

Laos

Status Index (Democracy: 2.83 / Market economy: 3.86)		3.35	Management Index		3.48
HDI	0.545		Population	5.7 Mio.	
GDP p. c. (\$, PPP)	1,759		Population growth¹	2.2%	
Unemployment rate	n/a		Women in Parliament	22.9%	
UN-Education Index	0.66		Poverty²	26.3%	
			Gini-Index	37.0	
Source: UNDP: Human Development Report 2005. Figures for 2003 – if not indicated otherwise. ¹ Annual growth between 1975 and 2003. ² Population living below \$ 1 (1990-2003).					

A. Executive summary

Laos today is an authoritarian state ruled by a single party whose principal concern is to maintain its monopoly of power. To this end, the ruling party suppresses all avenues of dissent, including the media, public protest and all forms of association not dominated by the party. Under these circumstances, the evolution of civil society is all but impossible. The party is controlled by a small political elite comprising of the Politburo and Central Committee of the party, dominated by a group of gerontocratic generals and former generals. A number of these are likely to retire at the next Party Congress in 2006, but they are equally likely to be replaced by men with similar views about the role of the party. Who will be elected is a matter of intense internal politicking, which is why there is such reluctance to make any decision on reforms that might be criticized by political opponents.

The Lao economy is still in a transitional phase, and continued evolution toward free market conditions is likely to be slow. There are several reasons for this, but the principal ones are political and structural. The ruling party lacks the political will to institute further reforms because it fears not just loss of power, but also the loss of opportunities for patronage, which would result from a more transparent and accountable system. To allow free competition would eliminate the dependence of business on political connections and eliminate a primary source of benefits for party members. A similar situation applies in relation to the rule of law. The separation of powers, which is written into the constitution, does not exist in practice because of the overlap of party membership between the government, the legislative National Assembly and the judiciary. A framework of laws and administrative regulations is more or less in place, but it does not operate independently of the party. The result is a distorted market economy marked by weak financial institutions, uneven competition, poor transparency and political interference, and sapped by pervasive corruption.

The weakness of the Lao economy in meeting the development needs of the country is related to the reluctance of the government to enforce taxation law. The resultant low revenue collection provides the government with only limited means to address severe problems of poverty, inequality, gender disadvantage, poor provision of services and poor development of human resources. Nor does it have the means to undertake or maintain infrastructure development projects. The budget shortfall (including infrastructure investment) is compensated by foreign aid, so it is a primary goal of Lao foreign policy to maintain the flow of foreign aid adroitly.

B. History and characteristics of transformation

The Lao People's Revolutionary Party (LPRP) came to power in 1975 as a Marxist-Leninist regime modeled on the Democratic Republic of Vietnam. One of its first acts was to abolish the existing multi-party parliamentary democracy, replacing it with a system of "democratic centralism" managed by the party. In theory, each level of the party, from the bottom up, elects delegates to the next higher level, but in practice those controlling the higher level co-opt the delegates they choose. This is what passes for democracy in Laos. After the promulgation of a constitution in 1991, closely controlled elections for a National Assembly have been conducted by the LPRP, which screens all the candidates, the overwhelming majority of which belong to the party. No further transition toward democracy has occurred, nor is any change likely in the foreseeable future.

The party also socialized the economy. All industry and financial institutions were nationalized and a program to organize agriculture through cooperatives was introduced. Peasant opposition and collapsing production forced the party first to modify its hard line in 1979, then in 1986 to embark on a reform program known as the New Economic Mechanism (NEM), which set in motion the transition toward a market economy.

The cooperative system was abandoned, restrictions on internal trade were removed, and a free market was allowed to operate for agricultural produce. At the same time, international trade was liberalized and foreign investment sought, initially in the form of joint ventures with the state, later in fully foreign-owned projects. As was the case in China and Vietnam, but not in the Soviet Union, the transition to a market-oriented economy took place without any corresponding political liberalization: Perestroika ("restructuring") but no Glasnost ("openness")! These changes were driven from within the party by the powerful Secretary General, Kaysone Phomvihane, who won over the military against his conservative and ideological opposition.

