Nolintha & Jajri, 2016).

In Rwanda, particular attention has been paid to the government's use of party- and military-owned enterprises for kick-starting investment and promoting learning in priority sectors.[13] Booth and Golooba-Mutebi (2012) argue that Rwanda exhibits a kind of developmental patrimonialism whereby state–business relations are structured in a way to allow centralized rent management with a long-term time horizon, notably through the use of said enterprises. This largely positive view of 'party-statals' is contested by Gökgür (2012) who characterizes them as extractive, stifling competition and capturing the state. Behuria and Goodfellow (2017) provide a more nuanced view by highlighting variations across time and sectors. This has resulted in some large business conglomerates with strong technological-entrepreneurial capabilities but 'party-statals' are by definition dominated by the ruling coalition. The government's envisaged emergence of a large number of entrepreneurs and a dynamic SME sector has not materialized (Poole, 2021). Private entrepreneurs often have low technological capabilities and depend on political connections, thus limiting their holding power vis-à-vis the ruling coalition (Heinen, 2023). Thus, RPF businesses and foreign companies dominate key sectors (Mann & Berry, 2016) – the latter tend to have high technological capabilities and may have some limited holding power as they can threaten with relocation (see also Behuria & Goodfellow, 2017).

Finally, a PS analysis should also address the role of transnational actors (Gray, 2019). Foreign direct investment (FDI) has been strongly encouraged and soared since Laos's economic opening, particularly land investments by Chinese, Vietnamese and Thai companies in the plantation, hydropower and mining sectors (ADB, 2017; Hett et al., 2020).[14] While the government has started regulating FDI more in the wake of mounting political pressures and there are signs that the power of investors has diminished (see above and Kenney-Lazar et al., 2023), FDI has nevertheless strongly shaped the country's growth trajectory and made it less pro-poor as will be shown below. Recent research underlines the importance of political connections in undertaking investments in Laos: whereas Vietnamese investors can benefit from the close historical and political alliance between Laos and Vietnam, Chinese and other investors have faced more difficulties as they lack important connections

[12] Whereas the PS approach has not been previously applied to Laos (although Barma, 2014, essentially describes a potential development coalition in Laos), there is a flourishing PS literature on Rwanda that classifies the current political settlement in a similar vein (e.g. Behuria & Goodfellow, 2017; Chinsinga et al., 2022).

[13] The Lao People's Armed Forces are also an increasingly important economic player, particularly through their direct ownership of commercial enterprises in the construction, mining, and agricultural sectors, although there is no reliable data on the nature of the military–business complex in Laos (Croissant & Lorenz, 2018).

[14] Although less important in terms of area granted, domestic land investments have been increasing and are responsible for the majority of land deals (Hett et al., 2020). Lao investors are often part of the political-economic elites and have close ties to the party and the government – yet, once again, there is almost no research on this (Kenney-Lazar et al., 2023).

(ibid.). Relative to the significant investments (and also development aid) from China, Vietnam and Thailand, the conditionalities and human rights norms of Western donors hold less power (Kunze, 2018). FDI is less important in Rwanda which remains aid dependent (see Table 2). Western donors have strongly supported the post-genocide recovery, partially out of collective guilt over the handling of the genocide (Mann & Berry, 2016). This has strengthened the performance-based and accountable state apparatus and only occasionally acts as a disciplining mechanism on Kagame's use of force as the ruling coalition and donors have a shared interest in meeting tangible development indicators – thus strengthening the regime in power (Marriage, 2016).

To conclude, from a PS perspective, we can interpret Laos and Rwanda as two centralized political settlements with long-term ruling coalitions that combine interventionist, authoritarian high-modernism with economic reforms in what can be called 'market-oriented authoritarianism' (Huggins, 2017b, p. 719; see also Kenney-Lazar, 2019). This takes different forms in each country: whereas Rwanda selectively implements neoliberal policies rooted in a Western-style discourse of entrepreneurship and competitiveness (Ansoms, 2009; Huggins, 2017a), Laos's political economy is centered around a strong ideology of Marxist-Leninist socialism and might be described as a 'socialist market economy' (Bekkevold et al., 2020, p. 12) or even 'statist market socialism' (Creak & Barney, 2022, p. 36), although this should not obscure that Lao state socialism, in its present form, is contradictory and has been accompanied by intensifying capitalist relations of production and increasing social differentiation (see Creak & Barney, 2022, and Rehbein, 2019). What the political settlements of Laos and Rwanda have in common is a state-controlled process of accumulation that creates and strengthens markets by promoting public as well as private investment and by privatizing property rights while simultaneously seeking to direct and limit the reach of private initiatives (see Huggins, 2017a; Mann & Berry, 2016). Borrowing from Harrison (2016, 2017), Laos and Rwanda thus epitomize the tensions arising from, on the one hand, top-down interventions trying to promote structural transformation and, on the other hand, a rhetoric promoting empowerment of the poor (Hasselskog, 2016; Kunze, 2018) through decentralization (both), socialist ideals (Laos) or individual agency (Rwanda).

3.2. Governance capabilities

While the two political settlements hitherto described are certainly potential developmental coalitions, their developmental effects cannot be assumed but need to be assessed based on empirical evidence. The remainder of this article therefore uses our integrated framework to examine the extent to which these political settlements have displayed governance capabilities to overcome key structural challenges affecting lower-income economies and what effects this has had on poverty and inequality.

Table 2
Key characteristics of recent economic growth.

