

BTI 2008 | Laos Country Report

Status Index	1-10	3.53	# 112 of 125	
Democracy	1-10	2.78	# 117 of 125	➔
Market Economy	1-10	4.29	# 95 of 125	➔
Management Index	1-10	3.91	# 96 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	5.9	HDI	0.55	GDP p.c.	\$	1,814
Pop. growth ¹	% p.a.	2.3	HDI rank of 177	133	Gini Index		34.6
Life expectancy	years	56	UN Education Index	0.66	Poverty ³	%	74.1
Urban population	%	20.6	Gender equality ²	-	Aid per capita	\$	49.9

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The most significant events on the political calendar of the Lao People's Democratic Republic (Laos) are the congresses of the ruling Lao People's Revolutionary Party (LPRP), held every five years. These congresses not only determine the party hierarchy for the next five years by designating members of the central committee and politburo, but also endorse the next five-year plan that defines economic policy and the priorities of development. Soon after the party congress has been held, a new government is installed, whose members, though confirmed in office by a National Assembly resolution, are decided upon by the party hierarchy as part of the political horse-trading that precedes the congress.

The LPRP held its eighth party congress in March 2006. Like previous congresses, this one passed without any major strife, since all of the negotiations on who would have what position in the party or government had already been decided over the previous year, with the usual secrecy. It had been hoped that older members of the politburo would retire, making way for a new generation of leaders. However, only President Khamtay Siphandone resigned, to be succeeded by his former comrade-in-arms, Lt. General Choummaly Sayasone, as both party and state president. Only two new members were named. The same aging generals who have led Laos for the last decade thus continue to dominate the new politburo. The party congress prepared the way for a new government to take office following elections for the National Assembly in April. The new prime minister is Bouasone Bouphavanh, a party functionary and protégé of General Khamtay, who vowed to continue the party's policy. The new foreign minister is Thongloun Sisoulith.

The five-year plan for the period from 2006 to 2010 forms part of the broader National Growth and Poverty Eradication Strategy, which is designed to make Laos a developed rather than less-developed country by 2020. The party will therefore continue to pursue

policies designed to attract foreign direct investment and maintain the level of official development assistance, while it maintains its monopoly on power to ensure political stability and social order. This is essentially the same model followed by China and Vietnam. What Laos lacks in comparison with these two countries is comparable human resources. The Laotian population is divided ethnically, with poverty endemic among upland tribal minorities. Wealth is concentrated in the hands of a small urban political-economic elite, whose example only encourages already high levels of corruption. Revenue collection is inadequate, financial administration is lax, and government procedures and decisions are nontransparent. Two things, however, are likely to work in the ruling elite's favor. One is the increasing integration of Laos into both ASEAN and the Greater Mekong Subregion, which will encourage a variety of reforms to meet standards and requirements. The other is that by 2010, revenues will begin to flow from new hydropower dams and mining ventures as the country's water and mineral resources are exploited by foreign capital.

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 Soviet Union and the Democratic Republic of Vietnam. One of its first acts was to abolish the existing multiparty 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 want. This is what passes for democracy in Laos. After the promulgation of a constitution in 1991 (substantially amended in 2003), closely controlled elections for a National Assembly have been held every five years, with all candidates screened by, and the overwhelming majority members of, the LPRP. There has been no further transition toward democracy, nor is any likely in the foreseeable future.

The party also socialized the economy. All industry and financial institutions were nationalized and a program was initiated to cooperativize agriculture. Peasant opposition and collapsing production forced the party first to modify its hard line in 1979, then to embark on a reform program known as the New Economic Mechanism (NEM) in 1986, which set in motion the transition from a centrally planned economy to a free market economy. Cooperativization was abandoned, restrictions on internal trade were removed, and a free market was allowed for agricultural produce. At the same time, international trade was liberalized and foreign investment sought, at first in the form of joint ventures with the state, later in fully foreign-owned projects. As in China and Vietnam, but unlike the Soviet Union, this transition to a market economy took place without any corresponding political liberalization (e.g., perestroika without glasnost). These changes were driven by the powerful Secretary General Kaysone

Phomvihane, who won majority support within the party after a struggle against conservative and ideological opponents.

These policy changes required a set of supporting measures, which were introduced piecemeal over the next decade. These included the elimination of microeconomic constraints limiting private enterprise, legislation to encourage foreign direct investment (including a legal framework of commercial, trade and labor laws), and closer attention to macroeconomic stability in the form of budgetary and monetary policy, through the gradual cessation of state subsidies, reduction in the number of civil servants, and the introduction of a new taxation framework for revenue collection. Between 1989 and 1997, most state-owned enterprises (SOEs) were privatized, except for around 30 SOEs designated as “strategic,” and a few for which there were no bidders. 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 1997 and 1998. Growth levels were a misleading indicator, however, because the country was highly dependent on official development assistance, especially for infrastructure development, since revenues barely covered current expenditures.

