

BTI 2012 | Laos Country Report

Status Index	1-10	3.65	# 112 of 128	
Political Transformation	1-10	2.83	# 121 of 128	➔
Economic Transformation	1-10	4.46	# 95 of 128	➔
Management Index	1-10	3.79	# 100 of 128	

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

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

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Key Indicators

Population	mn.	6.2	HDI	0.524	GDP p.c.	\$	2573
Pop. growth ¹	% p.a.	1.4	HDI rank of 187	138	Gini Index		36.7
Life expectancy	years	67	UN Education Index	0.432	Poverty ³	%	66.0
Urban population	%	33.2	Gender inequality ²	0.513	Aid per capita	\$	66.5

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The ruling Lao People's Revolutionary Party (LPRP) holds its party congress every five years. The eighth congress was held in March 2006, and the ninth in April 2011. Each congress determines not just the membership of the Politburo and Central Committee, but also of the government (although this is announced only after elections for a new National Assembly). Party congresses also set the direction of economic development, through the development of five-year national socioeconomic development plans.

The years 2009 and 2010 witnessed the continuation of both the leadership and the policies determined by the eighth party congress. As in the lead-up to every congress, however, these years saw intense politicking underway within the secretive LPRP, an indication of which was provided by the December 2010 resignation of Prime Minister Bouasone Bouphavanh for what were described as "family reasons." Certainly there was resentment over the way Bouasone's mistress used her position to benefit herself and her family, but this appeared to be little more than an excuse for forcing him to step down.

In his inaugural address to the Assembly, Bouasone had pledged to implement the five-year plan (2006 – 2010) so as to grow the economy and reduce poverty, and had promised to undertake unspecified reforms to curtail corruption. Tangible action on these fronts was limited, however. Bouasone streamlined foreign investment procedures, guided a law on state inspection through the National Assembly, and replaced the minister of finance in a minor reshuffle that also saw four junior ministers appointed to the Office of the Prime Minister. These moves were interpreted as attempts to limit corruption. To do any more, however, it was necessary for him to build his own network of political support, which he tried to do by appealing to younger party technocrats and the urban educated elite. In 2007, he announced a moratorium on land concessions, and followed this up in 2009 with another on mining concessions – two sources of lucrative bribes for senior party officials at both the central and provincial levels.

It is not clear whether these moves lost Bouasone the support of powerful figures in the party, either within the Politburo itself or among those who hoped to gain entry to this body at the next congress, when two or three aging generals were expected to step down. What is clear is that Bouasone's replacement, Thongsing Thammavong, enjoys a much stronger base of support within the party, dating to his erstwhile role as head of the powerful Party Organization Committee in charge of internal party affairs.

Bouasone did nothing over the past two years to modify the authoritarian Lao political system – and nor will Thongsing. Laos remains a state ruled by a single party determined to maintain its monopoly on power. The LPRP continues to suppress all forms of dissent, which renders the evolution of civil society all but impossible. Given that the LPRP receives powerful political support from the communist parties of both Vietnam and China, prospects for any change are virtually nil. Only two developments might be construed as positive. One is the decision of the government to permit the registration of local Lao NGOs, which may encourage some minimal development of civil society. The other is that the National Assembly has on occasions been prepared to quiz the government and debate contentious issues (including budget expenditures and the prevalence of corruption).

Politics in Laos is almost opaque to outsiders, but it seems likely that over the last two years a debate has been taking place in the party's higher echelons over whether growing corruption should be curbed. This may explain why economic reforms in such crucial areas as banking, financial management (including introduction of a value-added tax), the restructuring of state-owned enterprises (SOEs), and the implementation and enforcement of new laws has been so slow.

Those reforms that have been adopted have been largely driven by external requirements, notably the need for Laos, as a member of ASEAN, to conform to its commitments under the ASEAN Free Trade Area (AFTA) agreement. The desire for WTO membership, which it hoped to attain by the end of 2009 (but appears unlikely to reach before the end of 2011), was also a significant motivating force. There are several reasons for the slow progress in other areas, but the principal ones are political and structural. Senior members of the ruling party lack the political will to back reforms, because they fear a loss of power if the implementation of transparency and accountability measures turns out to limit opportunities for patronage. Senior military personnel who profit from the smuggling of resources (including timber and wildlife) are said to be particularly resistant to reform.

Thus, Laos continues to have a distorted market economy marked by weak financial institutions, uneven competition, poor transparency and political interference, and sapped by pervasive corruption. Weak institutions prevent the enforcement of laws designed to raise revenue, though as a percentage of GDP revenue collection has risen slightly. This has largely been due to an increase in mining taxes and royalties. The giant Nam Theun II and other hydropower projects are now selling power to Thailand, and plantation agriculture and forestry, especially rubber, are also expected to add to government coffers. The resulting increases in revenue may permit the government to address Laos' chronic problems of poverty, inequality, gender inequity, poor

provision of services and poor development of human resources – provided the political will exists, and the additional revenue is not lost through corruption.

History and Characteristics of Transformation

The Lao People's Revolutionary Party (LPRP) came to power in 1975 as a Marxist-Leninist regime modeled on that of the Democratic Republic of Vietnam. One of its first acts was to abolish the then-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. Since the promulgation of a constitution in 1991 (amended in 2003), closely controlled elections for a National Assembly have regularly been held. All candidates are screened by, and the overwhelming majority are members of, the LPRP. No subsequent transition to democracy has occurred, nor is any likely in the foreseeable future.

The party also socialized the economy. All industry and financial institutions were nationalized and a program initiated to cooperativize agriculture. 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 from a centrally planned to a free-market economy.

Cooperativization was abandoned, restrictions on internal trade were removed and a free market was introduced 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, but later allowing majority- and 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 – thus, a kind of perestroika, but no glasnost. These changes were driven by the party's powerful Secretary-General Kaysone Phomvihane, who with Vietnamese support won the support of a majority within the party despite the presence of recalcitrant ideological opponents.

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 (FDI), including a legal framework of commercial, trade and labor laws; and closer attention to macroeconomic stability (in the form of budgetary and monetary policy, as well as by winding down state subsidies, reducing the number of civil servants, and introducing a new tax framework for revenue collection). Between 1989 and 1997, most state-owned enterprises (SOEs) were privatized, with the exception of about 20 that were 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, which affected Laos in 1998 and 1999. 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.

Laos was initially spared much of the economic fallout observed 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 restraint led to sudden inflation and a slowing of growth that 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) were either put on hold, or reluctantly agreed to and then not implemented, much to the frustration of international donors pressing for reform.

This has remained the pattern over the past decade as investment has steadily picked up, especially in hydropower, mining, plantation agriculture and tourism. This period of renewed prosperity has coincided with a growing culture of corruption, encouraged by the example of senior political figures who have increased their power by building patronage networks oiled by the plunder of state resources. Especially in the provinces, public money has been used for private gain, which has complicated center-province relations. Although anti-corruption legislation has been enacted, no senior political figure has yet been prosecuted for corruption in Laos.