These policy changes required a set of supporting measures that were introduced piecemeal over the next decade. These included the elimination of microeconomic constraints limiting private production, legislation to encourage foreign direct investment, including a legal framework of commercial, trade and labor laws and closer attention to macroeconomic stability. This increased attention to macroeconomic stability also included changes in budgetary and monetary policy, a winding down of state subsidies, a reduction in the number of civil servants and the introduction of a new taxation framework for revenue collection.

By the mid-1990s, these measures were producing their desired economic effect. They improved resource allocation and spurred economic growth in the halcyon period before the Asian economic crisis of 1998. Growth levels were a misleading indicator, however, as the country was highly dependent on official development assistance (ODA), especially for infrastructure development, as revenue hardly covered current expenditure.

At first Laos was little affected by the financial meltdown elsewhere in Southeast Asia, largely because its economy was cushioned by the high level of subsistence agriculture. However, the political decision to dispense with budgetary restraints led to massive inflation and a slowing of growth. This slowdown in growth shocked the party leadership by revealing the limits of political intervention. Further reforms toward a market economy (improved financial regulation and revenue collection, transparency in procurement, restructuring of state-owned enterprises, especially those run by the military) have since mostly been put on hold or reluctantly agreed to and then not implemented, much to the frustration of international donors.

C. Assessment

1. Democracy

1.1. Stateness

The Lao PDR is a functioning state with an effective monopoly on the use of force that extends throughout the country. Hmong guerrillas still active in a small mountainous area of northern Laos and externally based political opponents pose no credible threat to the regime.

Laos is the most ethnically diverse country in Southeast Asia. The population is divided into “Lao of the plains,” “Lao of the hillsides” and “Lao of the mountaintops,” but all are citizens of the Lao state. Both their nationality and their

“race” is Lao, though they belong to different ethnic groups (47 of which were officially recognized in the 1995 census). Chinese and Vietnamese of Lao nationality are not counted as ethnic Laos, though they enjoy the same civil rights. The Lao diaspora comprises of ethnic Lao, but not of Lao nationality. Laos does not recognize dual nationality.

Buddhism is the religion of at least 60% of the Lao population, and the Buddhist *Sangha* (monastic order) has a widespread organizational structure. However, despite the resurgence of Buddhism over the past 15 years, the *Sangha* remains under the control of the ruling LPRP and has virtually no political influence.

The state’s administrative infrastructure extends throughout the country, down to the village level where the village head, formerly elected, is now appointed by the provincial authorities. Regionalism, however, remains strong and provinces have a degree of autonomy, both in their economic relations with neighboring countries and in their relations with the central government, which at times finds it hard to extract tax revenue or enforce new policies in the provinces.

1.2. Political participation

Elections are held every five years for the National Assembly, the last being in February 2002 for 109 members. Only 166 candidates campaigned for elections, all vetted by the party-controlled Lao Front for National Construction (LFNC), which meant that in many electorates there was only one candidate. All but one (the long-serving justice minister) of those elected are members of the LPRP. Power thus remains firmly in the hands of the party, which determines all policy matters and the legislative program.

The real rulers of Laos are the members of the Political Bureau (Politburo) of the LPRP. These now number 10, with the death of one member who had been “elected” at the 2001 Seventh Party Congress. In fact, membership of the Politburo is determined beforehand in horse-trading within the upper echelons of the party and rubber-stamped by Congress delegates.

The Lao language media is strictly controlled, and no investigative journalism is permitted. Many Lao however watch Thai television, and the growing number who speak English or French can purchase foreign newspapers and magazines or listen to shortwave radio.

1.3. Rule of law

The judiciary is institutionally differentiated in Laos, and there is a growing body of legal statutes. However, the judiciary is not independent of the party. Most judges and officials of the justice ministry are party members, and politically influential persons routinely attempt to influence legal decisions. Bribery is widespread, especially in civil and commercial cases, but political connections are usually the deciding factor.

Despite government calls for an end to corruption and the existence of an Anti-corruption Commission, there has been no prosecution of any senior government or party official for corruption over the last 15 years. Some criticism has been allowed in the National Assembly and reported in the press, for example of the irrigation department, but the criticism was generalized without anyone being named and no charges have been laid. Demotion or removal from office is the worst that has yet happened to blatantly corrupt officials.

Many of the civil liberties incorporated in the Universal Declaration of Human Rights are routinely violated in the Lao PDR. These include rights of assembly and the free expression of political beliefs. Religious freedom, guaranteed in the Lao constitution, may be limited where religious differences are believed by the authorities to exacerbate ethnic divisions (as in the case Khmu or Hmong Christians). There is no means of appeal against the violation of civil rights in Laos.