At first, Laos was little affected by the financial meltdown elsewhere in Southeast Asia, largely because its economy was cushioned by a high level of subsistence agriculture. The political decision to dispense with budgetary restraint led, however, to massive inflation and slowed growth that shocked the party leadership by revealing the limits of political intervention. Further reforms toward a market economy such as improved financial regulation, greater transparency in procurement, restructuring of remaining state-owned enterprises – especially those run by the military, were either put on hold, or reluctantly agreed to and then not implemented, much to the frustration of international donors. By 2006, two developments were evident: corruption was on the increase, while large-scale mining and hydropower projects promised substantial economic benefits by 2010.

Transformation Status

I. Democracy

1 | Stateness

The Lao state has an effective monopoly on the use of force that extends throughout the country. Since its establishment in 1975, the current regime has been challenged by two opponents: an internal insurgency mounted by Hmong guerrillas operating in the mountainous area south of the Plain of Jars, and external anti-communist organizations recruited from among the Lao diaspora. Both groups currently pose minimal threats to the regime. The Hmong insurgency has all but collapsed, as indicated by the government's decision in 2006 to abolish the Saysomboun Special Zone (created in 1994 under the control of the army to contain the Hmong insurgency). Any Hmong still holding out do so under dire conditions. Under the current climate of anti-terrorism, external political opponents cannot expect to find support for their violent agenda; some have tried to use violence as recently as 2003, with a spate of small bombings and an attack on a customs post. The vast majority of politically active expatriate Lao have now pinned their hopes on the pretender to the Lao throne, Prince Soulivong Savang, the oldest grandson of the last king of Laos, whose movement is entirely nonviolent.

Monopoly on the use of force

All citizens in Laos have the same constitutionally defined civil rights, and all except a tiny group of Hmong (see 1.1, Monopoly on use of force) accept the legitimacy of the Lao state. The ruling party has gone further than previous governments in including all ethnic groups in the political life of the country. With over 49 officially recognized ethnic groups, Laos is the most ethnically diverse country in Southeast Asia. Lao ethnicity is divided into three major groupings, the Lao Loum (lowlands), Lao Theung (upland) and Lao Soung (highland), each of which is distinguished by a different language and culture, but all are Lao citizens. Ethnic Chinese and Vietnamese have Lao citizenship and enjoy the same civil rights. There is also a Lao diaspora of ethnic Laos who are not nationals; Laos does not recognize dual nationality.

State identity

Two-thirds of the population in Laos are Buddhist, and the Buddhist Sangha (monastic order) is widespread in its organization. But despite the resurgence of Buddhism over the past fifteen years, the Sangha remains under the control of the ruling LPRP and has very little political influence. Animism and Christianity are the other major religions in Laos. Animism is practiced by a large proportion of upland ethnic minorities. Christianity is divided into Catholicism, which is followed by a few ethnic Lao, and the Protestantism of the Lao Evangelical Church, to which some Hmong and Khamu belong. While animism is tolerated, Christianity is considered suspect for its international links. Neither have any political influence. Even the dogmas of Marxist-Leninism, which some regard a religion, have minimal significance in present-day secular Laos.

No interference of religious dogmas

The state's administrative structure extends throughout the country, from the central to the provincial and to the district and village levels. Formerly elected, the village head, is now appointed by the provincial authorities. This administrative structure overlaps to a considerable degree with the structure of the LPRP. All senior officials at the central, provincial and district levels are party members, as are the large majority of village heads. The civil administration functions, therefore, as an extension of the party. Courts are not independent (see 3.2, Independent judiciary), nor are any government bodies. Because the party controls the civil administration, political decisions can be rapidly disseminated and implemented. However, regionalism still remains strong, and provinces still have some degree of autonomy, both in their economic relations with neighboring countries and in their relations with the central government. For this reason, the central government sometimes encounters difficulties in enforcing new policies on the provinces and in extracting tax revenue from them.

Basic administration

2 | Political Participation

Elections for the National Assembly are held every five years, and the most recent elections were held in April 2006 – 10 months ahead of schedule to bring them into line with the much more important congresses of the party. All candidates were vetted by the party-controlled Lao Front for National Construction (LFNC) before they could run for office. Candidates run for office in multi-seat provincial constituencies. Those with the highest number of votes are elected from the larger list. Only two of those elected in 2006 were independents, so power remains entirely in the hands of the party, which determines all policy matters and the legislative program. The elections were held with much fanfare, and voting was free from coercion, if one can judge from the fact that the 2.75 million voters endorsed only 44 previous incumbents, introducing 71 new faces to the National Assembly. But since more than 90% of all candidates were party members, it made little difference to the ruling party

Free and fair elections

who was elected – especially since the National Assembly has no real power.