The global financial crisis of 2008 and 2009 reduced the quantity of FDI originating from the West, but this was made up for by increased investment from China in plantation agriculture, mining and hydropower. Those Lao still practicing subsistence agriculture, close to half the population, were largely unaffected by the global economic downturn. In the towns, however, rising unemployment led increasing numbers of young people to seek work in Thailand. None of these events threatened the ruling party's hold on power.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The ruling Lao People's Revolutionary Party (LPRP) has maintained its monopoly on the use of force over the past two years. Hmong insurgents who opposed the regime after 1975 have been all but eliminated. There has been no recurrence either of bandit-like attacks on road transport or the series of small bomb blasts in Vientiane and the south of the country that were seen between 2002 and 2005, for which the Hmong were blamed but were almost certainly not responsible.

Monopoly on the
use of force

9

No other ethnic or political group has taken up arms against the government. The arrest of former (and now recently deceased) Hmong leader General Vang Pao in the United States in June 2007, together with a handful of co-conspirators charged with planning an armed attack in the Lao capital, seems to have convinced expatriate opponents of the regime that any turn to violence will ultimately be counterproductive. Thai authorities have been vigilant in monitoring opponents of the Lao regime, and there has been no recurrence of earlier assassinations. This is not to say that armed incidents will not take place in the future, but for the present, the security situation is such that tourists can travel safely throughout Laos.

Laos is the most ethnically diverse country in Southeast Asia. Under the former regime, the population was roughly divided into "Lao of the plains," "Lao of the hillsides" and "Lao of the mountain tops," depending on language, culture and location. This distinction was aimed at eliminating racist terminology and making the point that all were citizens of the Lao state. The present regime initially adopted the same construction, but after some criticism, language is now used as the principal distinguishing criterion. Both the nationality and "race" (noted on identity papers) of all 49 different ethnic groups officially recognized in the 2005 census is Lao. Chinese and Vietnamese of Lao nationality are not considered of Lao "race," though they enjoy the same constitutional civic rights and responsibilities possessed by other citizens. Members of the Lao diaspora are of Lao "race," but not

State identity

8

nationality. Laos does not recognize dual nationality, but Lao with foreign citizenship may invest and live in Laos

The Hmong insurgency that once sought to establish an independent or autonomous Hmong homeland, with its implied repudiation of allegiance to the Lao state, has now collapsed. There may be a few remaining Hmong who still cling to this hope, but they are a dwindling minority. It is fair to say that the Hmong of Laos now accept their Lao identity. Several Hmong serve on the LPRP Central Committee, as ministers in the government, and as governors of provinces. There is even one Hmong member of the Politburo (Pany Yathotu), who in January 2011 was named president of the National Assembly.

Other ethnic minorities also accept that they are citizens of Laos. Both the LPRP and the army recruit minority members, though their representation in the bureaucracy at the national level is lower relative to their population share than is the case for ethnic Lao. Lao officials may still discriminate against rural ethnic minorities, and resentment over minority rights and resettlement may still work against full identification of some minorities with the Lao state, but the mass-membership Lao Front for National Construction (LFNC) has been relatively effective in integrating minority groups in support of the regime and in promoting interethnic solidarity.

Buddhism is the religion of 67% of the Lao population according to the 2005 census, while 2% are Christians (roughly evenly divided between Catholics and Evangelical Protestants) and the remaining 31% are animists of one kind or another. There are also a handful of Muslims and Bahai. The Lao constitution guarantees freedom of religion, but Christians from minority groups complain of persecution. Christians are concentrated in a few towns where they are kept under surveillance by Lao authorities, who suspect them of being potential Western agents. They are permitted only minimal contact with churches abroad.

The Buddhist Sangha (monastic order) has a widespread organizational presence throughout the ethnic Lao areas of the country. Buddhism does have some official recognition (Politburo members attend major Buddhist ceremonies), and it is the only religion permitted to proselytize. It could be argued, therefore, that as Buddhism is regarded as a component of national identity, Laos is not a completely secular state. But the Sangha remains completely under the control of the ruling LPRP, and has little or no political influence. Monks do enjoy social status and respect, and Buddhism is likely to continue to gain official favor as nationalism replaces Marxism as the dominant ideology.

The state's administrative infrastructure extends throughout the country, down to the village level at which village heads, formerly elected, are today appointed by the provincial authorities. Almost all officials in positions of authority are members of

No interference of religious dogmas

10

Basic administration

7

the LPRP, which also has a widespread network of branches. In fact no strict division separates the state bureaucracy from the party.

Regionalism remains strong, and provinces assert 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 enforce new policies in the provinces, or to extract tax revenue from them). A tension thus exists between the decentralized provincial administration and centralized government ministries.

Law is enforced through a system of courts that reaches to the district level, but minor infringements are often dealt with through conciliation at the village level. New legislation is poorly disseminated and understood, but this is slowly improving.

Service delivery (health, education) in the rural areas is poor to nonexistent, and remote rural villages lack transportation and communication links.

2 | Political Participation

Elections are held every five years for the National Assembly. The last were held on April 30, 2011, following the ninth congress of the LPRP. All citizens over the age of 18 are eligible to vote, and voting is compulsory. All candidates are vetted by the party-controlled Lao Front for National Construction (LFNC) before being allowed to stand. Power thus remains firmly in the hands of the party, which determines all policy matters and the legislative program.

Voters did have a choice of candidates, but only a few independent candidates are allowed to run. Some candidates campaigned quite vigorously on local issues, but none voiced any but the mildest indirect criticisms of the government. Nor was there any critical discussion of issues facing the country in any of the entirely party-controlled media outlets. The fact that in 2006 only 44 out of 115 deputies were reelected does suggest that voters at that time were prepared to toss out those they believed had failed to represent their concerns. But since all senior party members (who headed the list in each multi-member electoral constituency) were duly elected, most voters seem to have voted straight down the list, as they were urged to do by officials.

No elections take place at the local level, either for provincial or municipal administrations, or for district or village heads, though village heads may be selected with communal approval. Nothing has come of a proposal to hold municipal elections in four provincial centers as a pilot program to introduce a modicum of democracy into local government processes.

Free and fair
elections

1

As Laos is an authoritarian, single-party, nominally Marxist-Leninist state, the LPRP alone exercises power. Power lies with the Politburo of the party, not with the elected members of the National Assembly – even though according to the Lao constitution, the National Assembly appoints the state president, the vice-president and the government. Though to date, prime ministers have always previously been elected to the National Assembly, other members of the government need not be. In the present government, the prime minister and four deputy prime ministers are all members of the Politburo, while most other ministers are members of the LPRP Central Committee. Appointments are determined by the party, not the parliament. All policy is determined by the party.

Effective power to govern

1

The right to free association is guaranteed under Article 44 of the 2003 amended Lao constitution, but in practice no free association is permitted. The establishment of any formal association is predicated on prior government permission, which is rarely given. There are no opposition political parties. Public demonstrations critical of the government, let alone the ruling LPRP, are not permitted. The organizers of peaceful demonstrations can expect long prison terms. There are no politically relevant civil organizations, and the few professional associations that do exist are monitored by the party and have no political influence (though they may make their views known to the government on matters related to their competence when requested to do so.) The government has recently agreed to register local Lao NGOs, but it is too early to tell whether these will aid in the development of Lao civil society.