Variable	(Sub-)Sector	Laos	Rwanda	Source
Average annual growth rate of total GVA (in %): 1998–2018		6.68	7.28	Kruse et al. (2023), ETD release 18 September 2023
Average annual growth rate of sectoral GVA (in %): 1998–2018	Agriculture	3.07	5.23	
	Services	7.89	9.16	
	Industry (including manufacturing)	8.56	7.03	
	Manufacturing only	4.57	5.74	
Average annual net FDI inflows (% of GDP): 1998–2022		4.50	1.84	World Bank (2024b)
Net FDI inflows (% of GDP): 1998		3.59	0.36	
Net FDI inflows (% of GDP): 2022		3.41	2.99	
Average annual net ODA received (% of GNI): 1998–2021		7.69	15.86	
Net ODA received (% of GNI): 1998		17.08	17.77	
Net ODA received (% of GNI): 2021		3.21	12.14	

Note: GVA (gross value added) is measured at constant 2015 prices.

3.2.1. Managing political stability

At the end of the 20th century, both Laos and Rwanda emerged from civil wars marked by extreme violence, suffering, and important international dimensions (both colonial and regional dynamics, and in Laos, also the influence of the Cold War). The victorious regimes have implemented far-reaching state-building and reconstruction efforts. Four key elements are worth highlighting. The first is an official narrative of revolutionary liberation in Laos (Tappe, 2017) and of national unity and reconciliation in Rwanda (Reyntjens, 2016). The second element is authoritarian leadership through one-party systems and the silencing of political opponents (Baird, 2018, for Laos; Reyntjens, 2011, for Rwanda), including through fear, secrecy, rumors, human rights abuses, and political 're-education' (see Thomson, 2011, on Rwanda's continued re-education efforts and Pholsena, 2013, on the former use of re-education camps in Laos). Third, both regimes have extended the reach of the state as well as the securitization of society from the national to the local level (often linked to villagization or resettlement programs in the name of improved service delivery and the eradication of practices deemed undesirable as described by Newbury, 2011, for Rwanda and Rigg, 2005, for Laos). Massive public investments in infrastructure and social welfare (see below) constitute the fourth element of the state-building and reconstruction efforts in Laos and Rwanda. Through these and other means, both countries have been extremely successful in maintaining political stability despite rapid social transformation.[15] This level of stability has provided the basis for economic recovery.

3.2.2. Reallocating property rights to productive uses

A second structural challenge in lower-income countries are relatively weak property rights due to limited fiscal resources available to protect and implement them. The prevalence of non-market asset transfers is, however, not simply the result of incomplete market reforms but also an important tool to maintain stability and drive structural change (Khan, 2008) – a tool centered around socialist principles in Laos and a discourse of national unity in Rwanda.

Both countries have seen huge transformations in their respective property rights structures since independence. This has been most obvious during the violent conflicts and their aftermath but also includes continued non-market asset transfers through, for example, villagization and resettlement programs, privatization schemes and land reforms. Another way of restructuring property rights and transferring resources to more productive sectors is through the establishment of Special Economic Zones which offer various financial, infrastructural and other incentives to often foreign investors, notably in Laos (Brown, 2019) as well as in the Kigali Special Economic Zone (Steenbergen & Javorcik, 2017). Crucially, both states' prerogatives extend far beyond the usual 'right of eminent domain' typically used for infrastructure projects. In fact, in Laos and Rwanda, land is seen as belonging to the national community and managed by the state – it is usually granted to landholders through land use rights (Kenney-Lazar, Dwyer, et al., 2018; Leegwater, 2015).

While the impacts of asset transfers and the restructuring of property

[15] Even though, security challenges remain, especially at the border between Rwanda and the DRC where Rwanda is accused of supporting the M23 rebel group (UN, 2023). Moreover, there are concerns about the precariousness of peace in Rwanda, not least because '[t]here is no reliable mechanism to sustain the peaceful transition of power to another leader' (Thomson, 2018, p. 248). In Laos, on the other hand, there been have three peaceful leadership successions since the establishment of the Lao PDR in 1975, although potential challenges to long-term stability remain (Croissant & Lorenz, 2018; see also Rehbein, 2018, on recent violent attacks in former Hmong strongholds).

rights vary across time and space, they have intensified pressures over land in both countries and reinforced commodification and associated social differentiation: the population density in Laos is low, but pressure on land has been increasing due to the surge in land concessions and leases driven by foreign investors over the last two decades (Hett et al., 2020; Kenney-Lazar et al., 2023). Rwanda, on the other hand, has the highest population density in mainland Africa (World Bank, 2024b) and changes in land relations through land reforms as well as land-sharing and green-revolution policies have similarly increased pressures on land through both market and non-market means (Ansoms et al., 2018).

Non-market transfers and the restructuring of property rights raise two important questions from a PPDS perspective. First, as suggested by Khan (2008), it needs to be assessed whether the outcomes are conducive to productivity growth by creating stable expectations and moving resources to critical sectors. This directly relates to the structural challenge of managing incentives and creating compulsions to achieve productivity-enhancing technological change, which we examine next. The second question, treated further below, asks to what extent these very processes deepen poverty by expropriating households and communities, disrupting livelihoods, and increasing vulnerability.

3.2.3. Achieving productivity growth and instigating structural change

This section analyzes growth trajectories in both countries over the last two decades and shows that the structural challenge of managing incentives and creating compulsions for technology acquisition has only been partially overcome.