The real rulers of Laos are the members of the politburo of the LPRP. There are now 11 politburo members, elected by the party's central committee at the March 2006 eighth party congress. In fact, membership was determined beforehand through negotiations at the highest levels of the party, and rubber-stamped by congressional delegates. The ruling elite is therefore not elected at all. Similar intra-party negotiations determine the composition of the government, which is formally endorsed by, but is not chosen from members of, the National Assembly. Some of those who will head the government run for election to the Assembly, always at the head of provincial slates of candidates, so that the Lao authorities can claim that the prime minister has been elected by the people, though this is a charade.

Effective power
to govern

Article 44 of the amended 2003 constitution gives citizens the right of assembly, and to “set up associations and to stage demonstrations which are not contrary to the laws [of the land].” The sting is in the last clause. Anyone wanting to establish an association of any kind (cultural, economic, even sporting) must have government permission. The same applies for demonstrations. The government simply does not give permission for any political organization or demonstration; the right of free assembly is effectively nonexistent. The only associations that have any political input are the officially permitted Lao Chamber of Industry and Commerce, and one or two organizations such as the Lao Lawyers Association, which lobby ineffectually on behalf of their members.

Association /
assembly rights

Lao language media is strictly controlled, and no investigative journalism is permitted. Many Lao prefer to watch Thai television rather than Lao channels, however, and a growing number of educated Lao who speak English or French can purchase foreign newspapers and magazines, or listen to shortwave radio. The government has a news agency (KPL) and daily newspaper (Paxaxon), both of which produce bulletins in English. There is a Vientiane daily newspaper in Lao, one in English, and one biweekly in French. There are also literary and cultural magazines, and mass organizations such as the Lao Women's Union, which produce their own publications. Some canvass popular opinion, but only on politically innocuous subjects, and all are under the close supervision of the Ministry of Culture and Information.

Freedom of
expression

3 | Rule of Law

Any separation of powers in the Lao Constitution exists only on paper. In theory, the LPRP determines policy, the popularly elected National Assembly debates it, passes appropriate laws, and appoints a government to apply them. In fact, the party controls everything, from who stands for election, to the composition of the

Separation of
powers

government and the judiciary, to the wording of laws. There is no Constitutional Court to rule on the validity of laws, and no ombudsman to protect individuals from the wrongful exercise of state power. There are no checks or balances that apply to the executive, for it is answerable only to the politburo of the party.

The judiciary is institutionally differentiated in Laos, and there is a growing body of legal statutes. But 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.

Independent
judiciary

Despite government calls for an end to corruption and the existence of anti-corruption legislation, no senior government or party official has been prosecuted over the last 15 years. Only a few minor figures have been prosecuted. There was some criticism allowed in the National Assembly, for example, of the irrigation department, that was reported in the press. But names were not given and no charges have been made. Blatantly corrupt officials face demotion or removal from office at worst. Usually, however, those who have profited excessively from their position are moved elsewhere, allowing another official the opportunity to benefit from graft. The ruling elite of top party officials and government ministers never receives adverse publicity, and has no fear of legal consequences.

Prosecution of
office abuse

Many of the civil liberties incorporated in the Universal Declaration of Human Rights are routinely violated in Laos. 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 of Khmu or Hmong Christians. There are no means of appeal against the violation of civil rights in Laos. The Lao do have access to the law, though most peasants would avoid such a recourse. There is, however, no equality before the law, since outcomes are determined largely through political influence. That said, the civil rights of specific groups are not systematically and chronically violated, with the exception of some ethnic minorities who have been forcibly resettled to curtail slash-and-burn agriculture. If there is no real protection of civil rights in Laos, there is no massive violation of them either. Most peasants live as they have always lived, avoiding any contact with authority as much as possible.

Civil rights

4 | Stability of Democratic Institutions

Those theoretically “democratic” institutions that do exist in Laos (in the form of the National Assembly) function as part of an authoritarian, single-party system of government. The executive is in the hands of the party, which rules by the right

Performance of
democratic
institutions

of victory in the “thirty-year revolutionary struggle” against the former Royal Lao regime.

Since Laos has no genuinely democratic institutions, the question of their popular acceptance as legitimate does not apply here. People do participate in elections for the National Assembly, but high turnouts probably reflect a fear of being reprimanded for not voting, rather than popular endorsement of the institution. Since no opinion polls on such subjects can be conducted, it is difficult to know what people think.

Commitment to democratic institutions

5 | Political and Social Integration

Since there is no democratic multiparty system in Laos, strictly speaking this question does not apply. Societal interests are, however, articulated in discussions within the ruling party, and aggregated in policy decisions that may be socially beneficial.