Association / assembly rights

1

All media organizations in Laos are controlled by the ruling party through the Ministry of Information and Culture. After five years of discussion and drafting, a media law was presented to the National Assembly in July 2008, which ominously, in the words of one report, “provides legal instruments for the state and party to more effectively guide and manage the media.” Thus, it has in no way reduced government control. Opinion cannot be freely expressed in any public forum, though private criticism of the government is tolerated as long as it does not form part of any concerted movement of dissent. The Internet has the potential to be used as a medium of expression by the few able to afford it. However, the Chinese have recently provided the Lao government with technology to censor online communications, which may well eliminate any effect the Internet might have otherwise had on the development of Lao civil society

Freedom of expression

1

3 | Rule of Law

The Lao constitution outlines a formal separation of powers between the National Assembly (legislature), the government (executive) and the judiciary, but in fact all function according to the dictates of the ruling LPRP. Separation of powers exists solely on paper, and can be overridden at the whim of party leaders. As a result, no

Separation of powers

1

checks and balances apply between the three institutions of government. There is no Constitutional Court able to test the validity of legislation.

The judiciary is institutionally differentiated in Laos, but it is not independent of the ruling party. Most of the justice ministry's judges and officials are party members, and politically influential persons routinely influence legal decisions. Bribery is widespread, especially in civil and commercial cases, but political connections are usually the deciding factor. However, the government frequently reiterates its commitment to improve implementation of the rule of law, and small incremental improvements have been made. The National Assembly has continued to add to the growing body of laws, even if many are not widely known or applied.

Independent
judiciary
1

Lawyers may represent clients in court, and a body of professional lawyers is slowly being formed. There is a Lao Bar Association, which provides legal education, training and advice through its legal aid program. The association works closely with both the Faculty of Law and Political Science at the National University of Laos, and with the justice ministry, so it can hardly be described as an independent body. In fact the judiciary remains an organ of the LPRP.

Abuse of office is widespread in Laos, where virtually anyone holding an official position, whether in the civil service or local administration, uses it for personal gain. A few minor officials have been prosecuted under the existing anti-corruption law, but no senior members of the party, whose example has encouraged the prevailing culture of corruption, have been targeted. Complaints to the police (where the police are not at fault) or to the Office of the Public Prosecutor usually go nowhere. Laos has no ombudsman.

Prosecution of
office abuse
3

So great has been the increase in corruption over the last few years that it has now become a matter of popular resentment and comment. The need to combat corruption has been noted in the National Assembly, during a debate allowed to be reported in the press. But the press does not investigate corruption, and no names are ever mentioned. Former Prime Minister Bouasone Bouphavanh vowed to curb corruption, but with little effect. The worst that has happened to blatantly corrupt officials is that they have been demoted (for example, to a provincial appointment) or removed from office. Moreover, the subjects of such punishments depend more on intraparty politics than on the degree of corruption.

Civil rights are in principle protected by the Lao constitution, but in practice widespread violations occur for which there is usually no redress. Rights of assembly and the free expression of political beliefs are nonexistent. Religious freedom is available for Buddhists, but may be limited where religious differences are believed by the authorities to exacerbate ethnic divisions (as in the case of Khmu or Hmong Christians). Abuses are known to occur at the hands of the security forces, and in the prison system. However, since there is no likelihood that

Civil rights
3

an appeal against a violation of civil rights will produce any result, few formal complaints are made.

Violations of civil rights are most likely to affect the poor and powerless in rural areas. Violations occur of traditional use and property rights, both in the case of ethnic Lao and minority groups, to make way for plantation forestry and agricultural projects. Several foreign companies (particularly from China and Vietnam) have obtained substantial land concessions from the central government. Other smaller companies have concluded shady deals with provincial administrations, and it is at this level that most violations of civil rights have occurred. Some incidents have been brought to light by foreign NGOs and journalists (for example, in the case of persistent smuggling of timber and endangered wildlife), and some local people have protested, but to little effect. In 2007, the central government decreed a two-year moratorium on any further land concessions, but this failed to stop the practice.

4 | Stability of Democratic Institutions

The Lao PDR is an authoritarian, single-party state. All political power is monopolized by the LPRP. The National Assembly is not democratically elected, and is entirely dominated by the party, as are all levels of government and administration. The judiciary too functions at the will of the party. Lao leaders claim that a form of democracy known as “democratic centralism” operates within the party. In essence, this is supposed to allow the views of grassroots party members to be channeled up the party hierarchy for the Central Committee to take account of in formulating policy. However, the flip side of “democratic centralism” is that all decisions by the party leadership must be unquestioningly accepted. This is hardly democracy, even if it were to work in practice. That said, discussion does occur within the party’s upper levels of power prior to decisions being made by the Politburo.

The ruling LPRP has frequently reiterated that it has no intention of introducing any political reforms that might limit its own monopoly on power. To the extent that any institution functions “democratically” (through “democratic centralism” as applied within the party itself), it forms an integral part of what is in its totality an authoritarian regime. The National Assembly is only nominally democratic. Of its 115 deputies (2006 – 2011), only two are reported not to be members of the LPRP.

Attempts by Western governments to urge reforms leading to multiparty democracy are vigorously resisted, and are interpreted as tantamount to creating conditions for regime change. In adopting this position, the LPRP has powerful support from the

Performance of
democratic
institutions

1

Commitment to
democratic
institutions

1

communist parties of both Vietnam and China, both of which enjoy close relations with the current Lao regime.

5 | Political and Social Integration

There is no party system in the Lao PDR: The sole political party is the LPRP. The ruling party is well institutionalized, stable and deeply rooted in Lao society. Nothing that has happened over the last two years has threatened the stability of the party or its hold on power.

Party system

1

Party membership is estimated to be held by little more than 2% of the population. Membership is attractive to those who are politically ambitious, and to those who seek to tap into networks of influence. The party actively recruits members from among the educated elite, and even some businessmen are party members.

No interest groups in Laos are permitted to function outside party control. The Lao trade union federation and mass organizations for women and youth are all under party control. So too is the Lao Front for National Construction (LFNC), which includes representatives of ethnic minorities and religious organizations (such as the Buddhist Sangha, or monastic order), as well as professional organizations such as the Lao Bar Association and the Lao Chamber of Commerce. Social and economic interest groups (teachers, health workers, business people) are represented at party forums only by virtue of the party membership many of their members possess, not as interest groups per se. Any cooperation that occurs takes place within the confines of the party.

Interest groups

1

Civil society remains weak in Laos, because the LPRP has refused to allow the formation of any organization or association that it does not directly or indirectly control. In 2009, however, the government agreed to allow the formation of Lao NGOs, which must apply to the government for registration. At the time it was estimated that as many as 100 informal organizations were working in areas such as health, education and rural development. The 80 or so international NGOs that operate in Laos provide models for local civic organizations.

As the LPRP seized power in 1975, few Lao have any memory of a democratic multiparty system of government. For the last 35 years, no Lao has been asked if he or she would prefer a democratic system, as no public opinion surveys addressing this issue have been conducted.

Approval of

democracy

n/a

In private conversation, many Lao express satisfaction with the present system for the order and stability it imposes, even though almost all are critical of the extent of corruption and misuse of office. If freedom of expression were permitted, it is likely

that members of the educated middle class and students would favor a greater measure of democracy.