When the Lao People's Revolutionary Party took power and established the Lao PDR in 1975, they instituted a socialist transformation inspired by the Soviet and Vietnamese experiences (Stuart-Fox, 1997). This included the establishment of price controls and the collectivization of agriculture. The need for legitimacy through post-war reconstruction, disappointing economic results, and geopolitical changes were some of the factors that eventually led to the transition to an open market economy through successive reforms in the 1980s, most notably through the New Economic Mechanism (NEM, see Yamada, 2018). The NEM closely followed the prevailing Washington Consensus at the time and included the abolition of price controls, the liberalization of domestic and international trade, privatization, deregulation, and monetary reform (Rigg, 2005). This broad-based liberalization package was certainly strongly market-enhancing in the sense that it extended or created markets where none had existed before. It was not, however, based on anything resembling a good governance agenda and instead required a 'strong push towards administrative centralization, the consolidation of a political space, and the unification of regionally dispersed economies' to build a national economy (Soukamneuth, 2006, p. 209). Thus, growth-enhancing capabilities to manage weak property rights and stability in a time of transformation were crucial. In purely economistic terms, the reforms were rather successful (Bourdet, 1996) and, after an initial slump, laid the foundations for over three decades of economic growth. The limitations of economic liberalization have, however, become increasingly visible as is manifested in rising inequality and the disruption of livelihoods (see below), the failure of political liberalization to occur, and the nature of the growth trajectory itself.

Laos's recent growth trajectory has been largely driven by the expansion of industry and services, but neither sector has been able to provide significant employment, which remains mostly agricultural (see Table 2 and Fig. 3). A major reason is that the main sources of growth have been capital-intensive sub-sectors based on the exploitation of natural resources, such as hydropower and mining, with limited linkages with the rest of the economy (ADB, 2017). It is notable that, in contrast, manufacturing has experienced relatively little expansion or productivity growth (World Bank, 2022). Furthermore, official data on agricultural productivity are notoriously unreliable but survey research

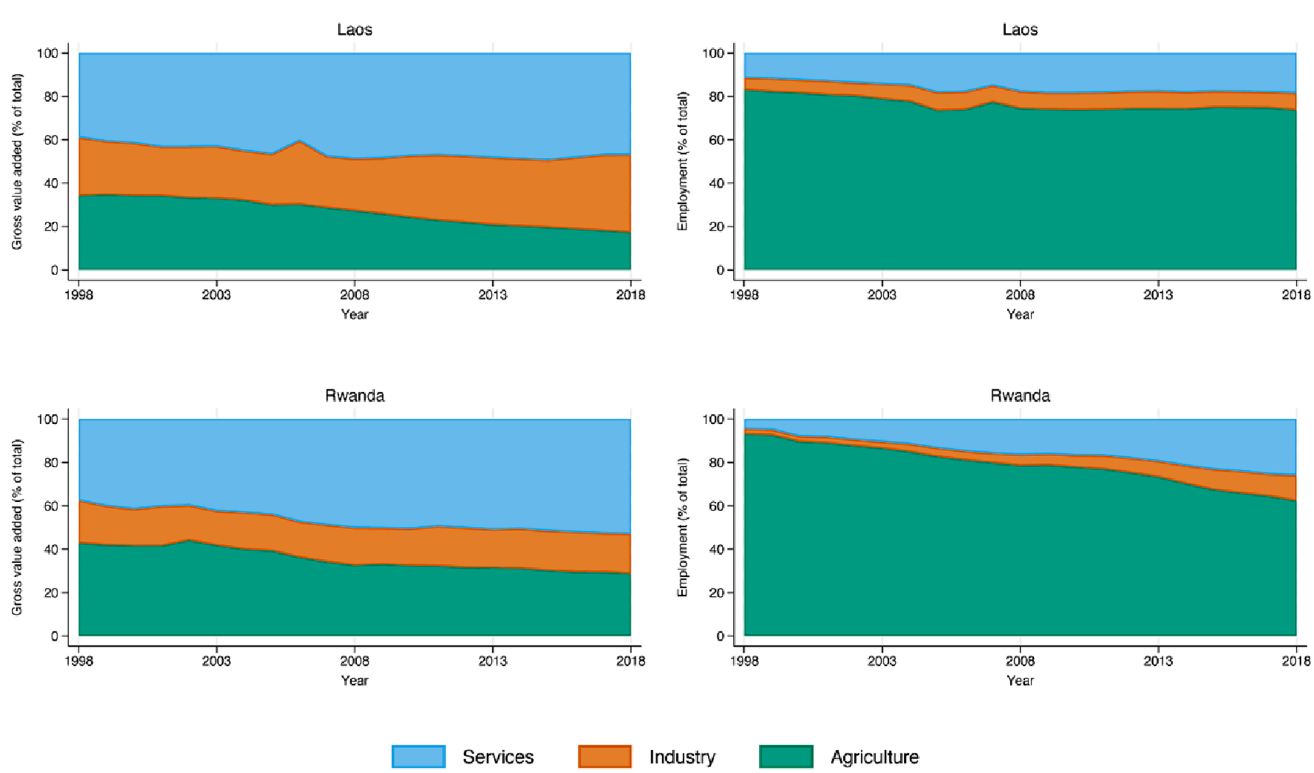

Fig. 3. Sectoral gross value added and employment: 1998–2018.
Source: Kruse et al. (2023), ETD release 18 September 2023. Note: Mining and manufacturing are included in industry. We use data from the GGDC/UNU-WIDER Economic Transformation Database (Kruse et al., 2023), which provides data up to 2018, for sectoral analyses instead of the World Development Indicators (World Bank, 2024b) as the employment data of the latter use ILO model-based estimates that are problematic, partly because they exclude subsistence farmers (Kruse et al., 2023). GVA (gross value added) is measured at constant 2015 prices.