Party system

Even a party as monopolistic and monolithic as the LPRP is influenced by different interest groups, though they function within the party. The principal interest groups are patronage networks, the military and, to some extent, ethnic groups. Political debate in Laos does not reflect primarily ideological differences – certainly not in any Marxist-Leninist sense. Rather, politics are influenced by patronage networks or clans centered on powerful political figures, which are usually members of the politburo. Such networks comprise a small group of extended families connected through marriage and business, plus their clients; they are often identified with a particular region of the country. Which clans have members in what positions will determine what resources they can exploit and how influential they can be. The military looks after its own through its influence within the party. The membership of the last three politburos has been dominated by former and serving army officers. The military has virtually monopolized timber extraction throughout the country through the state-owned enterprises that it runs. Whatever political influence ethnic groups have had has been exercised through the Lao Front for National Construction. But the Front is losing its political weight. Influence is also exerted through powerful individuals within the party and the army. In the current politburo, for example, one member is Phunoy, another is Hmong, and a third is Tai-Dam. The deputy commander of the army is Brao. These are powerful men (and one woman) who can obtain benefits for their home provinces and ethnic groups.

Interest groups

No fully-fledged civil society groups, at least in the Western understanding of the term, are currently operating in Laos. But the recent easing of restrictions on Buddhist associations, coupled with the regime’s acquiescence in the emergence of semi-autonomous professional associations, point toward the emergence of

Associational activities

civil society organization prototypes. Traditionally, social self-organization in Lao villages has been limited to specific tasks requiring mutual aid, such as harvesting or building a house. Semi-permanent voluntary associations have been confined to organizing religious functions. Both of these forms of social self-organization continue to this day. The state permits producers' associations, mainly peasant associations from a particular village or area, which may petition the government for special assistance in case of, for example, drought or flooding. Enterprise and industry-based labor unions are also permitted, though they are kept under close government control, and members are not permitted to demonstrate or strike without official permission. None of these establish much social capital, and trust is limited by fear of offending the party.

II. Market Economy

6 | Level of Socioeconomic Development

Laos had a GDI of .545 in 2004, placing it at 133rd in global rankings (a drop of 26 places since 2002). Since 2004, 38.6% of the population has fallen below the national poverty line, with the poorest 20% accounting for just 8.1% of national consumer income and spending. These figures show clearly the extent to which poverty marginalizes a substantial proportion of the Lao population, and why poverty reduction is a national priority. The principal divisions in Lao society are ethnic (see 1.2, Citizenship agreement). While the regime has attempted to reduce these, divisions persist. Many of the upland minorities' remote villages are not accessible by road. People practice subsistence agriculture using slash-and-burn methods. Their only contact with the monetary economy of the plains is through the trade of forest products for salt and other basic necessities. There is relatively little intermarriage between ethnic groups, or between the politically dominant ethnic Lao and minorities, whom the Lao refer to pejoratively as "kha" (inferiors) or "meo" (savages). Inequality is exacerbated by differences in education and religion, though some minorities have become "laoicized" and have converted to Buddhism.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	1,819	2,138	2,501	2,875
Growth of GDP	%	5.9	6.1	6.4	7.0
Inflation (CPI)	%	10.6	15.5	10.5	7.2
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	1.4	0.9	0.7	1.0
Export growth	%	4.7	0.7	6	17.1
Import growth	%	-1.7	22.3	28.7	16.7
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	2,620.2	1,894.9	2,036.6	1,970.9
External debt	\$ mn.	2,948.5	2,197.0	2,523.6	2,690.2
External debt service	% of GNI	4.8	5	5	6.6
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public expnd. on edu.	% of GDP	2.7	2.3	2.3	2.3
Public expnd. on health	% of GDP	1.1	1.4	0.8	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

Laos has come a long way in moving from a command to a market economy, but competition still operates under a weak institutional framework. The Lao currency is convertible, and prices are determined by the market. Competition exists in some sectors, notably in small-scale marketing, parts of the service sector (hotels, tourism) and where investments are foreign-owned (textiles, mining). The business dealings of politically powerful families, characterized by a high degree of non-transparency, ensure that playing fields are not even. Where

Market-based
competition

commercial regulations exist, they can often be circumvented through political contacts. Resort to law is often ineffective for the same reason.

There is no anti-monopoly legislation in Laos, but open competition and equality of enterprises before the law is written into the 2003 constitution (article 13). While several SOEs have been privatized, the government has retained control of around 30 “strategic” companies, which continue to operate essentially as monopolies. The anti-competitive advantage provided through political interference is the problem, not the existence of monopolies.

Anti-monopoly
policy

Since the mid-1980s, Laos has moved to liberalize foreign trade. As a landlocked country, Laos has encouraged trade with 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. There is some concern that, under the provisions of AFTA, light industry in Laos will be affected, especially the textile industry. Preliminary talks are underway about joining the WTO, which could have a similar impact. Import trade is competitive, but some key exports, such as timber, are controlled. A substantial balance of trade deficits persists.