Self-organization in Lao society traditionally took the form of spontaneous cooperation at the village level to carry out communal projects, as for example in erecting the framework of a house or building monastic accommodation, schools or health centers, and took place on a reciprocal basis particularly at harvest time. Cooperation was ad hoc, without institutional basis. Such cooperation is also evident in the planning of Buddhist and other festivals. At the family and extended-family level, there exists a relatively high level of trust, which may extend to patronage networks, to members of the same ethnic groups (among ethnic minorities), and to people from the same region (among the lowland Lao), but not to the wider society. Most voluntary autonomous organization is actively discouraged by the ruling party (with the exception of the traditional forms mentioned above), though it has now allowed the registration of a few local Lao NGOs. The few permanent associations representing special interests are all supervised by the party.

Social capital
3

II. Economic Transformation

6 | Level of Socioeconomic Development

The Lao regime proclaims its support for both ethnic and gender equality, but in both cases, inequality is to a large extent structurally ingrained. Poverty, a lack of infrastructure, and poor to nonexistent government services in remote and mountainous parts of the country still put ethnic minorities at a disadvantage. During the “30-year struggle” (1945 – 1975), the government promised minorities that supported the revolutionary movement that it would improve their living standards, health and educational opportunities, but a lack of resources has meant that this promise has not been kept. However, the government has committed itself to a long-term poverty reduction program backed by the World Bank and the Asian Development Bank designed to lift the country out of its Least Developed Country (LDC) status by 2020. In 2009, the Lao PDR’s Human Development Index score stood at 0.62, ranking Laos 133rd out of 182 countries.

Question
Score

Socioeconomic
barriers
4

Poverty remains widespread in rural areas. The Gini index of income distribution for 2002, the latest year for which figures are available, was 32.6. That same year, 76.9% of the population was surviving on \$2 per day or less. Since then, GDP per capita has steadily risen to \$2,259 in 2009, bolstered by increased levels of foreign aid (amounting to \$79.9 per capita in 2008). Most of this increased wealth was concentrated in the national and provincial capitals, which continued to attract a

stream of rural migrants. Moreover, gross corruption has concentrated wealth in the hands of a relatively small political elite. Other rural youth sought employment abroad, mostly in Thailand. Even accounting for this group's remittances, however, the rural-urban divide has continued to be the greatest structural barrier to decreasing disparities in wealth and living standards.

For women, structural disadvantage is mainly cultural. Laos has a gender-related development index score (2005) of 0.593, giving it a rank of 115. Female participation in the economy was 74.5% in that year (which was 85% of the male rate), and women had a higher life expectancy than men (64.5 years compared to 61.9). However, they earned on average only two-thirds as much as men (an annual average of \$1,385 as compared to \$2,692, calculated at purchasing power parity). Though female participation in education has increased, the adult female literacy rate has remained stubbornly low at 63.2% for the 2005 – 2008 period (compared with 82.5 for males). Much of this disparity is due to poverty: In poor families, boys will be sent to school and girls kept at home.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	4259.6	5477.8	5907.1	7296.4
GDP growth	%	7.5	7.5	7.6	9.4
Inflation (CPI)	%	4.5	7.6	0.0	6.0
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	7.6	4.2	5.4	4.8
Export growth	%	-8.0	0.0	3.1	29.3
Import growth	%	13.4	0.7	-2.5	4.1
Current account balance	\$ mn.	139.4	77.5	-60.9	29.3
Public debt	% of GDP	63.3	60.0	62.1	60.5
External debt	\$ mn.	4388.2	5008.2	5458.1	5558.8
Total debt service	\$ mn.	189.6	207.4	219.8	305.2

Economic indicators		2007	2008	2009	2010
Cash surplus or deficit	% of GDP	-2.7	-2.2	-1.6	-
Tax revenue	% of GDP	11.5	12.0	12.6	-
Government consumption	% of GDP	8.4	9.4	10.6	9.2
Public expnd. on edu.	% of GDP	3.0	2.3	-	-
Public expnd. on health	% of GDP	4.0	4.0	4.1	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.4	0.3	0.3	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Laos has made considerable progress in moving from a command to a market-based economy. Prices are set by the market, the Lao kip is convertible, and profits from foreign investments can be transferred abroad. But competition operates within a relatively weak institutional and regulatory framework: There is no legal protection for small or medium-sized businesses that threaten to compete with an enterprise owned by someone with powerful political connections. Even foreign businesses are vulnerable to policy changes that make the economic playing field less than level. The government retains ownership of what it considers to be “strategic” enterprises. The informal sector of the economy is small.

Market-based
competition
5

While most state-owned enterprises (SOEs) have been sold off or wound up, the government still retains control of about two dozen, which it considers “strategic” or essential for national development. These continue to be essentially monopolistic. In addition, some resource extraction companies are controlled by the military, which discourages competition in this sector.

Anti-monopoly
policy
2

Competition is permitted 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 and must meet the requirements of

Liberalization of
foreign trade
7

membership in the ASEAN Free Trade Area (AFTA). Import trade is competitive, but some key exports (such as timber) are controlled.

Laos had hoped to become a member of the WTO by the end of 2009, and has implemented a number of important reforms in areas such as taxation, foreign exchange, investment, and import and export procedures. Negotiations are still underway, but have reached what the government describes as the “last round.” There will be costs as well as benefits from WTO accession, the former of which will fall disproportionately on the agricultural sector.

Several foreign banks have had branches in Vientiane, the nation’s capital, for some time. More recently, other foreign banks have entered into joint ventures with Lao banks, and the first Lao private banks have been established. Foreign banks have provided models for state-owned commercial banks. In 2008, the government issued regulations on microfinance that covered deposits and the issuance of credit, as well as a separate decree on foreign exchange transactions. Laos is moving toward development of a capital market. In 2009, Laos issued its first international bonds (denominated in Thai baht), and in January 2011 a stock exchange opened for business in Vientiane.

The government-owned commercial banks have twice had to be restructured and refinanced because of nonperforming loans, made principally to loss-making state-owned enterprises (SOEs) and politically well-connected individuals. Yet as recently as November 2008, the World Bank, in its Economic Monitor for the Lao PDR, warned that the level of new loans was still too high – which suggests that political interference and corruption continue to plague the state banking sector.

According to the World Bank’s Economic Monitor for the Lao PDR of May 2010, the bank loan to deposit ratio (for 2009) increased to 73%, while the level of nonperforming loans dropped to 3%. This would seem to indicate continuing improvement in the performance of government-owned banks. Even so, political interference in determining loan eligibility is still frequent.

8 | Currency and Price Stability

The experience of high inflation in 1998 – 1999, which reached an annual rate of 110% as a result of the government’s political decision to spend its way out of the Asian economic crisis, convinced the government to embark upon a macroeconomic stabilization program. Inflation was reduced to an average of 15% over the 2000 – 2003 period, and fell further to 4.5% by 2007. Inflation rose to

Banking system

5

Anti-inflation /
forex policy

7

8.5% in 2008, but fell again to 4.8% in 2010. Lao monetary policy over the past decade thus indicates an awareness of the importance of keeping inflation under control.