indicates that yields have largely stagnated (ADB, 2017). Since the introduction of the NEM, Laos has managed to attract large amounts of FDI, averaging 4.5 % of GDP per year over the period of 1998–2022 (World Bank, 2024b). FDI has been concentrated in the export-oriented sectors of hydropower, mining, and agricultural plantations and has contributed significantly to Laos's economic growth, but there are increasing concerns about the (foreign as well as domestic) investments in these sectors regarding inadequate policy design, negative socio-economic and environmental spillovers, the disruption of local livelihood systems and unsustainable sovereign debt (Barney & Souksakoun, 2021; Kenney-Lazar et al., 2023; Keovilignavong & Suhardiman, 2018; Lagerqvist et al., 2014), as well as the frequent failure of land-based investment projects to become fully operational (Hett et al., 2020; Schönweger & Messerli, 2015). The latter point may also suggest that the institutional compulsions have not adequately promoted learning-by-doing.

In Rwanda, post-war recovery has taken place under the firm rule of the RPF led by President Kagame. As in Laos, this was partially based on the promotion of the private sector and the extension of market forces, in parallel to varying degrees of state intervention and rent centralization depending on time and sector (Behuria & Goodfellow, 2017). However, overall, the Rwandan government retains stronger control over its economy, exemplified by its coordinated interventions, comprehensive policy reforms, performance-based development programs, extensive public investment, and the centralization of economic rents using party- or military-owned enterprises (see above). In addition, Rwanda has benefitted from steady external financing (Table 2): on the one hand, FDI inflows increased significantly, although they remain lower than in Laos; on the other, Rwanda continues to be aid dependent, whereas the share of official development assistance (ODA) to gross national income (GNI) declined heavily in Laos.

Over the last two decades, the Rwandan economy experienced some structural change, mostly due to a rising service sector, although agriculture remains the backbone of the economy (see Table 2 and Fig. 3). Indeed, Rwanda employed a service-led strategy based on investments in modern, high-end services such as tourism, finance, and real estate (Behuria & Goodfellow, 2019). Yet, although there has been an almost six-fold increase in the employment share of services (see Fig. 3), over 80 % of non-agricultural employment remains informal, most of it centered around traditional services (NISR, 2023), and linkages are lacking between the high-end service sector that has driven growth and the bulk of the (informal) domestic economy (Behuria & Goodfellow, 2019). The commercial landscape in Rwanda remains dominated by a mass of informal micro-enterprises that failed to produce large-scale employment and remain disconnected from the relatively few formal enterprises (Gökgür, 2012; Poole, 2021). The rate of industrial growth (largely based on construction and mining) has closely followed the overall growth rate, resulting in a stagnant contribution to value added just below 20 % (Kruse et al., 2023). Manufacturing has been notably missing in the picture, its contribution having shrunk notwithstanding recent efforts to revive it through a revamped industrial policy (Behuria, 2019). Despite some limited success with low-technology products such as garments and construction materials, there are few backward and forward linkages, firm capabilities remain low and the actual private sector (where the state is not involved) continues to be weak (Heinen, 2023). In agriculture, Rwanda's use of party- and military-owned enterprises succeeded in spearheading selected domestic agro-processing capabilities, for example in coffee production (see Behuria, 2020). Yet, recent evidence shows how food production and yields have been significantly overestimated in the past and essentially stagnated between 2005 and 2018 (Heinen, 2022). Structural change has thus been limited in Rwanda and mostly restricted to high-end services and some agro-processing. Indeed, there is limited evidence of learning for technology acquisition (Behuria, 2018).

This section showed how the political settlements in Laos and Rwanda have successfully pursued their state-building projects and achieved economic growth. Yet, our assessment questions the quality of these growth 'miracles': we argue, in line with Behuria and Goodfellow's (2019) analysis of Rwanda, that structural change has been somewhat misdirected to extractive industries and hydropower (Laos) and high-end services (Rwanda) with weak employment and limited forward and backward linkages, compounded by a relative lack of productivity growth in the historically more relevant agricultural and manufacturing sectors – thus casting doubts over the sustainability of these growth experiences. The reasons for this mixed record are complex and hard to pin down, but the following three factors undoubtedly played an important role: first, the aspirations of both ruling coalitions are geared towards large-scale modernist projects. In Laos, the party pursues industrialization (though not necessarily manufacturing) and modernization as part of its socialist transformation (Creak & Barney, 2022). In Rwanda, Kagame has been lauded as a visionary (Crisafulli & Redmond, 2012) and the government envisaged developing a knowledge-based economy (Behuria, 2019). Second, as we have seen, the need to legitimize the current distribution of power through poverty reduction created a strong incentive for direct investments in social policy and basic services with more immediate results than the difficult task of generating productive employment in agriculture and manufacturing – and ODA, FDI as well as the export of natural resources, among others, have afforded the financial means to do that. Third, transnational actors also provide strong political pressures and financial incentives: foreign companies and other states have a direct interest in mining and hydropower in Laos (see, for example, Marks & Zhang, 2019, on Thailand's need for electricity from Laos) and donors in Rwanda promote flawed notions of SME entrepreneurship (Poole, 2021) while constraining the use of industrial policy (Behuria, 2019). Finally, we should note that some of the problems associated with these growth trajectories have been recognized by both governments as exemplified by Laos's stricter monitoring of land concessions (Kenney-Lazar et al., 2023) and Rwanda's recent attempts at reviving the manufacturing sector (Behuria, 2019). In any case, the partial success in economic development has provided both countries with resources that can be used to increase material welfare. The next section asks to what extent this has been the case.