1.4. Stability of democratic institutions

The Lao PDR is an authoritarian, single-party, Marxist-Leninist regime. It does hold elections for a party-controlled National Assembly and is about to institute municipal elections in four provincial centers as a pilot program. Democracy at the local level was curtailed when popular election of village chiefs was discontinued. The party itself claims to be democratic, since it functions on the basis of “democratic centralism.”

Opposition to any extension to democracy, either within the party or outside it, comes primarily from the military, which is very influential in Laos. This is for two reasons. One is that since the Sixth Party Congress the Politburo has been dominated by the military. Six of the nine members of the Sixth Party Congress are ex-military or serving officers, as well as seven of the 11 members at the Seventh Congress. The second reason is that close ties exist between the Lao and the Vietnamese military; these ties in turn influence the close Lao-Vietnamese political relationship.

1.5. Political and social integration

As no multi-party system operates in the Lao PDR and there is no polling of public opinion, it is impossible to know to what extent the current system articulates and aggregates the social interests of the Lao people or whether they desire, let alone consent to, democratic norms and procedures. One thing should be noted, however: The party actively recruits members from among the educated elite, including those returning from attending tertiary institutions abroad. Party membership was put at 100,000 at the time of the Seventh Party Congress or around 2% of the population.

No interest groups are permitted to function outside party control. The Lao trade union federation and organizations for women and youth are under party control. So too is the Lao Front for National Construction, which includes representatives of ethnic minorities and religious organizations such as the Buddhist *Sangha*.

Self-organization does occur in Lao society, traditionally in the form of ad hoc groups to perform specific tasks, such as harvesting or building a house or local school. Trust is relatively high that others will reciprocate. However, attempts by the party to build on this to create cooperatives failed dismally.

2. Market economy

2.1. Level of socioeconomic development

The Lao regime supports both ethnic and gender equality, though poverty and lack of infrastructure in remote parts of the country still disadvantage ethnic minorities and women. In the case of ethnicity, the government has lacked commitment in fulfilling its promise to minorities that supported it during what is called the “30-year struggle” (1945–75). This promise was to improve their living standards, health and educational opportunities. In part this lack of commitment has been due to lack of resources, but the political influence of minorities within the party and of the LFNC, which represents them, has been on the wane.

In the case of women, Laos has a gender-related development index (2002) of 0.528, which gives it a rank of 107. Women are active in the economy (rated at 74.5, which is 85% of the male rate) and have a greater life expectancy than men (in 2002, 55.6 years for women vs. 53.2 for men). However, they earn only an average of two-thirds the male rate (PPP \$1,358 as against \$2,082), and both their combined education enrollment ratio (53 to 65) and adult literacy (55.5 to 77.4) are substantially less. Much of this disparity is due to poverty: a boy will be sent to school and a girl kept at

home to work in poor families. Political participation by women as measured by election to the National Assembly has increased over the last 15 years from 6.0% to 22.9%.

2.2. Organization of the market and competition

Laos has gone a long way in moving from a command to a market economy, but competition still operates under a weak institutional framework. While a number of state-owned enterprises (SOEs) have been sold or wound up, the government intends to retain control of around 30, which it considers “strategic.” These will presumably continue to be essentially monopolistic. Competition is permitted in some sectors, notably in the informal sector of small-scale marketing, in parts of the service sector (hotels, tourism) and where investments are foreign-owned (textiles, mining). Where commercial regulations exist, they can often be circumvented through political contacts. No rules exist to regulate monopolies.

Since the mid-1980s, Laos has moved to liberalize foreign trade. As a landlocked country, Laos has encouraged trade via Vietnam and China in order to reduce its dependency on Thailand. Tariffs have been reduced and will be reduced further now that Laos is a member of ASEAN (Association of Southeast Asian Nations). Preliminary talks are under way about joining the WTO. Import trade is competitive, but some key exports (such as timber) are controlled.