The central bank of the Lao PDR is not independent of either the government or the party. The bank oversees a managed floating forex regime, which pegs the kip to no other currency. The official exchange rate tracks the free market rate. Party policy is to maintain this system.

Lao authorities are aware of the need for macroeconomic stability, but in the Lao PDR, politics takes first place. This means that ultimate decisions are taken not by the central bank, or even by the Ministry of Finance, but by the Politburo, most of whose members have little understanding of macroeconomics. The party is not populist in its response to macroeconomic challenges, however, and decision makers do take note of expert advice.

Maintaining social and political stability takes precedence over strict adherence to macroeconomic policy. The government thus increased salaries for public servants in 2009 despite running a budget deficit. That said, the government has been prudent in limiting the deficit in order not to stoke inflation.

According to World Bank figures, government revenue in 2010 accounted for 16.2% of GDP, while expenditure was 20.7%. A portion of the resulting deficit was covered by foreign aid programs. The deficit is projected to decrease as revenues from the sale of hydroelectricity to Thailand increase, and as prices for minerals rise. Public debt totaled \$2.71 billion in 2008, while external debt stood at \$4.99 billion. Gross international reserves held by the Bank of Laos were a healthy \$633 million in March 2010, enough to cover almost five months of non-resource imports.

Macrostability

5

9 | Private Property

The Lao constitution protects property rights in a broad sense, but as all land was nationalized when the current regime took power in 1975, property can be expropriated for state purposes. A land titling program has been underway in some larger towns, and is slowly being extended into the countryside. False and disputed claims have resulted, which can in theory be resolved in a court of arbitration, but which are in fact often settled through payment of bribes to relevant officials. Once a land register has been completed, however, the number of such cases should decline.

In rural areas, families possess user rights to agricultural land, which can be transferred and are heritable. Communities may also exercise traditional rights to nonagricultural land, including those ethnic minorities who practice shifting slash-

Property rights

3

and-burn farming. As the demand by foreign companies for land concessions for plantation agriculture has increased, authorities have often disregarded these traditional rights. As a result, popular protests have been mounted in several areas, and the matter has been raised in the National Assembly. A 2007 ban on the issuance of new concessions has not been universally observed.

Laos permits private companies, both domestic and foreign-owned, to operate – but the playing field is not yet level. Most state-owned enterprises have been privatized, but others still dominate their respective sectors (such as electricity and water, which the government considers to be of “strategic” importance.) Government contracts are often awarded to companies that have political relationships with high-ranking party members. In truth, commercial projects sometimes have difficulty getting off the ground at all without such political support, for which foreign companies may pay substantial sums. The situation is improving gradually as international donors press for greater transparency in the tendering process for foreign-funded contracts, but still has some way to go.

Private enterprise
5

10 | 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 invalidity pensions, except for veterans of the revolutionary struggle on the Pathet Lao side, who receive payments from the Ministry of Labor and Social Welfare. The National Growth and Poverty Eradication Strategy adopted in 2004 committed the government, with the cooperation of international donors, to a program aimed at improving living conditions for the poor. Implementation has been patchy, however. The government requires increased amounts of tax revenue in order to fund such programs, but rather than tightening up tax loopholes and exemptions and limiting corruption, it has been relying on increased royalties from hydropower and mining.

Social safety nets
3

The Lao government does recognize that some segments of the population, notably geographically remote ethnic minorities, face significant disadvantages. It has thus introduced some measures to alleviate poverty in mountainous parts of the country, including a controversial resettlement program. Additional programs designed to improve living conditions for ethnic minorities, such as training for ethnic minority teachers and paramedical staff, are inadequate in scope and open to abuse by local officials.

In principle, all Lao, women and ethnic minorities included, have equal opportunities to access all levels of education as well as public office and employment. In practice, however, not only does Laos remain a predominantly

Equal opportunity
4

patriarchal society that offers greater opportunities to men than to women, but there also exists a de facto ethnic hierarchy dominated by ethnic Lao.

Two institutions – the party and the army – do recruit minority cadres, but women benefit from this only to a limited extent. There are only three women on the 55-member Party Central Committee, and minorities hold fewer seats than their proportion of the population might otherwise indicate. On the other hand, the number of female parliamentarians has continuously increased over the years, and the Lao Women’s Union is well organized and influential. Gender inequality in households remains problematic, however.

Societal statistics bear out the relative disadvantage suffered by women. Female literacy stood at 63.2% in 2008 compared to the male rate of 82.5%. Female enrollment rates were 90.6% of the male rate in primary school, decreasing to 80.6% at the secondary level (to which 43.9% of students progressed overall) and 77.6% at the tertiary level (undertaken by 13.4% of Lao students).

The prevailing political culture disadvantages ethnic minorities. Powerful party members build patronage networks of loyal followers, who benefit accordingly. Scholarships, jobs in the public service, and promotions all depend on whether support can be obtained from a powerful patron. Those without such connections are at a disadvantage no matter how talented they may be.

11 | Economic Performance

The U.S. State Department calculates per capita income in Laos as \$986 in 2010, while according to the World Bank per capita GDP calculated at purchasing power parity stood at \$2,259 in 2009 (other sources estimated this figure to be \$2,300 for 2010). These figures represent a small but steady increase, thanks to GDP growth over the last five years averaging close to 7% per annum. Most of this has been due to the industrial sector (notably hydropower and mining) which accounted for around 45% of GDP growth in 2010. The service sector has also been performing well.

Agriculture accounts for less than 40% of GDP even though, despite rising levels of urbanization, it still employs close to 80% of the population. This low contribution reflects the high proportion of the rural population which still practices subsistence farming.

No accurate statistics are available for unemployment, but current estimates of 2.5% would appear to be on the low side judging by the number of Lao youths seeking employment in Thailand. Inflation has been contained at between 4% and 5% over

Output strength
6

the last two years, while the exchange rate between the Lao kip and the U.S. dollar has remained remarkably constant over more than five years.

The Lao government has had chronic difficulty in balancing its budget, in large part because it has had difficulty collecting revenue, both from wealthy individuals and from the provinces. Corruption remains a persistent problem, and the transfer of state resources to private pockets is widespread. Domestic revenue collection in 2010 rose to 16.2% of GDP, leaving a budget deficit of 4.5% before factoring in foreign aid. External debt remains manageable as a percentage of GDP, while foreign investment has begun to rebound from the collapse that followed the global financial crisis of 2008. Exports of hydropower and minerals have turned a current account deficit into a small surplus, which is likely to grow. Indeed the growth outlook is encouraging.

Even so, the fact that growth rates have corresponded to inflation rates means that the general population profits little from growth, since it has been accompanied by increased food prices. This is a major cause of dissatisfaction among the Lao population, and may have future political implications.

12 | Sustainability

The Lao government gives lip service to environmental concerns. It has set aside 17 National Biodiversity Conservation Areas (covering just over 10% of the national territory), where both flora and fauna are nominally protected. Logging controls are also in place. But enforcement of controls is sporadic at best, and logging continues, performed especially by the military. Major mining and hydroelectric projects are required to submit environmental impact studies, but some companies have reportedly bribed officials to overlook them. International pressure groups are the only voices questioning the environmental impact of projects, since no criticism can be voiced in the entirely state-controlled Lao media.