Liberalization of
foreign trade

The domestic banking system consists, in addition to the National Bank of Laos and the Bank for Exterior Commerce, of three state-owned commercial lending banks – one of which is limited to the promotion of agriculture. There are no domestic private banks, nor is there a capital market. The state-owned commercial banks are all undergoing restructuring and refinancing because most of their loans were non-performing (a high proportion of these loans were serviced to SOEs). The World Bank has called for improved supervision and transparency and an end to “non-commercial reasons for making loans,” which is a colloquial banking term for the chronic corruption and political interference that have plagued the banking sector.

Banking system

8 | Currency and Price Stability

Following the massive inflation of the Lao currency (the kip) of up to 128% in 1999, as a result of the Asian economic crisis, a macroeconomic stabilization program reduced inflation to an average of 15% from 2000 to 2003. This was steadily reduced further, down to under 5%, by 2006. Controlling inflation is a recognized goal of economic policy, but since the National Bank is not institutionally independent of the government or the party, economic policy affecting inflation remains open to political manipulation, at least potentially.

Anti-inflation /
forex policy

Lao authorities are aware of the need for macroeconomic stability, but in Laos, politics still take precedence when the occasion demands. Ultimate decisions are then made not by the National Bank, or even by the Ministry of Finance, but by

Macrostability

the politburo, whose members have little understanding of macroeconomics. For example, the high inflation of 1998 – 1999 resulted in large part from a political decision by the Lao government to spend its way out of the economic crisis, resulting in a massive budget deficit. Inflation then followed, although it was alleviated to some extent by financial assistance from China. The party is much more aware now of the need for macroeconomic stability, however, than it was before the Asian economic crisis.

9 | Private Property

Property rights of various forms are protected under the 2003 constitution (article 17). Land, however, is designated as “national heritage,” which can be used, transferred and inherited according to law, but which does not constitute inalienable property. Most conflicts over property concern land. In urban areas, a titling program is underway, which has led to considerable litigation and appropriation of land by powerful officials and their clients. Another problem concerns land traditionally used by Lao villagers or ethnic minorities who possess no formal title to it, for such land can be, and is being, appropriated by the state for plantation agriculture.

Property rights

SOE privatization proceeded rapidly in Laos from 1989 to 1997, when the Asian economic crisis struck. Of some 600 SOEs, around a quarter had been controlled by the central government and the rest by provincial governments. Some were privatized through leasing arrangements, others by share purchase. Thirty were retained on “strategic” grounds, and a smaller number have been unattractive to buyers. The privatization process was not transparent, and many companies ended up in the hands of the families of party officials, especially in the provinces. Most Lao private companies establish links with powerful political figures as a form of insurance. Others pay off officials. But at least private enterprise now dominates the Lao economy.

Private enterprise

10 | Welfare Regime

In Laos, there is no social security system in place to alleviate poverty or to help meet medical or disability costs. Nor are there old age or invalidity pensions, except for veterans of the revolutionary struggle on the Pathet Lao side, provided by 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 political commitment to fund programs for those most in need.

Social safety nets

The Lao government does recognize that some segments of the population, notably geographically remote ethnic minorities, are disadvantaged, and does run programs, inadequate though they are, to train ethnic minority teachers and paramedical staff. In principle, women have equal opportunities to access higher education or gain public office, but in practice Laos remains a predominantly patriarchal society. There are a number of institutions to compensate for gross social differences, however insufficient. Women and/or members of ethnic or religious groups have near-equal access to higher education, public office, etc. Institutions and policies such as the Lao Women's Association, the ethnic minority recruitment policies of the LPRP, and the state's commitment to its National Growth and Poverty Eradication Strategy (up to the year 2020) are insufficient to compensate for gross social inequalities. Women represent an estimated 25% of deputies elected to the National Assembly in 2006; in other words, they have access to public office, but not equal access. The situation is even worse in terms of representation in the LPRP's decision-making structures.

Equal opportunity

11 | Economic Performance

Per-capita GDP for Laos in 2005 stood at \$440 (Atlas method), with a purchasing parity figure of \$2,020, according to the World Bank. According to the 2005 figures, 73% of the population lives on less than \$2 per day and 25% on less than \$1 per day. GDP has grown at an average of 5.9% since 2000, a figure which hardly keeps pace with neighboring countries. Increases in employment have been mainly in the industrial and service sectors, though agriculture still employs 80% of the population. Unemployment remains largely hidden, and figures are untrustworthy. The government has difficulty balancing the budget, in part because it faces challenges in collecting revenue, both from wealthy individuals and from the provinces. Corruption is chronic and widespread. Official development assistance is thus essential for macroeconomic stability. But while inflation has been reduced to manageable levels, and debt is not rising dramatically, Laos has a persistently unfavorable trade balance. Economic growth depends on continuing foreign direct investment.