3.3. *The right kind of growth? Assessing the pro-poorness of growth*

Having sketched out the current political settlements and recent growth trajectories, this section explicitly links the growth analysis to the evolution of poverty from a relational perspective.

3.3.1. *Employment nexus and social policy*

Fig. 2 outlines the role of the employment nexus (a central determinant of the personal income channel) and social policy (a central determinant of the social provisioning channel) in shaping the pro-poorness of growth.

The above analysis suggests that the growth trajectories in Laos and Rwanda have not been based enough on productivity growth in low-skilled labor-intensive sectors. As a result, the employment nexus is not as strong as it should be from a PPDS perspective. This finding is well documented, particularly for Laos (see for instance World Bank, 2020a) and rural areas. Heightened land pressures and continued dispossessions (through market and non-market means) have disrupted livelihood systems and led to increased dependency on precarious wage labor in both countries, not rarely amounting to instances of slow violence (see for example Blake & Barney, 2018). In Rwanda, however, the non-farm economy has failed to provide sufficient employment to compensate for acute land scarcity (Bird et al., 2022) and many households increasingly depend on precarious and arduous agricultural wage employment in gendered informal labor markets (Illien et al., 2022b). Similarly, in Laos, loss of farmland in villages affected by land-based investments is associated with growing poverty (Nanhthavong et al., 2020) and employment resulting from these land deals has only modestly benefitted affected villages (Nanhthavong et al., 2022).

Our assessment is more positive regarding social policy. In fact, one of the major merits of Rwanda's political settlement has been massive investment in the provision of basic services and social protection. Indeed, rapid socioeconomic development has been used as a tool to promote the legitimacy of the current regime, especially in rural areas where its support is slimmest (Chemouni, 2018; Lavers, 2019). Over the last two decades, Rwanda has implemented a range of social protection policies explicitly aimed at poverty reduction: from public works (through the Vision 2020 *umurenge* program) through compulsory community-based health insurance (*mutuelles de santé*), to the *ubudehe* scheme used to classify households for social protection. While major problems remain – not only related to design and implementation but also to the coercive nature of several aspects of these programs that can have perverse effects – the overall outcomes are impressive for a country with such a low GDP per capita (Ezeanya-Esiobu, 2017), owing not least to substantial development assistance, economic growth, and the structure of the ruling coalition that allows for long-term planning and relative effective implementation. This is also evident in the provision of basic education. Williams (2017) employs the PS approach to explain the surge in primary education enrolment by the RPF's commitment to performance-led governance and accountability. Nevertheless, he shows how top-down decision-making has contributed to prioritizing access at the expense of quality, which remains low.

The social protection system in Laos is much less developed and current investment in social protection is the lowest in the region (UN, 2020). However, the Lao government has recently adopted an ambitious National Social Protection Strategy aiming to significantly expand basic social protection services by 2030 (GoL, 2020). At present, the social insurance scheme covers only a small fraction of the population, primarily the public sector and some parts of the formal private sector (UN, 2020). There are some targeted social welfare programs providing cash and in-kind transfers but they are mostly limited to short-term support (ILO, 2017). Arguably, the greatest progress has been made in healthcare coverage, increasing from around 11 % in 2008 to 94 % of the population in 2018 (Mailfert & Phe Goursat, 2019), and in the provision of basic education (Epprecht et al., 2018; Noonan, 2020).

3.3.2. Changes in poverty and inequality

Having outlined the two growth trajectories and their effects on employment and social policy, this section analyzes direct outcomes in terms of material well-being. We start by analyzing monetary indicators based on official data. Fig. 4 shows anonymous growth incidence curves (GICs) for Laos and Rwanda based on the World Bank's Poverty and Inequality Platform (PIP) dataset (World Bank, 2024a), which uses government statistics. Even though annualized mean consumption growth has been higher in Laos, the growth trajectory has favored wealthier over poorer households in both relative and absolute terms, suggesting that growth in Laos has not been pro-poor. As a result, income inequality shown in Fig. 5, although lower than in Rwanda, has risen. There have, however, been some improvements in non-income dimensions of inequality, although large discrepancies persist, for example regarding regional and gender inequalities in education or employment (Epprecht et al., 2018).

Rwanda shows an inverse picture (Fig. 4): a pro-poor growth trajectory in relative terms with declining inequality. However, the overall impression based on official data hides strong temporal fluctuations: respective growth incidence curves for sub-periods reveal that consumption growth was higher for wealthier than for poorer households ('pro-rich') during 2000–2005 and 2013–2016. In any case, absolute changes have been higher for the wealthy, suggesting that even if growth was pro-poor in relative terms, it has not been so according to the strong-absolute definition (for which absolute gains must be larger for the poor than the non-poor, see Klasen & Reimers, 2017). Another hint that the picture presented in Fig. 4 may be misleading comes from the low growth elasticity of poverty in Rwanda (just below –0.2 between 2001 and 2017 at the \$1.90 line), which is lower than in many comparable sub-Saharan countries (World Bank, 2019). In line with the relative GIC, Fig. 5 also shows an overall decline in income inequality, although inequality remains at a very high level. Inequality in access to basic services has shown improvements that are less disputed and in line with the reduction in multidimensional poverty shown below, although important regional and gender disparities persist (Ornert, 2018). Land distribution continues to be particularly worrying, with signs that land inequality is increasing and that many rural households have become