The government expresses most environmental concern over the slash-and-burn agriculture traditionally practiced by ethnic minorities, and has a policy in place of resettling them in locations where agriculture is sustainable. But this has essentially served more to make way for logging projects and plantation agriculture than to protect Laos's dwindling forests. Meanwhile, the poaching of endangered species has reached crisis proportions.

The quality of education at all three levels remains low in Laos, and the government has failed to make education a national priority. Expenditure on education amounted to 12.21% of the budget in 2008, the last year for which figures are available, down from 15.78% the year before. This amounted to 2.3% of GDP in 2008, compared to 3% in 2006. Textbooks are in short supply, and schools have

Environmental
policy
4

Education policy /
R&D
2

minimal facilities and are poorly maintained. Teachers are poorly paid, and those in remote villages may not be paid for months on end. Even though revenue collection has improved, the government has failed to devote greater resources to education. A few private schools operate, especially in the capital, Vientiane, where they offer courses in languages (mainly English), business (management, accounting) and information technology. Investment in research and development is nonexistent in Laos.

Transformation Management

I. Level of Difficulty

The constraints on effective governance in the Lao PDR remain high, but progress is being made. The first constraint is geographic. Laos is landlocked, and the north and east of the country are very mountainous. Infrastructure has been poorly developed, making communication with neighboring countries difficult, except with Thailand. Waterfalls on the frontier make navigation down the Mekong River to Cambodia impossible.

Structural
constraints
7

Over the past decade, the Asian Development Bank has pushed the concept of an interconnected Greater Mekong Subregion, within which Laos is strategically situated. Laos now promotes itself as land-linked, rather than landlocked. Major roads cross the country linking Thailand and Vietnam in an east-west direction, and linking China and Thailand along a north-south corridor. Four bridges span the Mekong, and two more are planned. Navigation on the river itself has been improved, and China has committed to building a railway through Laos to connect the rail systems of Yunnan and Thailand.

Another significant constraint is the low level of development of the country's human resources. Educational levels are below ASEAN averages, as are levels of literacy. Poverty rates remain high, especially in rural areas, with 44% of the population below the U.N. income poverty level of PPP \$1.25 per day. The Human Poverty Index value (2009) stands at 30.7. This represents a slight improvement over the previous two years, but 40% of the population still lacks sustainable access to an improved water source, and 40% of children under five remain underweight for their age. HIV/AIDS, while low by international standards, is a continuing concern, while malaria and tuberculosis continue to take their toll.

Floods hit southern Laos in 2009, but were nowhere near as serious as the disastrous 2008 floods. Laos still suffers from the effects of war and revolution, mainly in the form of unexploded ordnance, which continues to maim and kill several people a year.

Laos is an ethnically, linguistically and culturally divided country, in which traditions of civil society have never been strong. Solidarity and cooperation existed mainly at the village level, where people came together, for example, to work on communal projects or to organize religious festivals. During the revolutionary struggle, solidarity was for the first time strong among different groups, but this has decreased since 1975 as promises to ethnic groups that supported the revolution have not been fulfilled.

Civil society
traditions
10

There are no obvious ethnic, religious or social conflicts in Laos, but this is partly because of the draconian control exercised by the ruling party. The longest-running ethnic conflict was between a relatively small group of Hmong and the Lao government. The insurgents originally believed that the United States would support the establishment of an independent Hmong homeland, but the insurgency has collapsed over the last couple of years.

Conflict intensity
3

The charges brought by U.S. authorities against General Vang Pao and a handful of American Hmong accused of plotting an armed attack in Laos convinced many Hmong that hopes for American support for a Hmong homeland were unrealistic. The death of Vang Pao in January 2011 will only reinforce this realization.

It should be noted that several pro-government Hmong hold positions of authority in both the LPRP and the government. There have been and still are Hmong governors of provinces, Hmong ministers and even a Hmong member of the Politburo.

The government bans all Christian and other religious missionary activity in Laos, but supports Buddhism as central to Lao cultural identity. The small Christian community is equally divided between Catholics (ethnic Lao) and Evangelical Protestants (ethnic minorities), and both keep a low profile. Social conflict is also minimal: What little exists is mediated by the Lao Front for National Construction at the direction of the party.

II. Management Performance

14 | Steering Capability

Question
Score

The long-term aims of the political leadership (the Central Committee of the LPRP) are two-fold. The first is to retain a monopoly on 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 develop the economy and

Prioritization
3

raise living standards. To this end, the LPRP outlines and endorses a new five-year plan at each congress.

After 1986, the party began moving toward a free-market system, while steadfastly refusing to introduce any democratic reforms. Most state-owned enterprises have been privatized, foreign direct investment (FDI) is welcome, and private enterprise is encouraged. But while the economy has certainly been freed up, anomalies remain. The ruling party retains control over some 20 “strategic” SOEs, which benefit from state finance. All but small-scale Lao enterprises face some form of political interference, against which most insure themselves by seeking the political protection of a powerful patron – at a price.

The government is genuine in wanting to develop the economy and reduce poverty, if only to keep pace with fellow members of ASEAN. This is a strategic long-term priority, set out in a document designed to lift the country out of poverty by 2020. But political survival is paramount for the party, which enjoys the support of both Vietnam and China. The two broad party goals are not entirely decoupled: Economic development strengthens the position of the party. But where they do conflict, or where party leaders believe they do, politics take priority.

Because political survival takes precedence over economic development, the political leadership is reluctant to embark on reforms that it believes might undermine its political interests. Reforms aimed at improving the functioning of the market economy (none are taken to promote democracy) are thus often agreed upon with international donors (because the Lao take this to be necessary to ensure the flow of aid), but are subsequently left unimplemented for fear they will weaken the party, or rather the political position of powerful individuals or groups within the party. The point to reiterate is that for the Lao ruling party, no necessary link exists between the market economy and democracy. This is frustrating for international donors convinced that the Lao economy would be stronger if both economic and political reforms were to be enacted.

Several factors undermine the effective implementation of endorsed policies, such as poverty reduction and improved bureaucratic efficiency, including notably increasing levels of corruption (which reduces both government revenue and the provision of services) and poor law enforcement. Another problem is that powerful provincial governors may not always implement central government laws and regulations. The rising corruption levels reinforce the government’s reluctance to introduce measures increasing transparency (despite previous commitments to do so), thus further limiting the efficiency of policy implementation. A considerable gap thus exists between what the government commits itself to do and what is actually done.

Implementation
3

The political leadership of the Lao PDR still comprises a group of aging generals who dominate the Politburo, but a number of them are expected to step down at the ninth party congress in 2011. The generals are poorly educated and have a limited understanding of the workings of a market economy, the impact of global economic forces and the motives of international organizations pressing for reform. But they have not been entirely inflexible, as the relative success of the country's market economy over the last two decades indicates. What they understand very well is Lao politics, especially the politics of patronage. Many decisions are made (or not made) for intraparty political reasons that are often obscure to observers.