Although Laos has allowed six foreign banks to establish branches in Vientiane and has entered into three joint-venture banks, the domestic banking system consists of just three state-owned commercial lending banks in addition to the National Bank of Laos. Of these three banks, one is limited to the promotion of agriculture. There are no domestic private banks, nor is there a capital market. The state-owned commercial banks all require restructuring and refinancing because most of their loans are non-performing. The World Bank, in its Economic Monitor of November 2004 for the Lao PDR, has called for improved supervision and transparency and an end to “non-commercial reasons for making loans,” bank-speak for the chronic corruption that has plagued the banking sector.

2.3. Currency and price stability

Following massive inflation averaging 110% following upon the Asian economic crisis of 1998–1999, a macroeconomic stabilization program reduced it to an average of 15% over the period 2000–2003. Over the past year, inflation has fallen further to

an estimated 6.0% for 2004. The high inflation of 1998–1999 reflected a political decision by the Lao government to spend its way out of the crisis, resulting in a massive budget deficit. Inflation then followed.

Lao authorities are aware of the need for macroeconomic stability, but in Laos politics take precedence. This means that ultimate decisions are made not by the National Bank of Laos or even by the Ministry of Finance, but by the Politburo, whose members have little understanding of macroeconomics.

2.4. Private property

The Lao constitution protects property rights in a broad sense, but as all land belongs to the state, property can be expropriated for state purposes. Individuals possess user rights, which can be transferred and are heritable. A land titling system is presently being introduced at the time of this writing, which has resulted in numbers of false and disputed claims that are usually settled through payment of substantial bribes to relevant officials. Once a land register is in place, however, such cases should decline.

Laos now permits private companies, both domestic and foreign-owned, to operate, but the playing field is not yet level. A considerable number of SOEs have been privatized, but others still dominate their respective sectors. Government contracts are very often awarded to SOEs or to companies with political contacts to high-ranking party members. The situation is improving gradually under pressure from international donors for greater transparency in the tendering process.

2.5. Welfare regime

No social security system is in place in Laos to alleviate poverty or to help meet medical or disability costs. Nor are there old-age or disability pensions. The only exception is for veterans of the revolutionary struggle on the Pathet Lao side, under the auspices of the Ministry of Labor and Social Welfare. Early in 2004, the government agreed to adopt a National Growth and Poverty Eradication Strategy with the cooperation of international donors. Implementation will depend, however, on the government's political commitment to increase revenue and to fund programs where they are most needed. Close international monitoring will also be required.

The Lao government does recognize that some segments of the population, notably geographically remote ethnic minorities, are disadvantaged, and it does run programs,

inadequate though they are, to train ethnic minority teachers and paramedical staff. In principle, women have equal opportunities to men to access higher education or gain public office, but in practice, Laos remains a predominantly patriarchal society.

2.6. Economic performance

Per capita GDP for Laos stands at \$320, with 73% of the population living on less than \$2 per day and 25% on less than \$1 per day. While GDP has grown at an average of 5.9% since 2000, this figure has hardly improved. This is because the increase has been mainly in the industrial and service sectors rather than in agriculture, which employs 80% of the population. Unemployment, though no figures are available, remains high. The government has difficulty balancing the budget, in part because it has difficulty collecting revenue, both from wealthy individuals and from the provinces. Corruption remains a persistent problem and is widespread.

2.7. Sustainability

The Lao government has set aside 17 National Biodiversity Conservation Areas (slightly more than 10% of the national territory) and has announced controls on logging. However, enforcement of controls is at best sporadic. Major mining and hydroelectric projects do take environmental concerns into account, but largely because of international pressure. The government expresses most concern over slash-and-burn agriculture traditionally practiced by ethnic minorities and has pursued a policy of resettling them at locations where agriculture is sustainable.

The quality of education at all three levels is very low, and the government has failed to make education a national priority. Schools have minimal facilities and textbooks are in short supply. Investment in research and development is non-existent. A few private schools operate, offering courses in languages (mainly English), business (management, accounting) and information technology.

3. Management

3.1. Level of difficulty

The constraints on effective governance in the Lao PDR are massive. The ancient Lao kingdom of Lan Xang extended over both banks of the Mekong River, which was a principal means of communication. For much of its length, the Mekong now forms the frontier between the modern Lao state and Thailand. This leaves Laos with

relatively narrow riverine plains, some higher plateaus (the plain of Jars and the Nakai and Bolovens plateaus), and large areas of tortuous mountains in the East and North of the country. These mountainous areas are inhabited by several different ethnic minorities living in small, self-sufficient villages, whose only contact with one another is by means of mountain trails. Infrastructure is quite inadequate, and the few roads and tracks that exist are often impassable in the wet season. Even in the lowlands and on the plateaus most villages practice subsistence-level agriculture, whether by slash-and-burn methods or in rain-fed paddies. The area under irrigation is limited, so dry-season harvests are poor. As a result, and because of poor infrastructure, the free market for agricultural produce is underdeveloped.