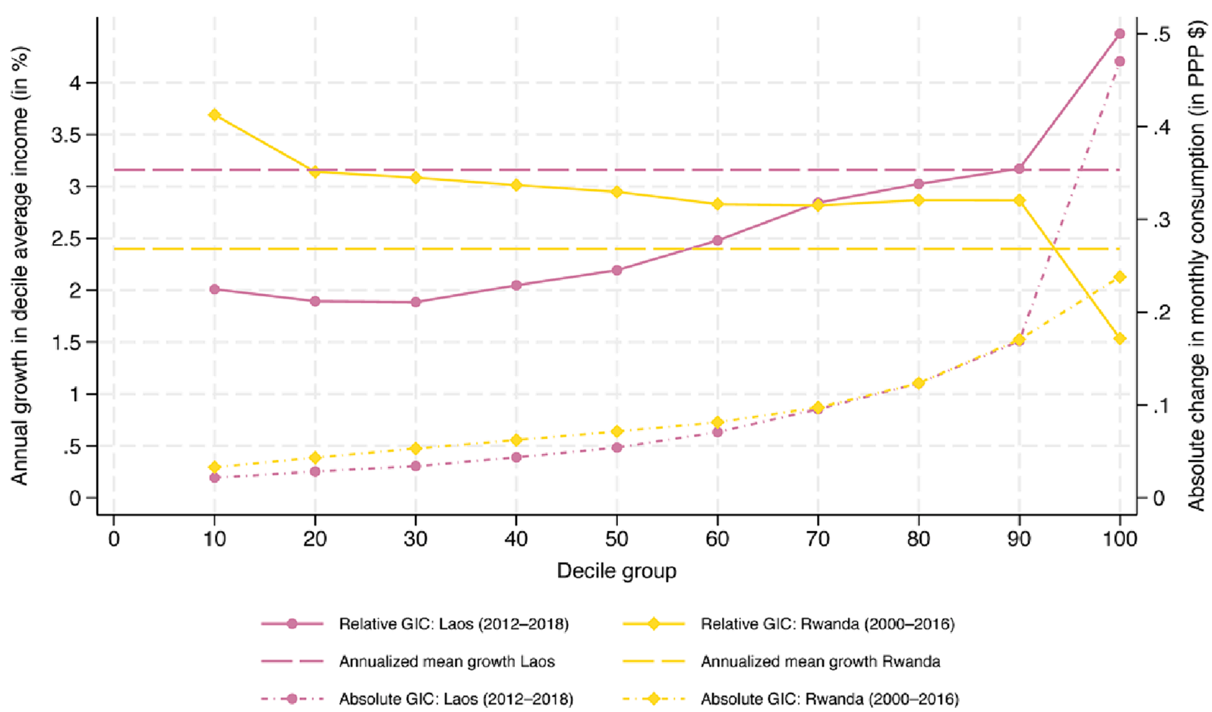

Fig. 4. Anonymous relative and absolute growth incidence curves for longest comparable spells in Laos (2012–2018) and Rwanda (2000–2016).
Source: World Bank (2024a).

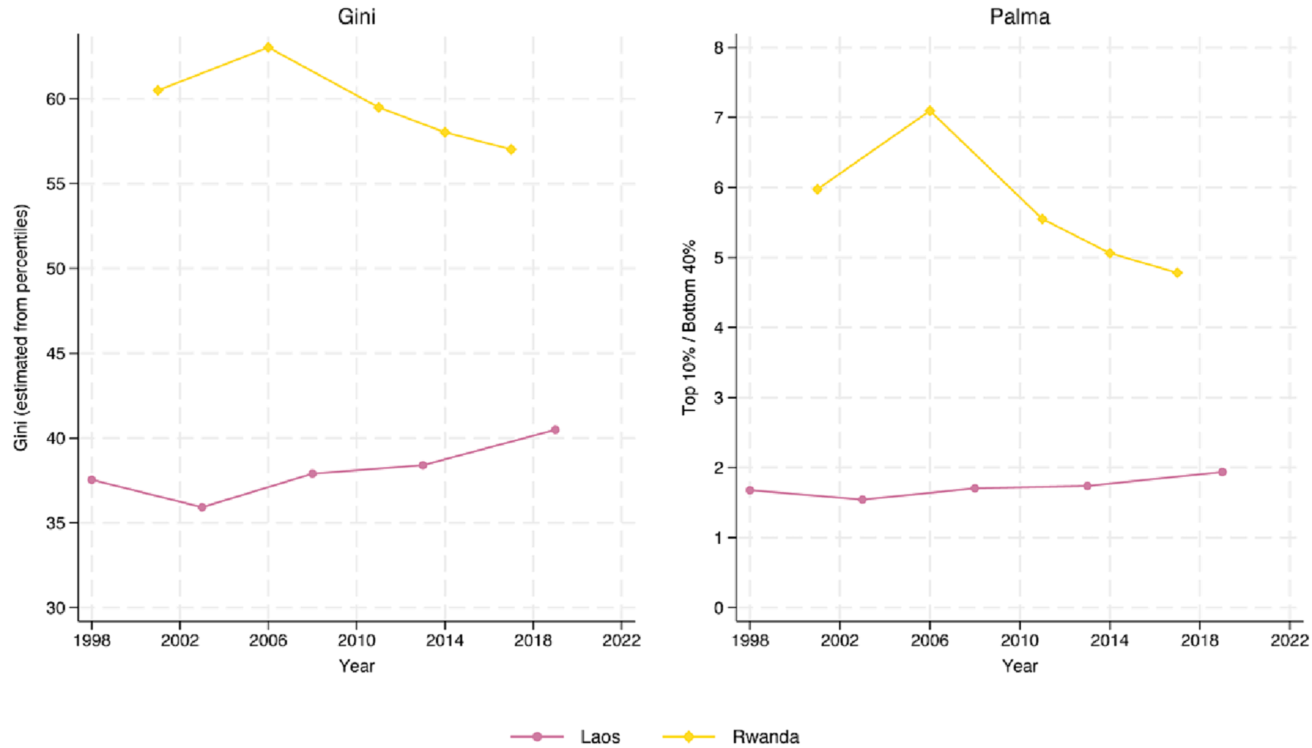

Fig. 5. Gini index and Palma ratio across time.
Source: UNU-WIDER (2023).

functionally landless (Bird et al., 2022; Illien et al., 2022b).