Output strength

12 | Sustainability

The Lao government has set aside 17 National Biodiversity Conservation Areas comprising just over 10% of the national territory, and has logging controls in place. Enforcement of controls is sporadic at best, however. Major mining and hydroelectric projects undertake environmental impact studies, but largely because of international pressure. The Lao government does not require such studies for the investment projects it approves. The government expresses most concern over slash-and-burn agriculture traditionally practiced by ethnic

Environmental policy

minorities, and has pursued a policy of resettling them at locations where agriculture is sustainable. A recent development of some environmental concern has been the long-term leasing of large areas for plantation agriculture.

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 nonexistent. A few private schools are in operation, offering courses in languages (mainly English), business (management, accounting) and IT.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

The constraints on effective governance in Laos are massive. The country is landlocked, mountainous and impoverished. Infrastructure is still inadequate, despite recent construction, and roads are often impassable in the wet season. In 2004, Laos received a Human Poverty Index score of 36, while 38.6% of the population lived below the national poverty line (estimated to be \$1.50 per day). Only 49% of the population have access to an improved water source, while just 30% have access to improved sanitation. Forty percent of children under five are underweight for their age. HIV/AIDS infection rates, while low by international standards, are on the rise, while malaria (759 cases per 100,000) and tuberculosis (359 cases per 100,000) take their toll. Laos still suffers 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 has taken time to replace. Standards of education remain low, and the educated elite is still very small. The combined school gross enrolment ratio is 61% (2004). The adult literacy rate is 58.7% (2004). Literacy is lowest among the ethnic minorities, among whom knowledge of the national language (Lao) is limited.

Structural
constraints

Only weak forms of civil society have existed in traditional Lao society and have taken the form of mutual aid in projects requiring cooperation within a village, or in the organization of religious festivities. A high degree of social trust has existed at this level, because assistance would be reciprocated. These forms of cooperation and this trust still exist. But such expressions of civil society seldom extended beyond the village level. There is no tradition of NGO-like organizations functioning at a national level. Modern organizations (mass, religious) today function under the watchful eye of the party.

Civil society
traditions

The 2005 census listed 49 different ethnic groups. Some say this figure should be around 130. While ethnic differences define social divisions to a large extent, members of ethnic minorities are actively recruited into the ruling party and the army, where they have risen to the highest levels. The Hmong insurgency (see 1.1, Monopoly on use of force) was a political, not ethnic, conflict. There is no

Conflict intensity

religious conflict between Buddhists and animists, or even with the few Christians. Social cleavages are between rural and urban, and between rich and poor, and though structurally ingrained, these cleavages are not irreconcilable.

II. Management Performance

14 | Steering Capability

The long-term aims of the political leadership (that is, 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: any “evolution” toward democracy is seen as a threat to the party, and so is not on the political agenda. The second aim, subordinate to the first, is to promote the economic development of the country and improve conditions of life for the Lao people. The leadership is sincere in pursuing this commitment, which is one reason why it has transitioned to a market economy, encouraged private enterprise, and welcomed foreign direct investment. If, however, additional reforms threaten the means by which the party exercises power, they will be resisted, even if this retards economic development.

Prioritization

The most important long-term aim for Lao leaders is to maintain the political monopoly of the LPRP. Political survival therefore takes precedence over the promotion of a market economy, and the political leadership has been reluctant to embark on reforms that it believes might undermine its political control. No reforms are undertaken to promote democracy. Reforms promoting a market economy may be (and have been) introduced, provided they do not weaken the party, or the interests of powerful individuals and their patronage networks. International donors are often frustrated by a pattern in which reforms are agreed upon because that is what the Lao consider necessary to ensure aid flows, but then not implemented. For example, procedures to ensure greater transparency in governance will be resisted because this would reduce opportunities for party officials to influence decision-making on behalf of their clients.

Implementation

The political leadership of Laos is comprised of 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 reasons why international organizations press for reform. But they are not entirely inflexible, as indicated by the transition to a market economy that has occurred over the past two decades. What they understand

Policy learning

very well is Lao politics, especially the politics of patronage that constitutes the core of Lao political culture. Decisions are thus often made (and reforms resisted) in the interest of political advantage rather than the long-term good of the country. Younger members of the party and government are well aware of policy shortcomings, and have the capacity to learn from mistakes and be innovative. In particular, they are concerned that Laos should not fall behind its neighbors in terms of development. But they also make up part of a rigid hierarchy of political decision-making, and form part of a system that benefits their personal interests. They therefore tend to favor some market, but not democratic, reforms.