Poverty levels are thus very high and levels of education correspondingly low. The Human Poverty Index value is 40.3%, while 38.6% of the population lives below the national poverty line (estimated at \$1.5 per day). 63% of the population does not have sustainable access to an improved water source, and 70% has no access to improved sanitation. Forty percent of children under five are underweight for their age. HIV/AIDS, while low by international standards, is on the rise, while malaria (759 deaths per 100,000) and tuberculosis (359 deaths per 100,000) take their toll.

SARS did not hit Laos hard, but tourist numbers were less than expected in 2003. The country suffered an outbreak of bird flu in 2004 that resulted in the culling of around 150,000 poultry birds. Rainfall was adequate in 2004, but droughts and floods are commonplace.

Laos is still suffering the effects of war [and revolution](#), even though the current regime has been in power since 1975. In the years that followed the country lost as much as 90% of its educated class, which it has taken time to replace. The educated elite is still very small, and the adult literacy rate is just 33.6%. Literacy is lowest among the ethnic minorities, among whom knowledge of the national language (Lao) is limited. This too, along with the number of minorities (up to 130 by one unofficial count), also acts as a constraint on governance.

In such an ethnically, linguistically and culturally divided country, traditions of civil society are weak. But they do exist. Solidarity was strong during the revolutionary struggle, and among different groups, particularly the lowland Lao, there are strong traditions of mutual aid among villagers. For example, people come together to organize religious festivals. Civil society remains weak in Laos, not least because the government, and more particularly the LPRP, refuses to allow the formation of any organization or association outside its control.

Profile of the Political System

Regime type:	<i>Autocracy</i>	Constraints to executive authority:	<i>1</i>
		Latest parliamentary election:	<i>24.02.2002</i>
Head of State:	<i>Khamtay Siphanedone</i>	Cabinet duration:	<i>03/2001- present</i>
Head of Government:	<i>Bounyang Vorachit</i>	Parties in government:	<i>1</i>
		Number of ministries:	<i>15</i>
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>			

3.2. Steering capability

The long-term aims of the political leadership (i.e. the Politburo of the LPRP) are two-fold. The first aim is to remain in power, which means preserving the current one-party, “Marxist-Leninist” system. This has been reiterated at every Party Congress, at which warnings are issued against any “evolution” toward democracy. The second aim, subordinate to the first, is to pursue the economic development of the country. To this end the government has retreated from its commitment to a socialist economy. Numbers of state-owned enterprises have been privatized, foreign direct investment (FDI) is welcome, and private enterprise is encouraged. That said, the government is determined not to lose control of the economy. Several “strategic” SOEs are to be kept in state hands, and all but small-scale Lao enterprises need political contacts (and need to make judicious payments) if they are to avoid government interference and obstruction. The government might thus be said to pursue the long-term goal of a controlled market economy.

Because political survival takes precedence over promotion of a market economy, the political leadership is often reluctant to embark on reforms that it believes might undermine its political control or influence. Reforms in the direction of a market economy (none are taken to promote democracy) are thus often agreed upon with international donors (because that is what the political leadership considers as necessary to ensure that aid keeps flowing), but then not implemented for fear they will weaken the party or the position of some powerful individual or group within it. The point to note here, therefore, is that the government’s own stated reform goals may not be the actual reform goals. This is frustrating for international donors convinced that the Lao economy could be much stronger if reforms were enacted. Their reports are full of indirect references to this problem. For example, in the World Bank’s November 2004 Economic Monitor for Laos, reference is made to reduced revenue collection, the “limited actions” of the government to redress this, and the

need for “greater control by the center over the granting of (tax) exemptions.” The Bank calls for better forestry management, the need to ensure allocations reach their destination and the need to avoid non-commercial reasons for making loans—all of which refer to prevalent forms of corruption that undermine the efficiency of the economy.