Policy learning
4

The political culture that prioritizes political advantage over national economic development will be difficult to change. It was hoped that Prime Minister Bouasone Bouphavanh, appointed after the eighth party congress, represented not just a younger generation but also a new approach to reform. He did seem to want to do something about corruption, by improving the transparency of governance and enforcing the rule of law. And he did place a moratorium on land and mining concessions. The irony, however, was that he was only able to introduce reforms by building his own patronage network of reformist supporters in the time-honored Lao way. This he tried to do, but apparently without success, as he resigned at the end of December 2010. His replacement, party stalwart Thongsing Thammavong, has no reformist credentials. One thing is certain: Thongsing will be as determined as any party leader to ensure that the LPRP continues to exercise a monopoly on power. Yet it is this monopoly on power that feeds corruption. No political lessons will be learned, however.

As for economic policy, the government in Laos reluctantly accepts some advice from international institutions (the IMF, the World Bank, the ADB). Whatever impetus there is for economic reform comes mainly from Vietnam and China, whose state-supervised economic model the Lao have adopted.

15 | Resource Efficiency

Lao political culture, whether under the current system or in the former Royal Lao regime (1953 – 1975), has always primarily been about the competitive interests of powerful individuals, their families and their patronage networks of political clients. Its core lies in the benefits and opportunities a powerful individual can provide, by way 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.

Efficient use of
assets
4

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 take any decision that might jeopardize their position. There are no competitive recruiting procedures and the public service is highly politicized. When some decentralization took place, corruption increased at the provincial level: Centrally appointed civil servants (teachers, health workers) were unpaid, and revenue was not remitted to the central government. Subsequent recentralization of financial matters (including payments of public servants, taxation and customs) did little to increase revenue, however, for corruption permeates the bureaucracy.

The government has established an Audit Office, but it sits within the Ministry of Finance and does not function independently. The government's organizational resources are limited, due to minimal coordination between ministries. In conclusion, therefore, the government fails to make full use of the human, financial or organizational resources potentially available to it. Growing corruption reinforces the reluctance to introduce measures increasing transparency (to which the government has previously committed itself), further limiting the efficiency of resource use.

Policy coordination is weak, largely because of competing interests between ministries, and between the central and provincial administrative levels. The staffing of ministries is highly politicized, as ministers often make appointments designed to strengthen their patronage networks. Ministries become fiefdoms to be protected from outside interference, which limits coordination and cooperation. Moreover, policy is often ad hoc, driven by the desire to take advantage of donor projects. Horizontal coordination is almost nonexistent, because decision-making is highly centralized and hierarchical, and is a prerogative jealously guarded by senior officials. Even the most minor technical matters get passed up the hierarchy for decisions that senior officials may well be incompetent to make.

Policy
coordination
3

Corruption is ubiquitous in Laos, a chronic and growing problem that has been exacerbated by the poor example provided by senior party leaders, and by the rapid rise in foreign investors' willingness to buy political support and pay off central and provincial officials. 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.

Anti-corruption
policy
2

A presidential Anti-Corruption Commission did virtually nothing to improve matters, and even the passage of an Anti-Corruption Law in 2005 has had minimal effect. The party-controlled media has at times been permitted to run articles condemning corruption, but without naming names. A State Inspection Law passed in June 2007 was supposed to strengthen the State Inspection Authority, which is charged with policing the public service to ensure officials are not using their positions for personal gain (which almost all do). Thus, the government does have integrity mechanisms in place; it is just that they do not work. Low-level officials are the only figure to have been charged. No prosecution of any high-ranking Lao

official has taken place (unlike in Vietnam and China), for the simple reason that every single one is implicated.

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 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, it is never publicized. The problem of corruption has come up in the National Assembly, but again without naming names.

Anecdotal evidence suggests that the rising levels of corruption are translating into diminishing popular support for the party. Prime Minister Bouasone vowed to curb corruption, but was unsuccessful even within his own family. Indeed, his efforts to limit corrupt land acquisition by means of a two-year moratorium may have antagonized powerful opponents within the party, as he was forced to resign in December 2010.

The principal interest groups and economic actors urging anti-corruption reforms on the Lao government are international lending agencies (IMF, World Bank, ADB), foreign governments with substantial aid programs, and foreign NGOs. Of these, the first have been most insistent in urging reform, with some success as they are able to attach conditions to large loans (as in the case of the funding for the \$1.45 billion Nam Theun II dam, officially opened in December 2010). Japan is by far the largest aid donor, but is reluctant to put pressure on the Lao government. Vietnam and China have much greater influence, but are much more equivocal with respect to corruption.

16 | Consensus-Building

There is no popular consensus in Laos about the direction of either political or economic reform, because all dissent is stifled and there are no venues (free associations, a free press) in which discussion might take place. Everything is decided within the party, though here discussion and (more often) old-fashioned political horse-trading may be intense. The populace is never consulted, so there is no way of knowing what the people think.

Within the party, there is broad consensus that retaining a monopoly on political power is of paramount importance (thus forestalling any reform in the direction of democracy), and that the best way to develop the economy is by permitting a free market to function. There are some divisions over what further reforms to introduce, particularly between those who want more transparency in order to limit

Consensus on goals

4

corruption and those who resist any such moves. These divisions amount to a lack of consensus on the purpose of economic development. Several senior party members seem to believe the purpose is to make themselves and their families rich, rather than to eliminate poverty and develop the country's human resources.

Some in the military agreed only reluctantly to the free market reforms when they were introduced, even though the deal brokered by former party president Kaysone Phomvihane left the military free to feather its own nest through direct involvement in the economy, and particularly through the smuggling of timber.

There are no opposition or dissident movement in Laos urging the government to speed up reform. However, there are elements within the party and bureaucracy who accept the logic of reform (at least in the economic area) and would like to see corruption reduced. They represent a minority, however. The majority of party members oppose any move toward democracy. Those opposed to reform also include senior military officers, who probably have veto powers sufficient to torpedo any democratic reforms. Note that the reforms sought by former Prime Minister Bouasone were designed only to improve governance according to the rule of law, not to advance democracy.

Political cleavages in Laos are not so much ideological as between powerful patrons and their clients, provincial and regional interests, and between the dominant lowland Lao and ethnic minorities who believe they are not being fairly dealt with. There is some tension too between the military and civilian party members. Politics is a matter of horse-trading, to decide who gets what. The party cannot eliminate these divisions, but it has been relatively effective in preventing them from escalating (through its control over all levels of administration, and of organizations such as the Lao Front for National Construction). Compromise comes naturally to the Lao, who prefer to avoid face-to-face conflict. The "democratic centralism" that operates within the LPRP also helps build consensus.

Apart from the tension between military and civilian factions in the party, there are tensions between old-guard revolutionaries and younger, better-educated technocrats. For the time being, the appointment of Thongsing to replace Bouasone as prime minister probably marks a victory for the old guard, who traditionally have leaned more toward Vietnam than China.

The LPRP does not encourage civic engagement by or solidarity among Lao citizens, unless in support of itself and its policies, but it has agreed to permit local Lao NGOs to be officially established. Local NGOs will have to apply for registration, so the government can reject any it does not like. Once registered, local NGOs could potentially function as civil society organizations. Previously, the only voluntary associations permitted by the party after its accession to power were those associated with village life or the organization of religious festivals, or in support of

Anti-democratic
actors

1

Cleavage /
conflict
management

6

Civil society
participation

2

education or sport. Some professional associations exist (such as the Lao Bar Association and the Lao National Chamber of Commerce and Industry), but only under the close supervision of the ruling party. No political debate is permitted, except within the party itself.