15 | Resource Efficiency

Lao political culture, whether in the current or former Royal Lao regime (1954 – 1975), has always revolved primarily around the competitive interests of powerful individuals, their families and their clans or networks of clients. At its core lies the patronage that a powerful individual can provide, in the form of employment and other economic and social advantages. There are no competitive recruiting procedures. Patronage plays a part in the appointment of all administrative personnel in the highly politicized Lao public service. Even those who are foreign-educated and technically competent require a patron to feel secure. In terms of financial efficiency, Laos does not fare much better. The Lao government runs a chronic budget deficit, the shortfall being made up by foreign assistance, which finances around 80% of development expenditures. The deficit as a percentage of GDP has been decreasing, however, from 12.9% in 1998 to roughly half that figure. Actual expenditures do not usually deviate greatly from planned expenditures. The level of foreign debt is manageable. Expenditures are not transparent, however, and auditing is ineffective. Some decentralization has taken place, but has served only to strengthen provincial party leaders and increase corruption. A degree of financial autonomy exists at the province level, but there is even less transparency or public review of expenditure than at the central government level.

Efficient use of assets

The fact that Laos is ruled by a single party does ensure that a single set of policies is decided upon and communicated to all party members. However, policies may not always be applied similarly in the provinces, and coordination may be poor between levels of government. Another reason for poor coordination is the competing interests of power holders and their patronage networks. Policy at the ministry or department level may be ad hoc to take advantage of whatever donor projects happen to be going on. Horizontal coordination is difficult because decision-making is highly centralized and hierarchical, and is a jealously guarded prerogative. Even the most minor

Policy coordination

technical matters get passed up the hierarchy for decisions that senior officials may not actually be competent to make.

Corruption is widespread, chronic and increasing. Transparency International ranked Laos at 111th in 2006, with a score of 2.6, down from 3.3 in 2005, when it was at number 77. 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 condemning corruption, but without naming 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 example provided by senior leaders and the politics of patronage, but also because of the secrecy of the party, its structure, and the extraordinary overlap between 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 to bring party members into line, this is never publicized.

Anti-corruption
policy

16 | Consensus-Building

There is consensus within the political leadership of the LPRP 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 (see 14.1, Prioritization; 14.2, Implementation; 14.3, Policy learning). There is no broader consensus outside the party in the Lao community about the direction of either political or economic reform, if only because all alternative views are stifled and there are no avenues such as free associations or a free press in which discussion could take place and allow a consensus to emerge. Everything is decided within the party, where discussion is often a matter of old-fashioned political horse-trading, however intense this may be.

Consensus on goals

There is no political opposition and no identifiable reform group within the party urging the government to speed up either democratic or economic reform. No one voices support for democratic reform in Laos, though such voices exist among the expatriate Lao community. There are, however, some within the party and bureaucracy who accept the logic of economic reform, and would like to see corruption reduced. Those opposed to reform include the powerful military, which is well represented in the politburo, and other conservative power holders in the party. Since the politburo holds veto power over all policy matters, the possibility of co-opting those opposed to reform does not arise.

Anti-democratic veto
actors

The LPRP has been remarkably successful, both during its “thirty-year struggle” to come to power and ever since, in maintaining internal party unity. Political cleavages between powerful patrons and their family and regional networks are not ideological, and these are kept within the party. The regime has gone out of its way to include ethnic minorities in the political life of the country, through recruitment into both the party and the army, and through the all-inclusive Lao Front for National Construction. The party seeks to create a national consensus around its policies. It has been relatively successful, if only because its control of the press eliminates all alternative policies.

Cleavage / conflict management

No civil society as such exists in Laos, and there is no participation of anyone outside the LPRP in policy-making. This does not mean that there is no discussion. Most journalists and intellectuals, for example, have government positions and are party members. The few special interest associations permitted by the government have no political influence, unless members are also members of the party.

Civil society participation

When the LPRP seized power in 1975, it reneged on promises to retain both the monarchy and coalition government. It pursued class struggle instead of national reconciliation and imprisoned thousands of officials of the former regime and its armed forces for years in re-education camps. The party has never apologized for these policies, which led to the loss of perhaps 90% of the country’s educated class. On the contrary, it has based its legitimacy on the revolutionary overthrow of the former Royal Lao government. Those who fled were labeled traitors, though this kind of rhetoric has diminished over the years. There is no political debate on these events inside Laos, or with Lao living outside Laos. Lao living overseas can visit Laos, invest there, and even reclaim property, provided they do not involve themselves in politics. But they are not allowed to forget they were on the losing side.