Fig. 6 tracks selected poverty measures across time. Official government data (informing both the international and national poverty lines) show consistent reductions in absolute levels of monetary poverty, although progress has recently slowed down, especially in Rwanda. However, these data are vigorously contested in the Rwandan case. Several researchers and investigative journalists independently arrived at the conclusion that Rwanda's official poverty estimates are wrong (Desiere, 2017; Okito, 2019; Reyntjens, 2015; ROAPE, 2019; Wilson & Blood, 2019). The disagreement centers around the use of different price indices to update the poverty line between survey rounds. Instead, these authors argue that the monetary poverty rate has actually increased, at least between 2011/2011 and 2013/2014, so much so that it may now be higher than in 2001 (see Fig. 6 and Okito, 2019). In short, it is

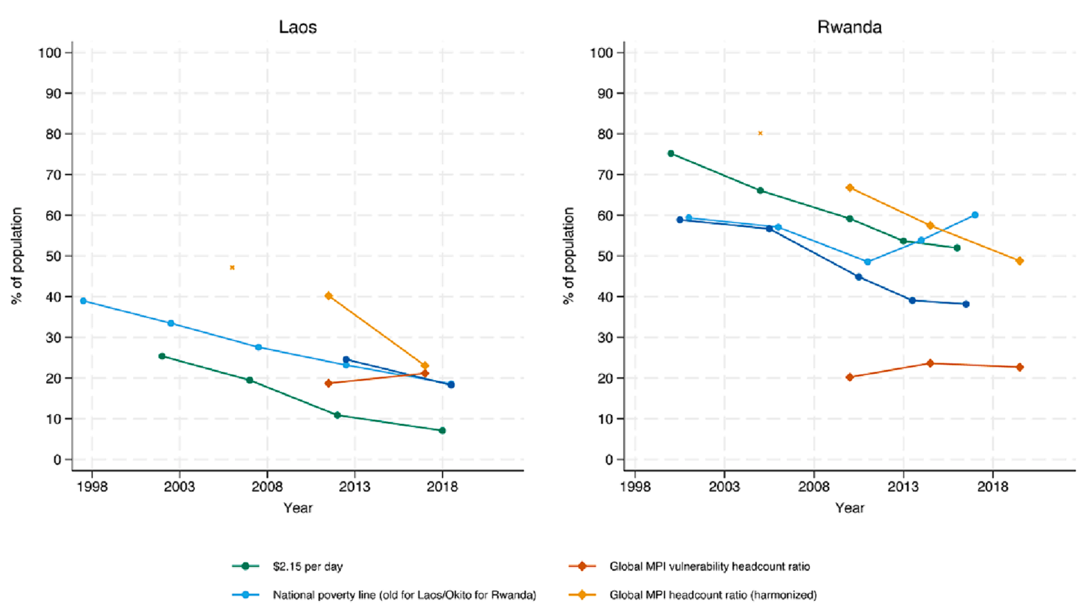

Fig. 6. Monetary and non-monetary poverty indicators across time. Note: Non-harmonized MPI headcount ratios cannot be used for direct comparisons across time. Sources: World Bank (2024b, for the $2.15 poverty line in Laos and Rwanda), World Bank (2020a, for old and new national poverty lines in Laos), NISR (2018, for the official national poverty line in Rwanda), ROAPE (2019, for Okito's poverty line in Rwanda), Alkire et al. (2023, for harmonized global MPI headcount ratios) and OPHI (2023, for non-harmonized global MPI headcount ratios).

extremely unlikely that growth has been monetarily 'pro-poor' in relative terms, although no longitudinal analysis of GICs and income inequality has been undertaken to date following the changes recommended by Okito (2019) and others. Similarly, food production and yields (and therefore, to some extent, even GDP per capita) have been systematically overreported (Desiere et al., 2016; Heinen, 2022). These findings are in line with a number of qualitative studies (summarized in Ansoms et al., 2018) that underline the disruptive effects of Rwanda's growth trajectory on the everyday lives of rural people.