The political leadership of the Lao PDR comprises a group of aging generals who dominate the Politburo. They are poorly educated and have a limited understanding of the workings of a market economy, the impact of global economic forces or the policies of international organizations pressing for reform. But they are not entirely inflexible, as the limited transition to a market economy that has occurred in the last 15 years indicates. What they understand very well is Lao politics, especially the politics of patronage and the playing off of powerful individuals and groups within the party. Many decisions are made (or in the case of reforms, not made) for intra-party political reasons that are often obscure to observers. It is the cognitive framework that prioritizes political advantage in the Lao context that is difficult to change, for this takes precedence over arguments based on national benefit.

3.3. Resource efficiency

Lao political culture, whether in the current or former Royal Lao regime (1954–1975), has always primarily been about the competitive interests of powerful individuals, their families and their “clans” of political supporters. Its core lies in the patronage a powerful individual can provide, in the form of employment and other economic advantages. Personnel are thus often appointed not because they are the most qualified and capable for the job, but because of their political contacts—and they can lose those jobs to others if they embarrass their patrons, or if their patrons lose political influence.

Laos has a slowly increasing pool of foreign-educated, technically competent administrative personnel, but they are all too often without political influence and reluctant to make any decision that might jeopardize their position. There are no competitive recruiting procedures, and the public service is highly politicized. Some decentralization has taken place, but has only served to strengthen provincial party leaders. Some financial autonomy exists at the provincial level, but with no transparency or public review of budgets or expenditures.

As for financial resources, the Lao government runs a chronic budget deficit in terms of revenue to expenditure, the shortfall being made up by foreign assistance, which finances around 80% of development expenditure. The deficit as a percentage of GDP has been reducing, however, from 12.9% in 1998 to the present figure of around 6%.

Actual expenditure does not usually deviate greatly from planned expenditure. As for foreign debt, this stands at around \$3 billion or about 150% of GDP, which constitutes a considerable burden. However, more than half is owed to Russia, which agreed in 2003 to write off 70% and to service the remainder at favorable terms over 33 years.

Policy coordination is weak, largely because of competing interests. Policy is often coordinated in an ad hoc manner, taking advantage of donor projects. Horizontal coordination is almost nonexistent because decision-making is highly centralized, hierarchical and is a prerogative jealously guarded. Even the most minor technical matters get passed up the hierarchy for decisions that senior officials are actually incompetent to make.

Corruption is ubiquitous in Laos, a chronic and growing problem. It is fair to say that a culture of corruption has taken hold, encouraged by the political culture of patronage that operates within the LPRP. The presidential Anti-corruption Commission has done virtually nothing. The party-controlled media has at times run articles railing against corruption, but without stating names, and no prosecution of any high-ranking official has ever taken place (unlike in Vietnam and China).

Corruption is encouraged not just because of the politics of patronage, but also because of the secrecy of the party, its structure, and the extraordinary overlap among party membership, government, the bureaucracy and the judiciary. Party finances are never published, officeholders are not accountable, and if the Central Committee for Control (of the party) does anything at all, it is never publicized. The National Assembly has, in the past, debated some components of the budget, but there is no serious discussion of spending policies—not surprisingly, given that all but one member of the Assembly is a member of the LPRP.

3.4. Consensus-building

There is no consensus in Laos about the direction of either political or economic reform because all dissent is stifled and there are no avenues free associations, a free press) for discussion. Everything is decided within the party where, however, discussion and more often old-fashioned political horse-trading may be intense. The party consensus, if one can call it that, is that there should be no political reform in the direction of democracy, and that though a market economy is preferable, the party should not lose control of economic levers or of the financial benefits to party members that flow from such control!

The principal interest groups and economic actors urging reform on the Lao government are international lending agencies (IMF, WB, ADB), foreign governments with substantial aid programs and foreign NGOs. Of these, the first have been most insistent in urging reform, with some success, given the economic transition that has occurred. However, the reform process has slowed recently, mainly due to the influence of the military and political maneuvering leading up to the next Party Congress in 2006.

There are no opposition or dissident groups in Laos urging the government to speed up reform. There are, however, some within the party and bureaucracy who accept the logic of reform (at least in the economic area) and would like to see corruption reduced. Those opposed to reform include notably the military, who agreed only reluctantly to the reforms that have already taken place, in a deal brokered by former party president, Kaysone Phomvihane, that left the military free to feather its own nest.