Reconciliation

17 | International Cooperation

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, international lending agencies have been most insistent in urging reform, and have done so with some success, given the economic transition that has occurred. For its part, the response of Lao leaders to pressures for reform has been to listen politely while resisting whatever might undermine the position of the party. This resistance is total in the case of democratic reform, but partial in the case of economic reform, where just enough progress is made (at least on paper) to ensure that economic assistance continues. In recent years, Laos has had to take advice from fellow members of ASEAN in order to participate in the

Effective use of support

ASEAN Free Trade Agreements. Also, Laos is negotiating for membership in the WTO and will have to agree to sign bilateral market access agreements with numerous WTO members as well as an agreement with the WTO itself. Participating in the ASEAN Free Trade Area and the WTO negotiation process has led and will continue to lead to improvement in Laos' economic policies. Similarly, Laos has taken advice from bilateral donors and multilateral agencies in eradicating opium production and dealing with transnational security criminal activities. This is a fine line to walk, which the Lao do remarkably well. The government presents itself as willing to consider and discuss economic reforms toward greater administrative efficiency and transparency, but is slow to implement any program that might damage the interests of party leaders.

Laos is a member of the United Nations and ASEAN, and takes its membership seriously. The Lao are more comfortable cooperating with other ASEAN states than they are with Western countries because of ASEAN's commitment not to interfere in the internal affairs of member states. Laos enjoys warm relations with both Vietnam and China, as fellow nominally Marxist-Leninist states, and cooperates closely with them. Because it has been slow to implement economic reform measures, Laos is not considered a very reliable partner by international organizations and Western governments.

Credibility

As a weak buffer state surrounded by more powerful neighbors, Laos has always sought to foster friendly and cooperative relations with them all. Border agreements have been concluded with Vietnam, China and Myanmar, and are progressing with Cambodia and Thailand. Laos is cooperating with Vietnam and Cambodia to develop their tri-border area, and with China to improve access by road and river between China and Laos. Two bridges have now been constructed across the Mekong between Laos and Thailand, and Laos is an enthusiastic supporter of the greater regional integration envisaged by the Greater Mekong Subregion program.

Regional cooperation

Strategic Outlook

It is extremely difficult for advocates of either democratic or economic reform to bring pressure to bear on Laos. To understand why this is so, one must appreciate the country's current strategic situation. Traditionally, Lao policy has sought to balance contending external forces. For example, in the nineteenth century, the Kingdom of Luang Prabang paid tribute simultaneously to Hue, Bangkok and a remote and disinterested Beijing. After the Lao People's Revolutionary Party (LPRP) seized power at the end of 1975, Vietnam was the dominant foreign power in Laos. Over the last two decades, however, Lao foreign policy has reverted to a more traditional pattern of cultivating good relations with all its neighbors, thus balancing one against another. When Soviet aid was terminated, this became a necessity. Western aid was welcomed, along with foreign investment. Thailand became the largest foreign investor in Laos.

In 1997, Laos joined ASEAN. So did Vietnam, and the Treaty of Friendship and Cooperation between the two countries – the basis of their “special relationship” – was allowed to lapse. Over the last five years, however, the influence of the People's Republic of China has been on the rise in mainland Southeast Asia, threatening to disturb the fragile balance in the region. Western countries, Japan and the ASEAN states are all concerned over this development. For this reason, all are diplomatically active and provide Laos with aid. But China has also greatly increased its aid to its Marxist-Leninist neighbor.

The rise of China has effectively undermined the possibility of using foreign aid to pressure the Lao government to introduce reforms, because the Lao can always turn to China for aid without strings attached. Countries that give economic assistance to Laos must do so, therefore, with a clear understanding of what it is likely to achieve. It is not going to result in democratic reforms, because the LPRP can always turn to China for political support. Moreover, the tiny wealthy and educated elite 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 works and it is playing the game. Expatriate Lao organizations agitating for democracy have no influence at all.

So what can be done? Well-targeted economic and human resource development programs may benefit some of the poorest among the Lao population, and infrastructure projects may have a broader long-term impact. But it will be a long time before Laos has a well-educated and articulate middle class that might urge political reform. In the meantime, the LPRP will continue

to operate as it has always done, by balancing competing interests within the party and dispensing benefits to its members in ways that are opaque to most outside observers. The dilemma for aid donors is that while levels of official development aid (ODA) remain comfortably high, the Lao government can disregard pressures for economic and financial reform. Yet to use ODA as a lever to push for reforms just might invite the Lao government to turn to China. Moreover, after 2010, Laos can expect to see revenue from hydropower and mining royalties increase, thus reducing pressure to reform revenue collection and improve financial governance.

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 for aid donors and reformers. All they can do is hope that their intervention may eventually change the culture within the party, and lead to pressures for reform on a new generation of leaders. Education is one of the best ways to do this; taking in particular young Lao abroad, where they can see and begin to understand different modes of governance. Also effective are in-country programs where financial administration remains in the hands of the donor and probity is demonstrated. Handing money over to the government will simply encourage corruption.