It is therefore instructive to look at non-monetary poverty indicators. Fig. 6 shows that, while Rwanda remains significantly poorer than Laos, multidimensional poverty as measured by the global Multidimensional Poverty Index (MPI, consisting of three dimensions: health, education and standard of living) has decreased drastically and faster in both countries than any measure of monetary poverty for the period on which we have data. Indeed, initially high levels of non-monetary poverty are approaching monetary headcount ratios which, until recently, had been relatively lower. This in itself is a huge achievement and partly a result of large-scale investments in infrastructure, social policy and basic services. For example, the electricity access rate increased from 43 % in 2000 to 100 % in 2021 in Laos and from 6 % in 2000 to 49 % in 2021 in Rwanda (IEA, IRENA, UNSD, World Bank, WHO, 2023). These investments are highly visible and have been used to legitimize the ruling coalitions, as shown above. However, Fig. 6 also reveals rising levels of the population vulnerable to becoming MPI-poor (i.e., those deprived in 20–33.32 % of weighted indicators) in both countries, suggesting that a singular focus on poverty lines is misleading. Rwanda's experience is particularly striking: while it was the country with the sixth largest reduction in the multidimensional poverty headcount (out of 80), it also recorded the sharpest increase in the vulnerable population between 2010 and 2014/15 (Alkire et al., 2020). Similarly, there has been significant success in reducing child wasting and stunting in both Laos and Rwanda across the last two decades (FAO, 2024). Yet, while Laos has reduced undernourishment in both relative and absolute terms, the prevalence of undernourishment decreased only slightly in Rwanda (from 38 % in 2000–2002 to 32 % in 2020–2022) and the absolute number of undernourished people has increased by over one million (ibid.). Moreover, food security has recently deteriorated in both countries (FAO, 2023; WFP, 2021).

We can conclude the following: first, there is no doubt that the overall MPI headcount ratio decreased in both countries, partially due to massive investment in the provision of basic services. Vulnerability has, however, been rising. Second, from a monetary perspective, growth in Laos has been pro-poor in the weak-absolute sense (i.e. absolute gains for the poor regardless of the gains of the non-poor, see Klasen & Reimers, 2017) but neither in the relative nor the strong-absolute sense. Third, while there is agreement that growth in Rwanda has recently become less pro-poor, it is hardly possible to reach a definite conclusion on the evolution of long-term monetary poverty in Rwanda, given the many open questions surrounding underlying data. We can, however, note that it is extremely unlikely that growth has been monetarily pro-poor in the relative sense across the last two decades. Therefore, the trajectories of Laos and Rwanda cannot be called pro-poor from a PPDS perspective. This discussion also shows that while long time horizons and strong implementation capacities have contributed to economic growth and the need for legitimacy provided incentives for poverty alleviation programs, one cannot presume that this automatically results in transformational pro-poor development as evidenced in the destruction of livelihoods, weak employment linkages and misdirected structural change with modest organizational capabilities of private domestic entrepreneurs. Although productivity growth is indeed necessary for economic development, we strongly caution against a misguided focus on growth at all costs rather than on pro-poor economic development.

4. Conclusion

Laos and Rwanda have recorded two decades of remarkable economic growth. In this article – the first to comparatively study these two trajectories from a political economy perspective, and the first to apply political settlements analysis to Laos – we have employed the political settlements (PS) approach to reveal how the extensive power, long time horizons, and ideological commitments of ruling coalitions in both countries have been instrumental for the respective state-building projects in driving capital accumulation, extending political control, providing stability, and reducing multidimensional poverty through some variant of market-oriented authoritarianism, not least as a means to legitimize the prevailing distribution of power. An analysis of pro-poor growth must, however, go further, interrogating the nature of this growth trajectory and its connections with inequality and poverty. We thus argue that the political settlements approach must be extended by a relational analysis not only of the 'politics of inclusive development' (Hickey et al., 2015a, p. 3) but also of the economic mechanisms through which growth both reduces and reinforces poverty. Extending the PS approach with insights from the heterodox political economy literature on pro-poor development, this article provides a new, integrated framework that conceptualizes the political conditions and key mechanisms linking growth and poverty in order to account for pro-poor economic development.

By applying this framework to Laos and Rwanda, this paper shows to what extent the two countries have implemented pro-poor development strategies and how they have done so. Only by tracing the ways in which the two political settlements have attempted to overcome structural challenges can we understand the strong growth performances and massive public investments yet ultimately limited success in terms of pro-poor economic development. Our analysis suggests important qualifications to stories of 'miracle growth'. First, there are concerns about the sustainability of the growth trajectories themselves, as they have been based primarily on natural resource depletion (Laos) and the high-end service sector (Rwanda), with only modest linkages to the rest of the economy. We therefore argue that structural change has to some degree been misdirected and has not been adequately geared towards poverty reduction. Second, and partially as a result of this, inequality remains high in Rwanda and is growing in Laos. Moreover, national aggregates ignore multiple markers of difference and gloss over the fact that groups of people remain systematically disadvantaged due to class, gender, ethnicity, or locality. Third, economic growth has increased the vulnerability of large parts of the population (especially in rural areas) and engendered new forms of poverty. Therefore, neither case can be characterized as pro-poor from a PPDS perspective. Nevertheless, our analysis has shown that political commitment and relatively strong implementation capacities, especially in Rwanda, have allowed part of the growth-generated resources (along with substantial donor funding) to be invested in the provision of infrastructure and basic services, notably health care coverage and education. These achievements may, however, conceal a more fundamental problem: that economic growth in Laos and Rwanda has so far failed to create adequate linkages to the larger workforce through decent and productive employment and cannot provide sufficient alternatives to the increasingly vulnerable livelihoods it has helped produce. To the extent that there was inclusion, it was therefore nominal rather than transformational (see Mustapha et al., 2022). As a result, we argue for a renewed focus on labor-intensive agricultural and manufacturing activities, increased labor and social protection measures and stronger safeguards for (communal and individual) land rights.

CRediT authorship contribution statement

Patrick Illien: Conceptualization, Formal analysis, Funding acquisition, Investigation, Methodology, Visualization, Writing – original draft, Writing – review & editing. **Sabin Bieri:** Funding acquisition, Supervision, Writing – review & editing.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Data availability

Data will be made available on request.

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