Political cleavages in Laos are not so much ideological as between powerful patrons and their clients; between provincial and regional interests; and between the dominant lowland Lao and ethnic minorities who believe they are not being fairly dealt with. The party cannot eliminate these divisions, but it has been relatively effective in preventing them from escalating (through its control over organizations such as the LFNC.)

The party does not encourage civic engagement or solidarity, except in support of itself and its policies. The only voluntary associations it permits are those associated with village life or the organization of religious festivals, or in support of education or sport.

There is no political debate in Laos, except within the party. Nor is there any political debate with Lao living outside Laos. In fact, the party has discouraged overseas Lao from returning permanently to Laos, above all by refusing to allow dual citizenship. Overseas Lao may visit Laos, and they may invest in Laos—provided they do not involve themselves in politics. The history of revolutionary struggle is used to legitimize the regime, by damning those who left as traitors—though this kind of rhetoric has diminished over the years.

3.5. International cooperation

For the most part the Lao government tries to resist international pressure for reform. This resistance is total in the case of political reform, but partial only in the case of economic reform, where just enough progress is made (at least on paper) to ensure that economic assistance continues. This is a fine line to walk, and the Lao walk it

remarkably well. The government presents itself as willing to consider and discuss economic reforms in the direction of greater administrative efficiency and transparency, but is slow to implement any program agreed upon. As a result, many in the international community are becoming frustrated and suspicious of Lao promises.

Laos is now a member of ASEAN, and takes its membership seriously. Living in a landlocked country, the Lao well understand the need to cooperate with their more powerful neighbors. They are more comfortable cooperating with other ASEAN states than they are with Western countries because of the ASEAN commitment not to interfere with the internal affairs of member states. Laos currently houses the headquarters of the Mekong River Commission and is cooperating with Vietnam and Cambodia to develop their tri-border area.

4. Trend of development

4.1. Democratic development

The Lao PDR has made no progress toward democracy during the past five years. On the other hand, the regime has not become more autocratic and arbitrary. In fact there has been virtually no change in political structure or the way power is exercised since 2000. The Seventh Party Congress in 2001 made few changes to the Politburo elected five years previously, when seven out of nine members “elected” were former or serving army officers. The military maintained its ascendancy, and the new members of the expanded (to 11 members) Politburo were either military men or had close ties to the military and to Vietnamese leaders. Political participation has not improved, despite the claimed 100% turnout for the 2002 National Assembly elections, for all but one candidate were members of the LPRP. The only area of minor improvement was in the area of law. A number of new laws have been passed and some attempt made to bring them to the attention of the populace. But implementation hardly improved, as the judiciary continued to act essentially as an arm of the party, with many decisions still being made on the basis of political contacts and/or bribery.

4.2. Market economy development

The Lao PDR’s level of development (as measured by the HDI, which has increased from 0.520 in 2000 to 0.534 in 2002, the last year for which a figure is available, and per capita GDP, which has risen from \$1,471 to \$1,720 over the same period) has improved over the last few years. On the face of it, this is an encouraging result, but it hides significant inequalities that have consigned a substantial proportion of the

population to a poverty trap from which it is hard to escape. These inequalities occur particularly between the principal towns along the Mekong River (Luang Prabang, Vientiane, Paksane, Thakhek, Savannakhet and Pakxe, all of which are also provincial capitals), where most economic growth is concentrated, and rural areas, particularly the mountainous regions where most ethnic minorities live. Thus in 1992–1993 and 1997–1998, per capita real consumption in the Vientiane municipality grew at more than double the national average. This trend has continued since.

Lowland Lao who live in the vicinity of major centers or close enough to major roads to send agricultural produce to market share in some of the benefits of urban growth. Those living in more remote areas do not and remain, like most ethnic minorities, essentially subsistence farmers. Poverty—marked by low incomes, poor infrastructure, and poor (or non-existent) facilities for health care and education—thus cuts across ethnic divides. Hmong who have been re-settled along major roads are thus generally better off than Lao peasant farmers in remote villages.

It is doubtful whether the ambitious National Poverty Eradication Program presented by the Lao government to the Eighth Round Table meeting of donors in September 2003 will produce the outcome it endorses—to largely eradicate poverty by 2020 and so free the country of its least-developed status. The government proposes to achieve this goal do by giving high priority to investment in hydropower, mining, tourism and wood- and agro-processing. Such industries will certainly increase growth as measured by GDP, but they will do little to reduce inequalities that make it difficult for Laos to improve the quality of its human resources.