The ruling party has made no attempt to bring about reconciliation with the hundreds of thousands of Lao who fled the country over the decade from 1975 to 1985, though unofficial meetings have taken place when Lao government officials have visited countries where there are large Lao expatriate communities. The history of revolutionary struggle is used to legitimize the regime, in part by damning those who left as traitors, though this kind of rhetoric has diminished over the years. Overseas Lao may visit Laos, and they may invest in Laos, provided they do not involve themselves in politics. Some have returned to live permanently in the land of their birth, but as foreign nationals, since the government refuses to allow dual citizenship.

The government did make an effort to bring about reconciliation with those Hmong and other members of ethnic minorities who fought on the Royal Lao side during the “30-year struggle” from 1945 to 1975, by offering amnesty to all who surrendered. Those who did not accept this offer were subject to continuing military repression. The treatment of Hmong who have surrendered over the last few years has not been transparent, and the government has prevented international observers from making contact with those who have been resettled. Hmong who fled to Thailand over this period have resisted repatriation.

Reconciliation is made more difficult because the government relies on historiography to bolster its legitimacy. The irony is that as this historiography becomes more nationalistic, a reappraisal has taken place of a select number of Lao kings up to the 19th century, statues of whom have or will be erected by the regime. Meanwhile, the official historiography of the Lao revolution continues to glorify a valiant struggle against imperialists and traitors.

17 | International Cooperation

The Lao government enjoys good working relationships with a wide range of multilateral and bilateral international donors. In fact Laos has been remarkably successful in attracting foreign aid from across the ideological spectrum. It has been less effective in marshalling this aid in support of a long-term development strategy (though it does give lip service to raising living standards by 2020). Programs tend to be piecemeal and poorly coordinated, partly because the government has been determined to resist any international pressure for democratic reform, and has been suspicious of some economic reform programs (for example, efforts to enable greater transparency) as the thin end of the democratic wedge. The government

Reconciliation
3

Effective use of
support
5

nevertheless presents itself as willing to consider and discuss economic reforms in order to bring about greater administrative efficiency and transparency, and agrees to make just enough progress (at least on paper) to ensure that economic assistance continues. This is a fine line to walk, which the government has done very nimbly; but because it has been slow to implement agreed-upon reform programs, many in the international community have become frustrated and suspicious of affable Lao promises.

The Lao government is generally considered to be a reliable partner by other member countries of the United Nations, by international organizations and NGOs. Foreign investors are more wary. Despite having a politically stable government, commercial risk ratings agencies include Laos among the highest risk countries for investors – in September 2010, Laos was ranked 162nd out of 185 countries – in large part because of its underdeveloped legal regulatory framework. In 2011, the World Bank ranked Laos 171st out of 183 countries (down from 167th in 2010 and 165th in 2009) in terms of the difficulty of doing business. In November 2008, then-Prime Minister Bouasone went some way toward rectifying adverse perceptions by combining the functions of planning and investment, raising the new body to the status of a ministry, and placing one of his trusted supporters in charge.

Laos has been a member of ASEAN since 1997, and takes its membership seriously. Historically, the Lao have always understood the need to cooperate with their more powerful neighbors, to all of whom they were once simultaneously prepared to pay tribute. Laos is more comfortable cooperating with other ASEAN states than with Western countries, due to the ASEAN reluctance to interfere with the internal affairs of member states. Laos is also an enthusiastic member of the Greater Mekong Subregion (GMS), which includes the Chinese province of Yunnan as well as the mainland ASEAN states. An extensive communications network is being constructed to link GMS members, which Laos believes will change its strategic disadvantage in being landlocked into the benefit of being land-linked. Laos also currently hosts the headquarters of the Mekong River Commission, and is cooperating with Vietnam and Cambodia to develop the three countries' tri-border area.

Credibility
6

Regional
cooperation
9

Strategic Outlook

The Lao PDR has made no progress toward democracy during the past three years. On the other hand, the regime has not become more autocratic and arbitrary. In fact, the way power is exercised has hardly changed since 1975. The ninth party congress, due in 2011, will make a few changes to the present Politburo, and military representation may be reduced. But the new leadership will continue the party's adamant opposition to any democratic reform.

Laos will introduce reforms required to obtain membership in the AFTA and the WTO, but will continue to resist those that would provide greater transparency and accountability in the areas of revenue collection and expenditure. The party's commitment to what is essentially a free-market economy will meanwhile continue.

The only area of possible improvement will be in law. Several new laws have been passed and some attempt has been made to bring them to the attention of the populace. But implementation has improved little if at all, as the judiciary continues to act essentially as an arm of the party. Former Prime Minister Bouasone pledged to reduce corruption and inefficiency, but achieved little. The current prime minister, Thongsing Thammavong, has made no such undertaking.

Laos cultivates good relations with all its neighbors, with fellow members of ASEAN, and with Western powers, both for security reasons and to ensure a satisfactory level of official development assistance (ODA) and foreign direct investment (FDI). Most ODA has come from Japan and multilateral lenders such as the World Bank and the ADB, while most FDI has come from Thailand and the West. What is remarkable over the last few years has been the increase in investment from and influence of China, which has caused some concern in the region, and even in Laos itself. Despite exasperation over the glacial pace of political and economic reform, Western donors are reluctant to abandon Laos to the Chinese. ASEAN states have a similar view. The outlook therefore is for economic aid to continue, but with little impact on the reform process. Efforts to use ODA as a lever to push for reforms risk pushing the Lao government instead toward China – and everyone knows it.

Those who provide economic assistance to the Lao PDR must do so, therefore, with a clear understanding of what this is likely to achieve. Economic development will not result automatically in political change, for the tiny wealthy and educated elite has been co-opted by the party and knows better than to agitate for democracy. Business too has been co-opted, through the promise of sharing in economic growth – along with members of the party. All understand how the Lao politics of patronage operates, and make the necessary accommodation.

Well-targeted economic and human resource development programs may benefit some of the poorest among the Lao population, and infrastructure projects will have a 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. The outlook, therefore, is for more of the same in the years ahead – just enough promise of reform to keep the ODA flowing, with no practical effect that might threaten the party's hold on power.

This is hardly an optimal outcome, but it is one which Western powers, aid agencies and NGOs must live with. Within these constraints, the following strategies should be pursued:

- Keep economic reform on the agenda in two ways: By stressing the attractiveness of transparent processes for foreign investors (which has already led to some improvements in processing applications and the provision of supporting legislation); and by demonstrating benefits for development and economic growth where reforms have been introduced.
- Strengthen the rule of law by providing programs to support the National Assembly (workshops, exchange visits), disseminate laws that have been passed (helping with printing costs; regional workshops), and encourage implementation through stressing the benefits for Lao society.
- Promote education as a national priority through support for the Ministry of Education (curriculum workshops, producing and printing textbooks, teacher training, etc.). The required change in attitude within the party should be encouraged by stressing the economic benefit to the country, and by making comparisons with ASEAN states and other Asian countries.

Only through a combination of improved education, implementation of the rule of law, and greater economic prosperity can the conditions be created for the development of civil society as a prerequisite for a more democratic political system.