A major stumbling block in this regard is governance. The NPE report admits that public administration suffers from “duplication of mandates (between the center and provinces), insufficient coordination (between ministries jealously guarded as personal fiefdoms), inadequate management rules and procedures (lack of administrative transparency and legal framework), and very low salaries which encourage officials to supplement their incomes by corrupt means. These problems have been evident for some years, yet the institutional framework has not changed significantly over the last five years. The expectation, therefore, is that resources, even if assigned by the central government in accordance with the NPE program, are unlikely to find their way to where they are most needed.

Table: Development of macroeconomic fundamentals (2000–2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	5.8	5.8	5.9	5.8	6.0*1
Export growth in %	9.6	-3.3	-6.9	23.0*2	
Import growth in %	-3.4	-4.7	-8.4	7.2	
Inflation in % (CPI)	27.0	7.7	10.7	15.5	12.0*1
Investment in % of GDP *4	9.57	14.29			
Tax Revenue in % of GDP	12.4	12.6	12.7*3	11.0	
Unemployment in % *5					
Budget deficit in % of GDP	-2.5	-4.5	-8.3	-7.8	
Current account balance in billion \$	-8.5	-56.0	3.5	-26.2	

*1 ADB estimates. *2 Increase due to gold production from Oxiana mine, Xepon. *3 An alternative ADB figure is 13.4%. *4 From *Basic Statistics of the Lao PDR, 1975–2000*. No later figures for total foreign investment, as opposed to FDI, are available. *5 Unemployment and underemployment are both high in the Lao PDR, but no figures are available.

Source: ADB; World Bank; IMF; National Statistical Centre, Lao PDR.

D. Strategic perspective

Laos is landlocked and impoverished, posing no threat to its neighbors. However, it is strategically located in mainland Southeast Asia and has traditionally been a cockpit for neighboring powers competing for political influence. In the 19th century, competition was between Siam (Thailand) and Vietnam, then between Siam and France. After the Second World War, competition was first between Vietnam and France, then between Vietnam the United States. After the Americans left, Vietnam was the dominant foreign power in Laos, challenged after 1986 by Thailand as the largest foreign investor in Laos. Now a new actor has appeared on the stage—the People’s Republic of China (PRC)—which is intent on increasing its influence in Southeast Asia.

Lao policy has traditionally been to try to balance these contending forces. In the 19th century, the Kingdom of Luang Prabang paid tribute simultaneously to Hue, Bangkok and a remote and disinterested Beijing. Over the past 15 years, Lao foreign policy has been reverting to this traditional position. Laos cultivates good relations with all its neighbors, with fellow members of ASEAN and with Western powers. This is not so much for security reasons or to preserve a degree of freedom of action, as to ensure a satisfactory level of ODA and FDI. Despite exasperation over the glacial pace of political and economic reform, Western aid-donors are reluctant to abandon Laos, for

fear that Chinese influence there would grow. ASEAN states have a similar concern. The outlook therefore is for economic aid to continue.

Those who give economic assistance to the Lao PDR must do so, however, with a clear understanding of what it is likely to achieve. Economic development is not going to result in political change, for Laos is not poised for economic take-off. The wealthy and educated elite, only a small percentage of the population, has been co-opted by the party and is not agitating for democracy. What it is doing is sharing in the growing wealth of the urban economy. It knows how the Lao politics of patronage operates and accommodates accordingly.

Well-targeted programs for economic- and human-resource-development may benefit some of the poorest among the Lao population, and infrastructure projects will have a broader long-term impact. But while the LPRP remains in power, it will continue to operate as it has always done, balancing competing interests within the party and dispensing benefits to its members in ways that are opaque to most outside observers. Moreover, while the levels of ODA remain comfortably high, taxes will continue to be evaded without serious consequence. Yet to use ODA as a lever to push for reforms just might invite the Lao government to turn to the PRC.

The outlook, therefore, is for more of the same in the years ahead—just enough reform, or the promise of reform, to keep the ODA flowing, with never enough political pressure to threaten the party's hold on power. This is hardly an optimal outcome, but it is one which the LPRP is happy to live with.